

Auswide Bank ^{ABA}

Recommendations

Rating	BUY
Risk	Medium
Price Target	\$6.05
Share Price	\$5.48

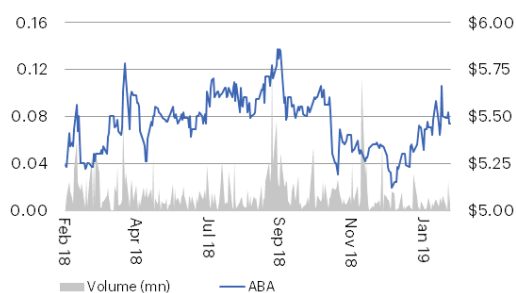
Snapshot

Monthly Turnover	\$0.9mn
Market Cap	\$230mn
Shares Issued	42.2mn
52-Week High	\$5.90
52-Week Low	\$5.04
Sector	Financials

Business Description

Auswide Bank (ABA) is engaged in the provision of banking facilities and financial services, focusing on the raising of funds on deposits and the provision of finance for housing over mortgages secured by residential property. ABA provides loans, savings and investments, insurance, foreign exchange and banking services in Australia.

12 Month Price & Volume



Research Analyst

Nick Caley
+ 613 9602 9283
ncaley@baillieu.com.au

Nicolas Burgess, CFA
+ 613 9602 9379
nburgess@baillieu.com.au

Disclosure

The author owns no shares in ABA.

Company Report

Tough in the trenches, but time to have a go

1H19 result: Normalised NPAT of A\$8.5m (+5% pcp on a reported basis and flat on a continuing basis) versus our forecast of A\$8.6m. Interim dividend of A16cps (1H18: A16cps) with a payout ratio on continuing operations of 80% (1H18: 78%).

Key takeaways: 1) An in line result at the NPAT line, with stronger revenue trends at the non-interest income line traded for higher expenses than we expected; 2) annualised loan growth of 4.9% v FY18 is credible in the current environment – ABA has delivered annualised home loan growth of 4.6% in 1H19 versus system growth of 3.3%; 3) net interest margin of 1.88% (1H18: 1.96%) with ABA citing only a 3bp reduction since end FY18 – the movement is typical of the industry, with ABA citing competition for both loans and retail deposits and elevated wholesale funding costs; 4) negative jaws exhibited in 1H19, with total revenue of A\$36.1m (+3% pcp) versus operating expenses of A\$23.6m (+6% pcp) – ABA cited an additional A\$727k in employee expenses versus 1H18 (in both customer service staff and digital banking project staff) to gear for loan growth from 2H19; 5) 1H19 cost to income (CTI) ratio of 65.3% (1H18: 63.4%) with the increase largely due to increased staff and regulatory costs; 6) credit quality remains very strong with 1H19 bad debt expense of A\$384k (1H18: A\$744k), loan arrears continuing to decline and 74% of the book with an LVR of sub 80% – ABA has used the transition to AASB9 to further strengthen loan loss reserves; 7) total capital ratio remains strong at 14.43% (FY18: 14.89%); and 8) ABA continues to be on the lookout for acquisitions.

Outlook: 1) No numerical guidance for FY19, as is usual; 2) CEO stating that the time is right “to have a go” in terms of growth, due to an upturn in economic conditions in central Queensland; 3) loan growth expected to remain above system, driven by the additional loan writers, economic growth in central Queensland and digital capabilities for nearly all products; and 4) targets for CTI and ROE remain at 60% and 10% on a three year basis, although the timetable has leaked from FY20 to FY21.

Changes to forecasts: Downgrade to FY19/20 forecasts by 6% and 8% respectively.

Investment view: BUY maintained with revised DDM valuation (prev. A\$6.13) and price target (prev. A\$6.15) of A\$6.05. We viewed the 1H19 result as slightly disappointing from an absolute cost and CTI perspective and due to the push back of aspirational targets. However, we retain a positive view based on: 1) rather than just growing into its new cost base, ABA is undertaking a range of reduction initiatives at present; 2) growth looks promising both in absolute terms and relative to the industry – ABA citing January as a record loan month; 3) interest margins look to be safe, with the option of back book repricing remaining in addition to the ongoing reduction of subordinated debt as part of overall funding; 4) limited or no direct impact from the royal commission; 5) potential M&A; and 6) yield attraction.

Investment Summary

Year End: 30 June		2017 (A)	2018 (A)	2019 (E)	2020 (E)	2021 (E)
Revenue	\$mn	68	70	73	76	81
Reported Profit	\$mn	15.0	17.7	17.8	19.2	21.2
Adjusted Profit	\$mn	15.6	17.1	17.8	19.2	21.2
EPS (Reported)	¢	37.0	42.3	42.4	45.7	50.4
EPS (Adjusted)	¢	38.5	41.0	42.4	45.7	50.4
EPS Growth	%	2.9	6.3	3.4	7.8	10.4
PER (Adjusted)	x	14.2	13.4	12.9	12.0	10.9
Dividend	¢	30.0	34.0	34.0	36.5	40.5
Yield	%	5.5	6.2	6.2	6.7	7.4
Franking	%	100	100	100	100	100

Financial Summary

Auswide Bank Ltd

Analyst	Nick Caley
Date	15-February-2019
Market Capitalisation (A\$m)	\$230
Share Price (\$A)	\$5.48
Year End	30 June

Rating	BUY
Price Target	\$6.05
Valuation	\$6.05
Upside/(Downside)	10%
Risk	Medium

Profit & Loss (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest Income	125.9	128.9	136.2	144.2	153.6
Interest Expense	68.4	67.9	74.2	79.3	84.6
Net Interest Margin	57.5	61.0	62.0	64.9	69.0
Other Revenue	10.2	9.3	10.7	11.2	11.8
Bad & Doubtful Debts Expense	1.0	1.3	0.8	0.8	1.0
Other Expenses	45.0	44.6	46.4	47.8	49.5
Net Profit Before Tax	21.7	24.4	25.5	27.5	30.3
Income Tax Expense/(Benefit)	6.7	7.4	7.7	8.2	9.1
Minority Interests	0.0	0.6	0.0	0.0	0.0
NPAT - Reported	15.0	17.7	17.8	19.2	21.2
Normalisation Adjustments	0.6	-0.5	0.0	0.0	0.0
NPAT - Normalised	15.6	17.1	17.8	19.2	21.2
Balance Sheet (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Assets					
Cash	120.1	86.4	98.5	101.4	105.2
Due From Other Fin.Institutions	11.8	15.4	21.0	21.0	21.0
Accrued Receivables	6.7	5.3	6.1	6.1	6.1
Financial Assets	291.9	254.3	265.8	265.8	265.8
Loans & Advances	2,773.2	2,910.8	3,101.7	3,322.9	3,559.8
Other Investments	1.1	1.1	1.3	1.3	1.3
Property, Plant & Equipment	14.6	15.6	15.6	17.0	18.4
Deferred Tax Assets	5.3	4.6	4.9	4.9	4.9
Other Assets	8.4	8.5	8.9	8.9	8.9
Goodwill	56.9	48.3	48.1	48.1	48.1
Total Assets	3,290.0	3,350.3	3,571.8	3,797.2	4,039.4
Liabilities					
Dep.& Short Term Borrowings	2,304.6	2,446.8	2,720.4	2,941.6	3,178.5
Due To Other Fin.Institutions	0.0	0.0	0.0	0.0	0.0
Payables & Other Liabilities	18.6	26.0	19.1	19.1	19.1
Securitised Loans	708.0	607.2	559.0	559.0	559.0
Income Tax Payable	1.2	0.7	0.5	0.5	0.5
Deferred Tax Liability	2.9	1.9	2.1	2.1	2.1
Provisions	2.8	2.9	3.0	3.0	3.0
Subordinated Loans	28.0	28.0	28.0	28.0	28.0
Total Liabilities	3,066.3	3,113.5	3,332.1	3,553.3	3,790.2
Contributed Capital	184.8	191.6	191.9	191.9	191.9
Reserves	14.0	15.2	15.7	15.7	15.7
Retained Earnings	23.7	29.9	32.1	36.3	41.6
Minority Interests	1.3	0.0	0.0	0.0	0.0
Total Equity	223.7	236.7	239.7	243.9	249.2
Book Value Per Share (cps)	549.8	562.2	569.1	579.3	591.7
NTA Per Share (cps)	410.0	447.5	455.0	465.2	477.6
Cash Flow (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash at Start	67.8	120.1	86.4	98.5	101.4
Cash Flow from Operations	19.2	38.3	1.8	19.2	21.2
Cash Flow From Investing	-175.2	-102.9	-210.2	-222.6	-238.3
Cash Flow From Financing	208.2	30.8	220.5	206.2	220.9
Net Cash Flow	208.2	30.8	220.5	206.2	220.9
Other Adj	52.3	-33.7	12.1	2.9	3.8
Cash At End	120.1	86.4	98.5	101.4	105.2

Earnings	FY17A	FY18A	FY19E	FY20E	FY21E
EPS - Reported	37.0	42.3	42.4	45.7	50.4
EPS - Normalised	38.5	41.0	42.4	45.7	50.4
EPS Growth (%)	3%	6%	3%	8%	10%
DPS	30.0	34.0	34.0	36.5	40.5
Franking (%)	100.0	100.0	100.0	100.0	100.0
Payout Ratio (%)	78%	83%	80%	80%	80%
Valuation	FY17A	FY18A	FY19E	FY20E	FY21E
P/E (x)	14.2	13.4	12.9	12.0	10.9
Dividend Yield (%)	5.5%	6.2%	6.2%	6.7%	7.4%
Price/Book (x)	1.0	1.0	1.0	0.9	0.9
Price/NTA (x)	1.3	1.2	1.2	1.2	1.1
Price/Cash/Flow per Share (x)	11.6	6.0	126.7	12.0	10.9

Growth	FY17A	FY18A	FY19E	FY20E	FY21E
Net Loan Growth (% pcp)	4%	5%	7%	7%	7%
Net Int. Margin Growth (% pcp)	7%	6%	2%	5%	6%
Exp.Growth - ex BDD(% pcp)	-3%	-1%	4%	3%	3%
NPBT Growth (% pcp)	27%	12%	5%	8%	10%

Margins & Returns	FY17A	FY18A	FY19E	FY20E	FY21E
Net Interest Margin % (ex Int Free)	1.76%	1.79%	1.77%	1.80%	1.80%
Cost To Income %	67%	63%	64%	63%	61%
NPBT Margin %	32%	35%	35%	36%	38%
Effective Tax Rate %	31%	30%	30%	30%	30%
ROIC %	6%	6%	6%	7%	7%
ROE %	7%	7%	8%	8%	9%

Operational Data	FY17A	FY18A	FY19E	FY20E	FY21E
Risk Weighted Assets A\$m	1,276	1,375	1,460	1,564	1,675
Total Capital Ratio %	14.6%	7.6%	14.5%	13.8%	13.2%
Loan Book A\$m	2,778	2,919	3,105	3,327	3,564
Deposits/Loans %	83%	84%	88%	89%	89%

Fig.1: ABA 1H19 result summary

STATUTORY (INCL. DISCONTINUED)

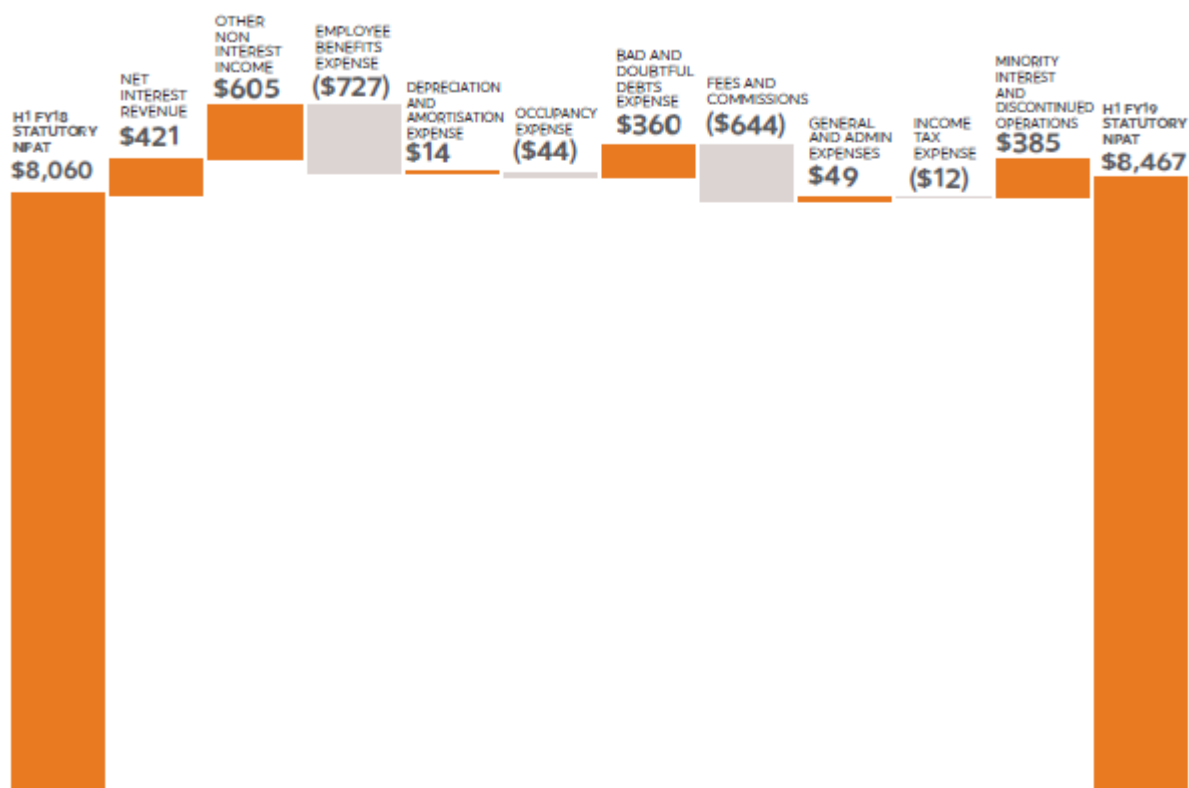
	H1 FY19	H1 FY18	Change	
NPAT	\$8.467m	\$8.060m	↑	5.0%
Loan Book	\$2.982b	\$2.804b	↑	\$178m
Net Interest Revenue	\$31.109m	\$30.688m	↑	1.4%
Net Interest Margin	188bps	196bps	↓	8bps
Interim dividend per share (fully franked) (cents per share)	16.0c	16.0c	—	0.0c
EPS (cents per share)	20.1	19.4	↑	0.7
ROE	7.2%	7.1%	↑	0.1%
ROTE	9.0%	9.0%	—	0.0%
Cost to Income Ratio	65.34%	63.40%	↑	1.94%
Capital Adequacy Ratio	14.43%	14.93%	↓	0.5%

UNDERLYING / CONTINUED OPERATIONS

	H1 FY19	H1 FY18	Change	
NPAT	\$8.467m	\$8.445m	↑	0.3%
EPS (cents per share)	20.1	20.4	↓	0.3
ROE	7.2%	7.5%	↓	0.3%
ROTE	9.0%	9.5%	↓	0.5%

Source: ABA

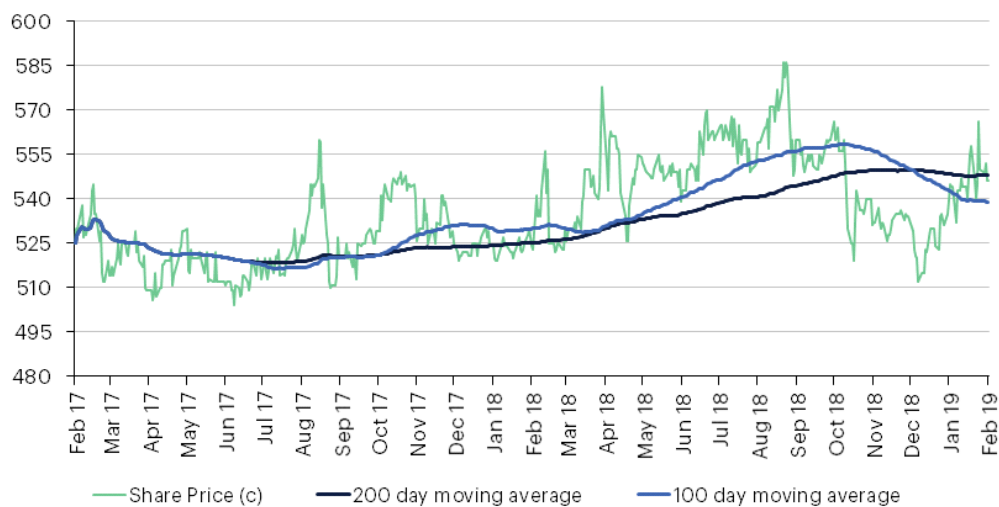
Fig.2: ABA 1H19 NPAT bridge



Source: ABA

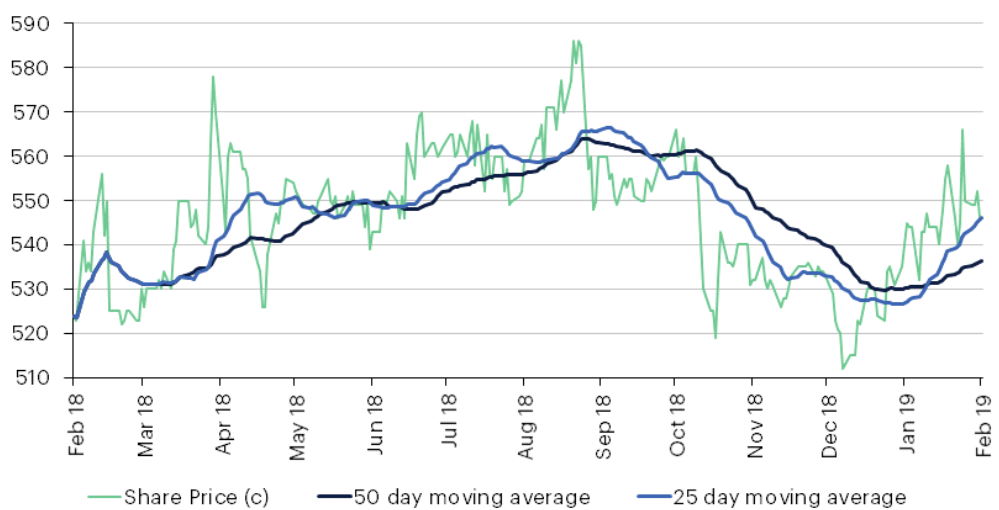
Appendix

Fig.3: Long term momentum indicators



Source: Iress

Fig.4: Short term momentum indicators



Source: Iress

This document has been prepared and issued by:

Baillieu Limited

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

Analysts' stock ratings are defined as follows:

Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

Baillieu Analysts' stock ratings distribution as of 24 January 2019:

Buy: 69%

Hold: 28%

Sell: 3%

Disclosure of potential interest and disclaimer:

Baillieu Limited (Baillieu) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by Baillieu Limited.

Save for any statutory liability that cannot be excluded, Baillieu Limited and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Baillieu Limited assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

Baillieu Limited

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

www.baillieu.com.au

Melbourne (Head Office)

Address Level 26, 360 Collins Street

Melbourne, VIC 3000 Australia

Postal PO Box 48, Collins Street West

Melbourne, VIC 8007 Australia

Phone +61 3 9602 9222

Facsimile +61 3 9602 2350

Email melbourne@baillieu.com.au

Adelaide Office

Address Ground Floor, 226 Greenhill Road,

Eastwood SA 5063

Postal PO Box 171

Fullarton SA 5063

Phone +61 8 7074 8400

Facsimile +61 8 8362 3942

Email adelaide@baillieu.com.au

Bendigo Office

Address Level 1, 10-16 Forest Street

Bendigo, VIC 3550

Postal PO Box 84

Bendigo, VIC 3552

Phone +61 3 4433 3400

Facsimile +61 3 4433 3430

Email bendigo@baillieu.com.au

Geelong Office

Address 16 Aberdeen Street

Geelong West Vic 3218

Postal PO Box 364

Geelong Vic 3220 Australia

Phone +61 3 5229 4637

Facsimile +61 3 4229 4142

Email geelong@baillieu.com.au

Gold Coast Office

Address Suite 202 Level 2, Eastside Building

6 Waterfront Place, Robina QLD 4226

Phone +61 7 5628 2670

Facsimile +61 7 5677 0258

Email goldcoast@baillieu.com.au

Newcastle Office

Address Level 1, 120 Darby Street

Cooks Hill, NSW 2300 Australia

Postal PO Box 111

The Junction, NSW 2291 Australia

Phone +61 2 4037 3500

Facsimile +61 2 4037 3511

Email newcastle@baillieu.com.au

Perth Office

Address Level 9, 216 St Georges Terrace

Perth WA 6000 Australia

Postal PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

Phone +61 8 6141 9450

Facsimile +61 8 6141 9499

Email perth@baillieu.com.au

Sydney Office

Address Level 40, 259 George Street

Sydney, NSW 2000 Australia

Postal PO Box R1797

Royal Exchange, NSW 1225 Australia

Phone +61 2 9250 8900

Facsimile +61 2 9247 4092

Email sydney@baillieu.com.au