Auswide Bank

ABA.AX

A research platform of MST Financial

27 August 2024

Merger with MyState by year end

Equity Research Australia

Diversified Financials

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NEED TO KNOW

- **ABA to merge with MyState (MYS) by late December 2024.**
- **FY24 NPAT of $11.2m in line with guidance of $10.9m-$11.3m.**
- **Final dividend of $0.11 cents per share (cps).**

ABA has signed a scheme implementation agreement (SIA) with MYS to merge. ABA shareholders will receive 1.112 new MYS shares implying ABA shareholders will hold ~34% of the combined Group post-merger.

Merger is forecast to deliver strong value accretion and be earnings per share (EPS) accretive by greater than 20% in FY25 pre-transaction and integration costs of $29m, noting 50% of the cost out synergies are forecast to occur in the first 18 months. Cost outs of $20m to $25m p.a. (equal to 13-16% of the existing combined cost bases) are forecast to be completed by FY27 resulting in a 31%-39% EPS accretion by FY27 on the combined entities FY24 underlying results.

ABA has raised new equity and acquired 100% of Selfco. A placement (3m new shares at $4.00 ps) and a non-underwritten share purchase plan (SPP) (0.75m new shares at $4.00 ps) will raise $15m. The funds will be used to finance ABA's immediate regulatory common equity tier 1 (CET1) capital requirements, Selfco's near term growth needs, and merger transaction costs. Selfco, a non-bank SME asset finance lender has been acquired by the issuance of $5m of ABA scrip and a potential $1.5m earn out payment. See Page 8 of report for more detail on Selfco.

Investment Thesis

We expect the merger with MYS to complete before year end. The combined underlying profits of MYS and ABA in FY24 was ~$45m (including the stated $1m loss from the Selfco business acquired). Management has guided to $20m-$30m of cost out synergies to be achieved over the coming years. Thus, a proforma post cost out underlying profit of $59m-$63m (pre any organic growth achieved through loan book growth etc) is assumed.

MYS has historically (10 years) traded at an average 12 month forward EPS multiple of ~12.5x implying a market capitalisation of $740m-$785m for MYS post-merger. The forecast number of MYS shares on issue (excluding any dividend reinvestment shares and performance shares yet to issue pre merger completion) will be ~171.3m implying a MYS share price of $4.33 to $4.58.

The mid-range price of $4.40 implies a 12-month forward pre-merger valuation for ABA stock of $4.89, not materially different from our current valuation, and providing upside risk to the current share price.

Valuation

Our sum of the parts valuation for ABA is $4.92, up marginally from $4.87.

Risks

ABAs key risks include changing macroeconomic conditions, regulatory requirements, liquidity and funding risks, credit risk, fraud, cybersecurity, asset-liability mismatch and compliance risks.

Auswide Bank is Australia's 24th largest bank, and 54th largest bank operating in the Australian market. It was established in 1966 in regional Queensland, listed on the ASX in 1994, and rebranded when converting into a bank in 2015.
ABA has established an Australia-wide lending presence supported through branches, business bankers, accredited mortgage brokers and online. ABA has a strong presence in Queensland and is growing across the rest of Australia. The Company boasts a highquality loan book with total assets over $5b, representing a mortgage market share of around 20 basis points (0.20%).
www.auswidebank.com.au

Valuation	**A$4.92** *(from A$4.87)*
Current price	**A$4.29**
Market cap	**A$213m**
Cash on hand	*Not meaningful*

Upcoming Catalysts / Next News

Period	
September	Lodge merger scheme booklet with ASIC
October	First Court Date
November	Shareholder vote
December	Implementation date

Share Price (A$)

Source: FactSet, MST Access

Figure 1: Auswide Bank Financial Data

Auswide Bank Limited — **ABA-AU**

Year end 30 June, A$

MARKET DATA			
Price	**A$**		**$4.29**
Valuation	**A$**		**$4.92**
52 week low - high	A$	$5.54	$3.57
Market capitalisation	**A$m**		**213**
Shares on issue (basic)	m		49.6
Options / rights (currently antidilutive)	m		0.0
Performance rights	m		0.2
Shares on issue (fully diluted)	**m**		**49.8**

12-MONTH SHARE PRICE PERFORMANCE VERSUS S&P/ASX SMALL ORDINARIES (XSO)

INVESTMENT FUNDAMENTALS		FY23A	FY24A	FY25E	FY26E	FY27E
Year end shares	**m**	45.9	46.6	52.0	52.0	52.0
Weighted average diluted shares	m	45.1	46.3	49.3	52.0	52.0
Year end share price (Actual / Spot)	**A$**	**5.39**	**3.57**	**4.29**	**4.29**	**4.29**
Reported EPS	cps	56	24	33	40	50
Underlying EPS	**cps**	**56**	**22**	**33**	**40**	**50**
PE (Reported)	x	9.7	14.7	13.0	10.7	8.6
PE (Underlying)	**x**	**9.7**	**16.2**	**13.0**	**10.7**	**8.6**
Dividend per share	**A$**	**0.43**	**0.22**	**0.26**	**0.30**	**0.38**
Payout rato (underlying EPS)	%	77%	91%	78%	75%	75%
Dividend yield	**%**	**8.0%**	**6.2%**	**6.0%**	**7.0%**	**8.8%**
Franking	%	100%	100%	100%	100%	100%
Gross yield	**%**	**11.4%**	**8.8%**	**8.5%**	**10.0%**	**12.5%**
NAV per share	A$	6.41	6.21	6.22	6.32	6.47
Price / NAV	**x**	**0.84**	**0.57**	**0.69**	**0.68**	**0.66**
NTA per share	A$	5.33	5.17	5.29	5.39	5.55
Price / NTA	**x**	**1.01**	**0.69**	**0.81**	**0.80**	**0.77**
Operating cash flow per share	cps	(296)	314	34	40	50
Free cash flow to equity per share	cps	71	70	24	32	41
FCF yield	%	13%	20%	6%	7%	10%

KEY PERFORMANCE INDICATORS		FY23A	FY24A	FY25E	FY26E	FY27E
CET1 ratio	**%**	**11.4%**	**12.1%**	**13.3%**	**12.8%**	**12.4%**
Capital adequacy ratio	**%**	**13.7%**	**14.8%**	**15.6%**	**15.0%**	**14.6%**
Leverage ratio	%	5.4%	5.3%	5.6%	5.4%	5.2%
ROE - reported	%	8.5%	3.5%	5.3%	6.4%	7.8%
Operating income growth	%	6.5%	(17.9%)	13.2%	11.2%	11.2%
Average loans and advances	$m	4,188	4,379	4,544	4,830	5,141
Loan growth post expected credit loss (ECI	**%**	**14.2%**	**0.6%**	**6.2%**	**6.4%**	**6.5%**
Expected Credit Loss (ECL) % of gross loans	%	0.1%	0.1%	0.1%	0.1%	0.1%
Deposit growth	**%**	**11.8%**	**5.8%**	**6.3%**	**6.5%**	**6.6%**
Operating expense growth	%	13.2%	1.1%	7.6%	6.2%	6.0%
Deposit to loan ratio (post ECL)	%	92.4%	97.0%	97.1%	97.2%	97.3%
Net Interest Margin	**%**	**1.88%**	**1.42%**	**1.55%**	**1.63%**	**1.70%**
Total Revenue / Average loans and advances	%	2.4%	1.9%	2.1%	2.2%	2.3%
Cost to income ratio	**%**	**65.0%**	**79.9%**	**75.3%**	**71.5%**	**67.9%**

HALF YEARLY DATA		*2H23A*	FY23A	*1H24A*	*2H24A*	FY24A
Interest Revenues	A$m	*107.3*	189.6	*121.5*	*129.0*	250.5
Interest Expense	A$m	*(64.6)*	(100.4)	*(84.2)*	*(95.0)*	(179.2)
Net Interest Income	**A$m**	*42.7*	**89.2**	*37.3*	*34.0*	**71.3**
Non-Interest income	A$m	*5.8*	11.3	*6.5*	*4.7*	11.3
Provision for loan losses	A$m	*(0.1)*	0.7	*(0.0)*	*(0.2)*	(0.2)
Operating expenses	A$m	*(32.6)*	(65.3)	*(32.8)*	*(33.2)*	(66.0)
Profit before income tax	A$m	*15.7*	35.9	*11.0*	*5.3*	16.3
Reported NPAT	A$m	*11.0*	25.1	*7.7*	*3.6*	11.2
Underlying NPAT	**A$m**	*11.0*	**25.1**	*6.6*	*3.7*	**10.2**
Net Interest Margin	**%**	*1.77%*	**1.88%**	*1.49%*	*1.37%*	**1.42%**
Cost to income ratio	%	*67.4%*	**65.0%**	*74.5%*	*85.7%*	**79.9%**
Deposit to loan ratio post ECL	%	*92.4%*	92.4%	*94.4%*	*97.0%*	97.0%
EPS - diluted underlying	**A$**	*0.24*	**0.56**	*0.14*	*0.08*	**0.22**
DPS	A$	*0.21*	0.43	*0.11*	*0.11*	0.22

PROFIT AND LOSS		FY23A	FY24A	FY25E	FY26E	FY27E
Interest Revenues	A$m	190	250	287	318	341
Interest Expense	A$m	(100)	(179)	(206)	(227)	(238)
Net Interest Income	**A$m**	**89**	**71**	**82**	**91**	**103**
Non-Interest Income	A$m	11	11	12	12	13
Total income	**A$m**	**101**	**83**	**93**	**104**	**116**
Operating expenses	A$m	(61)	(62)	(67)	(71)	(75)
EBITDA	A$m	39	21	27	33	40
Depreciation and amortisation	A$m	(4)	(4)	(4)	(3)	(3)
EBIT	**A$m**	**35**	**17**	**23**	**30**	**37**
Provision For Loan Losses	A$m	1	(0)	0	0	0
Pre-tax profit	**A$m**	**36**	**16**	**23**	**30**	**37**
Income tax expense	A$m	(11)	(5)	(7)	(9)	(11)
Reported NPAT	**A$m**	**25**	**11**	**16**	**21**	**26**
Underlying NPAT	**A$m**	**25**	**10**	**16**	**21**	**26**

BALANCE SHEET		FY23A	FY24A	FY25E	FY26E	FY27E
Cash and cash equivalents	A$m	203	224	242	248	255
Loans and advances	A$m	4,378	4,408	4,681	4,980	5,303
Other financial assets	A$m	402	536	549	563	577
Property, plant and equipment	A$m	19	20	21	21	22
Goodwill and other intangibles	A$m	49	49	48	48	48
Other assets	A$m	8	23	23	23	23
Total Assets	**A$m**	**5,060**	**5,260**	**5,565**	**5,883**	**6,228**
Deposits and short term borrowings	A$m	4,043	4,276	4,545	4,840	5,159
Loans under management	A$m	531	571	585	599	614
Other borrowings / RBA Term Funding Facility	A$m	101	0	0	0	0
Subordinated capital notes	A$m	42	47	47	47	47
Other liabilities	A$m	49	77	64	68	71
Total Liabilities	**A$m**	**4,766**	**4,970**	**5,241**	**5,554**	**5,891**
Contributed equity	A$m	212	216	233	236	240
Treasury shares	A$m	0	0	0	0	0
Reserves	A$m	22	18	31	28	25
Retained earnings/accumulated losses	A$m	60	56	60	65	72
Non-controlling interests	A$m	0	0	0	0	0
Total equity	**A$m**	**294**	**290**	**324**	**329**	**337**
Net assets	**A$m**	294	290	324	329	337
Net tangible assets	**A$m**	**244**	**241**	**275**	**281**	**289**
Risk weighted assets	A$m	1,950	1,854	1,964	2,077	2,200
Capital base	A$m	267	274	307	313	321

CASH FLOW		FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	A$m	107	82	82	91	103
Non-interest income	A$m	17	14	12	12	13
Net move in loans and advances	A$m	(549)	(30)	(274)	(299)	(323)
Net move in deposits and borrowings	A$m	376	132	270	294	319
Operating expenses	A$m	(73)	(46)	(67)	(71)	(75)
Income taxes paid / Other	A$m	(11)	(7)	(6)	(8)	(10)
Net operating cashflow	**A$m**	**(133)**	**146**	**17**	**21**	**26**
Net move investments / Due from institutions	A$m	10	(153)	(13)	(14)	(14)
Capital expenditure	A$m	(2)	(3)	(3)	(4)	(4)
Acquisitions and divestments	A$m	0	1	0	0	0
Net investing cashflow	**A$m**	**8**	**(156)**	**(17)**	**(17)**	**(18)**
Movement in Equity	A$m	0	0	15	0	0
Dividends	A$m	(8)	(12)	(8)	(11)	(14)
Net move due to financial institutions	A$m	160	40	14	15	15
Lease payments / Other	A$m	(2)	3	(3)	(2)	(2)
Net financing cashflow	**A$m**	**151**	**31**	**18**	**1**	**(1)**
Net cash flow	**A$m**	**25**	**21**	**18**	**5**	**7**

Source: Company data, MST estimates

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557.

Merger with MyState

ABA has signed a scheme implementation agreement (SIA) with MYS to merge.

Key points to note are:

- ABA shareholders will receive 1.112 new MYS shares implying ABA shareholders will hold ~34% of the combined Group post merger.
- The new Board will be chaired by Sandra Birkensleigh and will include three non-exec directors from the ABA board and four non-exec Directors from the MYS Board.
- Brett Morgan will be CEO and MD. Warren Lee will chair TPT Wealth.
- Merger completion targeted for mid to late December 2024.

Figure 2: Indicative timetable for the merger

Event	Date
Lodge regulatory applications	August 2024
Lodge Scheme Booklet with ASIC	September 2024
First Court Date application served on ASIC	October 2024
First Court Date	October 2024
Despatch Scheme Booklet	October 2024
Scheme Meeting held (Auswide shareholder vote)	November / December 2024
Second Court Date	December 2024
Record date	December 2024
Implementation date	December 2024

Source: Company

Rationale for Merger with MyState

Figure 3: Increased scale, a lower cost base and geographic diversification will add value for both sets of shareholders

1	Opportunity from combining two high-quality banks	> Strategic consolidation of two complementary banks to create a trusted organisation of choice with a national footprint > Rich histories with high-quality loan books evidenced by low arrears and high customer retention
2	Significantly enhanced scale and value proposition	> Materially increase scale with combined lending assets of $12.5 billion[1] and customer deposits of $9.6 billion[1] > Increased scale and resultant efficiencies are expected to position the organisation for growth > Potential to unlock substantial benefits to customers through increased capacity to invest in core capabilities and improve the customer experience > Auswide shareholders will receive scrip in an enlarged ASX300 company
3	Increased portfolio diversification of lending and deposit book	> Combination of two banks with complementary and distinct regional areas to create an expanded national presence in every state and territory in Australia > Additional diversification in the risk profile of lending assets as well as funding sources, liquid assets and capital base, is expected to result in a more financially resilient and prudentially-stable organisation
4	Strong operational alignment between both banks	> Similar operating models, technology roadmap and growth strategy opens opportunities to deliver simplification, harmonisation and scale efficiencies > Community-focused organisations with strong cultural alignment and a shared customer-centric business model and focus on delivering exceptional customer experiences
5	Potential for shareholder value creation	> Potential estimated pre-tax cost synergies of $20 million to $25 million per annum[2] (representing approximately 13.0% to 16.0% of the combined cost base[3]) expected to be realised across governance and people, technology and other > Expected to be greater than 20% EPS accretive in FY25[4], assuming full run-rate synergies and including shares to be issued in relation to the acquisition of Selfco

Source: Company

Figure 4: The two banks have complementary brands, customers, capabilities and technology

	Auswide Bank	+ MyState Limited	= MergeCo
Brand	• Iconic Bundaberg brand with a proud and rich history of serving customers for over 58 years	• Trusted Tasmanian banking brand and one of the oldest providers of wealth solutions in Australia (TPT Wealth)	• High-quality customer-focused bank with a national footprint • Ongoing commitment to delivering exceptional customer experiences, whilst maintaining operations in Bundaberg and Hobart
Customers	• Over 92,000 customers across Australia • Strong Private Bank offering catering to high-net-worth customers • NPS of 40	• Over 180,000 customers across Australia • Increased digital focus catering to a younger cohort of customers • NPS of 58	• Over 272,000 customers across Australia • Customer-centric, relationship-based organisations with expanded capabilities and ability to invest to drive customer satisfaction
Product	• Predominantly retail banking products and services, supplemented by a Private Bank offering and equipment financing (including through Selfco)	• Predominantly retail banking products and services with strong digital capability • Funds management and trustee services through TPT Wealth	• Expanded product suite • Diversified revenue streams and end markets
Distribution	• 16 branches located in major provincial centres across Queensland, supported by a broker network, partnerships and Private Bank offering	• Omni-channel distribution strategy through 7 branches, an Australian-based contact centre, mobile lenders and broker network	• Commitment to maintaining physical points of presence in regional centres across Australia
Technology	• Ultradata core banking solution • Recent digital investments in retail website and loan experience	• TCS BaNCS core banking solution • Strong digital capability including recent launch of contemporary mobile app and internet banking	• Enhanced scale to maintain ongoing investment requirements into cyber security, regulatory changes and enhanced customer digital experience

Source: Company

- ABA's share of combined net assets ($771m) post Selfco acquisition and adjustments is ~40%
- ABA's share of combined net tangible assets ($636m) post Selfco acquisition and adjustments is ~39%

Figure 5: Value to accrue from scale and cost out

As at 30-Jun-24 (in respect of Auswide – unaudited), unless otherwise stated

		Auswide[1]	Selfco	MyState Limited	MergeCo[5]
Balance Sheet *(30-Jun-24)*	Gross Loans and Advances ($m)	4,429	81	8,022	12,532
	Total Assets ($m)	5,260	89	9,168	14,517
	Customer Deposits ($m)	3,686	–	5,928	9,614
	Net Assets ($m)	290	2	465	757
Income Statement[2] *(FY24)*	Revenue ($m)	83	3	179	265
	Operating Expenses ($m)	66	4	128	198
	Net Profit after Tax (NPAT) ($m)	11	(1)	35	45
KPIs *(FY24)*	Net Interest Margin (NIM) (%)[2]	1.42%	3.00%	1.76%	1.64%
	Cost to Income (%)[3]	79.9%	130.2%	71.3%	74.7% (~66.2% pro forma run-rate cost synergies[6])
	Return on Equity (%)[4]	3.9%	n.m.	7.7%	6.0% (~8.0% pro forma run-rate cost synergies[7])
	CET1 Capital Ratio (%) (30-Jun-24)	12.1%	n.a.	12.0%	12.1%

Source: Financial information for the 12 months ended 30-Jun-24 (unaudited for Auswide), 6 months ended 31-Dec-23 and 12 months ended 30-Jun-23 for Auswide, MyState and Selfco (unaudited)
Note: (1) The financial information included in this Presentation in relation to FY24 is unaudited. Auswide currently expects to release its audited Preliminary Final Report for FY24 on 26-Aug-24; (2) Unaudited Income Statement presented under Auswide's reporting methodology (i.e. includes broker commissions and issuance costs in operating expenses); (3) MyState NIM and CTI adjusted to align with Auswide's reporting methodology which includes broker commissions and issuance costs in operating expenses (MyState FY24 NIM as reported of 1.45% and FY24 CTI as reported of 66.3%). (4) Return on Equity calculated based on FY24 statutory NPAT and average of the net assets as at 30-Jun-24 (in respect of Auswide and Selfco – unaudited), 31-Dec-23 and 30-Jun-23; (5) Excludes pro forma adjustments in relation to the Placement, payout of Selfco's warehouse facilities and the impact of the purchase price allocation exercise which will be undertaken upon completion. See page 44 for Auswide's pro forma balance sheet (post-Acquisition); (6) Based on run-rate pre-tax cost synergies of ~$22.5m (mid-point of estimated synergy range); (7) Based on run-rate post-tax cost synergies of ~$15.8m (assuming 30% tax rate)

Source: Company

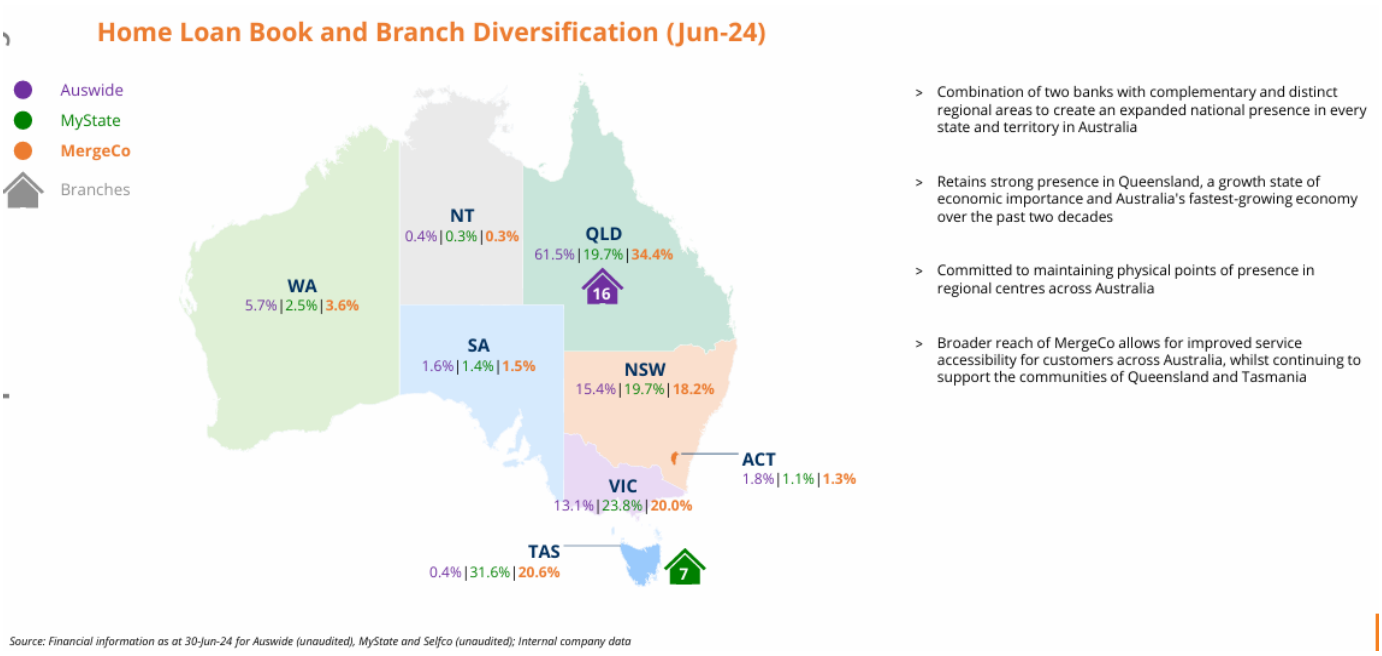
Figure 6: Cost out synergies to be achieved over three years

Potential estimated pre-tax cost synergies of $20 million to $25 million per annum, expected to be fully realised at the end of the third year post implementation of the Proposed Merger[1]

1	**Governance & People** Addressing functional overlap and leveraging the expertise of staff across the combined business	$12-15m
2	**Technology** Consolidation of core banking systems, security operating controls, treasury systems and payment systems	$6-7m
3	**Other** Integration of shared services and rationalisation of duplicative functions (e.g., marketing, consulting, insurance)	$2-3m
4	**Estimated annualised cost synergies**	$20-25m
	Additional revenue and funding synergies (not quantified) expected to be realised from cross-selling products and a reduction to wholesale funding costs	n.q.
5	**Estimated one-off costs to achieve cost synergies** ~1.3x annualised synergies comprises migration of technology platforms, redundancies and other one-off costs	~$29m

Source: Company

Figure 7: Post merger the Group will have a balanced portfolio over Australia reducing ABA's dependence on Queensland



Source: Company

Where should ABA trade pre-merger?

The merger is forecast to deliver strong value accretion and be earnings per share (EPS) accretive by greater than 20% in FY25, pre transaction and integration costs of $29m.

Cost out of $20m to $25m p.a. (equal to 13-16% of the existing combined cost bases) are forecast to be completed by FY27 with 50% of the cost out synergies to occur in the first 18 months.

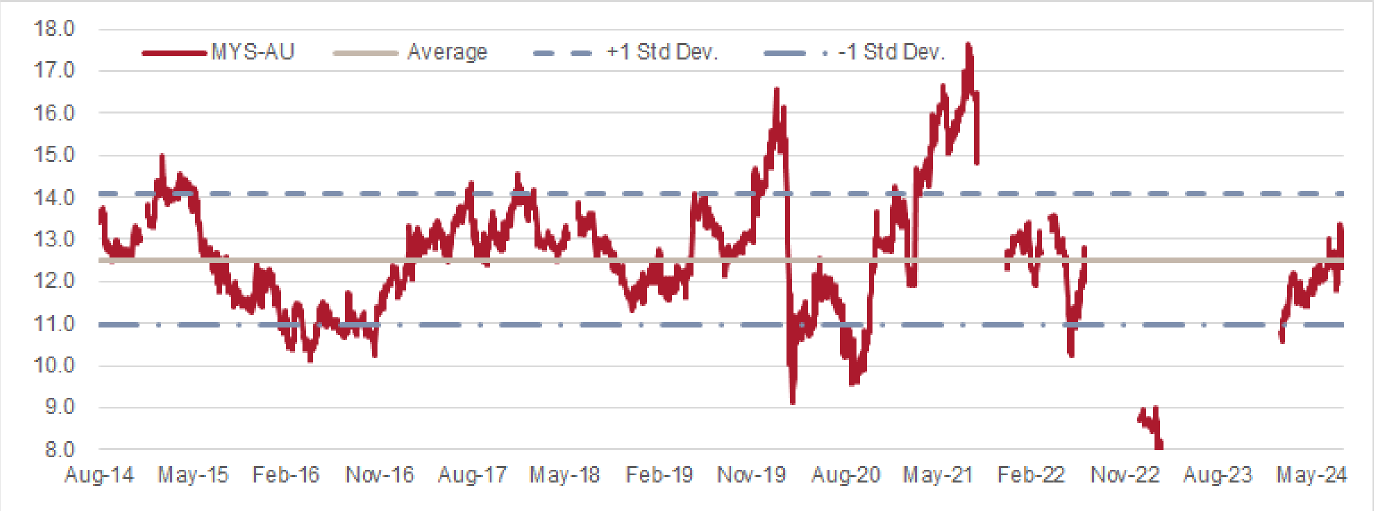
We expect the merger with MYS to complete before calendar year end.

The combined underlying profits of MYS and ABA in FY24 was ~$45m (including the stated $1m loss from the Selfco business acquired. See Figure 5.

Management has guided to $20m-$30m of cost out synergies to be achieved over the coming years. See Figure 6. Thus, a proforma post cost out underlying profit of $59m-$63m (pre any organic growth achieved through loan book growth etc) is assumed.

The MYS share price has historically (10 years) traded at an average 12 month forward EPS multiple of ~12.5x (See Figure 8) implying a market capitalisation of $740m-$785m for MYS post merger. The forecast number of MYS shares on issue (excluding any dividend reinvestment shares and performance shares yet to issue pre merger completion) will be ~171.3m implying a MYS share price of $4.33 to $4.58.

Figure 8: MyState 12 month forward Price to EPS multiple has averaged 12.5x over the last ten years



Source: FactSet, MST

The implied mid range price of $4.40 implies a 12 month forward pre merger valuation for ABA stock of $4.89, not materially different from our current valuation.

FY24 Result

ABA had pre released FY24 earnings guidance in June. See our note below...

["Full year earnings guidance given"]

so there was little to surprise the market and the merger with MYS was the key news item.

Key points to note from the full year result are:

- FY24 NPAT of $11.2m m in line with guidance of $10.9m - $11.3m.
- Final dividend of $0.11 cents per share (cps). MSTe $0.11 cps.
- Loan book growth of only $26m reflecting a conservative risk-based approach given the unprecedented competition for mortgages and deposits with high refinancing activity placing pressure on margins.
- Customer deposits up 8% to 3.7bn.
- **Cost of funding growth as customers switched from "on call" to "term deposits" paying higher rates. Term deposits as a percentage of total customer deposits has grown from 43% in FY22 to 58% in FY24.**
- Home loan growth of $300m anticipated in FY25. MSTe $275m to be conservative. At 6.0% this equates to an additional ~$8m of interest income if the loan growth is spread evenly over the year.
- NIM to benefit from fixed rate loans maturing in FY25. **In 1H25 $672m of fixed rate loans are forecast to roll (current average rate of 3.73%) and in 2H25 a further $371m of fixed rate loans are forecast to roll (current average rate of 4.19%). If all of these loans are retained and price at ~6.0%, then on an annualised basis ABA should see a pick up in over $20m of interest income p.a., or over $12m in FY25 depending on the refinancing timeline.**
- CET1 ratio of 12.12%

Figure 9: FY24 Key Financial Metrics

	FY24 (unaudited)	FY23	CHANGE
NPAT Statutory (Consolidated)	$11.231m	$25.067m	(55.2%)
NPAT Underlying (Consolidated)(1)	$10.283m	$25.067m	(59.0%)
Loan Book (billion)(2)	$4.429b	$4.403b	$26m
Net Interest Revenue	$71.291m	$89.182m	(20.1%)
Net Interest Margin (NIM) (Basis points)	142bps	188bps	(46bps)
Final Dividend per share	11.0c(3)	21.0c	(10.0c)
Total Dividend per share	22.0c(3)	43.0c	(21.0c)
EPS Statutory (cents)	24.2c	55.6c	(31.4c)
EPS Underlying (cents)(1)	22.2c	55.6c	(33.4c)
ROE Statutory	3.9%	8.7%	(4.8%)
ROE Underlying(1)	3.6%	8.7%	(5.1%)
Cost to Income Ratio	79.9%	65.0%	14.9%
Capital Adequacy Ratio	14.78%	13.70%	1.08%
Deposits	$3.686b	$3.414b	$272m

> NPAT of $11.231m, down 55.2% on prior year statutory results

> Net interest revenue of $71.291m, down 20.1%

> Loan book growth of $26m or 0.6% from $4.403b at 30 June 2023 to $4.429b at 30 June 2024

> Net interest margin of 142bps, down 46bps on FY23

> Deposits up 8.0%; now 75.3% of funding (FY23: 72.4%)

> Strong balance sheet, capital adequacy ratio of 14.78%

> Statutory ROE of 3.9% down 4.8% from FY23 (8.7%)

> Final dividend expected to be 11.0c(3) reflects a payout ratio of 96.3%(4) (subject to the completion of the Acquisition and the Offer)

Source: Financial information for the 12 months ended 30-Jun-23 and 12 months ended 30-Jun-24 (unaudited) for Auswide

Note: (1) Difference between Statutory and Underlying NPAT (unaudited) and ROE (unaudited) in FY24 arose as a result of a gain in the sale of the investment in FAMG of $1.108m and $0.160m for professional fees relating to potential M&A activities; (2) Including investments in Managed Investment Schemes (MISs) reported in Financial Assets on the Balance Sheet; (3) The amount of any dividend paid will be at the discretion of the Auswide Board and will depend on several factors, including: (a) the recognition of profits and availability of cash for distributions; (b) the anticipated future earnings of Auswide; and (c) when the forecast timeframe for capital demands of the business allows for a prudent distribution to shareholders; (4) Should the Acquisition and the Offer not complete, the dividend payout ratio is expected to be 91.1%

Source: Company

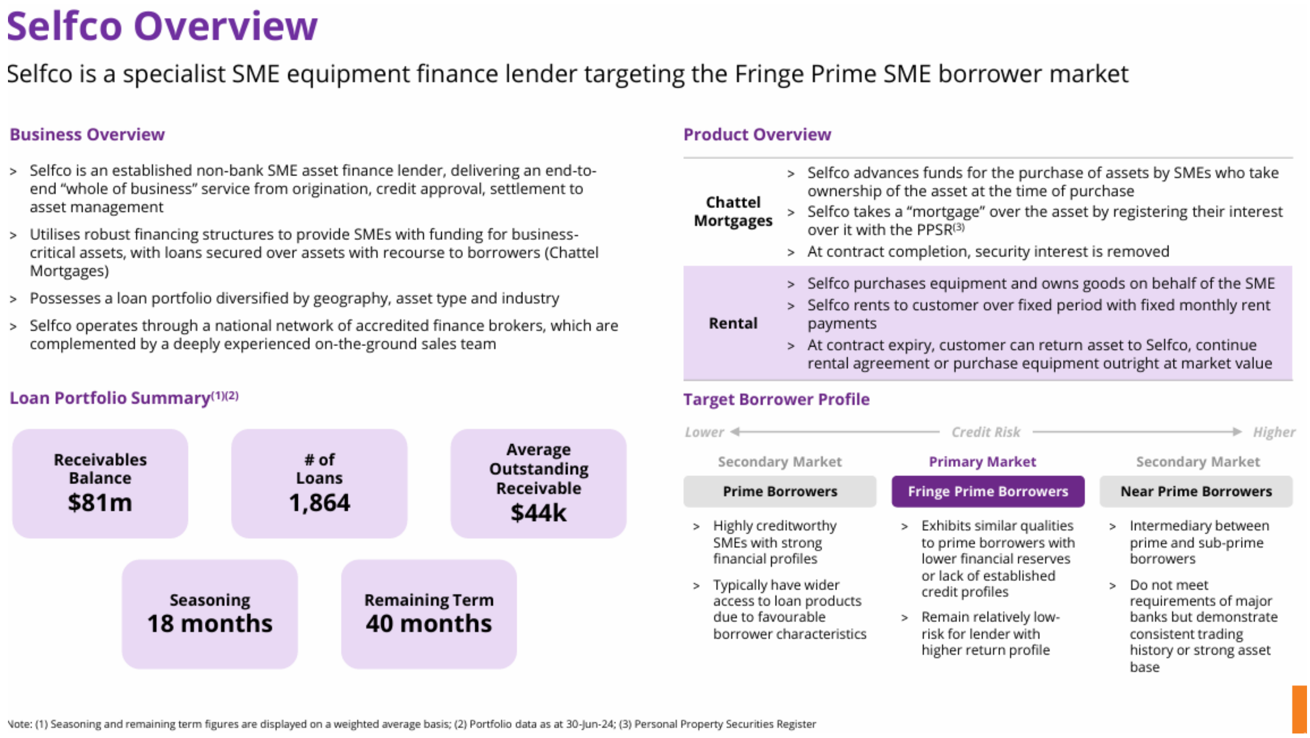
Selfco Acquisition

ABA has raised new equity and acquired 100% of Selfco. A placement (3m new shares at $4.00 ps) and a non-underwritten share purchase plan (SPP) (0.75m new shares at $4.00 ps) will raise $15m.

The funds will be used to finance ABA's immediate regulatory common equity tier 1 (CET1) capital requirements, Selfco's near term growth needs, and merger transaction costs.

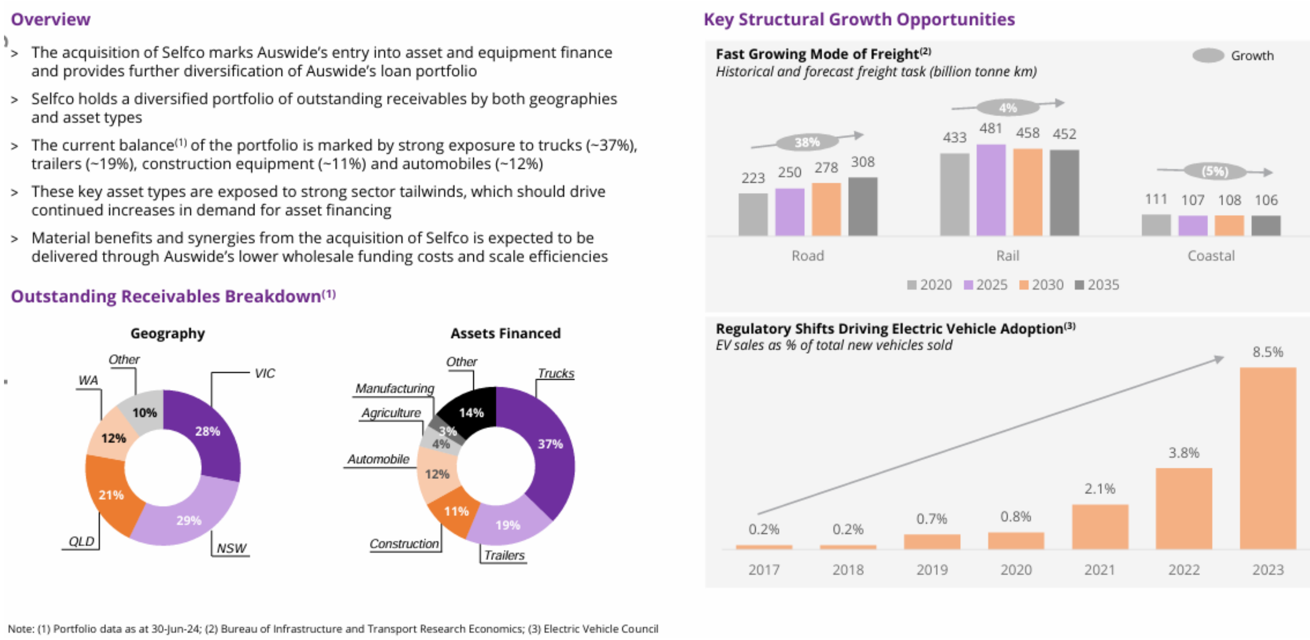
Selfco, a non-bank SME asset finance lender has been acquired by the issuance of $5m of ABA scrip and a potential $1.5m earn out payment.

Figure 10: Selfco is a specialist SME equipment finance lender targeting the Fringe Prime borrower market



Source: Company

Figure 11: Selfco holds a diversified portfolio of outstanding receivables and is exposed to structural tail winds



Source: Company

Company Description

Auswide Bank Ltd (ABA) is Australia's 24th largest bank, and 54th largest bank operating in the Australian market. It was established in 1966 in regional Queensland, listed on the ASX in 1994, and rebranded in 2015 shortly after converting into a bank.

ABA has established an Australia-wide lending presence supported through branches, business bankers, accredited mortgage brokers and online. ABA has a strong presence in Queensland and is growing across the rest of Australia.

The bank boasts a high-quality loan book with total assets over $5b, representing a mortgage market share of around 20 basis points (0.20%).

ABA's 3-year strategic plan contains several ambitious targets including to:

1. Grow its lending book to $6bn
2. Embrace digital systems and loan processing capabilities to lower its borrower acquisition costs
3. Optimise its funding sources through low cost savings and transaction accounts
4. Issue RMBS to provide funding and capital flexibility
5. Achieve a cost to income ratio below 60% over the medium term
6. Pursue M&A opportunities to help achieve scale

Investment Thesis

ABA offers a variety of attractions to investors:

- The potential of stronger growth prospects than the major banks, with an ability to grow home loans unimpeded at multiples of system when it is profitable to grow and increasing operational efficiency.
- One of the highest quality loan books in the industry, reflected in its low asset impairment charges.
- Improving return on equity metrics as the benefits of its increased scale and improving profitability flow through.
- A strong capital position supportive of further growth.
- ABA has realised that scale and complexity in today's banking environment is not the advantage it once was. Simplicity and nimbleness backed by good value products that are distributed efficiently via multiple channels (proprietary and partner) has been identified as ABA's opportunity.

In the short to medium term, we believe:

- Competition should eventually become rational again: We expect to see pressures on ABA's NIM and CTI ease over the next couple of years, which should enable its ROE to again lift above its cost of capital, supporting higher valuation multiples and growing dividends.
- Loan growth has resumed as was guided to by management at the interim result. We note from the APRA Authorised Deposit-taking Institution (ADI) data that ABA has grown its household owner occupied housing and investment (OO&I) housing loan book by 4.4% ($174m) since the December half year to 30 April and 2.1% for the year to date (in line with guidance).
- Capital and credit quality remain competitive advantages: With one of the highest quality loan books in the industry, reflected in its low asset impairment charges, and conservative lending practices, accompanied by a strong capital base with a capital adequacy ratio at the 31st December of 15.3%, ABA stands well placed to capture market share when others become distracted with growing competition.

Valuation

Our sum of the parts valuation for ABA is $4.92, up marginally from $4.87 primarily reflecting roll forward of our forecasts.

We have assumed that the market will look to historic multiples for guidance when pricing ABA and as such we have derived 12-month forward valuations below and set our valuation at the average of the four.

Over the next 12 months as the market becomes more comfortable with the merger synergies to be achieved we believe the share price will trade up closer to our valuation.

Our near-term valuation has very little sensitivity to loan book growth and NIM.

Our current forecasts out to FY30 have net loan book growth of $275m p.a. in FY25 lifting to $325m by FY27 (last five years has been closer to $300m p.a.) and a recovery in NIM to 1.90% by FY30.

Clearly, if ABA can grow the loan book faster than we are forecasting and get NIM back up closer to 2.0% sooner than we are expecting, the value of ABA in the eyes of the market will be higher than we are forecasting.

Figure 12: Auswide Bank Limited Sum of the Parts Valuation

Metric	MST estimate A$	Multiple x	Valuation per share A$	Rationale for multiple chosen
NTM earnings per share	0.34	11.5	3.93	Average since FY18
NTM dividend	0.26	6.5%	4.05	Average since FY18
NTM Price / Book	6.23	0.95	5.92	Average since FY18
NTM Price / NTA	5.31	1.09	5.77	Average since FY18
Average			**4.92**	**Range of A$3.93 - A$5.92**

Source: Company, MST estimates, FactSet

We note if we run a dividend discount model based on our forecasts, using a cost of equity of 12.5%, a 50% franking value, and a terminal growth rate of 2.5% we arrive at a 12 month forward valuation of $5.67 (previously $5.64).

Risks and sensitivities

ABAs key risks include changing macroeconomic conditions, liquidity and funding risks, credit risk, fraud, cybersecurity, asset-liability mismatch and compliance risks. Furthermore, it could suffer adverse changes from changes in the regulatory environment including in respect of bank capital and lending buffer requirements.

Personal disclosures

David Fraser received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Auswide Bank (ABA.AX) | Price A$4.29 | Valuation A$4.92;

Price and valuation as at 27 August 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Auswide Bank (ABA.AX)

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