

## RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Medium
Price Target	<b>\$6.15</b>
Share Price	\$5.29

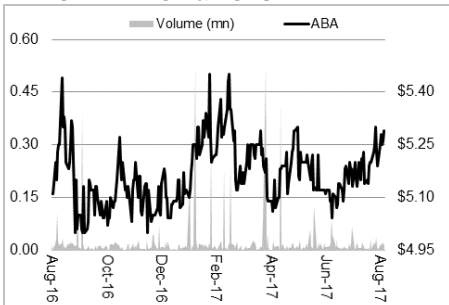
## SNAPSHOT

Monthly Turnover	\$1.4mn
Market Cap	\$214mn
Shares Issued	40.7mn
52-Week High	\$5.46
52-Week Low	\$4.99
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



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## Disclosure

The author owns no shares in ABA.

Baillieu Holst Ltd acted as Underwriter for ABA and earned fees in relation to that activity in the past 12 months.

# Auswide Bank (ABA)

## COMPANY REPORT

### Positive jaws in the Wide Bay region

- FY17 result:** Normalised NPAT of A\$15.6m (+11% pcp) versus our forecast of A\$14.9m. Final dividend of A17cps, resulting in a total of A31cps for FY17 (FY16: A30cps) with an underlying payout ratio of 78% (FY16: 80%).
- Key takeaways:** 1) A solid beat to our forecast driven by interest margins holding up better than we expected in 2H17; 2) loan growth resumed with 4% growth in 2H17 versus no loan growth in 1H17 – this was due to ABA taking a self-imposed lending holiday in 1H17 whilst it launched its Lendfast origination system; 3) FY17 net interest margin of 1.90% (FY16: 1.96%) although downward trend was established in 1H17 (1.92%); 4) loan growth now being augmented through personal loan product and by using ABA's part-owned PTP lender MoneyPlace; 5) comfortably positive revenue/cost jaws has reduced the underlying cost to income ratio to 65.6% (FY16: 69.1%); 6) loan growth remains strongest outside Queensland with ABA gaining double-digit loan growth in NSW and Victoria; 7) environment for attracting deposits remains strong with ABA growing call deposits to A\$726m (+7% pcp) and term deposits to A\$1.3bn (+9% pcp); 8) credit environment remains benign; and 9) ABA to retain above-peer capital ratio (currently 13.5%) to allow for growth, acquisitions and regulatory developments – ABA estimates the “unquestionably strong” regime to add 50bp to its minimum capital requirements.
- Outlook:** ABA expects: 1) an improving Queensland economy driven by renewed mining investment, tourism and Queensland Government investment; 2) slower loan growth in FY18 as the market adjusts to investor and interest only caps followed by strong 2H18; 3) MoneyPlace sourced lending to contribute A\$26m in flow in FY18 (FY17: A\$14.0m) – ABA citing 7.4% interest margin on MoneyPlace loans in FY17.
- Changes to forecasts:** Modest (<3%) changes to forecasts.
- Investment view:** BUY maintained with revised DDM valuation of A\$6.15 (prev. A\$6.21) and price target of A\$6.15 (prev. A\$6.20). We view the FY17 result as potentially the start of an upgrade cycle for ABA as the bulk of the heavy lifting on core banking platforms, lending systems and branch rationalisation has been completed with benefits dropping to the bottom line from here. On the growth side, we view third tier banks such as ABA as well placed to respond to the new world of caps on interest only and investor loans. We continue to view ABA as attractively priced at 1.0 times book value with a strong yield. M&A remains the wildcard in the ABA story.

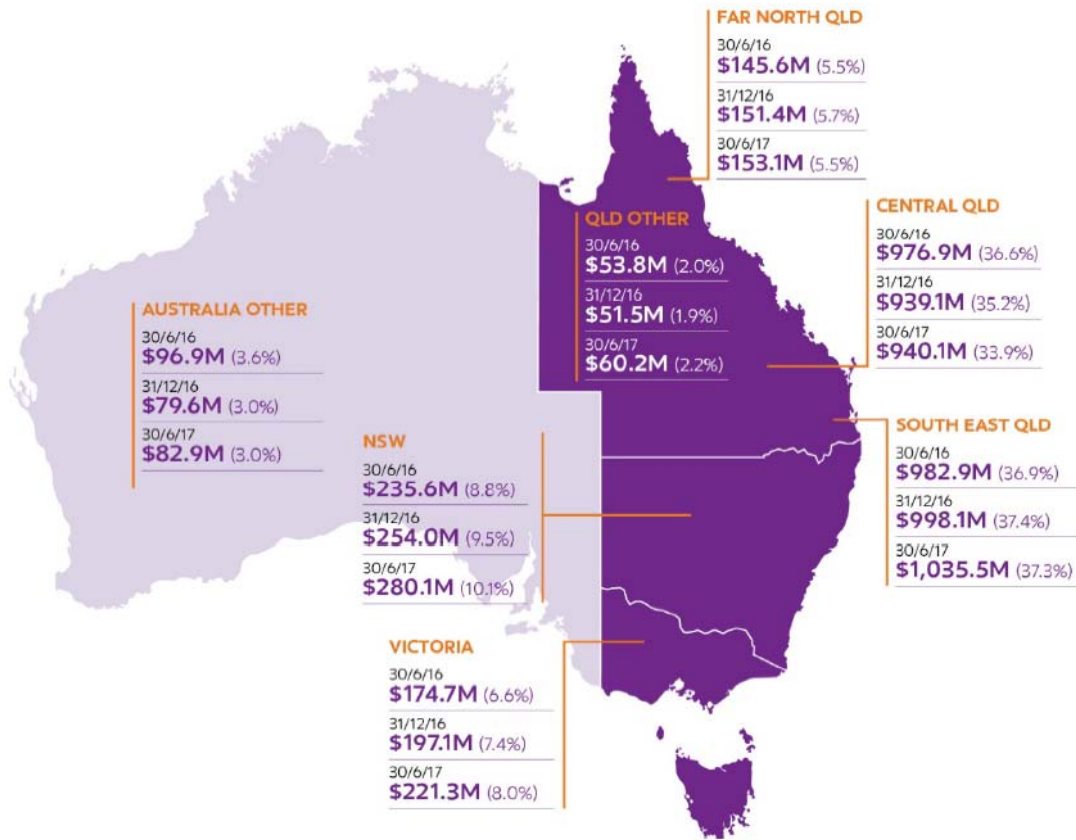
## INVESTMENT SUMMARY

Year End: 30 June		2016 (A)	2017 (A)	2018 (E)	2019 (E)	2020 (E)
Revenue	\$mn	63	68	72	78	85
Reported Profit	\$mn	11.7	15.0	17.8	21.1	24.5
Adjusted Profit	\$mn	14.0	15.6	17.8	21.1	24.5
EPS (Reported)	¢	31.2	37.0	43.7	51.9	60.3
EPS (Adjusted)	¢	37.5	38.5	43.7	51.9	60.3
EPS Growth	%	122.3	2.9	13.3	18.8	16.2
PER (Reported)	x	17.0	14.3	12.1	10.2	8.8
PER (Adjusted)	x	14.1	13.7	12.1	10.2	8.8
Dividend	¢	30.0	30.0	33.0	39.0	45.0
Yield	%	5.7	5.7	6.2	7.4	8.5
Franking	%	100	100	100	100	100

## Financial summary

Auswide Bank Ltd											
<b>Analyst:</b>						<b>Rating:</b>	<b>BUY</b>				
<b>Date:</b>	18-August-2017					<b>Price Target:</b>	\$6.15				
<b>Market Capitalisation A\$m:</b>	\$214					<b>Valuation:</b>	\$6.15				
<b>Share Price (\$A):</b>	\$5.29					<b>Upside/(Downside):</b>	16%				
<b>Year End:</b>	30 June					<b>Risk:</b>	Medium				
<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>EARNINGS</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Interest Income	124.3	125.9	139.1	154.3	168.8	EPS - Reported	31.2	37.0	43.7	51.9	60.3
Interest Expense	70.4	68.4	78.4	87.7	96.0	EPS - Normalised	37.5	38.5	43.7	51.9	60.3
<b>Net Interest Margin</b>	<b>53.9</b>	<b>57.5</b>	<b>60.7</b>	<b>66.5</b>	<b>72.7</b>	EPS Growth (%)	122%	3%	13%	19%	16%
Other Revenue	9.1	10.2	11.0	11.9	12.6	DPS	30.0	30.0	33.0	39.0	45.0
Bad & Doubtful Debts Expense	-0.6	1.0	0.9	1.0	1.1	Franking (%)	100.0	100.0	100.0	100.0	100.0
Other Expenses	46.4	45.0	45.5	47.3	49.2	Payout Ratio (%)	80%	78%	76%	75%	75%
<b>Net Profit Before Tax</b>	<b>17.1</b>	<b>21.7</b>	<b>25.4</b>	<b>30.2</b>	<b>35.0</b>						
Income Tax Expense/(Benefit)	5.8	6.7	7.6	9.0	10.5	<b>VALUATION</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Minority Interests	0.3	0.0	0.0	0.0	0.0	P/E (x)	14.1	13.7	12.1	10.2	8.8
<b>NPAT - Reported</b>	<b>11.7</b>	<b>15.0</b>	<b>17.8</b>	<b>21.1</b>	<b>24.5</b>	Dividend Yield (%)	5.7%	5.7%	6.2%	7.4%	8.5%
Normalisation Adjustments	2.3	0.6	0.0	0.0	0.0	Price/Book (x)	1.0	1.0	0.9	0.9	0.9
<b>NPAT - Normalised</b>	<b>14.0</b>	<b>15.6</b>	<b>17.8</b>	<b>21.1</b>	<b>24.5</b>	Price/NTA (x)	1.3	1.3	1.2	1.2	1.1
<b>BALANCE SHEET (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	Price/Cash/Flow per Share (x)	11.4	11.2	12.1	10.2	8.8
<b>Assets</b>						<b>GROWTH</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Cash	67.8	120.1	126.0	134.7	144.1	Net Loan Growth (% pcp)	14%	4%	11%	10%	10%
Due From Other Fin.Institutions	22.0	11.8	11.8	11.8	11.8	Net Int. Margin Growth (% pcp)	5%	7%	6%	10%	9%
Accrued Receivables	12.8	6.7	6.7	6.7	6.7	Exp.Growth - ex BDD(% pcp)	12%	-3%	1%	4%	4%
Financial Assets	225.0	291.9	291.9	291.9	291.9	NPBT Growth (% pcp)	-10%	27%	17%	19%	16%
Loans & Advances	2,666.4	2,773.2	3,085.4	3,402.1	3,751.3						
Other Investments	0.5	1.1	1.1	1.1	1.1	<b>MARGINS &amp; RETURNS</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Property, Plant & Equipment	15.5	14.6	16.0	17.4	18.8	Net Interest Margin % (ex Int Free)	1.82%	1.76%	1.87%	1.85%	1.85%
Deferred Tax Assets	5.9	5.3	5.3	5.3	5.3	Cost To Income %	74%	67%	63%	60%	58%
Other Assets	7.7	8.4	8.4	8.4	8.4	NPBT Margin %	27%	32%	35%	38%	41%
Goodwill	49.1	56.9	56.9	56.9	56.9	Effective Tax Rate %	34%	31%	30%	30%	30%
<b>Total Assets</b>	<b>3,072.8</b>	<b>3,290.0</b>	<b>3,609.5</b>	<b>3,936.3</b>	<b>4,296.3</b>	ROIC %	6%	6%	7%	8%	9%
<b>Liabilities</b>						ROE %	7%	7%	8%	9%	10%
Dep.& Short Term Borrowings	2,183.9	2,304.6	2,616.8	2,933.5	3,282.7						
Due To Other Fin.Institutions	0.0	0.0	0.0	0.0	0.0	<b>OPERATIONAL DATA</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Payables & Other Liabilities	25.4	18.6	18.6	18.6	18.6	Risk Weighted Assets A\$m	1,263	1,276	1,390	1,533	1,690
Securitized Loans	613.8	708.0	708.0	708.0	708.0	Total Capital Ratio %	14.3%	14.6%	14.6%	13.9%	13.3%
Income Tax Payable	0.0	1.2	1.2	1.2	1.2	Loan Book A\$m	2,671	2,778	3,090	3,406	3,756
Deferred Tax Liability	2.2	2.9	2.9	2.9	2.9	Deposits/Loans %	82%	83%	85%	86%	88%
Provisions	2.9	2.8	2.8	2.8	2.8						
Subordinated Loans	28.0	28.0	28.0	28.0	28.0						
<b>Total Liabilities</b>	<b>2,856.2</b>	<b>3,066.3</b>	<b>3,378.5</b>	<b>3,695.2</b>	<b>4,044.3</b>						
Contributed Capital	182.6	184.8	187.4	190.1	193.5						
Reserves	13.4	14.0	14.0	14.0	14.0						
Retained Earnings	20.7	23.7	28.4	35.7	43.1						
Minority Interests	0.0	1.3	1.3	1.3	1.3						
<b>Total Equity</b>	<b>216.7</b>	<b>223.7</b>	<b>231.1</b>	<b>241.1</b>	<b>251.9</b>						
Book Value Per Share (cps)	538.3	549.8	567.9	592.5	619.1						
NTA Per Share (cps)	416.3	410.0	428.0	452.6	479.3						
<b>CASH FLOW (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>						
<b>Cash at Start</b>	<b>51.5</b>	<b>67.8</b>	<b>120.1</b>	<b>126.0</b>	<b>134.6</b>						
Cash Flow from Operations	17.4	19.2	17.8	21.1	24.5						
Cash Flow From Investing	-358.9	-175.2	-313.6	-318.1	-350.6						
Cash Flow From Financing	357.7	208.2	301.8	305.6	335.5						
<b>Net Cash Flow</b>	<b>357.7</b>	<b>208.2</b>	<b>301.8</b>	<b>305.6</b>	<b>335.5</b>						
Other Adj	16.3	52.3	5.9	8.6	9.5						
<b>Cash At End</b>	<b>67.8</b>	<b>120.1</b>	<b>126.0</b>	<b>134.6</b>	<b>144.1</b>						

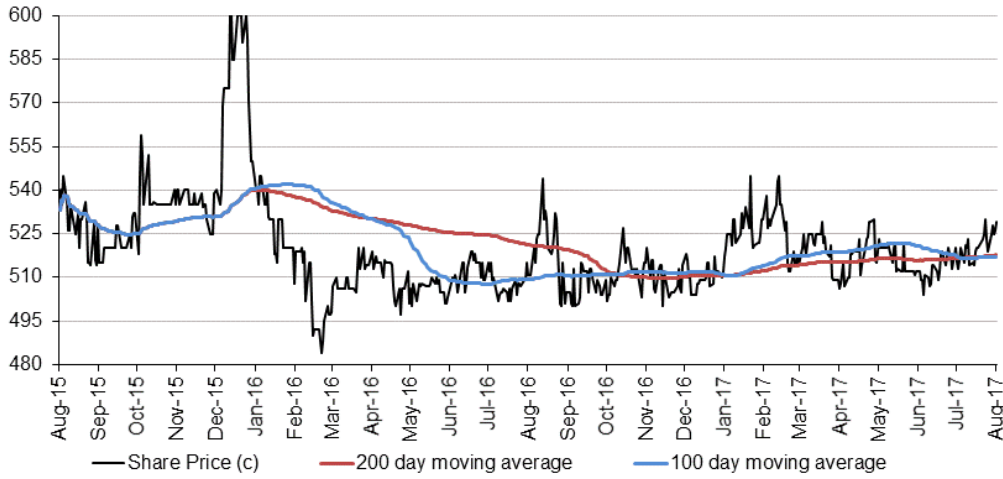
**FIG.1: ABA LOAN BOOK BY GEOGRAPHY**



Source: ABA Investor Presentation

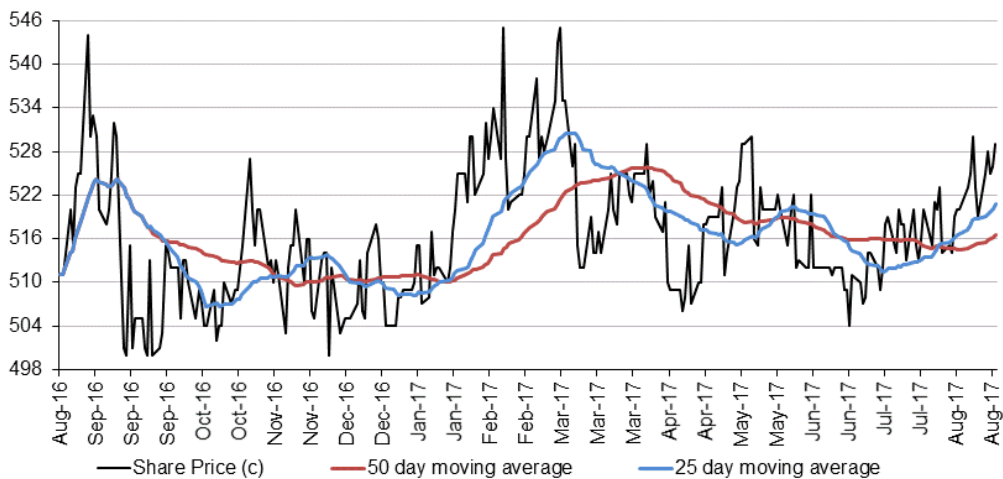
## Appendix

**FIG.2: LONG TERM MOMENTUM INDICATORS**



Source: Iress

**FIG.3: SHORT TERM MOMENTUM INDICATORS**



Source: Iress

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**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.

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**Hold:** 33%

**Sell:** 3%

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