

Auswide Bank Ltd

Strong momentum in a competitive sector

Auswide Bank Ltd (ASX:ABA) is Australia's 10th largest bank by assets. It provides home loans, consumer and credit card lending through its national online offering, branch and broker network. ABA was formed in 1979 in Bundaberg, as Wide Bay Capricorn Building Society, following a merger of building societies founded in 1966. Wide Bay converted to a bank in 2013 - recognising the national footprint the organisation desired and the greater flexibility available as a full bank. Auswide Bank was launched in 2015 and has continued to build on the ethos of its predecessor building societies - fostering home ownership in the community by co-ordinating the joint savings of members. ABA's history leaves the bank with 71.4% of the \$3.5bn loan book from Queensland, 13.4% from NSW and 9.3% from Victoria. The recent half year result highlighted the strong momentum in the business. Assistance to customers declining from a June peak of 8.9% of the loan portfolio to only 1.1% in December, leaving loans in arrears at a historic low. In H1 FY21, ABA reported above-system growth in loans (4.7x), improved cost ratios and higher returns. The bank's capital adequacy ratio of 13.3% meets APRA's 'unquestionably strong' target. ABA's strategic plan focuses on revenue expansion while retaining cost discipline and improving margins. Digital migration & expansion will be key to this process over the 3-year plan.

Business model

Auswide offers a full suite of banking products for consumers and small and medium businesses. Lending is driven by finance and mortgage brokers and is growing fastest outside QLD with NSW (+23.1%), VIC (+27.1%) and Australia Other (+27.5%) showing strong performances in H1 FY21. SE Qld remains a significant growth opportunity and the largest contributor to loan book by region (38.0%). Lending is mainly supported by customer deposits (74.4% of loans) with securitised, subordinated, and other debt securities providing most of the balance (22.1%). Term Funding via the RBA facility represented a rising share in the half (3.5%). Since February 2020, Auswide has participated in the government's First Home Loan Deposit Scheme, which has introduced the company to a wider broker group and a younger customer demographic. Auswide's strategy is focused on improving distribution via non-bank partnerships, driving brand awareness, and digital innovation while further improving cost ratios as revenue increases. The bank continues to focus on M&A and fintech partnerships to enable this process.

Recent company commentary

ABA reported H1 FY21 results on 24th Feb. Annualised loan book growth rose a record 13.4% for the half, driving a 24% rise in net profit. It reported 10.6% growth in customer deposits allowing ABA to continue to transform its funding mix and reduce funding costs. The board raised the dividend to 19cps vs 17cps in the pcp and after the APRA constrained payment of 10.75cps in the June 20 half. Interest revenue fell 13% versus H1 FY20 but interest costs dropped 40% on pcp highlighting the benefits of the RBA's quantitative easing program. Assets and Liabilities both grew more than 6% from FY20 for an increase in Net Assets of 3.3% in the six months.

A growing business at a stable business yield

ABA trades at a PE discount to large and small peers in the banking sector, commensurate with the bank's relative scale. However, it also has a strong (estimated) annualised yield premium at a dividend yield of 6.0%. Auswide has a growing business with an attractive delivery of income to shareholders.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.*	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
06/17a	57.0	24.5	15.2	15.2	37.0	37.0	4.8	11.2	17.4
06/18a	61.1	27.1	17.0	17.9	41.0	41.0	4.5	10.1	15.7
06/19a	62.3	27.3	17.2	17.2	41.0	41.0	4.4	10.0	15.7
06/20a	68.2	30.5	20.1	18.5	47.6	44.0	4.0	8.9	13.5

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Finance / Banking

12th March 2021

Share details

ASX Code	ABA
Share price	\$6.43
Market Capitalisation	\$272.8M
Shares on issue	42.4M
Total Assets at 3/12/2020	\$4,027M
Free float	86%

Share performance (12 months)



Upside Case

- Continued system loan growth
- Increase in market share outside QLD
- Cost control enabled by digital migration

Downside Case

- Rising interest rates hamper loan growth
- Slower economic growth drives higher provisions
- Increase in competitive response

Catalysts/upcoming events

- System lending data releases
- Final results FY21 August 21

Comparable companies (Aust/NZ)

MyState Ltd (ASX:MYS), Mortgage Choice Ltd (ASX:MOC), Bendigo & Adelaide Bank (ASX:BEN), Bank of QLD (ASX:BOQ)

Top 5 shareholders

Aust. Ethical Invest. Ltd.	6.80%
R.E. Hancock	4.49%
C.T. Kennedy	1.19%
GDC & DMC Super P/L	1.03%
K. Sawyer	1.01%

Company contacts

Martin Barrett (CEO) +61 7 4150 4001
mbarrett@auswidebank.com.au

Francoise Dixon (IR) +61 412 292 977
fdixon@citadelmagnus.com

RaaS Advisory contacts

Scott Maddock +61 418 212 625
scott.maddock@raasgroup.com



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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