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National Australia Bank (NAB)

Folksy, not schmaltzy

Recommendation
Buy (unchanged)

Price
\$28.32
Target (12 months)
\$32.00 (unchanged)

GICS Sector
Banks
Expected Return

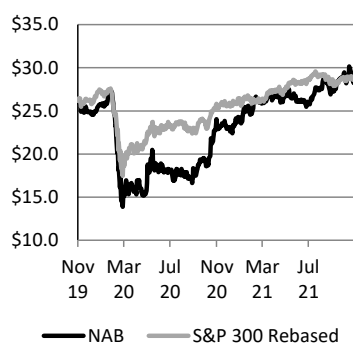
Capital growth	13.0%
Dividend yield	4.5%
Total expected return	17.5%

Company Data & Ratios

Enterprise value	n/m
Market cap	\$92,672m
Issued capital	3,272m
Free float	100%
Avg. daily val. (52wk)	\$173.3m
12 month price range	\$22.25 - \$30.30

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	28.86	27.41	22.73
Absolute (%)	-1.87	3.32	24.59
Rel market (%)	-1.84	3.80	10.68

Absolute Price


SOURCE: IRESS

ACCC not opposed to NAB's buy of Citi consumer business

The ACCC will not oppose NAB's buy of the Citi consumer business as the transaction should not lessen competition. This is even after the fact NAB and Citi overlap in retail banking products and services including home loans, transactions/savings, wealth management, personal and credit cards.

Primarily, the transaction's main focus is on credit cards as the other products and services are minimal when it comes to market share. As for credit cards, the ACCC review process included the potential gains in market share, talking to various stakeholders (other suppliers, third party distributors, etc.) and other consumer groups. It found that there was again minimal noise from the account and NAB would still face competition from an enlarged customer base (and this is despite the increasing growth in BNPL schemes). In other words, Citi would still not be unique in its credit card offering and NAB's purchase will still not materially change its own position (i.e. NAB remains smaller than the other majors even after the acquisition).

The other thing is that NAB might offer less favourable terms post acquisition to the smaller players. ACCC found NAB would be unlikely to act in that manner given the importance of scale and including relative setup costs (more so for NAB in, for example, trying to invest in its own platform). The proposed acquisition now rests with regulatory approvals from the Commonwealth Treasury and APRA, and completion is still scheduled for first half of calendar year 2022.

Price target \$32.00, maintain Buy rating

Our earnings expectations are unchanged for the time being, likewise the valuation and price target of \$32.00. With a 12-month TSR of greater than 15%, we still maintain NAB's Buy rating.

Earnings Forecast

Year end 30 September	2021	2022e	2023e	2024e
Statutory earnings (A\$m)	6,364	6,164	6,356	6,619
Cash earnings (A\$m)	6,558	6,282	6,474	6,737
EPS (cash) (A¢)	199	190	193	200
EPS (cash) growth (%)	65%	-5%	1%	4%
PER (x)	14.2	14.9	14.7	14.2
P/Book (x)	1.5	1.4	1.3	1.3
P/NTA (x)	1.6	1.5	1.4	1.4
Dividend (A¢)	127	133	135	141
Yield (%)	4.5%	4.7%	4.7%	5.0%
ROE (%)	10.8%	9.9%	9.7%	9.7%
NIM (%)	1.72%	1.68%	1.67%	1.67%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

National Australia Bank

Company description

NAB is a well-diversified financial services organisation providing a comprehensive range of retail and wholesale banking products and services. The bank largely operates in Australia (under the NAB umbrella brands) and in New Zealand (under the BNZ brand) and remains a leader in SME/business banking.

Investment strategy

NAB's turnaround and de-risking phase is complete following the demerger and IPO of CYB. The bank is now focused on the lower risk, capital efficient Australian and New Zealand retail, business and corporate banking market space. Our investment strategy is predicated upon NAB improving its NIM (through repricing and pricing discipline), maintaining tight cost management and lifting its overall ROE to levels that are closer to those of its major bank peers.

Valuation

Our price target is broadly based on a blend of DCF, sustainable dividend yield play, sustainable ROE and fully de-risked SOP valuation weighted equally and as its ROE outlook normalises towards at least 10-12% in the medium term.

Table 1 – Composite valuation					Table 2 – SOP valuation				
Composite Valuation	Value (\$m)	Per NAB share	Weighting	Composite value per NAB share	Sum-of-Parts (As Is)	FY22e NPAT	Pros. PE (times)	Value (\$m)	Per NAB share
DCF	91,930	\$28.09	25%	\$7.02	Business and Private Banking	2,572	14.0	36,015	\$11.01
Dividend yield (sustainable)	123,881	\$37.86	25%	\$9.46	Consumer Banking	1,549	13.5	20,916	\$6.39
ROE (sustainable)	100,667	\$30.76	25%	\$7.69	Corporate and Institutional Banking	1,094	14.0	15,322	\$4.68
Sum-of-Parts	86,114	\$26.32	25%	\$6.58	Wealth Management	0	-	-	-
Surplus capital*	1,612	\$0.49		\$0.49	NZ Banking	1,066	13.0	13,860	\$4.24
Total				\$31.25	Other including distributions	0	0.0	0	\$0.00
* Less estimated NZ new capital requirement					Total	6,282	13.7	86,114	\$26.32

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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SWOT analysis

Strengths

1. Agribusiness and SME / commercial banking capabilities;
2. Highest proportion of investment grade exposures in the sector;
3. Lowest exposure to mining and energy;
4. High quality mortgage loan book;
5. Well diversified geographically;
6. Management execution; and
7. Cost and growth discipline, and ROE focus.

Weaknesses

1. NIM still soft in business lending; and
2. Market share loss in SME and business banking segments.

Opportunities

1. Further domestic banking and wealth management opportunities based on securing alternate distribution strategies;
2. Upside risk to planned cost savings following \$1.5bn investment spend; and
3. Driving the Personal and Business Banking cost ratio to below 35%.

Threats

1. Slippage in planned productivity increases;
2. Royal Commission and other political uncertainties;
3. Macroeconomic factors, e.g. unemployment and slowing credit growth;
4. Changes in regulatory environment, especially higher liquidity/capital/funding constraints under proposed global regulatory reforms, and the potential capping of funds management and advice fees that would crimp wealth management earnings growth; and
5. Increased competition specifically from the majors and disruptors on the domestic front in retail and wholesale banking and wealth management.

Sensitivities

Table 3 – Sensitivities

Y/e September 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	9.3%	9.3%	9.1%	9.0%	8.8%	8.6%	8.4%	8.2%	8.1%
- Price target upside	\$2.97	\$2.97	\$2.92	\$2.87	\$2.81	\$2.75	\$2.70	\$2.64	\$2.58
Group Loans +1%									
- NPAT upside (cash basis)	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
- Price target upside	\$0.22	\$0.21	\$0.21	\$0.21	\$0.21	\$0.20	\$0.20	\$0.20	\$0.19
Australian loans +1%									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.13	\$0.13	\$0.13	\$0.13	\$0.13	\$0.13	\$0.13	\$0.12	\$0.12
NZ loans +1%									
- NPAT upside (cash basis)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
- Price target upside	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Other income +1%									
- NPAT upside (cash basis)	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
- Price target upside	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.10	\$0.10	\$0.10	\$0.10
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-\$0.02	-\$0.03	-\$0.03	-\$0.03	-\$0.03	-\$0.03	-\$0.03	-\$0.03	-\$0.03
Costs +1%									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%
- Price target upside	-\$0.27	-\$0.26	-\$0.25	-\$0.23	-\$0.22	-\$0.21	-\$0.20	-\$0.19	-\$0.18

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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T S Lim, authoring analyst, holds a long position in NAB.

Disclosure: Bell Potter Securities acted as Co-Manager in NAB's AT1 (July 2020) and NABPH (November 2020) offers and received fees for that service.

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