BÉLL POTTER

Analyst

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Authorisation

Chris Savage 612 8224 2835

Recommendation

Buy (unchanged)

Price

\$28.32

Target (12 months)

\$32.00 (unchanged)

GICS Sector

Banks

	Expected Return
13.0%	Capital growth
4.5%	Dividend yield
17.5%	Total expected return
ios	Company Data & Rat
n/m	Enterprise value
\$92,672m	Market cap
3,272m	Issued capital
100%	Free float
\$173.3m	Avg. daily val. (52wk)
\$22.25 - \$30.30	12 month price range

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					

National Australia Bank (NAB)

Folksy, not schmaltzy

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.



SOURCE: IRESS

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									
Composite Valuation	Value (\$m)	Per NAB share	Weighting	Composite value per NAB share					
DCF	91,930	\$28.09	25%	\$7.02					
Dividend yield (sustainable)	123,881	\$37.86	25%	\$9.46					
ROE (sustainable)	100,667	\$30.76	25%	\$7.69					
Sum-of-Parts	86,114	\$26.32	25%	\$6.58					
Surplus capital*	1,612	\$0.49		\$0.49					
Total \$31.25									
* Less estimated NZ new capital requirement									

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 – SOP valuation									
Sum-of-Parts (As Is)	FY22e NPAT	Pros. PE (times)	Value (\$m)	Per NAB share					
Business and Private Banking	2,572	14.0	36,015	\$11.01					
Consumer Banking	1,549	13.5	20,916	\$6.39					
Corporate and Institutional Banking	1,094	14.0	15,322	\$4.68					
Wealth Management	0	-	-	-					
NZ Banking	1,066	13.0	13,860	\$4.24					
Other including distributions	0	0.0	0	\$0.00					
Total	6,282	13.7	86,114	\$26.32					

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;
- 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;
- 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

National Australia Bank as at 25 November 2021

RecommendationBuyPrice\$28.32Target (12 months)\$32.00

Table 4 – Financial summary											
National Australia Bank							Share Price	(A\$)			28.32
As at	25-Nov-21						Market Cap	(A\$M)			92,672
PROFIT AND LOSS						VALUATION DATA					
Y/e September 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e September 30	2020	2021	2022e	2023e	2024e
Net interest income Other banking income	13,920 3,270	13,797 3,009	14,003 3,061	14,306 3,153	14,616 3,248	Cash earnings (\$m) EPS (statutory basis) (cps)	3,710 82	6,558 193	6,282 187	6,474 189	6,737 196
Total banking income	17,190	16,806	17,064	17,460	17,864	- Growth	-51%	135%	-3%	1%	4%
Funds management income	0	0	0	0	0	EPS (cash basis) (cps) - Growth	121 -42%	199 65%	190 -5%	193 1%	200 4%
Insurance income Net operating income	17,190	16,806	17,064	17,460	17,864	P / E ratio (times)	23.4	14.2	14.9	14.7	14.2
Operating expenses	-9,007	-7,817	-7,480	-7,435	-7,383	P / Book ratio (times)	1.5	1.5	1.4	1.3	1.3
Credit impairment charge Cash earnings b4 tax/distributions	-2,762 5,421	217 9,206	-633 8,952	-799 9,225	-881 9,600	P / NTA ratio (times) Net DPS (cps)	1.6 60	1.6 127	1.5 133	1.4 135	1.4 141
Income tax expense	-1,672	-2,635	-2,669	-2,751	-2,863	Yield	2.1%	4.5%	4.7%	4.7%	5.0%
Outside equity interests	0	0	0	0	0	Franking	100%	100%	100%	100%	100%
Investment experience Distributions	0 -39	0 -13	0	0	0	Payout (cash basis)	49%	63%	70%	70%	70%
Cash earnings	3,710	6,558	6,282	6,474	6,737	CAPITAL ADEQUACY					
Large notable items, discontinued	-1,151	-194	-118	-118	-118	Y/e September 30	2020	2021	2022e	2023e	2024e
operations and other adjustments Statutory earnings	2,559	6,364	6,164	6,356	6,619	Risk weighted assets (\$m)	425,147	417,163	463,981	500,888	520,691
		,	,	<u> </u>	·	Average risk weight	53%	48%	51%	53%	53%
CASHFLOW Y/e September 30 (\$m)	2020	2021	2022e	2023e	2024e	Tier 1 ratio CET1 capital ratio	13.2% 11.5%	14.6% 13.0%	13.7% 12.3%	13.2% 11.8%	13.2% 11.9%
NPAT (cash basis)	3,710	6,558	6,282	6,474	6,737	Total capital ratio	16.6%	18.9%	17.6%	16.8%	16.6%
						Equity ratio	7.1%	6.8%	7.0%	7.0%	7.0%
Increase in loans Increase in other assets	7,300 -18,320	-32,448 -39,767	-13,501 -19,269	-13,897 -20,842	-14,439 -22,542	DIVISIONAL					
Capital expenditure	-1,257	-440	-85	-88	-90	Y/e September 30 (\$m)	2020	2021	2022e	2023e	2024e
Investing cashflow	-12,277	-72,655	-32,855	-34,826	-37,072	Duning and Daise to 10 and a surror Bending					
Increase in deposits & borrowings	29,922	30,556	11,475	11,859	12,242	Business/Private/Consumer Banking Net interest income	9,417	9,301	9,620	9,813	10,009
Increase in other liabilities	-16,170	27,361	17,048	20,638	22,372	Other operating income	1,392	1,360	1,336	1,369	1,402
Ordinary equity raised	5,160	72	0	0	0	Net operating income	10,809	10,661	10,957	11,181	11,411
Other Financing cashflow	-1,414 17,498	-5,448 52,541	-1,950 26,573	-4,145 28,353	-4,279 30,335	Operating expenses Credit impairment charge	-4,633 -578	-4,744 -14	-4,746 -303	-4,711 -442	-4,671 -495
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Net change in cash	8,931	-13,556	0	0	0	Income tax expense	-1,684	-1,773	-1,785	-1,822	-1,887
Cash at end of period	64,388	50,832	50,832	50,832	50,832	Cash earnings Home loans	3,914 290,910	4,130 300,464	4,122 306,473	4,206 312,603	4,357 318,855
BALANCE SHEET						Other loans	116,891	123,990	126,470	128,999	131,579
Y/e September 30 (\$m)	2020	2021	2022e	2023e 50,832	2024e	Deposits	270,016	295,641	304,510	313,646	323,055
Cash and liquid assets Divisional gross loans	64,388 585,416	50,832 619,666	50,832 634,517	649,734	50,832 665,306	Corporate and Institutional Banking					
Provisions	-6,376	-5,379	-5,889	-6,368	-6,659	Net interest income	2,075	1,918	1,941	2,013	2,087
Other gross loans / inter div.	15,012 196,247	12,213 236,142	11,372 255,411	10,531 276,253	9,691 298,795	Other operating income	1,382 3,457	1,304 3,222	1,232 3,173	1,277 3,290	1,324 3,411
Other IEA Intangibles	3,809	4,113	4,113	4,113	4,113	Net operating income Operating expenses	-1,388	-1,369	-1,375	-1,372	-1,367
PP&E	2,374	2,814	2,899	2,987	3,077	Credit impairment charge	-170	-186	-234	-243	-252
Insurance assets	0 5,695	0 5,567	0 5,567	0 5,567	0 5,567	Cash earnings b4 tax/distributions	1,899 -483	1,667 -460	1,563 -469	1,675 -503	1,793 -538
Other assets Total assets	866,565	925,968	958,823		1,030,721	Income tax expense Cash earnings	1,416	1,207	1,094	1,173	1,255
						Loans	96,039	104,478	109,045	113,752	118,604
Divisional deposits Other borrowings	330,573 461,419	361,129 490,100	372,604 507,148	384,463 527,786	396,705 550,158	Other IEA	182,561	148,122	152,942	157,896	162,987
Other liabilities	13,280	11,960	11,960	11,960	11,960	Wealth Management					
Total liabilities	805,272	863,189	891,712	924,209	958,823	Wealth management income	0	0	0	0	0
Ordinary share capital	43,531	43,247	45,684	46,144	46,619	Insurance income Net operating income	0 0	0 0	0 0	0 0	0 0
Other equity instruments	1,945	0	0	0	0	Wealth management expense	0	0	0	0	0
Reserves	99	550	550	550	550	Other expenses	0	0	0	0	0
Retained profits Minority interests	15,717 1	18,982 0	20,877 0	22,746 0	24,729 0	Cash earnings b4 tax/distributions Income tax expense	0 0	0 0	0 0	0 0	0 0
Total shareholders' equity	61,293	62,779	67,112	69,440	71,898	Investment experience	0	0	0	0	0
						Cash earnings	0	0	0	0	0
Total sh. equity & liabs.	866,565	925,968	958,823	993,650	1,030,721	FUMA	0	0	0	0	0
WANOS - statutory (m)	3,068	3,290	3,303	3,362	3,373	NZ Banking					
WANOS - cash (m)	3,068	3,290	3,303	3,362	3,373	Net interest income	1,872 520	2,017 505	1,943 493	1,982 507	2,022 522
PROFITABILITY RATIOS						Other operating income Net operating income	2,392	2,522	2,437	2,490	2,544
Y/e September 30	2020	2021	2022e	2023e	2024e	Operating expenses	-894	-933	-920	-914	-907
Return on assets Return on equity	0.4% 6.5%	0.7% 10.8%	0.7% 9.9%	0.7% 9.7%	0.7% 9.7%	Credit impairment charge Cash earnings b4 tax/distributions	-140 1,358	12 1,601	-36 1,481	-55 1,521	-74 1,562
Leverage ratio	6.5%	6.6%	6.7%	6.7%	6.7%	Income tax expense	-381	-447	-415	-426	-438
Net interest margin	1.77%	1.72%	1.68%	1.67%	1.67%	Outside equity interests	0	0	0	0	0
CIR Cost / average assets	52% 1.00%	47% 0.87%	44% 0.79%	43% 0.76%	41% 0.72%	Investment experience Cash earnings	0 977	0 1,154	0 1,066	0 1,095	0 1,125
Growth in net operating income	-1%	-2%	2%	2%	2%	Loans	81,576	90,734	92,530	94,380	96,268
Growth in operating expenses	11%	-13%	-4%	-1%	-1%	Deposits	60,557	65,488	68,094	70,817	73,650
Jaws Effective tax rate	-12% 31%	11% 29%	6% 30%	3% 30%	3% 30%	EX-LARGE NOTABLE ITEMS					
	3170	_5/0	3370	3070	3070	Y/e September 30 (\$m)	2020	2021	2022e	2023e	2024e
ASSET QUALITY	0000	0004	0000	0000	0004	Cash earnings	3,710	6,558	6,282	6,474	6,737
Y/e September 30 Credit impairment charge / GLA	2020 0.47%	2021 -0.04%	2022e 0.10%	2023e 0.12%	2024e 0.13%	Add back: - Customer remediation income loss	90	0	0	0	0
Credit impairment charge / RWA	0.65%	-0.05%	0.14%	0.16%	0.17%	- Customer remed'n costs, ASIC, etc.	932	0	-43	-43	-43
Total provisions (\$m)	6,376	5,379	5,889	6,368	6,659	- Restructuring costs	0	0	0	0	0
Total provisions / RWA	1.50%	1.29%	1.27%	1.27%	1.28%	Cash earnings ex-large notable items	4,732	6,558	6,239	6,430	6,693
IAP / GIA	45%	53%	53%	53%	53%	Cash EPS ex-large notable items	154	199	189	191	198
IBL / IEA Total provisions / GLA	100% 1.09%	99% 0.87%	98% 0.93%	98% 0.98%	98% 1.00%	 Growth Operating expenses (underlying) 	-32% 7,679	29% 7,817	-5% 7,542	1% 7,497	4% 7,445
i otali provisions / GLA	1.03/0	0.01 /0	0.33/0	0.30 /0	1.00/0	Payout (cash basis)	39%	63%	7,542	70%	7, 44 5 71%
						Return on equity (underlying)	8.3%	10.8%	9.8%	9.6%	9.7%
						CIR (underlying)	45%	47%	44%	43%	42%

SOURCE: 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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TS 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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