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# National Australia Bank (NAB)

## Further buy-back

### Recommendation

**Buy** (unchanged)

### Price

**\$31.72**

### Target (12 months)

**\$34.50** (previously \$32.50)

### GICS Sector

**Banks**

### Expected Return

Capital growth	<b>7.2%</b>
Dividend yield	<b>4.0%</b>
Total expected return	<b>11.2%</b>

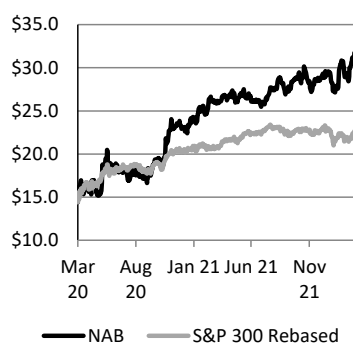
### Company Data & Ratios

Enterprise value	<b>n/m</b>
Market cap	<b>\$102,157m</b>
Issued capital	<b>3,221m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$187.2m</b>
12 month price range	<b>\$25.08 - \$31.74</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	30.58	28.83	25.93
Absolute (%)	3.73	10.02	22.33
Rel market (%)	1.54	9.12	12.19

### Absolute Price



SOURCE: IRESS

## Another \$2.5bn buy-back

NAB has announced the completion of its \$2.5bn on-market share buy-back. In addition, it has also announced a further buy-back of up to \$2.5bn. The total combined size is therefore \$5.0n. This will enable NAB to manage its CET1 capital ratio towards the target range of 10.75-11.25%. The bank expects to commence the latest buy-back following its 1H22 result, subject to market conditions. The capital management strategy reflects its strong balance sheet, further saying "...the further \$2.5bn on-market buy-back announced today supports our ambition to reduce share count and increase sustainable ROE benefits for our shareholders".

APRA's Unquestionably Strong CET1 benchmark remains at 10.5%. While the reported ratio is at 12.4% at the end of December 2021, the further buy-back will reduce the Group's CE1 ratio by roughly 58bp. Pro-forma including other adjustments, CET1 ratio is 11.3% and the movements include: 1) shares bought back and cancelled -32bp; 2) proposed acquisition of the Citigroup Australian consumer business -31bp; 3) BNZ divestment +6bp; and 4) further proposed buy-back of \$2.5bn -58bp. This is subject to timing and number of shares purchased.

## Price target increased to \$34.50, Buy rating maintained

NAB's cash earnings are increased by 3% from FY25e, mainly due to higher net interest income (up to 1% from FY25e) and even higher other banking income (3-12% in FY23e through to FY25e from reversion back to normalcy especially in business/private and corporate/institutional banking). These are offset to some extent by higher credit impairment charges (by up to 15bp – previously 12bp – in FY25e). In addition to lower dividend valuation yield of 3.75% (discount rate is maintained), the price target is therefore increased by \$2.00 to \$34.50. NAB's Buy rating is retained.

### Earnings Forecast

Year end 30 September	2021	2022e	2023e	2024e
Statutory earnings (A\$m)	6,364	6,625	7,006	7,404
Cash earnings (A\$m)	6,558	6,743	7,124	7,522
EPS (cash) (A¢)	199	204	213	224
EPS (cash) growth (%)	65%	2%	4%	5%
PER (x)	15.9	15.5	14.9	14.2
P/Book (x)	1.6	1.5	1.5	1.4
P/NTA (x)	1.7	1.6	1.5	1.5
Dividend (A¢)	127	137	143	150
Yield (%)	4.0%	4.3%	4.5%	4.7%
ROE (%)	10.8%	10.5%	10.5%	10.7%
NIM (%)	1.72%	1.66%	1.66%	1.67%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Further buy-back

## Price target increased to \$34.50, Buy rating maintained

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Table 1 – Estimate changes

National Australia Bank Y/e September 30 (\$m)	FY22e			FY23e			FY24e			FY25e		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
<b>Profit &amp; Loss</b>												
Net interest income	13,826	13,826	0%	14,391	14,364	0%	14,869	14,813	0%	15,284	15,196	1%
Other income	3,503	3,503	0%	3,878	3,770	3%	4,222	3,897	8%	4,499	4,029	12%
<b>Net operating income</b>	<b>17,330</b>	<b>17,330</b>	<b>0%</b>	<b>18,270</b>	<b>18,134</b>	<b>1%</b>	<b>19,091</b>	<b>18,710</b>	<b>2%</b>	<b>19,783</b>	<b>19,225</b>	<b>3%</b>
Operating expenses	-7,504	-7,504	0%	-7,521	-7,521	0%	-7,498	-7,498	0%	-7,466	-7,466	0%
Credit impairment charge	-216	-216	0%	-595	-549	-8%	-871	-731	-16%	-1,079	-865	-20%
<b>Cash earnings b4 tax/distributions</b>	<b>9,610</b>	<b>9,610</b>	<b>0%</b>	<b>10,154</b>	<b>10,065</b>	<b>1%</b>	<b>10,723</b>	<b>10,481</b>	<b>2%</b>	<b>11,238</b>	<b>10,893</b>	<b>3%</b>
Income tax expense	-2,867	-2,867	0%	-3,030	-3,003	-1%	-3,201	-3,128	-2%	-3,355	-3,251	-3%
Distributions	0	0	n/m	0	0	n/m	0	0	n/m	0	0	n/m
<b>Cash earnings</b>	<b>6,743</b>	<b>6,743</b>	<b>0%</b>	<b>7,124</b>	<b>7,061</b>	<b>1%</b>	<b>7,522</b>	<b>7,353</b>	<b>2%</b>	<b>7,883</b>	<b>7,642</b>	<b>3%</b>
<b>Statutory earnings</b>	<b>6,625</b>	<b>6,625</b>	<b>0%</b>	<b>7,006</b>	<b>6,943</b>	<b>1%</b>	<b>7,404</b>	<b>7,235</b>	<b>2%</b>	<b>7,765</b>	<b>7,524</b>	<b>3%</b>
<b>Cash earnings ex-notable items</b>	<b>6,700</b>	<b>6,700</b>	<b>0%</b>	<b>7,081</b>	<b>7,018</b>	<b>1%</b>	<b>7,479</b>	<b>7,310</b>	<b>2%</b>	<b>7,840</b>	<b>7,598</b>	<b>3%</b>
<b>DPS (c)</b>	<b>137</b>	<b>137</b>	<b>0%</b>	<b>143</b>	<b>143</b>	<b>0%</b>	<b>150</b>	<b>150</b>	<b>0%</b>	<b>157</b>	<b>157</b>	<b>0%</b>
EPS (cash basis) (c)	204	204	0%	213	210	1%	224	218	3%	234	226	3%
- ex-notable items (c)	203	203	0%	211	209	1%	222	217	3%	232	225	4%
Cash payout ratio	67%	67%	0%	67%	68%	-1%	67%	69%	-2%	67%	69%	-2%
- ex-notable items	67%	67%	0%	67%	68%	-1%	67%	69%	-2%	67%	70%	-2%
ROE	10.5%	10.5%	0.0%	10.5%	10.4%	0.1%	10.7%	10.5%	0.2%	10.7%	10.4%	0.3%
NIM	1.66%	1.66%	0.00%	1.66%	1.65%	0.00%	1.67%	1.66%	0.01%	1.67%	1.66%	0.01%
CIR	43%	43%	0%	41%	41%	0%	39%	40%	1%	38%	39%	1%
- ex-notable items	44%	44%	0%	42%	42%	0%	40%	40%	-1%	38%	39%	-1%
Underlying cost base	7,566	7,566	0%	7,583	7,583	0%	7,560	7,560	0%	7,528	7,528	0%
Impairment expense as % of GLA	0.03%	0.03%	0.00%	0.09%	0.08%	-0.01%	0.13%	0.11%	-0.02%	0.15%	0.12%	-0.03%
Effective tax rate	30%	30%	0%	30%	30%	0%	30%	30%	0%	30%	30%	0%

SOURCE: COMPANY DATA AND 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 2 – Composite valuation					Table 3 – 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	97,000	\$30.12	25%	\$7.53	Business & Private Banking	2,715	16.0	43,439	\$13.49
Dividend yield (sustainable)	119,806	\$37.20	25%	\$9.30	Personal Banking	1,664	15.5	25,795	\$8.01
ROE (sustainable)	114,776	\$35.64	25%	\$8.91	Corporate & Institutional Banking	1,272	15.0	19,080	\$5.92
Sum-of-Parts	105,239	\$32.68	25%	\$8.17	Wealth Management	0	-	-	-
Surplus capital*	1,612	\$0.50		\$0.50	NZ Banking	1,092	15.5	16,926	\$5.26
<b>Total</b>				<b>\$34.41</b>	Other including distributions	0	0.0	0	\$0.00
					<b>Total</b>	<b>6,743</b>	<b>15.6</b>	<b>105,239</b>	<b>\$32.68</b>

\* Less estimated NZ new capital requirement

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 4 – Sensitivities									
Y/e September 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
<b>Sensitivities</b>									
<b>Group NIM +10bp</b>									
- NPAT upside (cash basis)	8.7%	8.5%	8.3%	8.1%	8.0%	7.9%	7.7%	7.6%	7.4%
- Price target upside	\$2.99	\$2.94	\$2.87	\$2.81	\$2.77	\$2.72	\$2.66	\$2.61	\$2.55
<b>Group Loans +1%</b>									
- NPAT upside (cash basis)	0.7%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%	0.6%
- Price target upside	\$0.24	\$0.23	\$0.23	\$0.23	\$0.23	\$0.22	\$0.22	\$0.22	\$0.21
<b>Australian loans +1%</b>									
- 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	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14	\$0.13	\$0.13	\$0.13	\$0.13
<b>NZ loans +1%</b>									
- NPAT upside (cash basis)	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	\$0.06	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
<b>Other income +1%</b>									
- 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	\$0.14	\$0.14	\$0.14	\$0.13	\$0.13	\$0.13	\$0.13
<b>BDD +1%</b>									
- NPAT upside (cash basis)	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-\$0.01	-\$0.02	-\$0.03	-\$0.03	-\$0.04	-\$0.04	-\$0.03	-\$0.03	-\$0.03
<b>Costs +1%</b>									
- NPAT upside (cash basis)	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%	-0.5%	-0.5%
- Price target upside	-\$0.27	-\$0.25	-\$0.24	-\$0.23	-\$0.22	-\$0.21	-\$0.20	-\$0.18	-\$0.17

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.

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