Bendigo and Adelaide Bank Limited

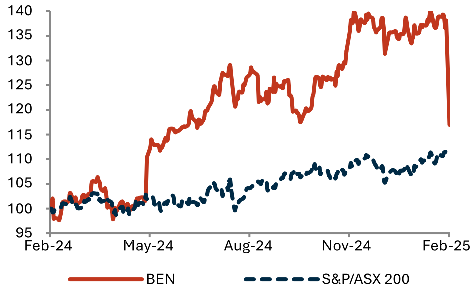
Growth pains

18 February 2025

Last Price
$11.37
Target Price
$10.50
Recommendation
Lighten
Risk
Medium

Regional Banks	
ASX Code	**BEN**
52 Week Range ($)	9.49 - 13.60
Market Cap ($m)	6,461.5
Daily Turnover ($m)	83.1
3 Month Total Return (%)	-11.3
12 Month Total Return (%)	17.0

Price performance



Source: FactSet

Bendigo & Adelaide Bank (BEN) posted first-half FY25 earnings well below market expectations, as stiff competition for home loan and business borrowers squeezed interest margins and wage inflation and technology expenses pressured operating margins. As with larger rival Westpac, credit quality remained benign.

The regional lender's new broker lending platform has proved a runaway hit with mortgage brokers, with the platform accounting for almost 30% of new home loans in its 12 months of operation. The surge in lending volumes has proved to a double-edged sword, however, as borrowers chose lower-margin offerings that had to be funded via increasingly costly deposits, thus squeezing Bendigo's net interest margin (NIM).

Ord Minnett notes the bank moved to more rational mortgage pricing in the latter part of the first half, with the increased home-loan rate easing some of the NIM pressure and slowing the demand rush.

The new mortgages are profitable, according to Bendigo, as more than half of the new loans have been made at loan-to-valuation (LVR) ratios of less than 60%, which means the bank can take a reduced capital charge versus loans with an LVR of greater than 60%. In our view, however, there are concerns over whether this approach of using increasingly expensive deposits to drive loan volumes is sustainable.

Increased costs were another soft point in the result, with a half-on-half increase of 5% as additional staff and technology spending was required to cope with the rapid rise in loan volumes.

Bendigo does have a medium-term aim to reduce its cost-to-income (CTI) ratio, with a target of around 50% versus its current CTI ratio of 62%. Given its smaller status in the industry, however, the bank does not have pricing power in mortgages and deposits, making it a price-taker. In our view, this makes Bendigo's cost targets very ambitious.

Post the result, we have reduced our FY25 EPS forecast by only 4%, but our FY26 and FY27 estimates are downgraded by 13% and 12%, respectively. This leads us to reduce our target price to $10.50 from $11.00.

We maintain our Lighten recommendation on Bendigo.

Financial and valuation metrics

Year-end June	FY23A	FY24A	FY25E	FY26E
NPAT ($m)	577	562	532	565
EPS ($)	0.91	0.90	0.85	0.89
DPS ($)	0.61	0.63	0.65	0.68
PE (x)	12.5	12.7	13.4	12.7
Dividend Yield (%)	5.4	5.5	5.7	5.9

Source: OML, Iress, Source: OML Research, FactSet. All earnings are on an underlying basis

Consensus Forecasts

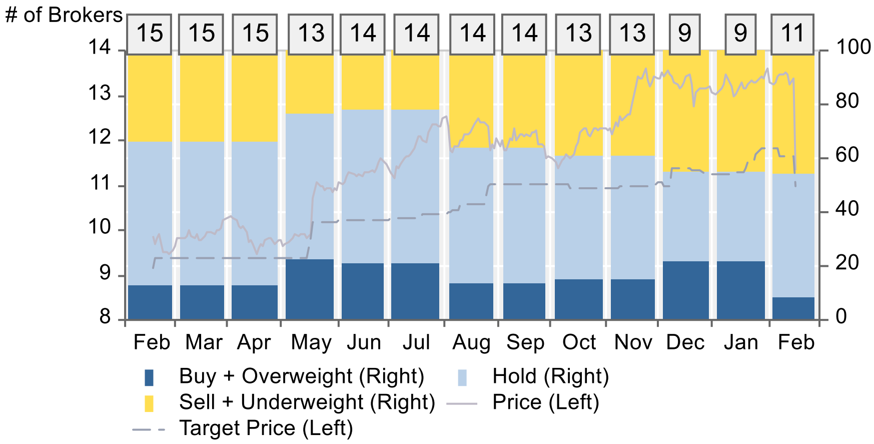
Company	Bendigo & Adelaide Bank Ltd.				
Stock Code	BEN-AU				
Industry Sector	Banks				
Recommendations	**FY-1**	**FY0**			
Price Target ($ per share)	9.05	11.01			
# of Buy recommendations (100 Day Window)	2	1			
# of Hold recommendations (100 Day Window)	5	5			
# of Sell recommendations (100 Day Window)	3	4			
# of Upward revisions (100 Day Window)	0	0			
# of Downward revisions (100 Day Window)	1	1			
# of Unchanged revisions (100 Day Window)	10	10			
Financial Ratios					
Per share	**FY-1**	**FY0**	**FY1**	**FY2**	**FY3**
EPS (GAAP, $ per share)	0.79	0.93	0.78	0.82	0.86
EPS (Non-GAAP, $ per share)	-	-	-	-	-
Dividends per share ($ per share)	0.61	0.63	0.62	0.62	0.64
Free Cash Flow per share ($ per share)	-	-	-	-	-
Book value per share ($ per share)	12.03	12.35	12.58	12.83	13.09
Valuation	**FY-1**	**FY0**	**FY1**	**FY2**	**FY3**
Price/Earnings (x)	12.46	11.45	13.47	13.74	12.97
EV/Sales (x)	6.54	8.40	7.76	7.50	7.30
EV/EBIT (x)	14.96	20.74	20.57	19.96	19.13
EV/EBITDA (x)	-	-	-	-	-
Dividend Yield	5.36	5.54	5.46	5.46	5.62
Payout ratio	66.87	63.44	73.61	75.08	72.84
FCF Yield (%)	-	-	-	-	-
Price/Cash Flow (x)	-	-	-	-	-
EBITDA Margin (%)	-	-	-	-	-
EBIT Margin (%)	43.72	40.49	37.71	37.57	38.17
Net Profit Margin (adjusted) (%)	28.71	27.64	29.48	27.74	25.39
Return on Assets (%)	0.59	0.57	0.50	0.47	0.43
Return on Equity (%)	7.59	8.04	6.71	6.45	6.70

Source: OML Research, Factset

Company Description

Bendigo & Adelaide Bank Ltd. engages in banking and financial services including consumer, residential, business, rural and commercial lending, deposit-taking, payments and foreign exchange services, wealth management, margin lending, and superannuation, and treasury. It operates through the following segments: Consumer, Business and Agribusiness, and Corporate. The Consumer segment focuses on engaging with and servicing consumer customers and includes the branch network, digital bank, mobile relationship managers, third party banking channels, wealth services, Homesafe, and customer support functions. The Business and Agribusiness segment involves servicing small and medium companies and includes portfolio funding through its Rural Bank brand. The Corporate segment represents the support functions: treasury, technology, property services, strategy, finance, risk, compliance, legal, human resources, and investor relations. The company was founded on July 09, 1858 and is headquartered in Bendigo, Australia.

Buys, Sells and Holds Chart



Source: FactSet Estimates

Please contact your Ord Minnett adviser for further information on our document.

Ord Minnett Offices

Adelaide
Level 5
100 Pirie Street
Adelaide SA 5000
Tel: (08) 8203 2500

Brisbane
Level 34
71 Eagle Street
Brisbane QLD 4000
Tel: (07) 3214 5555

Buderim (Sunshine Coast)
1/99 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444

Canberra
101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700

Geelong
Office 3, Suite 4
200 Malop Street
Geelong VIC 3220
Tel: (03) 4210 0200

Gold Coast
Level 7
50 Appel Street
Surfers Paradise QLD 4217
Tel: (07) 5557 3333

Hobart
Ground Floor
85 Macquarie Street
Hobart TAS 7000
Tel: (03) 6161 9300

Mackay
45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888

Mildura
128 Lime Avenue
Mildura VIC 3500
Tel: (03) 9608 4111

Melbourne
Level 22
35 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111

Newcastle
426 King Street
Newcastle NSW 2300
Tel: (02) 4910 2400

Perth
Level 27
108 St Georges Terrace
Perth WA 6000
Tel: (08) 6179 6400

Head Office
Sydney
Level 18, Grosvenor Place
225 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
www.ords.com.au

International
Hong Kong
1801 Ruttonjee House
11 Duddell Street
Central, Hong Kong
Tel: +852 2912 8980

Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.