

Initiation of Coverage for Bendigo and Adelaide Bank (ASX:BEN)

Executive Summary

We initiate coverage on Bendigo and Adelaide Bank with a HOLD recommendation based on a 12-month price target of \$XX based on a discounted cashflow and dividend discount models. Our price target represents a slight deviation of XX% from the current share price of \$XX in alignment with other analyst recommendation and project NIM into the future. Despite recent earnings surprise shock post 1H25, we project that net interest earnings will expand as Bendigo leverages its existing base low cost demand deposit funding to expand business and household lending despite margin compression in current macroeconomic policy conditions.

Business Description:

Operating outside of the big-4 banking oligopoly, Bendigo and Adelaide bank have garnered a brand identity of retail service to predominantly rural areas, with recent expansion into the online neo-bank sector.

BEN's several banking arms provide the company with defensible brand power and the ability to service a broader demographic of customers than other mid-sized institutions. The core Bendigo bank brand provides retail banking services, business and private banking, wealth management and other credit products writing \$60.4B and \$10.4B in new residential and business loans in FY24 respectively. The core banking arm currently serves 2.83% of the retail home loan market,

The funding mix of the core Bendigo and Adelaide bank brand is comprised predominantly of retail customer deposits (offering 3.4% p.a. interest) at 75.2%, with wholesale borrowing and loan capital low at 11.9% below competitors BOQ and ING at XX and XX.

This represents a strong and low cost base primed for continued balance sheet and loan expansion, compared to other mid-sized banks with need to access funding through equity or interbank debt markets to support loan book growth and maintenance of required regulatory ratios. However, this demand deposit funding base comes at the cost of sensitivity to

Conversely, the recently spawned UP neo-bank caters to a young, digital-only demographic with greater focus on demand and term deposits with only recent addition of credit products and loans offered to

, which predominantly focuses on retail banking services to rural households, UP bank

Financial Analysis:

BEN has provided consistent consistent returns among recent RBA interest rate uncertainties, sitting among medium sized banking peers such as Bank of Queensland, ING and Suncorp Bank.