



SMALL-CAPS

RECOMMENDATION



JDO:ASX
November 2024

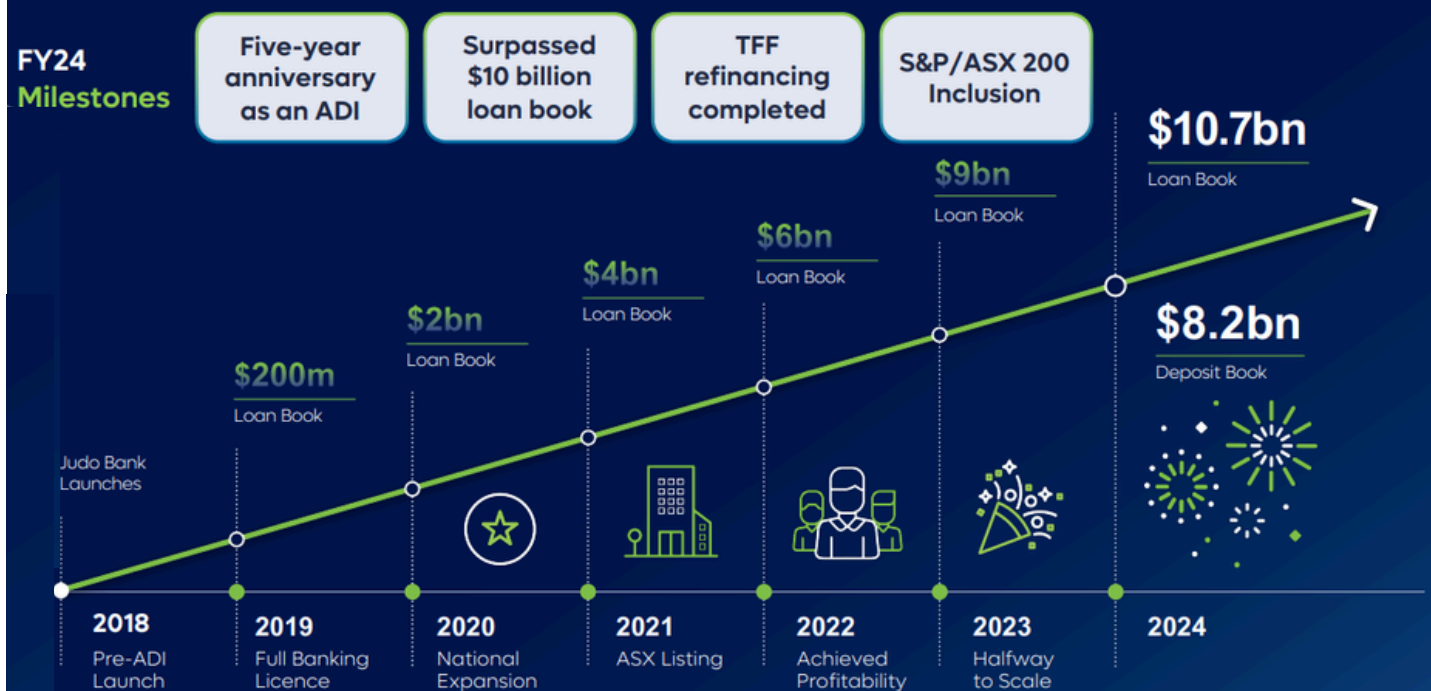
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SMALL-CAPS RECOMMENDATION

Judo Holdings JDO:ASX

Judo Holdings is the parent company of Judo Bank, an Australian challenger bank focused on providing relationship-based banking services to small and medium enterprises (SMEs). Founded in 2016, Judo obtained its full banking license in 2019 and listed on the ASX in 2021. The company aims to disrupt traditional banking by offering a high-touch, technology-enabled model tailored for SMEs. Judo's relationship-driven approach involves deeply understanding each customer's business and providing personalized solutions. This contrasts with the more standardized, collateral-focused lending practices of major banks. Judo's target market is SMEs seeking loans between \$250,000 and \$25 million, a segment that has been historically underserved by incumbent banks. The company has rapidly expanded its loan book and deposit base since inception, demonstrating strong demand for its services. Judo operates through a network of relationship bankers across major Australian cities and is expanding into regional areas. Its technology platform enables efficient operations and scalability while maintaining the personalized service that differentiates it from traditional bank

The Judo Journey.



INVESTMENT CONSIDERATIONS

Leadership

Judo Bank is led by a highly experienced management team with deep expertise in SME banking and risk management. CEO Chris Bayliss, a co-founder with over 40 years of banking experience, took the helm in February 2024. Bayliss has a strong vision for addressing the needs of underserved SMEs and has been instrumental in building Judo from the ground up. The broader leadership team includes industry veterans in key roles such as Chief Financial Officer, Chief Risk Officer, and Chief Strategy and Growth Officer. This team brings a combined experience of nearly 200 years in commercial banking, both in Australia and overseas. The board of directors, chaired by Peter Hodgson, provides strong governance and strategic oversight. The leadership's extensive background in SME banking gives Judo a competitive edge in understanding and serving its target market. Their proven track record in scaling the business from concept to a publicly listed bank with over \$10 billion in loans demonstrates their execution capabilities. The recent additions to the executive team, including a new Chief Operating Officer and Chief Risk Officer, further strengthen Judo's leadership bench and position it well for the next phase of growth.

Financial Performance

Metric	Key points	FY24 Results	FY24 guidance ¹
GLA	- Strong lending growth, 3x system² 4 new locations and 21 bankers added during the year	✓ \$10.7bn	\$10.5bn – \$10.7bn
NIM	- Margin on new lending at mid-400bps over BBSW in 2H24 - NIM moderating due to shift in funding mix - RBA Term Funding Facility fully refinanced with strong term deposit and wholesale issuance	✓ 2.94%	2.85% – 2.90%
Underlying CTI ³	Emerging operating leverage with total FTE remaining flat whilst banker FTE increased	✓ 55%	55% – 57%
COR	Credit quality remaining within planning assumptions Arrears flattening from Mar-24	✓ \$70m	\$65m – \$70m
Underlying PBT ³	Supported by continued scaling of the loan book and increasing operating leverage	✓ \$110m	\$107m – \$112m

¹ Guidance as at 9 May 2024

² Reflects Judo's multiple of system growth for GLA across FY24, per APRA statistics

³ Excluding non-recurring costs related to CEO transition and organisational restructuring in FY24

INVESTMENT CONSIDERATIONS

Valuation

Judo Holdings currently trades at an attractive valuation of 0.85x price-to-book value, representing a significant discount to major banks despite its faster growth prospects.

This valuation does not fully reflect Judo's potential for market share gains and profitability improvements as it scales. The company's loan book has grown at a compound annual growth rate (CAGR) of over 30% since its inception, far outpacing the broader banking sector. As Judo continues to expand and improve its operational efficiency, we expect its return on equity (ROE) to increase, potentially reaching the low to mid-teens at scale. This should drive a re-rating of the stock closer to book value or potentially at a premium given its growth profile. The current valuation provides an attractive entry point for investors to gain exposure to the fast-growing SME banking niche through a well-capitalized challenger with an experienced management team. As Judo demonstrates consistent profitability and maintains its growth trajectory, we anticipate significant share price appreciation.

Judo's loan book (\$bn)



Average portfolio credit risk grade¹



Front-book lending margins over 1-month BBSW (%)



Portfolio security coverage levels



¹ Judo's internal measure of probability of default

2024 Full Year Result

Sociological Factors

Judo Bank's focus on serving SMEs has a positive societal impact by increasing competition in SME lending and providing capital to an underserved segment critical for economic growth. SMEs are often referred to as the backbone of the economy, accounting for a significant portion of employment and GDP. However, they have historically faced challenges in accessing appropriate financing from traditional banks. Judo's relationship-based model and tailored lending solutions help bridge this gap, enabling SMEs to invest, grow, and create jobs. The company's expansion into regional areas further enhances its positive impact by improving access to finance in underserved markets. Additionally, Judo's success as a challenger bank promotes healthy competition in the banking sector, potentially leading to better services and terms for SMEs across the industry.

RISKS

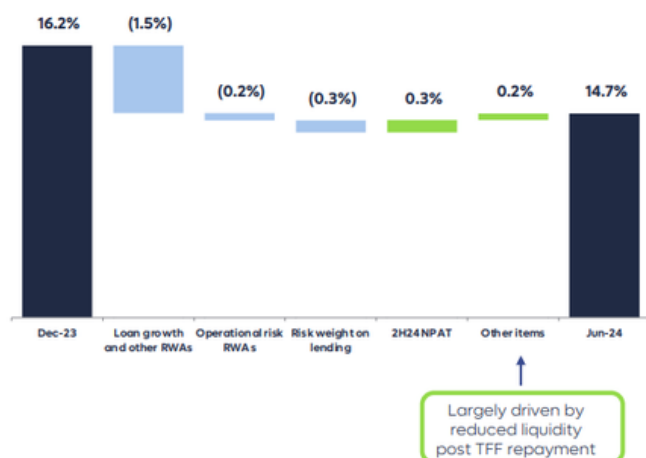
Risks

Key risks to consider include:

1. Economic downturn: A significant economic slowdown could impact SME creditworthiness and increase loan defaults.
2. Intensifying competition: Major banks or new entrants could increase focus on SME lending, potentially squeezing margins.
3. Execution risk: Rapid scaling of operations and expansion into new regions could present operational challenges.
4. Regulatory changes: Shifts in banking regulations could impact Judo's business model or increase compliance costs.
5. Interest rate environment: Significant changes in interest rates could affect net interest margins and deposit growth.
6. Technology risks: As a digital-first bank, Judo faces cybersecurity threats and potential disruptions to its IT systems.
7. Funding risks: Judo relies heavily on customer deposits and wholesale funding, which could be impacted by market conditions.

While these risks are significant, Judo's experienced management team, strong risk management framework, and robust capital position (CET1 ratio of 14.7% as of June 2024) provide mitigating factors

1H24 to 2H24 CET1 waterfall



90+ DPD and Impaired Assets (% of GLA)



Movement in 90+ DPD and Impaired Assets (\$m)



WHY HOLD THE COMPANY?

Why hold the Company?

Investors should consider owning Judo Holdings for several compelling reasons.

Firstly, it offers exposure to the fast-growing SME banking niche through a well-capitalized challenger with an experienced management team.

The current valuation provides an attractive entry point for a disruptive player in a traditionally oligopolistic market. As Judo scales and improves profitability, we expect significant share price appreciation.

The company's relationship-driven model and focus on the underserved SME segment position it well to gain market share from incumbent banks.

With a strong balance sheet and clear growth strategy, Judo is poised to deliver long-term value for shareholders while making a positive impact on Australia's SME ecosystem.

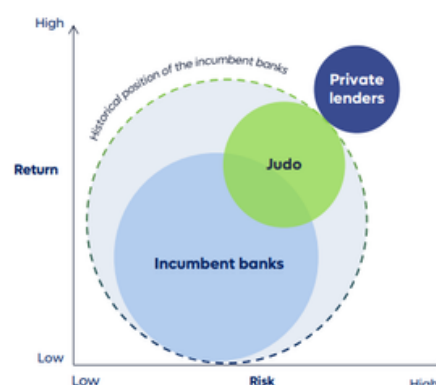
The bank's technology-enabled platform allows for efficient operations and scalability, supporting its growth ambitions.

Judo's proven ability to attract deposits and access wholesale funding demonstrates the strength of its business model.

Furthermore, the potential for industry consolidation in the banking sector could make Judo an attractive acquisition target, providing additional upside potential for shareholders. Overall, Judo offers a unique combination of growth potential, attractive valuation, and exposure to a critical segment of the Australian economy



Judo's strategic positioning in SME lending



Disclaimer



Our Commitment

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