

Equity Research

Regional Bank

BANCA TRANSILVANIA

Q3'12 IFRS Financial results – above expectations, but pressures lie ahead

Buy

Price 29/10/12 **12m target**
RON 1.161 **1.244**

Sector
Weighting **Neutral**
Market share 7.3%
Last Recommendation
Buy (TP:RON 1.28) on 27 Oct'11

Key figures

(RONm)	9M'12	yoy %	Cons.
NII	708.5	+9.5%	nav
Net fee income	314.3	+9.8%	nav
Credit risk provisions expenses	277.62	+26.5%	262.4
Net profit	265.43	+29.8%	242.8

BRD-GSG sentiment

BRD-GSG12e	Visibility/Confidence	
987.7	Publication vs. cons.	+
395.8	Market reaction	-/0
364.2	Company new guidance	0
337.6	Chg. in sector perception	0

Source: Banca Transilvania 9M'12 IFRS individual financial results, BRD-GSG, Reuters Poll

Type of investment

Acquisition target	✓
Profitability target strategy	✓



Source: FactSet, BRD-GSG

Banca Transilvania on www.bancatransilvania.ro

Share data

RIC BATR.BX, Bloomberg TLV RO

52-week range	0.77-1.20		
Sh equity'12 (RONm) GGM	2,368		
Market cap. (RONm)	2,209		
Free float (%)	61		
Performance (%)	1m	3m	12m
Ordinary shares	3.7	14.4	20.0
Rel. to BET	0.4	9.2	14.7

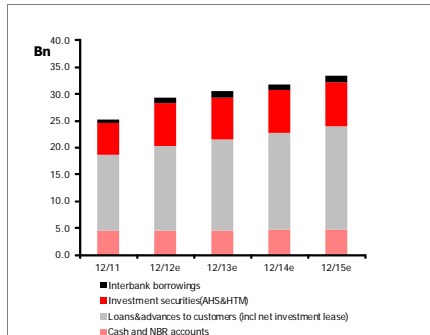
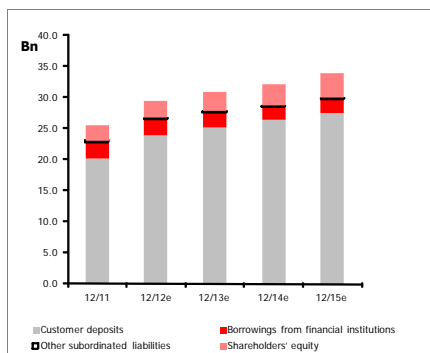
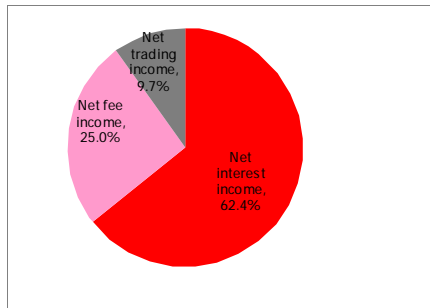
- **Main surprise** BT reduced its quarterly performance decline, as Q3'12 gross profit came at RON 81.61m (-3.7% qoq vs. -21.9% qoq in Q2'12) and net profit amounted to RON 85.81m (-2.3% qoq vs. -4.4% qoq in Q2'12). The bank exceeded our estimation of gross profit worth RON 55.1m, and net profit of RON 29m, respectively. BT's 9M'12 IFRS results release mentioned that the bank should increase its credit risk provisions expenses booked in H1'12 by RON 40.6m following NBR's audit request for all banks' H1'12 financial statements. BT booked RON 17.6m (out of RON 40.6m) in Q3'12 and another RON 23m should be registered in Q4'12. If all credit risk provisions expenses had been booked in Q3'12, bank's gross profit would have been RON 58.61m, by 6.3% higher than our anticipation. Moreover, BT improved its fiscal advantage posted in Q2'12, as income tax expense brought a positive contribution of RON 4.21m (vs. +RON 3.09m in Q2'12) to Q3'12 gross profit.

Q3'12 net interest income (NII) of RON 234.02m (-1.9% qoq) is 5.8% above our assessment of RON 221.09m, mainly because net interest margin (NIM) decline was smoother than anticipated by us. Moreover, our loans' estimation has been exceeded by 0.6% to RON 15.53bn (+10.6% ytd) as of end-Sep'12, clients deposits came slightly lower by 0.2% at RON 22.83bn (+12.6% ytd) for end-Sep'12, and AFS portfolio worth RON 7.17bn is lower by 7.7% than our assessment for Sep'12. Total assets worth RON 29.01bn (+12% ytd), came below by 2.9% vs our end-Sep'12 estimation. Thus, Q3'12 net fee income came at RON 108.96m (+2% qoq), lower by 15.8% than our expectation, whilst Q3'12 net profit from financial operations increased up to RON 35.19m (+33.95% qoq), 30% above our anticipation of RON 27.06m. In Q3'12 gross operating income before provisions inched up 1.71% qoq at RON 385.37m, in line with our estimation of RON 382.03m. Total credit risk provisions expenses increased little bit (+3.4% qoq) up to RON 98.48m in the past three months. Positive income tax in Q3'12, as a result of fiscal facilities, has reduced quarterly gross income decline at net income level, which declined 2.3% qoq to RON 85.81m.

Cost to income ratio has been kept at 53% as of end-Sep'12 vs. end-Jun'12, with operating expenses up 15% yoy in 9M'12 due to 15.1% yoy rise of other expenses together with 12.71% yoy increase in personnel expenses.

- **Potential impact on share price/recommendation/forecasts** We keep our "Buy" rating and 12m TP at RON 1.244, given that BT individual 9M'12 gross income accounted for 68% of our 2012 IFRS consolidated gross income, and net profit accounts for 78.6% of our end year consolidated estimation. However, we estimate pressures on bank's performance lie ahead due to potential additional provisions needs to cover increasing NPLs. 9M'12 credit risk provisions came at RON 277.62m (76.2% of our estimation for end-2012) (+26.5% yoy), and provisions coverage ratio declined to 105.5% as of end-Sep'12 from 107.7% as of end-Jun'12. NPLs ratio has been reported at 10.93% as of end-Sep'12 (vs. 10.48% as of end-Jun'12).

Carmen Liparã
carmen.lipara@brd.ro
(40) 21 301 4370

Main IEA Breakdown

Main Sh Equity and Liabilities Breakdown

2012e Gross Banking Income

Major shareholders (%) as of June 2012

EBRD	14.61
Bank of Cyprus	9.71
IFC	3.54
Romanian individuals	24.9
Romanian legal entities	26.58
Foreign individuals	2.0
Foreign legal entities	18.69

	BANCA TRANSILVANIA		BUY		Regional Bank		12M TP	
					29/10/2012			
					RON 1.1610		RON 1.2444	
	12/09	12/10	12/11	12/12e	12/13e	12/14e	12/15e	
Valuation*								
Average no of shares (m)	1086.34	1398.69	1903.04	1903.04	1903.04	1903.04	1903.04	1903.04
Share price	1.161	1.161	1.161	1.161	1.161	1.161	1.161	1.161
P/E (x)	9.23	12.12	7.43	6.55	5.73	5.40	4.58	
P/E adj (x)	12.85	12.12	7.43	6.55	5.73	5.40	4.58	
P/BV (x)	0.69	0.78	0.92	0.82	0.72	0.64	0.57	
Price/tangible book value (x)	0.70	0.80	0.95	0.84	0.74	0.65	0.58	
Dividend yield (%)	na	na	na	na	na	na	na	
Per share data (RON)								
EPS	0.09	0.10	0.16	0.18	0.20	0.21	0.25	
EPS adj**	0.13	0.10	0.16	0.18	0.20	0.21	0.25	
BV	1.68	1.49	1.26	1.42	1.61	1.81	2.05	
Tangible Book value per share	1.67	1.45	1.22	1.38	1.57	1.77	2.02	
Gross dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Income statement (IFRS, RONm)								
Net interest income	754.3	996.3	934.4	987.7	1,027.8	1,028.7	1,024.7	
Net fee income	370.8	374.9	382.2	395.8	433.9	448.1	468.3	
Net trading income	143.2	119.0	111.6	153.2	116.6	120.9	125.9	
Total banking income	1316.8	1541.9	1,489.7	1,582.2	1,625.3	1,644.7	1,665.9	
Total operating expenses	-717.1	-741.2	-818.4	-839.0	-866.2	-892.3	-919.3	
Gross operating income before provisions	599.7	800.7	671.3	743.2	759.2	752.4	746.6	
Impairment & provisions expenses (incl write offs)	-490.8	-647.0	-315.8	-364.2	-322.5	-287.4	-194.3	
Other items	93.6	4.7	0.0	25.0	25.0	25.0	25.0	
Operating gross income after provisions	202.5	158.5	355.4	404.0	461.7	490.0	577.2	
Income tax expenses from continuing operation	-21.0	-24.5	-58.2	-66.7	-76.2	-80.9	-95.2	
Reported net profit	136.7	134.2	297.2	337.6	385.7	409.4	482.2	
Adjusted net profit	98.1	134.0	297.2	337.4	385.5	409.2	482.0	
Balance sheet (IFRS, RONm)								
Total assets	19,613.0	21,730.3	26,008.8	30,126.7	31,423.6	32,592.2	34,307.8	
Cash and NBR accounts	3,187.0	3,701.1	4,550.3	4,476.7	4,536.5	4,625.1	4,781.8	
Loans&advances to customers (incl net investment lease)	11,753.1	12,439.4	14,185.0	15,899.3	16,922.1	18,092.9	19,244.9	
Non-performing loans (NPLs)	1,911.3	4,573.9	2,799.3	1,991.6	2,263.7	1,881.2	2,231.1	
Investment securities (AHS&HTM)	2,585.1	3,781.8	5,817.6	7,852.7	7,970.4	8,090.0	8,211.3	
Interbank borrowings	1,535.9	1,237.2	779.0	1,114.7	1,115.5	928.9	1,097.8	
Property&equipment	305.0	287.6	297.5	364.5	375.4	386.7	398.3	
Intangible assets	12.4	48.9	70.6	70.2	71.2	72.3	73.4	
Customer deposits	14,989.2	17,279.1	20,257.3	23,908.8	25,256.9	26,413.0	27,492.7	
Bank deposits	259.1	333.2	251.2	301.3	314.2	325.9	343.1	
Borrowings from financial institutions	2,160.4	1,593.3	2,593.0	2,569.4	2,273.7	2,004.7	2,212.8	
Other subordinated liabilities	253.7	257.6	260.1	261.0	258.0	258.0	252.0	
Shareholders' equity	1,830.2	2,087.9	2,389.8	2,703.3	3,065.0	3,450.3	3,908.4	
Minorities	7.8	2.1	2.0	2.0	2.0	2.0	2.0	
Ratios								
Net interest income/Avg total assets (%)	4.10%	4.82%	3.91%	3.52%	3.34%	3.21%	3.06%	
Net interest income/Avg IEA (%) (NIM)	4.53%	5.32%	4.20%	3.74%	3.57%	3.42%	3.25%	
Net fee income/Avg total assets (%)	2.02%	1.81%	1.60%	1.41%	1.41%	1.40%	1.40%	
ROaA (%)	0.74%	0.65%	1.25%	1.20%	1.25%	1.28%	1.44%	
ROaE (%)	7.87%	6.85%	13.28%	13.26%	13.37%	12.57%	13.11%	
Cost to income ratio (%)	56.54%	49.74%	57.31%	54.60%	54.88%	55.85%	56.79%	
NPLs/customer loans (gross) (%)	15.60%	33.70%	17.83%	11.21%	11.86%	9.16%	10.20%	
Provisions expenses/NPLs (%)	43.27%	30.89%	63.48%	106.25%	106.84%	143.57%	127.29%	
Provisions/Avg gross loans (bps)	4.04%	4.88%	2.12%	2.14%	1.73%	1.43%	0.905%	
Total assets growth (yoy)	14.37%	10.79%	19.69%	15.83%	4.30%	3.72%	5.26%	
Total customer deposits growth (yoy)	23.91%	15.28%	17.24%	18.03%	5.64%	4.58%	4.09%	
Total customer loans growth (yoy)	5.48%	6.39%	14.42%	12.36%	6.50%	6.97%	6.41%	
Net interest income growth (yoy)	27.27%	32.08%	-6.21%	5.71%	4.06%	0.08%	-0.39%	
Net fee income growth (yoy)	-2.72%	1.11%	1.93%	3.56%	9.65%	3.27%	4.51%	
Reported net profit growth (yoy)	-62.02%	-1.86%	121.54%	13.57%	14.26%	6.14%	17.79%	
Total customer loans (incl net lease investments)/Total customer deposits	78.41%	71.99%	69.00%	66.50%	67.00%	68.50%	70.00%	
Customer deposits/Total assets (%)	76.42%	79.52%	77.89%	79.36%	80.38%	81.04%	80.14%	
Total equity/Total assets (%)	9.37%	9.62%	9.20%	8.98%	9.76%	10.59%	11.40%	

*Valuation ratios for past years are based on current price; ** adjusted for one-off gain

Florian LIBOCORChief Economist /
Head of Research

+40 21 301 6869

florian.libocor@brd.ro

Carmen LIPARĂ

Head of Financial Markets Research

+40 21 301 4370

carmen.lipara@brd.ro

Monica CROITORU

Economist

+40 21 301 6858

monica.croitoru@brd.ro

Laura SIMION, CFA

Equity Analyst

+40 21 301 4461

laura.simion@brd.ro

Roxana HULEA

Economist

+40 21 301 4472

roxana.hulea@brd.ro

**BRD-GSG rating system
(October 2012)****Premium List**

Selected from stocks expected to outperform the market by over 25%.

Buy

Expected to outperform the market by at least 10%.

Hold

Expected to perform in line with the market +/-10%.

Sell

Expected to underperform the market by at least 10%.

Assumptions

12 month time horizon and flat market over forecast period.

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