

17 May 2023

## Banca Transilvania

BUY

## Banca Transilvania: 1Q23 results highlights

BBG Ticker	TLV RO
Market Cap (USD mil)	3,042
Price	19.6
Price target	27.0
Upside	37.8%



**Despite Banca Transilvania delivering a bottom line beat in 1Q23, due to the drivers of that beat, we view the results as neutral. We rate Banca Transilvania a BUY with a PT of RON 27.0/share. On our 2023E estimates, the bank is trading at 5.4x P/E and 1.3x P/TBV.**

**Bottom line beat due to provision reversals**

Banca Transilvania (TLV) reported a 1Q23 net profit of RON 838m, vs. our forecast of RON 630m, implying an annualised ROE of close to c.32%. We view this level of ROE as unsustainable, since the beat was driven by provision reversals (the bank's pre-provision profit was in line with our expectations), and expect it to normalise and moderate in the coming quarters, towards our forecast profitability for the year of 25.4%. In light of the nature of the beat we view the results as neutral.

**NEUTRAL**

The 1Q23 results showed a visible softening in the NII, which appears to have peaked after the strong boost from the rate hikes, given the 3% qoq contraction (the first since 3Q21) and yoy growth of 28.1% vs. 46.4% in the prior quarter. As the NBR approaches the end of its hiking cycle, the lag on deposit repricing, and subsequent negative dynamics for the NIM, as previously highlighted, was fully expected, albeit perhaps a bit sooner than anticipated. On an annualised basis, the NIM contracted 20bp to 3.4%, in line with our forecast for the year, and therefore we expect no negative impact on the stock price from this. Trading and other income was solid for another quarter, supporting pre-provision profitability.

Opex rose 19.6% yoy to RON 824m, in line with our expectations of RON 826m. We note, however, that a deceleration in costs growth is clearly visible. This implies a C/I ratio of 47.3% for the quarter, not far from our expectation for the year of 46.1%, and represents a significant reduction of 5.8ppt yoy. The bank achieved pre-provision profits of RON 917m, in line with our expectations of RON 919m.

The bank had a cost of risk of 0.3% for the quarter, due to a RON 52m reversal of provisions, and this was the source of the beat vs. our numbers, since we were factoring a COR of c.100bp into our model. The reversal was driven by strong recoveries on the corporate loans side, and adjustment of the PDs, but the bank is still guiding for 50-70+bp in 2023E, and has budgeted for over 100bp. The NPL ratio stood at 240bp with a coverage ratio of c.200%. After successfully tapping the market for EUR 500m in April, the TCR now stands at 19.86% and the CET1 at 17.22%, a decline from the previous quarter's TCR of 21.61%, but still comfortably above the minimum OCR (15.87%).

Loan growth moderated in 1Q23, in light of the decrease in demand, especially on the retail side, but the book still exhibited impressive 15.8% growth yoy. The upcoming "SME Invest" programmes have also caused lending in this segment to be postponed. The bank expects more-accelerated growth in the second and third quarters. On the liabilities side, the bank has seen significant inflows in 1Q23 (18.0% yoy) and expects continuing growth in the months ahead. The bank's L/D and LCR ratios now sit at a very conservative 54% and 345%, respectively. Equity improved substantially in 1Q23, due to net FVOCI gains of RON 652m, on the back of lower sovereign yields

Overall, we see these results as neutral, despite the beat, as this was driven mainly by the reversal of provisions, and pre-provision profits were in line with our expectations

We rate Banca Transilvania a BUY with a PT of RON 27.0/share. On our 2023E estimates, the bank is trading at 5.4x P/E and 1.3x P/TBV.

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## Banca Transilvania Group quarterly consolidated

(RON mil)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23 Actual	yoy	qoq	1Q23 Wood
<b>Net interest income</b>	<b>750</b>	<b>779</b>	<b>738</b>	<b>875</b>	<b>969</b>	<b>1,062</b>	<b>1,114</b>	<b>1,281</b>	<b>1,242</b>	<b>28.1%</b>	<b>-3.0%</b>	<b>1,300</b>
Fee income	213	234	254	260	259	292	301	315	288	11.1%	-8.7%	312
Other income	197	237	216	181	68	184	178	256	211	210.7%	-17.7%	135
Operating costs	-554	-579	-584	-665	-689	-764	-718	-812	-824	19.6%	1.4%	-828
<b>Pre-provisions profit</b>	<b>606</b>	<b>671</b>	<b>624</b>	<b>651</b>	<b>607</b>	<b>773</b>	<b>876</b>	<b>1,040</b>	<b>917</b>	<b>51.0%</b>	<b>-11.9%</b>	<b>919</b>
<b>Core pre-provision profit</b>	<b>410</b>	<b>434</b>	<b>408</b>	<b>470</b>	<b>539</b>	<b>590</b>	<b>698</b>	<b>784</b>	<b>706</b>	<b>30.9%</b>	<b>-10.0%</b>	<b>784</b>
Provisions	146	-259	146	-289	-134	-45	-138	-178	52	-138.7%	-129.2%	-170
Pre-tax profit	753	411	770	369	473	728	737	862	968	104.6%	12.3%	749
Taxes	-96	-52	-117	-13	-73	-82	-106	-52	-131	78.9%	152.5%	-119
<b>Net profit (before minorities)</b>	<b>656</b>	<b>359</b>	<b>653</b>	<b>356</b>	<b>400</b>	<b>646</b>	<b>631</b>	<b>811</b>	<b>838</b>	<b>109.3%</b>	<b>3.4%</b>	<b>630</b>

Source: Company data, WOOD Research

Cost of risk (quarterly)	1.4%	-2.3%	1.2%	-2.1%	-0.9%	-0.3%	-0.8%	-1.0%	0.3%
NIM (quarterly)	2.7%	2.7%	2.5%	2.6%	3.0%	3.0%	3.2%	3.6%	3.4%
C/I	-47.7%	-46.3%	-48.4%	-50.5%	-53.2%	-49.7%	-45.1%	-43.9%	-47.3%
RoE	24.7%	13.3%	25.0%	14.1%	17.1%	27.3%	25.0%	36.4%	32.6%
Net loans	43,095	44,376	46,809	56,118	58,566	64,863	67,796	68,014	67,845
Deposits	93,185	97,166	99,375	108,022	107,421	110,929	113,439	119,732	126,779
Loans-to-deposits	46.2%	45.7%	47.1%	52.0%	55%	58%	60%	57%	54%
Total assets	110,898	115,338	117,913	132,501	128,301	140,138	141,282	140,511	147,930
Shareholders equity	10,623	10,840	10,462	10,092	9,354	9,465	10,063	8,919	10,289

Source: Company data, WOOD Research

## Banca Transilvania: key valuation metrics

Year	Revenues (RON m)	Net Profit (RON m)	EPS (RON)	EPS growth	PE (x)	BVPS (RON)	P/TBV	ROTE (%)	DPS (RON)	Dividend yield
<b>2020</b>	4,537	1,380	1.95	-22.5%	9.4	14.2	1.33	15%	0.71	3.6%
<b>2021</b>	4,934	1,983	2.81	44.0%	8.2	14.3	1.68	20%	1.13	5.8%
<b>2022</b>	6,280	2,404	3.40	20.9%	5.9	12.6	1.71	27%	0.00	0.0%
<b>2023E</b>	7,101	2,576	3.64	7.1%	5.4	16.1	1.29	27%	1.46	7.4%
<b>2024E</b>	7,459	2,632	3.72	2.2%	5.3	19.8	1.04	22%	1.49	7.6%
<b>2025E</b>	8,040	2,784	3.93	5.8%	5.0	22.9	0.89	19%	1.57	8.0%

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		22/08/2022	RON 30.0 (reverse share split)
26/10/2022	HOLD	26/10/2022	RON 20.2

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