

14 November 2023

Banca Transilvania

BUY

Banca Transilvania: solid 3Q23 results, but spoiled, once again, by the Volksbank saga

BBG Ticker	TLV RO
Market Cap (USD mil)	3,459
Price	22.7
Price target	27.0
Upside	18.8%

We remain positive on the overall Banca Transilvania (TLV) story, but we are rather neutral on the 3Q23 results, due mainly to the additional tax costs booked for the Volksbank saga, spoiling what would be, otherwise, solid results. We rate TLV a BUY, with a price target (PT) of RON 27.0/share, still offering 19% upside. On our 2024E estimates, the bank is trading at 6.1x P/E and 1.5x P/TBV.

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NEUTRAL

Banca Transilvania (TLV) reported its 3Q23 results on 10 November, with net profit of RON 710m, a 12.4% increase yoy, but a 4.6% contraction qoq. Despite the 15bps NIM contraction qoq in 3Q23, the NII remained broadly at the level of previous quarters, thanks to healthy loan book development (+6.6% yoy) and, even though costs remained high, TLV delivered a 9% yoy / 3.5% qoq expansion in its core pre-provision profit, the highest print this year. The bank remains conservative and true to the guidance, and the provisions booked rose in 3Q23, despite the apparent still benign asset quality trends. Due to the relatively high (when compared to the previous quarters at least) level of provisioning, as well as the additional taxes booked related to the Volksbank saga, the ROE for the quarter dropped 260bps qoq, to 22.9%. Nonetheless, we view these results as broadly neutral, as: 1) we expected some margin compression in the second half of the year, due to deposit repricing and significant level debt issuances; 2) the C/I ratio and core pre-provision profits improved; and 3) the level of provisioning is still well within the 50bps guided for FY23E, and the asset quality trends are not showing signs of deterioration.

Banca Transilvania Group quarterly consolidated

(RON mil)	3Q22	4Q22	1Q23	2Q23	3Q23	yoy	qoq
Net interest income	1,114	1,281	1242	1,287	1,265	13.5%	-1.7%
Fee income	301	315	288	319	335	11.1%	5.1%
Other income	178	256	211	330	353	98.1%	7.1%
Operating costs	-718	-812	-824	-870	-839	16.8%	-3.6%
Pre-provisions profit	876	1,040	917	1,065	1,114	27.2%	4.7%
Core pre-provision profit	698	784	706	735	761	9.1%	3.5%
Provisions	-138	-178	52	-99	-168	21.2%	68.9%
Pre-tax profit	737	862	968	965	946	28.3%	-2.0%
Taxes	-106	-52	-131	-221	-237	123.0%	6.9%
Net profit (before minorities)	631	811	838	744	710	12.4%	-4.6%
Cost of risk (quarterly)	-0.9%	-1.0%	0.3%	-0.6%	-1.0%	-12bps	-37bps
NIM (quarterly)	3.2%	3.6%	3.36%	3.36%	3.21%	6bps	-15bps
C/I	-45.1%	-43.9%	-47.3%	-45.0%	-43.0%	210bps	203bps
RoE	25.0%	36.4%	32.6%	25.5%	22.9%	-215bps	-260bps
Net loans	65,058	68,014	64,973	66,447	69,341	6.6%	4.4%
Deposits	113,439	119,732	126,779	127,427	129,928	14.5%	2.0%
Loans-to-deposits	57%	57%	51%	52%	53%	-398bps	122bps
Total assets	141,282	140,511	147,930	153,068	157,622	11.6%	3.0%
Shareholders equity	10,083	8,919	10,289	11,672	12,400	23.0%	6.2%

Source: Company data, WOOD Research

NIM contraction; anticipated, in our view. The NII came in at RON 1,265m, a 13.5% expansion yoy, but broadly flat qoq. Interest on deposits seem to have subsided some 11bps during the quarter, as did the interest on loans; on the other hand, due to the substantial debt increase in 2023, the interest booked on loans from banks and other financials more than tripled compared to same period in 2022 (3Q). As such, the NII stagnated qoq and, due to loan book increase (+6.6% yoy / 4.4% qoq), the NIM for the quarter contracted 15bps qoq, coming in at 3.21%. Worthy of mention is the increase in mortgage loans in 3Q23, increasing 7.3% yoy and perhaps hinting that the mortgage loan market in Romania is starting to wake up. Liquidity (L/D ratio) remains excellent, the NFC continues to grow at a healthy pace and other income printed a noteworthy improvement, due mainly to gains from financial assets.

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Inflationary pressures continue to weigh on the bank's results; COR increased, but well within the guidance.

Total costs increased 16.8% yoy, driven mainly by personnel expenses, which increased c.20% yoy, once again, due to wage inflation (+15% yoy) and a 4.4% increase yoy in FTEs. The C/I ratio, however, declined some 200bps for the quarter, landing at 43%, well below the 50% management guidance. The asset quality continues to be strong, with the NPL ratio dropping to 3.6% (2.2%, according to the EBA definition), but coverage declining slightly, by 120bps, to 59.6%. Stage 2 loans declined by 80bps, to 15%; therefore, we view the benign asset quality trend as intact. Nonetheless, TLV prefers to remain prudent and decided to book RON 168m worth of provisions in 3Q23, implying a 97bps COR for the quarter. In the ytd, the COR remains, however, well below the 50bps guidance for the year, at 31bps. During the 3Q23 results conference call, management reiterated that its COR guidance for FY23E remains unchanged, but added that no negative surprises are expected and that the FY23E COR is most likely to come in closer to the lower end of the range. If we believe that the loan book is able to expand c.10% yoy, a 50bps COR for FY23E would imply c. RON 140m of additional provisions booked in 4Q23E.

Additional taxes booked related to the Volksbank saga. Following the final decision of the High Court of Cassation and Justice (ICCJ) on 20 September 2023, ruling against Banca Transilvania in the extraordinary review concerning the taxation of gains obtained from the Volksbank acquisition, TLV decided to book an additional RON 100m in profit tax in 3Q23, related to fiscal uncertainties, contrary to the guidance last quarter. This represented the bank's last chance to obtain a favourable ruling at the national level, with the bank's hope of a positive outcome now hinging only on the Court of Justice of the European Union (CJEU). Previously, the CJEU answered questions in a way that strongly reduced the possibility of Banca Transilvania obtaining a review of a decision in this case, but we stress that additional clarifications have been requested, and that a final ruling and the end of the litigation process could take two-to-three more years, on the bank's estimates. We note that the bank is being requested to pay RON 419m (RON 264m in taxes and RON 155m in late penalty fees), out of which RON 264m has been pre-emptively paid to the tax authorities already, in order to limit additional late penalty fees. Management touched on the subject briefly, during the conference call, saying that the good operational results in 3Q23 allowed it to book these costs and keep its habitual prudent stance. It was also added that it does not want any negative surprises, going forward. Given its prudent approach, it would not surprise us if TLV continues to book the full amount of tax and penalties whenever it feels there is space.

Overall, we view these results as broadly neutral. TLV delivered an annualised ROE% of 23% in 3Q23 and seems well-positioned to deliver annual net profit in line with the consensus of RON 2.7bn in 2023E. Its capital position remains solid, despite some deterioration in 3Q23. TLV reported a Tier 1 ratio of 17.14% and a CAR of 20.88%, which are still comfortably above the regulatory requirements, despite the 150bps deterioration vs. the previous quarter.

We rate TLV a BUY, with a PT of RON 27.0/share, still offering 19% upside. On our 2024E estimates, the bank is trading at 6.1x P/E and 1.5x P/TBV.

Year	Revenues (RON m)	Net Profit (RON m)	EPS (RON)	EPS growth	PE (x)	BVPS (RON)	P/TBV	ROTE (%)	DPS (RON)	Dividend yield
2020	4,537	1,380	1.95	-22.5%	9.4	14.2	1.33	15%	0.71	3.1%
2021	4,934	1,983	2.81	44.0%	8.2	14.3	1.68	20%	1.13	5.0%
2022	6,280	2,404	3.40	20.9%	5.9	12.6	1.71	27%	0.00	0.0%
2023E	7,101	2,576	3.64	7.1%	6.2	16.1	1.50	27%	1.46	6.4%
2024E	7,459	2,632	3.72	2.2%	6.1	19.8	1.21	22%	1.49	6.5%
2025E	8,040	2,784	3.93	5.8%	5.8	22.9	1.03	19%	1.57	6.9%

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Date	Rating	Date	PT
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		02/08/2019	RON 2.40
		27/11/2019	RON 3.00
		14/04/2020	RON 2.50
		20/10/2020	RON 2.30
		05/03/2021	RON 3.00
		12/07/2021	RON 3.50
		13/10/2021	RON 3.20
		20/04/2022	RON 3.40
		22/08/2022	RON 30.0
26/10/2022	HOLD	26/10/2022	RON 20.2
21/03/2023	BUY	21/03/2023	RON 27.0

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CCC	5	OMV Petrom	5
CD Projekt	5	Orange PL	5
Colt CZ Group	3, 5	Pekao	4, 5
CEZ	5	PGE	5
Dino	5	People Can Fly	1, 2, 3
DO&CO	5	Philip Morris CR	5
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Eurocash	5	Romgaz	5
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