

## First Read

# Piraeus Bank SA

## Q1 17 results broadly in line and new strategy announced

### Decent operating results in a difficult quarter

NII was down 3% and net fee income down 11% q/q (but up 10% y/y), leading to a 3% sequential decline in total revenues to €552mn, in line with Bloomberg consensus (and 5% below UBSe). Operating expenses were 4% lower than last year (-13% q/q) mainly due to the crystallization of 2016 voluntary exit scheme benefits and branch closures. Loan loss impairments were flat y/y (and -17% q/q). Pre-tax loss came in at €19mn, €4mn below consensus. Net loss amounted to -€6mn, in line with Bloomberg consensus (and €5mn below UBSe).

### Positive NPL and NPE formation, deposit outflows in an uncertain environment

Importantly, Eurosystem funding decreased by €5.5bn to €15.5bn, on the back of increased EFSF repos, QE sales of EFSF bonds, and EFSF/ESM bond exchange. ELA funding also decreased by €0.9bn q/q, while deposit outflows amounted to €1.4bn (which then stabilized Qtd). Both NPL and NPE formation turned positive again (+0.4bn and 0.07bn, respectively), as restructuring activity slowed in Q1 17 and re-defaults increased. At the same time, we note that the stock of NPEs dropped by €1.3bn q/q.

### Agenda 202 announced with ambitious operating targets

Piraeus announced the new strategy "Agenda 2020", which focuses on de-risking the balance sheet (separating the group into two operating pillars: Piraeus Bank and Piraeus Legacy Unit), resizing and focusing the business (CI ratio target of 45%), implementing a profitable and sustainable business model (ELA elimination, new loan generation mainly in small business finance, consumer loans, credit cards, and fee income growth through digitalisation), optimising capital allocation, strengthening risk monitoring and controls, as well as adopting superior corporate governance standards. In our view, the new revenue targets (NIM >310bps, net fee margin >65bps) are ambitious but realistic in a more supportive environment, while NPE and NPL reduction is largely focused on meeting and exceeding the current SSM targets.

### Valuation: based on GGM

Piraeus Bank is trading at 0.3x P/NAV 2018E for a RoTE of c6%. PE 2017E is 6x, going to 4x in 2018E.

### Equities

Greece

Banks, Ex-S&amp;L

**12-month rating** **Neutral \***
**12m price target** **€0.18**
**Price** **€0.22**
**RIC:** BOPr.AT **BBG:** TPEIR GA

#### Trading data and key metrics

**52-wk range** €0.29-0.13

**Market cap.** €1.89bn/US\$2.11bn

**Shares o/s** 8,733m (ORD)

**Free float** 68%

**Avg. daily volume ('000)** 28,302

**Avg. daily value (m)** €5.7

**Common s/h equity (12/16E)** €7.80bn

**P/BV (12/16E)** 0.2x

**Tier 1 ratio** 13%

#### EPS (UBS, diluted) (€)

	UBS	Cons.
12/16E	0.01	0.00
12/17E	0.03	0.02
12/18E	0.05	0.04

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Highlights (€m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,135	2,413	2,393	2,505	2,467	2,419	2,474	2,570
Profit before tax	1,748	(3,014)	(2,930)	140	383	636	954	1,019
Net earnings (local GAAP)	2,532	(1,939)	(1,858)	94	287	477	716	765
Net earnings (UBS)	(1,278)	(1,939)	(1,858)	94	287	477	715	764
Tier 1 ratio %	13.9	11.9	13.4	13.1	13.5	13.4	14.4	15.3
EPS (UBS, diluted) (€)	(25.20)	(37.57)	(0.42)	0.01	0.03	0.05	0.08	0.09
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
ROE (UBS) %	(57.0)	(26.0)	(24.6)	1.2	3.7	5.9	8.4	8.4
P/PPOP (diluted)	17.8	9.8	NM	1.5	1.5	1.5	1.5	1.4
P/BV x	1.2	1.3	34.5	0.2	0.2	0.2	0.2	0.2
P/BV (UBS) x	1.2	1.4	35.7	0.3	0.2	0.2	0.2	0.2
P/E (UBS, diluted)	(6.9)	(4.1)	(73.6)	20.1	6.6	4.0	2.6	2.5
Net dividend yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of €0.22 on 24 May 2017 21:01 BST

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## Forecast returns

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Forecast price appreciation	-16.7%
Forecast dividend yield	0.0%
Forecast stock return	-16.7%
Market return assumption	11.1%
Forecast excess return	-27.8%

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## Valuation Method and Risk Statement

Piraeus is the largest of the four systemic banks in Greece and, as such, is exposed to a broad array of risks, including slower economic recovery, a further deterioration of asset quality, regulatory change and political uncertainty. Piraeus has acquired six banks during the consolidation of the Greek banking sector and, as such, is exposed to the broader operational risks of managing a larger franchise. Piraeus also has activities in Cyprus, Egypt and SEE, where changes to political and regulatory environments can pose additional risks.

We value Piraeus using a single-stage Gordon growth model.

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Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2017.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Piraeus Bank SA</b> <sup>4, 5, 7, 20</sup>	BOPr.AT	Neutral (CBE)	N/A	€0.22	24 May 2017

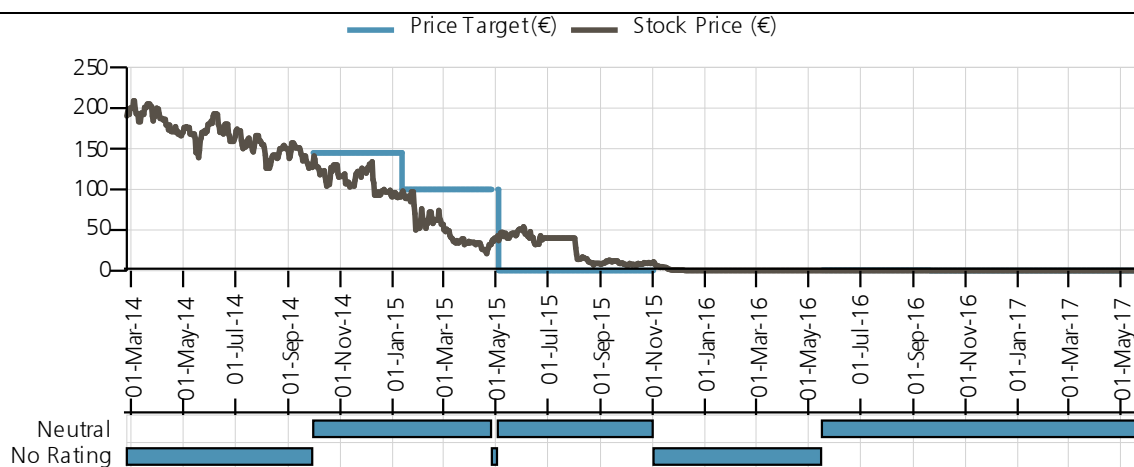
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### Piraeus Bank SA (€)



Date	Stock Price (€)	Price Target (€)	Rating
2014-02-24	190.0	-	No Rating
2014-09-30	134.0	145.0	Neutral
2015-01-12	96.0	100.0	Neutral
2015-04-27	36.0	-	No Rating
2015-05-04	43.0	100.0	Neutral
2015-05-05	37.0	0.31	Neutral
2015-11-02	11.0	-	No Rating
2016-05-17	0.29	0.36	Neutral
2016-09-20	0.13	0.18	Neutral

Source: UBS; as of 24 May 2017

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