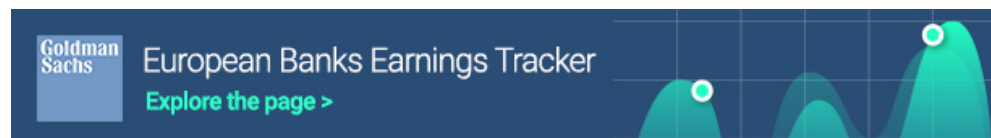


Alpha Bank (ACBr.AT): 2Q20 First Look: NPE securitization to be closed in 4Q20



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All in, this was a good set of results, with higher-than-expected PBT (+38% vs Inquiry Financial consensus) and positive capital evolution in the quarter (+c.70bps qoq). Importantly, the bank expects to close its NPE securitization (project Galaxy) in 4Q20. P&L-wise, core revenues were in line with consensus with a slight beat in NII (+1% vs Cons) offsetting a minor miss on fees (-1% vs Cons). Trading came in significantly above consensus expectations (+17% vs Cons), driving a 3% beat (vs Cons) on revenues. Marginally higher-than-expected costs (+1% vs Cons) translated into a core PPP in line with consensus and a headline PPP +4% vs consensus on the back of higher trading gains. The bank booked €114mn of COVID-related provisions in the quarter, leading impairments to €261mn (-3% vs Cons) corresponding to an annualized cost of risk of 2.6% (1.5% underlying). B/S-wise, negative NPE formation in the quarter (-1% qoq) together with a marginal decrease in gross loans (-1% qoq) led to a flat NPE ratio at 43.5%. Finally, the bank reported a CET1 B3FL ratio of c.14.7% in 2Q20, +c.70bps qoq, with the positive sequential evolution driven by (1) net profit in the quarter, (2) positive impact of CRR changes and (3) lower RWAs, offsetting (4) other negative impacts.

For us, the five key takeaways from management during the Q&A were as follows:

- 1. NPE securitization (+)** is expected to be closed in 4Q20 with a GBV of €10.8bn. In particular, the bank has received non-binding offers in early July and expects to receive binding ones in the beginning of 4Q20. The deal will reduce NPL and NPE ratios respectively to 13% and 24% (2Q20 pro-forma). The total capital impact of the transaction is expected between -250bps and -280bps with the positive impact of RWA relief (c.210bps) partially offsetting the loss on the NBV of assets sold and transaction costs (460-490bps). Finally, the P/L impact of the deal is expected at c.€2bn.
- 2. CoR (-):** Management is expecting an increase in the underlying CoR due to more management actions and higher curings vs 2Q. All in, CoR is expected at c.240bps in 2020 (including COVID-related provisions), while underlying CoR at

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180bps for the full year.

- 3. NII (=/-)** is expected to be up 1% yoy in 2020 owing to several factors including: (1) lower funding costs on the back of TLTRO 3; (2) higher volumes as the bank expects new disbursement at >€5bn for FY20 (€3.5bn already achieved in 1H20); and (3) better spreads as the loan mix shifts towards the SME and corporate segments driven by guaranteed loans. Importantly, management expects a decline in the high-single-digit rate in NII as a result of the NPE securitization, this already including the positive factors mentioned above.
- 4. Core PPP (+):** Management sees core PPP to increase by 4%/5% yoy in 2020 driven by: (1) resilient NII, (2) fees expected to decline -4%/-5% yoy, improving vs the previous guidance of -5%/-7% yoy and (3) significant cost reduction, expected at 7% yoy (4% excluding the extraordinary costs booked in 2019).
- 5. Capital (=):** CRR changes had a positive impact of 52bps on CET1 in the quarter and the bank expects further 15bps from the more favourable treatment of software intangibles.

Exhibit 1: Alpha Bank - 2Q20 Earnings snapshot

€ mn, unless otherwise stated

€ mn	Actuals					2Q20E		Overview			
	2Q19	3Q19	4Q19	1Q20	2Q20	GSe	Cons	q/q	y/y	act/Gse	act/Cons
NII	389	383	387	381	391	384	388	2%	1%	2%	1%
Fee income	81	96	93	89	77	72	78	-13%	-5%	7%	-1%
Trading	124	80	121	86	129	75	110	50%	4%	71%	17%
Other	11	6	6	10	3	10	7	-74%	-77%	-74%	-62%
Trading & Other	135	86	127	96	131	85	117	37%	-3%	54%	12%
Total income	604	565	607	566	599	542	583	6%	-1%	11%	3%
Operating costs	-282	-280	-351	-259	-261	-259	-259	1%	-7%	1%	1%
Pre-provision-profits	323	285	256	307	338	283	324	10%	5%	20%	4%
Impairments	-246	-262	-245	-307	-261	-325	-268	-15%	6%	-20%	-3%
Other results	-9	-3	-6	-9	-4	-7	-3	-59%	-57%	-45%	42%
PBT	68	21	5	-9	74	-49	54	--	9%	--	38%
Corporate taxes	-9	-16	0	-1	23	15	-11	--	--	59%	--
Net profit	59	5	6	-11	98	-34	42	--	64%	--	--
Minorities	0	0	0	0	0	0	0	-70%	55%	--	--
Attributable net profit	59	5	5	-11	98	-34	42	--	64%	--	--
Core Income (NII + Fees)	470	479	480	470	468	457	466	0%	0%	3%	0%
Core PPP (Core Income - Costs)	188	199	129	211	207	198	207	-2%	10%	5%	0%
Capital and leverage											
RWA (bn)	46.6	47.2	46.6	46.9	44.9	47.0	--	-4%	-4%	-4%	--
CT1 B3 FL capital (bn)	6.9	7.1	6.9	6.6	6.6	6.5	--	1%	-4%	1%	--
CT1 B3 FL (%)	14.8%	15.1%	14.9%	14.0%	14.7%	13.9%	--	69bps	-11bps	81bps	--
Loan / deposits	101.7%	99.6%	97.3%	94.9%	96.5%	94.7%	99.3%	2pp	-5pp	2pp	-3pp
Asset Quality - Group											
NPL ratio (%)	32.7%	30.0%	30.1%	30.0%	30.2%	29.7%	28.4%	19bps	-248bps	52bps	183bps
NPL coverage (%)	69%	67%	65%	64%	64%	64%	--	6bps	-466bps	6bps	--
NPL balance (€bn)	16.8	14.7	14.7	14.7	14.7	14.6	--	0%	-12%	1%	--
NPE ratio (%)	48.1%	45.5%	44.8%	43.5%	43.5%	44.2%	--	-1bps	-457bps	-70bps	--
NPE coverage (%)	47%	44%	44%	44%	44%	43%	--	-11bps	-268bps	106bps	--
NPE balance (€bn)	24.7	22.4	21.8	21.4	21.2	21.7	--	-1%	-14%	-2%	--
Returns and efficiency											
ROE	2.9%	0.2%	0.3%	-0.5%	4.7%	-1.7%	--	--	183bps	--	--
ROTE	3.0%	0.2%	0.3%	-0.6%	5.0%	-1.8%	--	--	197bps	--	--
C/I	46.6%	49.5%	57.8%	45.8%	43.5%	47.8%	44.4%	-223bps	-309bps	-428bps	-89bps
CoR (on net loans)	2.46%	2.64%	2.49%	3.11%	2.63%	3.26%	2.64%	-48bps	17bps	-63bps	0bps
Key balances											
Total assets (bn)	63.0	62.7	63.5	66.6	68.6	66.9	66.4	3%	9%	3%	3%
Customer loans (bn)	39.9	39.5	39.3	39.8	39.4	39.9	41.4	-1%	-1%	-1%	-5%
Customer deposits (bn)	39.3	39.6	40.4	41.9	40.9	42.2	41.7	-2%	4%	-3%	-2%

Source: Company data, Inquiry Financial Consensus Data, Goldman Sachs Global Investment Research

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ACBr.AT	12m Price Target: €1.34	Price: €0.54	Upside: 146.4%		
Buy Market cap: €839.5mn / \$992.0mn 3m ADTV: €7.8mn / \$8.8mn Greece Europe Banks Tang. equity/tang. assets (%): 11.4 M&A Rank: 3	GS Forecast				
		12/19	12/20E	12/21E	12/22E
	Net inc. (€ mn)	97.0	(126.3)	(25.1)	399.7
	Tang. BVPS (€)	5.14	4.92	3.61	3.87
	EPS (€)	0.06	(0.08)	(0.02)	0.26
	DPS (€)	0.00	0.00	0.00	0.00
	GS ROTE (%)	1.2	(1.6)	(0.4)	6.9
	P/TBV (X)	0.4	0.1	0.2	0.1
	P/E (X)	23.9	NM	NM	2.1
	Dividend yield (%)	0.0	0.0	0.0	0.0
	CET1 ratio (%)	14.9	13.6	10.4	11.7
		3/20	6/20E	9/20E	12/20E
	EPS (€)	(0.01)	(0.02)	(0.02)	(0.03)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 26 Aug 2020 close.

Disclosure Appendix

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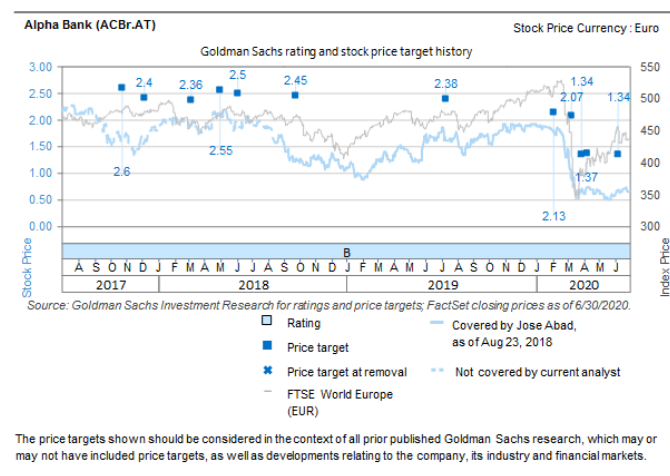
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