

Alpha Bank

2Q20: Galaxy entering the final phase, underlying trends still decent

- **What's new:** Alpha Bank reported 2Q20 earnings of €98mn which is up 64% YoY and compares to a loss of €11mn last quarter. This translates into RoE of 4.7% with ROA at 0.6%. CET 1 ratio of 17.2% is up 74bps QoQ with CAR at 18.3%. TBVPS is at €5.1, up 2% QoQ.
- **How it compares:** Reported net income is 88% above JPM estimate of €52mn, although on a pre-tax level, earnings are 2% above JPMe. NII is slightly higher than our forecast while fee income is in line, with higher trading income driving total revenues 3% above our estimate. Opex came in broadly in line with our expectations, resulting in pre-provision operating profit 5% above our estimate. This was partially offset by higher provisions, which were 4% higher vs. JPMe.
- **What strikes us the most:** while quarterly financials in 2Q arguably are less of a focus, we think core delivery was solid and the messaging upbeat. The bank has recorded further progress in Project Galaxy, which has reached the binding-offer phase and is expected to close by year-end. Management's new estimate of 250-280bps of capital hit is lower than the initial guidance of c.300bps, a positive development which confirms the ongoing investor interest in Greek securitizations, we believe. This is despite a total €10.8bn GBV that Galaxy covers, which compares to €7.5bn-10bn range provided earlier this year. Concerns do remain, led by a potential second COVID-19 wave and uncertainties around new NPE inflows, yet things seem to be on track so far. On the latter, we note that moratoria volumes have grown to €4.7bn, or c.20% of performing loans, and management notes that around 90% of affected customers would be able to return to a healthy payment schedule following their expiry and/or be willing to undergo a restructuring plan, according to the bank's research. While this would likely be an early assumption to make, it compares to the ~20% initial default rate Piraeus Bank reported from the first wave of moratoria expiries in July and the 15-20% range it targets for the remainder of the balances under moratoria.
- **Looking ahead:** core PPOP is expected to grow by 4-5% in 2020 on resilient NII (supported by lower funding costs and better disbursements) and a mid-single digit drop in recurring costs, which will more than offset the 4-5% drop in fees this year. On provisions, management expects an increase in core cost of risk in 2H20 as NPE inflows will likely pick up, ending the year at 1.8% over net loans and 2.4% including COVID-19 related provisions.
- **What's in the price:** Alpha shares trade at 0.1x 2021e P/TB (JPMe) and 6.1x P/E (adj.) for 2022 RoE of 4.9%. Shares have underperformed peers, down 72% ytd vs. Greek banks index down 63%.

Overweight

ACBr.AT, ALPHA GA

Price: €0.54

27 Aug 2020

Price Target: €1.10

PT End Date: 31 Dec 2020

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Results overview

Table 1: 2Q20 results overview

TRYmn	2Q'19	1Q'20	2Q'20E	2Q'20	Q/Q	Y/Y	A/E
P&L							
Net interest income	389	381	385	391	2%	1%	1%
Net F&C income	81	89	78	77	(13%)	(5%)	(1%)
Core revenue	470	470	463	468	(0%)	(0%)	1%
Trading & div income	124	86	110	129	50%	4%	17%
Other op. income	12	10	8	3	(75%)	(78%)	(69%)
Total revenue	605	566	582	599	6%	(1%)	3%
Total costs	(282)	(259)	(258)	(261)	1%	(7%)	1%
Pre-provision profit	323	307	324	338	10%	5%	5%
Loan loss provisions	(246)	(307)	(251)	(261)	(15%)	6%	4%
Profit before tax	68	(9)	73	74	n/m	9%	2%
Attr. net profit – rep.	59	(11)	52	98	n/m	64%	88%
Balance sheet							
Gross loans	51,325	49,095	49,070	48,756	(1%)	(5%)	(1%)
Deposits	39,263	41,894	42,057	40,868	(2%)	4%	(3%)
Ratios							
NIM (reported)	2.5%	2.3%	n/a	2.3%	(3bp)	(18bp)	n/m
C/I	47%	46%	44%	44%	(2pp)	(3pp)	(1pp)
Cost of risk	-1.91%	-2.51%	-2.05%	-2.13%	38bp	(22bp)	(9bp)
NPL ratio	48.1%	43.5%	43.6%	43.5%	(0bp)	(457bp)	(10bp)
Gross L/D	131%	117%	117%	119%	2pp	(11pp)	3pp
CET1 (phased-in)	17.8%	16.5%	16.7%	17.2%	74bp	(57bp)	51bp
CAR (phased-in)	17.8%	17.5%	17.8%	18.3%	74bp	48bp	51bp
RoE	3.5%	-0.1%	2.8%	4.7%	n/m	113bp	184bp

Source: J.P. Morgan estimates (E), Company data.

Investment Thesis

We believe Alpha is in a favorable position to accelerate its path towards normalization, supported by a best-in-class capitalization that the bank intends to utilize in its accelerated NPE reduction strategy. While the outbreak of COVID-19 delays the recovery, we believe Alpha Bank's balance sheet offers enough room to absorb a short-term shock arising from the situation. Our forecasts see provisioning at elevated levels in 2020 and 2021, in line with our broader view for European and CEEMEA banks. We have also moved the €12bn Galaxy transaction by one year to 2021, although we note that the bank targets to close the transaction in 4Q20. Following a 73% YTD drop, Alpha Bank shares now trade at 0.1x JPME P/TBV, a meaningful underperformance not only vs regional but also Greek peers.

Valuation

Our Dec-20 PT of €1.10 is based on a Gordon growth model, incorporating 4.8% 2022e ROTE, 12% cost of equity and 1% growth rate. We rate the stock OW.

Risks to Rating and Price Target

Downside risks include: higher-than-expected asset quality deterioration and sustained Greek recession - NPLs formation could pick up again, restructured loans could flow back into NPLs, thereby requiring higher provisioning levels, 2) equity capital issuance in the event exiting buffers are not sufficient to absorb loan losses or if the regulator demands higher capital levels, 3) dilution risk arising from the €3.2bn DTC stock in case of accounting losses.

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Alpha Bank (ACBr.AT, ALPHA GA) Price Chart



Date	Rating	Price (€)	Price Target (€)
18-Sep-19	N	1.68	1.5
11-Feb-20	OW	1.71	2.5
16-Apr-20	OW	0.69	1.1

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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