

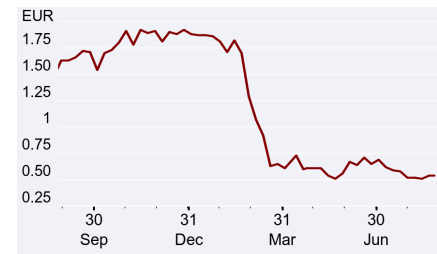
Alpha Bank A E (ACBr.AT)

Results: 2Q20 Results and Conference Call Takeaways

- Citi's Take** — Alpha Bank reported 2Q20 net profit of €98m (vs. 1Q20 loss of €11m), which is ahead of consensus €42m. Profits were largely driven by strong trading gains (+50% qoq) and resilient NII (+2% qoq, lower funding cost, improved mix). Core PPI (ex-trading) was -5%qoq, +2% yoy (in-line with cons.). Provision costs remained elevated (in-line with cons.). CoR (net loans) at 2.6% in 2Q20 (1Q20: 3.1%) o/w 0.9ppts Covid-related. Capital remained strong with CET1 at 17.2% (+0.7ppts qoq).
- 2020E Guidance** – Mgmt. guided further NII support in 2H20 from liability re-pricing / use of TLTRO funding with 2020E NII likely to increase c.1%. 2020E fees guided to decline 4-5% from lower transactions/wealth (marginally better vs past guidance). On costs, mgmt. expects 2020E reported opex to decline c.7% (core opex -4%). Meanwhile, underlying CoR likely to be higher in 2H20, on the back of projected inflows/lower curing. Underlying 2020E CoR at 180bps (ex-60bps Covid provisions). Mgmt. guided 2020E PPOP of c.€1.1bn (incl. ytd trading gains), in-line with Citi est.
- Liquidity & Lending** – Outstanding Eurosystem funding rose €8bn qoq to €11.9bn, (17% of assets) reflecting full utilization of TLTRO. This helped lower overall funding costs to c.0%, possibly dipping into negative n 2H20. New credit disbursements slowed to €1.0bn in 2Q20 (vs 1Q20: €1.6bn), but have recovered more recently. New disbursements totaled €3.5bn YTD and mgmt. estimates over €5.0bn in 2020E. Group gross loans / deposits were -1%/-2% qoq and -5%/+4% yoy respectively.
- Asset Quality** – Negative NPE formation slowed in 2Q20 (-€90m) affected by reduced curing/liquidations/collection activity due to Covid-19. Inflows remained low at €390m (vs. 1Q20: €470m). Retail NPE formation -€124m, wholesale +€34m. 2Q20 gross NPEs at €18.3bn (NPE ratio 43.5%) and NPLs at €12.3bn (NPL ratio 30.2%).
- Project Galaxy Update** – Mgmt. highlighted significant progress on Galaxy NPE securitization (total GBV c. €10.8bn) with non-binding offers received in Jul. 2020. The bank has also acquired 100% share capital in Cepal (Galaxy's servicer). Bidding offers expected to be submitted in beginning of 4Q20 and carve-out/hive-down completion by 4Q20. Proforma 2Q20 NPE ratio in Greece, post-transaction estimated at 24% (vs. 43.5% now), NPL ratio at 13% (30.2% now). Mgmt. estimates capital impact in the range of 250-280bps and accounting loss of c.€2bn from the transaction. Transaction completion will also help lower cost of risk in 2021E and beyond.
- Capital** – Transitional CET1 at 17.2% (+0.7%qoq), driven by quarterly profitability, and lower credit risk due to amendments of the Capital Requirements Regulation (CRR) from Covid-19. FL CET1 at 14.6% (+0.6% qoq). Total CAD ratio at 18.3% versus minimum requirement of 11.5%. RWAs down 3% qoq.
- Implications** — A decent set of results driven by strong trading income and resilient NII, despite provisioning cost remaining elevated. We appreciate progress on NPE securitization (Project Galaxy) and expect investors to focus on its execution ahead.

Neutral/High Risk	2H
Price (27 Aug 20 17:20)	€0.54
Target price	€0.80
Expected share price return	49.0%
Expected dividend yield	0.0%
Expected total return	49.0%
Market Cap	€829M
	US\$981M

Price Performance (RIC: ACBr.AT, BB: ALPHA GA)



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Alpha Bank A E

Valuation

We use a GGM approach to value Alpha Bank. Our model assumes 2021E terminal RoE of 2.4%, CoE of 13.6% and 0% growth rate. This helps us arrive at a TP of EUR0.80 for Alpha.

Risks

We rate Alpha Bank High Risk to reflect the high level of execution risks and macro uncertainties. A number of risks could prevent Alpha's share price achieving our target price:

- (1) Better or worse than expected revenue development trends, driven by margins, volume trends, ability to impose fees to clients.
- (2) Higher provisions due to deterioration in market conditions and/or regulatory pressure.
- (3) Faster than expected NPE reduction supported by the implementation of system-wide solutions being developed by the HFSF and the Bank of Greece given strong quality of capital and highest CET1 buffer among peers.

Appendix A-1

Analyst Certification

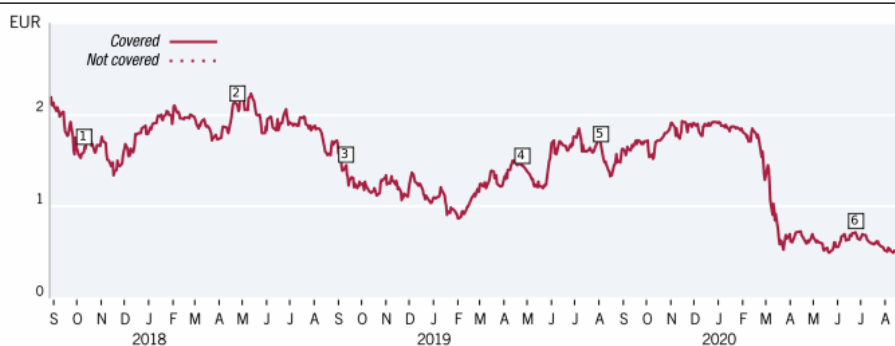
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Alpha Bank A E (ACBr.AT)

Ratings and Target Price History
Fundamental Research

Analyst: Ronit Ghose, CFA
Covered since June 23 2020



	Date	Rating	Target Price	Closing Price
1	10-Oct-17 00:00:00	*1H	*2.16	1.65
2	23-Apr-18 21:00:00	1H	*2.68	2.11

	Date	Rating	Target Price	Closing Price
3	10-Sep-18 00:00:00	1H	*1.87	1.45
4	24-Apr-19 00:00:00	*2H	*1.76	1.44

	Date	Rating	Target Price	Closing Price
5	02-Aug-19 00:00:00	2H	*1.90	1.68
6	23-Jun-20 02:09:14	2H	*0.80	0.72

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Data current as of 30 Jun 2020	12 Month Rating			Catalyst Watch		
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