

Thursday, December 14, 2017 | special comment

BZ WBK – Bank Buys Deutsche Bank Assets For PLN 1.29bn

Rating: hold | target price: PLN 377.87 | current price: PLN 384.00

BZW PW; BZW.WA | Banks, Poland

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BZ WBK earlier today confirmed the reports that it was negotiating to buy select Polish assets of Deutsche Bank, comprising the retail and SME business and the brokerage office, dubbed "Core Deutsche Bank Polska ("Core DBPL"). The corporate and investment banking divisions are excluded from the deal. The price is PLN 1,290m or around 0.6 times price to tangible book value. The merger is expected to generate target cost synergy of PLN 129m, and the post-merger integration costs are estimated at PLN 255m. In our view the acquisition can create value of BZ WBK shareholders, by increasing EPS by a projected 4%-5% in 2019-2021, and by boosting future dividends through a reduction in the share of CHF mortgages in the loan portfolio. Further, we believe BZ WBK will be able to offset a large portion of the integration costs by recognizing negative goodwill on the acquisition in 2018, and we assess that the actual synergies will exceed the original estimate. Our only issue with the terms of the deal are Core DBPL's liabilities, expected to raise BZ WBK's loans/deposits ratio to 107%, and including PLN 6bn in outstanding DB parent funding. All in all, however, the merger with Core DBPL boosts BZ WBK's growth outlook and value.

What is Core DBPL

Core Deutsche Bank Polska consists of the retail banking business ex. the FX mortgage portfolio, the SME business, and the DB Securities brokerage unit. As of 30 June 2017, Core DBPL's loan portfolio totaled PLN 18.2bn, deposits were PLN 10.4bn, and parent funding was PLN 5.8bn. At the end of 2016 the bank reported NPL ratios of 0.4% for mortgages (50% coverage), 4.5% for consumer loans (79% coverage), 4.5% for business loans (56% coverage), and 2.7% total (76% coverage). Its net income for the year came in at PLN 116m, and in H1 2017 the bottom line showed a net profit of PLN 51m (ROE 5.2%).

The Price

The PLN 1,290m price that BZ WBK agreed to pay for Core DBPL (with a mix of stock and cash in a proportion of 80%-20%) includes a PLN 20m price tag on DB Securities. The implied multiples are 0.6x P/TBV. The stock consideration will consist of 2.75 million new shares of BZ WBK, representing a stake of 2.7%, to be issued around June 2018. The merger is expected to be finalized by the end of 2018. The acquisition will have a limited negative impact on BZ WBK's CET1 ratio at an estimated 65bps thanks to the mixed stock-and-cash payment, mitigating potential curbs on 2019 dividends.

Key financials of Core DBPL

(PLN m)	2016	H1'17
Balance Sheet		
Gross loans	17,419	18,244
Net loans	16,994	17,815
Assets	17,594	18,401
Deposits	9,491	10,406
Parent funding	6,047	5,766
Equity	1,875	2,044
Income Statement		
Net interest income	407	196
Fee and commission costs	281	153
Net revenues	688	349
Costs ex. regulatory charges	-340	-175
regulatory charges	-97	-54
Impairment & other charges	-92	-46
Tax	-43	-23
Net income	116	51
Assets under management	5,964	6,899
Costs / Income	49.40%	50.20%
Cost or risk	0.53%	0.50%
ROE	6.50%	5.20%
CET1	13.88%	13.88%

Source: BZ WBK, Dom Maklerski mBanku

The Impact

The acquisition of Core DBPL will boost BZ WBK's loan portfolio to PLN 130bn, and increase deposits to PLN 121bn. It will position the Bank as the second-largest in Poland in assets after an increase to PLN 169bn. At the same time, the share of CHF mortgages in BZ WBK's loan portfolio is expected to drop from 12.5% to 10.7% (or below 10% according to the Management).

BZ WBK will have to step up deposit acquisition in 2018 after its L/D ratio rises to 107% following repayment of Core DBPL's parent funding.

Using the current analysts' consensus, BZ WBK predicts that its EPS will increase by 2.1% in 2018, 3.9% in 2019, 4.1% in 2020, and 4.6% in 2021. Cost synergies will reach the target PLN 129m in 2021. Integration costs, estimated at PLN 255m over the four years from 2018 to 2021, should be mostly or fully offset by negative goodwill which will probably be recognized in Q4 2018.

Loan portfolio of Core DBPL

	Core DBPL*	BZ WBK	
(PLN m)	H1'17	9M'17	Total
Retail loans	12,223	57,517	69,740
Mortgages	9,669	37,463	47,132
PLN	9,669	23,477	33,146
FX	0	13,907	13,907
Consumer	2,554	20,054	22,608
Corporate	6,021	53,860	59,880
Total	18,244	111,376	129,620
Share of FX mortgages	0.0%	12.5%	10.7%

Source: BZ WBK, Dom Maklerski mBanku; *Our estimates

Impact on BZ WBK's EPS

	2018	2019	2020	2021
Increase/decrease in EPS*	2.10%	3.90%	4.10%	4.60%
Increase/decrease in EPS	-0.90%	0.70%	3.40%	4.20%
Estimated contribution of Core DBPL	120.3	186.5	211.9	243.2

Source: BZ WBK, Dom Maklerski mBanku *Adjusted for pot-merger integration costs



List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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