mBank Dom Maklerski

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Alior Bank – Conservative Guidance Overstates Costs

Rating: buy | target price: PLN 109.00 | current price: PLN 73.35

ALR PW; ALR.WA | Banks, Poland

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Shares in Alior have been falling today on the back of a disappointing FY2018 earnings guidance, coupled with concerns about the potential impact of IFRS 9 on the Bank's capital position. Meanwhile the implementation of IFRS 9 does not affect the Bank's future growth in any notable way in our opinion, and as far as the 2018 guidance we view it as overly conservative with played -up operating costs, and we do not see a need for downward revisions to the analysts' consensus. In fact, there is a god chance Alior will be delivering positive surprises in the coming interim earnings seasons. At 9.9x 2018E P/E and 8.3x 2019E P/E (~30% discount to average), ALR is the cheapest stock in the Polish bank sector at the moment. It is worth noting Alior's low sensitivity to interest rate cuts, demonstrated during the last cycle, which should give reassurance to analysts as the expectations for rate hikes in Poland get pushed back. In short, we would look at today's slump in ALR shares as a buy opportunity.

No Cuts To Consensus

Alior's FY2018 earnings guidance assumes growth in total income on a flat net interest margin, alongside a pickup in fee income (driven probably by expanding volumes), and an increase of PLN 5-6bn in the loan volume. Assuming these goals are accurate, with the target ratio of costs to total income set at 44%, this implies Alior expects operating costs to be flat this year. This is where we think the Bank is being too conservative on its estimates: flat 2018 OPEX implies an increase of at least 12% on the year in recurring operating costs, and it further implies, contrary to Alior's explicit statements elsewhere, that there are no cost synergies to be achieved this year from last year's merger with Bank BPH (which also boosted last year's cost base through post-merger integration costs). Accordingly, we believe Alior will be adjusting its original cost forecasts in the course of this fiscal year, and we do not anticipate any revisions to the current consensus estimate of PLN 803m (Bloomberg) as regards 2018 net income.

Capital Position

When it comes to IFRS 9, according to our calculations its impact on Alior will be 115 basis points (or PLN 826m) total, of which 20bp in year one. The overall charges will be staggered over six years, and as such they in no way put into question Alior's future growth prospects, nor do they call for a capital raise in any form, including a share issue. Earnings retained in 2018 will help boost Alior's solvency ratios by nearly 1pp to levels which are more than enough to maintain the OSII buffer at the required 25bp while comfortably addressing the IFRS 9 impacts. Even with IFRS9 weighing, Alior should be able to pay dividends to shareholders as soon as in 2020.

Cumulative impact of IFRS 9 on Alior's capital position

1 Jan 2018	2019	2020	2021	2022	2023
20bp	26 bp	45bp	67 bp	93bp	115 bp

Source: Alior Bank, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

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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