Thursday, April 26, 2018 | special comment

Getin Noble Bank – 2017 Q4 Results

Rating: hold | target price: PLN 1.50 | current price: PLN 1.22

GNB PW; GNB.WA | Banks, Poland

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- At PLN 335.6m, the 2017 fourth-quarter net loss of Getin Noble Bank was higher than the PLN 75.1m loss reported in the previous quarter, and it exceeded the PLN 82.0m loss expected by the market.
- Note that the analysts' consensus had been compiled before the profit warning issued two days ago, where Getin disclosed a need to recognize the substantial charge-offs responsible for the high fourth-quarter loss.
- With that said, Getin stronger higher-than-expected falls of 3.3% and 16.0%, respectively, in Q4 2017 fee income and net interest income compared to the previous quarter.
- NIM expanded by 1bps to 2.05% thanks to a 4.8% asset reduction.
- Operating costs in Q4 increased more than expected (7.3% q/q, 4.7% y/y).
- Fourth-quarter risk reserves doubled relative to Q3 at PLN 484.7m, with cost of risk up to 410bp from 206bp the quarter before, driven mainly by mortgage provisioning (with CoR up from 152 316bp) and corporate provisioning (with CoR up from 78 to 126bp). Cost of consumer credit risk declined on a q/q basis but remained high at 574bp. On top of the higher risk reserves, Getin recognized impairment of PLN 79m on an NPL portfolio held for sale plus PLN 74m on deferred NPL receivables.
- Getin's fourth-quarter Total Capital Ratio was 12.58%, and the Tier 1 ratio was 9.56%, compared to the respective requirements of 14.84% and 12.41%.
- **Even though Getin had pre-warned the market about the weak 2017 results, we were disappointed to see fee income fall by as much as 16% in Q4. The disappointment was mitigated somewhat by a q/q reduction in the share of term deposits from 77% to 73%, alongside a 21% cut from the year-ago level in the CHF loan exposure. Getin expects standalone charge-offs to decrease to PLN 118m in Q1 2018, but with the yearly payment into the Deposit Insurance Fund due (in Q1 2017 the charge was PLN 48m), the Bank is set for another quarterly loss. Assuming provisioning is kept in check, things should improve in subsequent quarters. In fact, they have to if the planned capital raises and injections by the controlling shareholder are to bring any results.**

Summary of Q4 2017 results

(PLN m)	Q4'16*	Q3'17	Q4'17	Y/Y pct. change	Q/Q pct. change
Net interest income	**338.8**	**325.7**	**314.9**	**-7.0**	**-3.3**
Fee income	36.7	40.4	33.9	-7.5	-16.0
Trading income	52.5	22.2	13.4	-74.5	-39.9
Other income	-16.7	-26.9	-57.2	241.9	112.6
Non-interest income	**72.4**	**35.7**	**-9.9**	**n.m.**	**n.m.**
Total income	**411.2**	**361.4**	**305.0**	**-25.8**	**-15.6**
Operating costs	-212.3	-207.0	-222.2	4.7	7.3
Operating income	**198.9**	**154.4**	**82.8**	**-58.4**	**-46.3**
Provisioning	-216.4	-243.0	-484.7	124.0	99.5
Equity in profits/losses of associates	7.1	5.2	7.7	7.7	48.9
Pre-tax income	**-10.3**	**-83.4**	**-394.2**	**3,709.1**	**372.4**
Tax	-3.0	8.3	58.6	n.m.	604.5
Non-controlling interests	-1.6	0.0	0.0	n.m.	n.m.
Net income	**-14.9**	**-75.1**	**-335.6**	**2,157.5**	**346.7**
Bank tax	0.0	0.0	0.0	n.m.	n.m.
Net income after bank tax	**-14.9**	**-75.1**	**-335.6**	**2,157.5**	**346.7**

Source: Getin Noble Bank, Dom Maklerski mBanku; *Restated figures based on estimates by Dom Maklerski mBanku

2017 Q4 actuals vs. expectations

(PLN m)	Q4'17	Consensus	differ.	Q4'17E	differ.
Net interest income	314.9	320.7	-1.8%	325.9	-3.4%
Fee income	33.9	41.4	-18.1%	41.4	-18.1%
Operating costs	-222.2	-213.1	4.3%	-211.8	4.9%
Provisioning	-484.7	-242.4	100.0%	-228.8	111.8%
Net income	-335.6	-82.0	309.2%	-62.0	440.8%

Source: Getin Noble 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
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