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Getin Noble Bank – 2018 Q1 Results

Rating: hold | target price: PLN 1.40 | current price: PLN 1.22

GNB PW; GNB.WA | Banks, Poland

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- Getin Noble Bank generated a lower-than-expected net loss of PLN 47.7m in Q1 2018, an improvement on the year-ago net loss of PLN 96.5m and the PLN 335.6m loss generated in the previous quarter. Adjusted for the yearly payment into the bank bailout fund, the quarterly loss is even lower at PLN 7.8m.
- The positive bottom-line surprise was owed mainly to lower-than-expected provisioning, with net interest income and fee income coming short of analysts' expectations.
- The mandatory payment into the bailout fund amounted to PLN 39.9m in Q1 2018 vs. PLN 46.8m in Q1 2017.
- Net interest income showed 5.7% q/q and 9.7% y/y contraction to PLN 296.9m, with NIM down by 5bp q/q at 2.01% despite a reduction in assets by a further 2.4%.
- Fee income grew at a quarterly rate of 4.4% in Q1 2018, but fell 9.2% relative to Q1 2017. The q/q increase was driven by higher loan and insurance fees while investment fees declined.
- Operating costs were up 18.0% q/q and 11.2% y/y, but adjusted for the bailout payment they were stable compared to Q4 2017.
- Against an earlier warning, Getin reduced provisioning by 75% q/q and 41% y/y to PLN 119.4m in Q1.
- The Total Capital Ratio for Q1 2018 was 12.18% (-30bp q/q), and the Tier1 ratio came in at 9.43% (-13bp), compared to the respective 2018 requirements of 14.84% and 12.41%.

We maintain our prediction that Getin will turn a profit of PLN 50m this year with the help of one-time gains, and we believe the first-quarter financials are already priced into the Bank's stock. Getin's priority in the coming periods is to strengthen the capital position and bring the solvency ratios up to the regulatory requirements.

Overview of 2018 Q1 results

| (PLN m) | Q1'17 | Q4'17 | Q1'18 | Y/Y | Q/Q |
|--|--------------|---------------|--------------|--------------|--------------|
| Net interest income | 328.8 | 314.9 | 296.9 | -9.7 | -5.7 |
| Fee income | 39.0 | 33.9 | 35.4 | -9.2 | 4.4 |
| Trading income | 13.4 | 13.4 | 23.6 | 75.4 | 76.5 |
| Other revenue | -25.5 | -57.2 | -24.2 | -5.1 | -57.7 |
| Non-interest income | 27.0 | -9.9 | 34.8 | 29.0 | n.m. |
| Total income | 355.8 | 305.0 | 331.7 | -6.8 | 8.8 |
| Operating costs | -253.8 | -222.2 | -262.2 | 3.3 | 18.0 |
| Operating income | 102.0 | 82.8 | 69.6 | -31.8 | -16.0 |
| Provisioning | -203.6 | -484.7 | -119.4 | -41.4 | -75.4 |
| Equity in profits/losses of associates | 1.8 | 7.7 | 6.2 | 246.3 | -18.9 |
| Pre-tax income | -99.8 | -394.2 | -43.5 | -56.4 | -89.0 |
| Tax | 4.3 | 58.6 | -4.2 | n.m. | n.m. |
| Non-controlling interests | -1.0 | 0.0 | 0.0 | n.m. | n.m. |
| Net income | -96.5 | -335.6 | -47.7 | -50.6 | -85.8 |
| Bank tax | 0.0 | 0.0 | 0.0 | n.m. | n.m. |
| Net income after bank tax | -96.5 | -335.6 | -47.7 | -50.6 | -85.8 |

Source: GNB, estimates by Dom Maklerski mBanku

Q1 2018 actuals vs. expectations

| (PLN m) | Q1'18 | consensus | differ. | Q1'18E | differ. |
|---------------------|--------|-----------|---------|--------|---------|
| Net interest income | 296.9 | 306.8 | -3.2% | 295.6 | 0.4% |
| Fee income | 35.4 | 43.4 | -18.4% | 35.6 | -0.6% |
| Operating costs | -262.2 | -253.1 | 3.6% | -258.6 | 1.4% |
| Provisioning | -119.4 | -182.9 | -34.7% | -119.7 | -0.3% |
| Net income | -47.7 | -61.0 | -21.7% | -48.7 | -2.0% |

Source: GNB, 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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