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Getin Noble Bank – Q3 Results Top Expectations

Rating: hold | target price: PLN 1.00 | current price: PLN 0.38

GNB PW; GNB.WA | Banks, Poland

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- Getin Noble Bank reported a net loss of PLN 14.0m in 3Q 2018 versus earlier losses of PLN 116.1m posted in 2Q'18 and PLN 72.1m in 3Q'17.
- The improvement came from lower-than-expected provisioning. Revenues came in broadly in line with the expectations.
- Getin says in its Q3 earnings announcement that the recent media coverage of the KNF bribery scandal has caused some deposit outflow from the bank. The outflow or its impact on future results have not been quantified in the statement.
- The Tier 1 ratio came in at 9.56% in Q3 (+38 bps Q/Q), and TCR was 12.06% (+25 bps Q/Q), ratios which fall short of the minimum regulatory requirements by 2.29 p.p. and 2.11 p.p., respectively. Capital adequacy ratios in the fourth quarter will be supported by a PLN 100m capital increase.
- Net interest income came for Q3 in at PLN 304.7m, up 1.6% Q/Q but down 6.0% Y/Y, in-line with consensus expectations. A decline in interest revenue (-0.6% Q/Q) was more than offset by reduced interest expenses (-3.1% Q/Q).
- The net interest margin grew by 10 bps Q/Q to 2.20%, supported by shrinking assets (-1.2% Q/Q).
- Net loans declined by 1.0% Q/Q, and deposits contracted by 1.5% Q/Q. As a result the ratio of net loans to deposits as of 30 September was 89.5%.
- Cost of risk in Q3 came in at 120 bps vs 208 bps in 2Q'18 and 204 bps in 3Q'17.
- We believe that the results should be viewed positively, especially looking at the substantial increase in the Tier1 ratio and the TCR, alongside further improvement in NIM and a decline in CoR to 1.2%. However the market's reaction today will most likely be muted given the worries over deposit outflows after the KNF bribery scandal. We hope Getin's Management will shed a light on this crucial issue during the earnings conference later today.**

Overview of 2018 Q3 results

(PLN m)	Q3'17	Q2'18	Q3'18	Y/Y	Q/Q
Net interest income	324.0	300.0	304.7	-6.0	1.6
Fee income	42.1	31.8	34.1	-19.0	7.2
Trading income	22.2	23.5	16.7	-24.8	-28.9
Other income	-26.9	-7.7	-14.3	-46.9	85.5
Non-interest income	37.4	47.6	36.5	-2.4	-23.3
Total income	361.4	347.6	341.2	-5.6	-1.8
Operating expenses	-207.0	-222.9	-220.6	6.5	-1.0
Operating income	154.4	124.7	120.6	-21.9	-3.3
Loan loss provisions	-240.0	-238.6	-138.7	-42.2	-41.9
Equity in profits/losses of associates	5.2	-1.1	3.5	-32.4	n.m.
Pre-tax income	-80.5	-115.0	-14.6	-81.9	-87.3
Tax	8.3	-1.0	0.6	-93.4	n.m.
Non-controlling interests	0.0	0.0	0.0	n.m.	n.m.
Net income	-72.1	-116.1	-14.0	-80.6	-87.9
Bank tax	0.0	0.0	0.0	n.m.	n.m.
Net income after bank tax	-72.1	-116.1	-14.0	-80.6	-87.9

2018 Q3 actuals vs. expectations

(PLN m)	Q3'18	consensus	differ.	Q3'18E	differ.
Net interest income	304.7	305.2	-0.2%	304.7	0.0%
Fee income	34.1	34.3	-0.7%	35.3	-3.4%
Operating expenses	-220.6	-222.0	-0.6%	-222.6	-0.9%
Loan loss provisions	-138.7	-141.3	-1.9%	-143.2	-3.2%
Net income	-14.0	-18.7	-25.1%	-24.1	-41.9%

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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