Dom Maklerski

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PKO BP – Q3 2015 Earnings Conference Highlights

Rating: buy | target price: PLN 40.05 | current price: PLN 28.35

PKO PW; PKO.WA | Banks, Poland

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PKO BP expects continued improvement in the quarters ahead driven by net interest income and cost synergies. In Q4 2015 growth will be affected by a seasonal increase in operating costs and provisioning combined with additional costs related to the new mortgage borrower relief fund (PLN 140m). PKO's Management are of the opinion that the final CHF loan conversion legislation will take a much milder form than what has been proposed to date due to the budget needs of the new government. We see potential for upward revisions to the market expectations as to PKO's net earnings in 2015 (currently at PLN 2,755m according to Bloomberg) and 2016 (PLN 2,933m, supported by proceeds from the Visa deal).

Net interest income set for gradual expansion

Net interest income increased 8% in Q3 2015 and NIM expanded by 22bps to 2.85% relative to the previous quarter. From the Q2 2015 low PKO sees potential for a NIM rebound by 40bps, with several percentage points expected to be achieved in Q4 and the rest of the potential materializing in 2016. At the same time PKO anticipates recovery in net interest income in the quarters ahead supported by higher sales of consumer and mortgage loans.

Cost of borrower relief

PKO estimates its contribution to the new borrower relief fund at PLN 140m which it expects to expenses against the income for Q4 2015.

Tight cost control

Operating costs in Q3 were reduced by 2.7% relative to the quarter before, but in Q4 2015 they are set for a seasonal rebound driven by post-merger integration costs of ca. PLN 60m, partly offset by PLN 10m synergies. PKO predicts it will achieve cost synergies of ca. PLN 187m in 2016 and ca. PLN 220m in 2017.

Provisioning set to rise in Q4

Cost of risk amounted to 75bps in Q3 2015. Going forward PKO anticipates an increase in consumer loan CoR in line with higher sales, combined with stable CoR for mortgages and falling CoR on corporate lending. In Q4 2015 the Bank said without quoting a specific amount that would slightly raise its risk reserves.

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

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