

Thursday, November 14, 2019 | special comment

RBI – 2019 Q3 Earnings Highlights

Rating: hold | target price: 23.05 EUR | current price: 23.21 EUR

RBI AV; RBIV.VI | Banks, Austria

Analysts: Michał Konarski +48 22 438 24 05, Mikołaj Lemańczyk +48 22 438 24 07

- At EUR 303.0m, the 2019 Q3 net profit of RBI came in line with our estimate but slightly topped the consensus estimate after a 12% fall from Q2 and a 27% drop from Q3 2018.
 - The Bank exceeded expectations with the quarterly fee income and net interest income, but on the other hand higher-than-expected provisioning was a negative surprise.
 - The quarterly results were negatively impacted by impairment of deferred tax assets and provisions for litigation, charged against other operating income, in the amount of EUR 25m each.
 - Net interest income increased 3% q/q and 1% y/y to EUR 866.4m, driven by higher volumes in Russia, Ukraine, and the Czech Republic.
 - Net interest margin grew by 5bp to 2.46% thanks to improvement generated in Romania (+16bp), the Czech Republic (+8bp), Belarus (+25bp), and Russia (+3bp).
 - Fee income exceeded the EUR 438m consensus at EUR 468m after increasing 7% q/q and 3% y/y, driven by higher income from clearing, settlement, and payment services. The biggest growth in fee income in the period was achieved in Russia, Ukraine, and Croatia.
 - Costs were in line at EUR 765m (-1% q/q, +6% y/y). RBI reduced payroll costs by EUR 18m and cut administrative expenses by EUR 7m during the third quarter.
 - Provisioning amounted to EUR 92m versus EUR 63m expected by the market and EUR 21m forecast by us. The increase vs. Q2 stemmed from lower reversals in Hungary, higher provisioning in the Czech Republic, and partial recognition of the new EBA default definition (+EUR 36m).
- We have a positive view on RBI's third quarter performance, with higher-than-expected cost of risk more than offset by strong income. The Bank achieved 80% of our FY2018 net income forecast in the year to 30 September, with the ratio relative to consensus at 77%. Considering one-off impacts in Q3, there is room for small upward revisions to the consensus estimates.**

Earnings Call details:
 Date: 14 November 2019
 Time: 2:00 p.m. (CET)
 T: +44 (0) 3309127
 PIN: 7563631

Overview of 2019 Q3 results

(EUR m)	3Q'18	2Q'19	3Q'19	Y/Y	Q/Q
Net interest income	856.2	839.8	866.4	1.2	3.2
Fee income	455.1	437.3	468.0	2.8	7.0
Trading income	8.6	-18.6	-12.9	-	-30.4
Total income	1,319.9	1,258.5	1,321.5	0.1	5.0
Other operating income	-253.8	-249.8	-266.1	4.9	6.5
Bank taxes	-16.3	-16.8	-10.8	-33.7	-35.7
Operating expenses	-454.0	-505.7	-487.9	7.5	-3.5
Total costs	-724.1	-772.4	-764.8	5.6	-1.0
Operating income before provisioning	595.7	486.2	556.7	-6.6	14.5
Provisioning	-33.1	7.6	-91.7	176.9	-1,299.4
Pre-tax income	562.6	493.8	465.0	-17.4	-5.8
Tax	-111.0	-109.7	-123.6	11.3	12.6
Non-controlling interest	-35.0	-38.7	-38.4	9.6	-0.8
Net income	416.6	345.4	303.0	-27.3	-12.3

Source: RBI, Dom Maklerski mBanku

2019 Q3 actuals vs. expectations

(EUR m)	3Q'19	consensus	differ.	3Q'19E	differ.
Net interest income	866.4	855.0	1.3%	848.2	2.1%
Fee income	468.0	439.0	6.6%	432.9	8.1%
Operating expenses	-764.8	-754.0	1.4%	-787.2	-2.8%
Provisioning	-91.7	-63.0	45.5%	-21.0	336.5%
Net income	303.0	305.0	-0.6%	292.9	3.5%

Source: RBI, E - estimates by Dom Maklerski mBanku

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
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

Dom Maklerski mBanku

Senatorska 18
00-082 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.klischcz@mbank.pl
energy, power generation

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
financials

Sales and Trading**Traders**

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Sales, Foreign Markets

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl