

BANCA TRANSILVANIA (TLV RO)

Earnings Note&Conf-call highlights - Q2'16

BUY

previous: BUY

TARGET PRICE 12M (RON)	2.76
Previous Target price	3.16
SHARE PRICE (RON)	2.36

Performance	1M	3M	12M	YTD
Absolute (%)	11.8%	-14.5%	-0.8%	-2.9%
Relative to BET (%)	8.6%	-19.5%	8.7%	0.2%
Market Cap (RON m)			8,604.65	
Market Cap (EUR m)			1,930.16	
Shares Out (m)			3,646.04	

(IFRS), cons.	14A	15A	16E	17E
P/E(x) adj.	12.0	15.8	11.7	10.4
EPS adj. chg. (%)	8.9%	5.9%	n/m	12.7%
BVPS(x)	1.3	2.1	1.6	1.7
BVPS(x) adj.	1.3	1.3	1.6	1.7
P/BVPS(x) adj.	1.4	1.9	1.7	1.6
RoAE(%)	12.6%	18.6%	19.1%	20.5%
RoAA(%)	1.3%	1.1%	1.7%	1.8%
PEG (x)	0.00%	16.19%	3.99%	4.94%
Div. Yield (%)	12.0	15.8	11.7	10.4

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Q2'16 adjusted net profitability landed at RON 45m, impacted by higher than expected cost of risk for the quarter under debt discharge law; positive on volumes and activity effects on core income side; +1% QoQ increase in NII and +8% QoQ hike in net fees - reinforces full year budgeted figures

- Q2'16 results & conf call highlights:** Adjusted Q2'16 net profit stood at RON 45m vs an estimated figure of RON 146m - below estimates due to higher than expected cost of risk, which included charges for debt discharge law, reported at RON 174m and Visa gain was at RON 185m with a gross positive impact in Q2'16 at RON 11m. NII landed at RON 430m in line with our estimate at RON 426m, and noticeable is the reduction in cost of funds at higher than estimated double digit figure, some improvement in NFCs at RON 126m vs. RON 120m foreseen mostly on higher activity volume for the quarter. Core&non-core income landed at RON 631m vs. RON 611m estimated. Provisions landed higher than expected at RON 266m (including debt discharge provisions) vs. RON 145m estimated, which puts adjusted Q2'16 net profit at RON 45m vs. an estimated RON 146m; no surprises in terms of other operating expenses and tax items (includes tax on VISA gain). With respect to the cost of risk, some RON 365m were taken off-balance sheet, NPL ratio stood at 9.17%, coverage ratio was 124.6% (provisions and guarantees) while reported solvability excluding H1'16 profitability stands at 16.62%. Net loans advanced by 3% YTD, while deposits went out by 1.63% YTD, net-loans to deposits at 66%;
- Cost of risk:** for the year some RON 250m were budgeted for the debt discharge law o/w RON 174m booked in Q2, with the remaining portion available for the next two quarters; no estimates for bookings above the threshold of RON 250m from mgt side, which should fit to the full year budget;
- CoR outlook:** mgt sees CoR at 1.5% on adjusted basis for VBRO and debt discharge law; reported figure was at 2.2%; reversals related to VBRO are not expected to continue in the next quarters; no impact from next year AQR either;
- NIM outlook:** mgt estimates NIM would stay comfortably above 300 bps for the next quarters and sees rather some positive effect in the future from expected hike in interest rates; excludes any possibility for a low interest rate environment in Romania;
- Loans&Deposits side:** over H1'16 TLV grew more on retail side, opposite to corporate, and particularly on housing side, reflecting sector trend - BRD had more volumes on consumption loans vs. housing;
- Dividend policy update:** by the end of the year, the bank will issue a dividend policy which will define the conditions/indicators that have to be fulfilled in terms of equity capital and implied growth rates for the business and choosing between a stock or cash dividend and their associated level - in our model we have implied only cash dividends;
- Our view:** At first glance, our estimates for the full year need some adjustments, we will issue a detailed update in order to incorporate H1'16 trends and mix of assets reflecting P&L impact, but we keep our previous opinion that the full year budgeted figures seem achievable, since the business development during the first two quarters, particularly in terms of cost of risk, has confirmed mgt point of view earlier during the year.

(RON m) - IFRS	Q3'15A	QoQ	Y/Y	Q4'15A	QoQ	Y/Y	Q1'16A	QoQ	Y/Y	Q2'16E	QoQ	Y/Y	Q2'16A	QoQ	Y/Y	vs. IEBA
Interest income	401	4%	-7%	669	74%	54%	509	-24%	33%	505	-1%	31%	492	-3%	28%	-3%
Interest expenses	96	-18%	-35%	117	0%	-21%	82	-30%	-37%	79	-3%	-32%	62	-24%	-47%	-22%
Net interest income	305	14%	7%	552	106%	94%	428	-23%	68%	426	0%	59%	430	1%	60%	1%
Net fee income	114	3%	7%	133	20%	26%	117	-12%	16%	120	3%	8%	126	8%	14%	5%
Trading Income	44	12%	18%	65	64%	74%	37	-43%	22%	49	32%	23%	44	18%	10%	-10%
Release of AVFS gains through P&L	-1	n/m	n/m	22	n/m	n/m	60	n/m	n/m	1	-98%	-97%	25	n/m	-33%	n/m
Other income	26	n/m	n/m	60	n/m	n/m	-41	-169%	n/m	15	n/m	n/m	6	n/m	n/m	n/m
Core&Non-core Income	488	17%	-7%	833	n/m	59%	599	-28%	9%	611	2%	46%	631	5%	51%	3%
Amort. and depreciation	14	-1%	-5%	37	n/m	n/m	18	-52%	33%	18	2%	31%	18	3%	32%	0%
Opex	260	8%	25%	624	n/m	n/m	253	-59%	17%	265	5%	10%	263	4%	9%	-1%
Pre-provision profit	228	30%	-28%	208	19%	-34%	328	58%	-1%	328	0%	n/m	350	7%	n/m	7%
Loan loss provisions	108	-4%	-42%	33	-71%	-82%	60	80%	-58%	145	n/m	29%	266	n/m	n/m	n/m
EBT	147	n/m	14%	241	n/m	86%	269	11%	41%	183	-32%	n/m	85	n/m	n/m	n/m
Tax on profit	24	n/m	n/m	213	n/m	n/m	40	-81%	57%	37	-9%	n/m	40	-1%	n/m	n/m
Net profit	123	217%	11%	388	n/m	n/m	229	-41%	51%	146	-36%	n/m	45	n/m	16%	n/m

Source: Banca Transilvania, IEBA TRUST; Q2'16 net profit was adjusted for VISA gain, taxation side kept as reported

RECOMMENDATION SYSTEM

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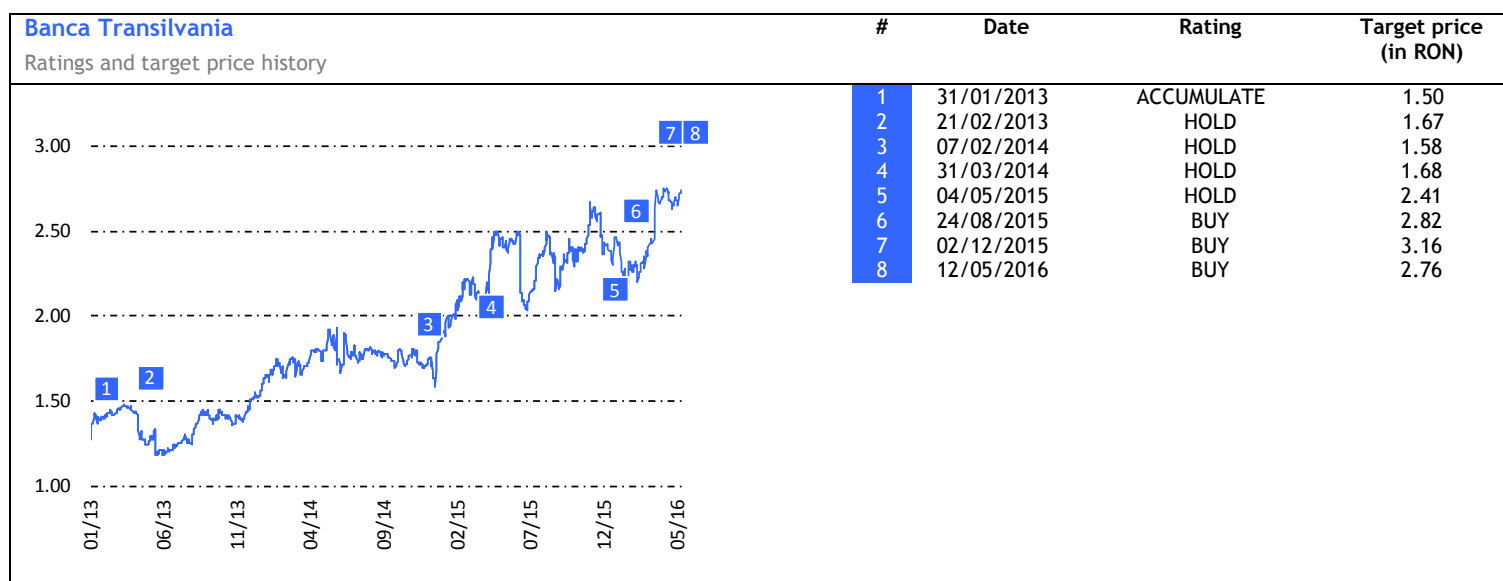
The range of recommendations for each stock consists of 4 elements: Buy (B), Accumulate (A), Hold (H), Reduce (R).

SSIF IEBA TRUST RATINGS

BUY	The stock is expected to generate potential excess return over 15%
ACCUMULATE	The stock is expected to generate potential excess return of 5 to 15%
HOLD	The stock is expected to generate potential excess return of -5% to 5%
REDUCE	The stock is expected to generate potential excess return below -5%

Excess return: Target price/current price - 1

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Measures Definitions

IEBA Net Income	Adjusted Net Income for one-off items	
Net Cash Flow from operations	EBITDA (+/-) other provisions (+/-)(Increase)/Decrease in Working Capital	
FCF Equity	Net Cash Flow from operations (-) CAPEX	
Net debt	Total short-term and long-term bank debt (-) cash	
EV	Market Cap (avg historic or current) + book value of minorities + Net debt	
FCFPS	FCF Equity	Diluted no of shares
EPS (or IEBA)	Reported (or IEBA) Net Income	Diluted no of shares
BVPS	Total Equity	Year end no of shares
P/E (or IEBA)	Share Price (avg historic or current)	Reported (or IEBA) EPS
P/E IEBA at 52wks High	52 weeks High price (avg historic or current)	IEBA EPS / Diluted IEBA Earnings Per Share
P/BV	Share Price (avg historic or current)	BVPS
ROE	Reported Net Income	Average Total Equity
ROCE	Reported Net Income	Average (Total debt + Total Equity)
EV/EBITDA	EV (with avg historic or current)	Reported EBITDA
EV/EBITDA (x) at 52wks High	EV using 52 weeks High market cap (avg historic or current)	Reported EBITDA
EBITDA/Net financials	Reported EBITDA	Net financials: Net interest (+/-) Net financials
EV/CE (x)	EV (with avg historic or current)	CE: Total bank debt + Total Equity
FCF Yield	FCFPS	Share Price (avg historic or current)
Dividend Yield	DPS	Share Price (avg historic or current)
Dividend Payout	Dividend	Reported Net Income

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