

Alpha Bank

Focus on de-risking

Reiterate Rating: BUY | PO: 0.940 EUR | Price: 0.555 EUR

Operations held up but higher LLPs

On Thursday 28 May Alpha reported 1Q20 losses of -€11m as the bank decided to anticipate a macro downturn (c.100bps additional cost of risk on top of the 150bps underlying). Pre-provision income (PPI) trended up yoy supported by a good print in fees and lower costs. Non-performing exposures (NPE) continued to fall (-€0.4bn qoq) but common equity (CET1 FL) was affected by negative markets. Maintain Buy rating.

Confident guidance on asset quality and profit trends

Management said to expect non-performing exposures to end the year flat vs. 2019 and that the evidence gathered so far in 2Q20 suggests a further qoq fall in the stock. It also guided to stable core PPI (FY20 vs. FY19) helped by resilient NII and lower costs while it expects fees to trend negatively (-4/-7%). Overall cost of risk is seen at 180-190bps, implying lower credit losses over the next few quarters.

Galaxy flexibility suggests a deal will be done

Management continues to focus on Project Galaxy: an NPE-acceleration plan expected to be signed in 4Q20. The bank plans to proceed with the securitization of up to c.€11bn NPEs by making use of the Hercules Asset Protection Scheme (HAPS). Project Galaxy has a modular structure, allowing a good degree of flexibility in relation to the timeline and market conditions.

Liquidity on favourable terms through the ECB

As [we have discussed before](#) the ECB's move in April to accept Greek government bonds as eligible collateral has led to a surge in ECB funding at Greek banks to replace interbank repos. This was evident at Alpha with ECB exposures moving to €9.3bn in May from €3.9bn at March end while repo balances were almost halved (€3.4bn from €6.5bn). Management said that it aims to make full use of ECB funds (max capacity at €11.9bn).

Estimates (Dec)

(EUR)	2018A	2019A	2020E	2021E	2022E
Net Profit (EURm)	53.0	97.0	24.0	54.0	257
EPS (Adjusted Diluted)	0.03	0.06	0.02	0.03	0.17
Dividend / Share	0	0	0	0	0
Adjusted NAV PS	5.25	5.46	5.42	4.07	4.22

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
EPS Change (YoY)	-40.8%	83.2%	-75.3%	125%	377%
Price / BV	0.11x	0.10x	0.10x	0.14x	0.13x
Price / NAV	0.11x	0.10x	0.10x	0.14x	0.13x
Net Yield	0%	0%	0%	0%	0%
DPS Change (YoY)	NA	NA	NA	NA	NA
Price / GOP	0.59x	0.75x	0.82x	0.98x	1.03x

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Equity

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Stock Data

Price	0.555 EUR
Price Objective	0.940 EUR
Date Established	27-Apr-2020
Investment Opinion	C-1-9
52-Week Range	0.486 EUR-1.98 EUR
Mrkt Val / Shares Out (mn)	857 EUR / 1,543.7
Average Daily Value (mn)	6.58 USD
Free Float	81.6%
BofA Ticker / Exchange	ALBKF / ATH
Bloomberg / Reuters	ALPHA GA / ACBr.AT
ROE (2020E)	0.3%

iQprofileSM Alpha Bank

Key Income Statement Data (Dec)	2018A	2019A	2020E	2021E	2022E
(EUR Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	1,756	1,547	1,525	1,433	1,366
Net Fee Income	331	340	289	330	353
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Other Income	512	423	270	120	90.0
Total Non-Interest Income	843	763	559	450	443
Total Operating Income	2,600	2,310	2,084	1,883	1,809
Operating Expenses	(1,158)	(1,175)	(1,044)	(1,007)	(977)
Pre-Provision Profit	1,441	1,136	1,041	876	832
Provisions Expense	(1,731)	(990)	(1,007)	(800)	(470)
Operating Profit	(289)	145	33.8	76.0	362
Non-Operating Items	0	0	0	0	0
Pre-Tax Income	(289)	145	33.8	76.0	362
Net Income to sh/holders	53.0	97.0	24.0	54.0	257
Adjusted Cash Earnings	53.0	97.0	24.0	54.0	257

Key Balance Sheet Data

Total Assets	61,007	63,458	64,219	63,577	64,848
Average Interest Earning Assets	52,769	53,367	54,728	54,821	55,167
Risk Weighted Assets	47,640	47,494	47,853	42,015	42,646
Total Gross Customer Loans	52,555	48,824	51,957	48,015	45,894
Total Customer Deposits	38,732	40,364	41,172	41,995	42,835
Tier 1 Capital	6,525	6,943	6,884	4,638	4,870
Tangible Equity	8,099	8,432	8,372	6,276	6,508
Common Shareholders' Equity	8,099	8,432	8,372	6,276	6,508

Key Metrics

Net Interest Margin	3.33%	2.90%	2.79%	2.61%	2.48%
Tier 1 Ratio	13.7%	14.6%	14.4%	11.0%	11.4%
Effective Tax Rate	118%	33.1%	29.0%	29.0%	29.0%
Loan / Assets Ratio	65.9%	61.9%	62.8%	63.3%	63.2%
Loan / Deposit Ratio	104%	97.3%	97.9%	95.8%	95.7%
Oper Leverage (Inc Growth - Cost Growth)	15.8%	-12.5%	1.37%	-6.16%	-0.93%
Gearing (Assets / Equity)	7.53x	7.53x	7.67x	10.1x	9.96x
Tangible Equity / Assets	13.3%	13.3%	13.0%	9.87%	10.0%
Tangible Equity / RWAs	17.0%	17.8%	17.5%	14.9%	15.3%

Business Performance

Revenue Growth	5.38%	-11.1%	-9.78%	-9.66%	-3.93%
Operating Expense Growth	-10.4%	1.42%	-11.1%	-3.50%	-3.00%
Provisions Expense Growth	72.1%	-42.8%	1.66%	-20.6%	-41.3%
Operating Revenue / Average Assets	-0.48%	0.23%	0.05%	0.12%	0.56%
Operating Expenses / Average Assets	-1.90%	-1.89%	-1.63%	-1.58%	-1.52%
Pre-Provision ROA	2.37%	1.82%	1.63%	1.37%	1.30%
ROA	0.09%	0.16%	0.04%	0.08%	0.40%
Pre-Provision ROE	16.3%	13.7%	12.4%	12.0%	13.0%
ROE	0.60%	1.17%	0.29%	0.74%	4.02%
RoTE	0.60%	1.17%	0.29%	0.74%	4.02%
RoRWAs	0.11%	0.20%	0.05%	0.12%	0.61%
Dividend Payout Ratio	0%	0%	0%	0%	0%
Efficiency Ratio (Cost / Income Ratio)	44.6%	50.8%	50.1%	53.5%	54.0%

Quality of Earnings

Total Non-Interest Inc / Operating Inc	32.4%	33.0%	26.8%	23.9%	24.5%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	120%	87.2%	96.8%	91.3%	56.4%
NPLs plus Foreclosed Real Estate / Loans	63.8%	55.6%	59.6%	36.0%	22.0%
Loan Loss Reserves / NPLs	48.0%	43.8%	48.5%	53.6%	54.3%
Loan Loss Reserves / Total Loans	30.6%	24.3%	28.9%	19.3%	12.0%
Provisions Expense / Average Loans	4.14%	2.49%	2.53%	1.99%	1.16%

Company Sector

Banks-Multinational/Universal

Company Description

Alpha Bank is one of the four systemic Greek banks. It is present in corporate and consumer banking but also has mutual funds, investment banking, brokerage and leasing subsidiaries. It has a presence outside of Greece in areas incl South Eastern Europe. In 2014, it consolidated Greek Emporiki Bank.

Investment Rationale

Alpha has the strongest capital position among the Greek banks. However, NPE level is the highest after Piraeus. We think the bank's strong capital position strengthens its hand to frontload the NPE issue. Alpha has been generating the highest PPP over assets thanks mainly to its above-sector revenues. We expect the revenue gap with peers to close due to the NPE-reduction impact and normalizing trading gains. We think current valuation levels look attractive.

Stock Data

Price to Book Value 0.1x

Table 1: Key quarter highlights

(%)	1Q19	2Q19	3Q19	4Q19	1Q20	qoq	yoy
Key Income Statement Data							
Net Interest Income	388	389	383	387	381	(1.5)%	(1.8)%
Net Fee Income	70	81	96	93	89	(4.2)%	27.0%
Trading / Other	75	135	86	127	96	(24.8)%	28.0%
Revenues	533	604	565	607	566	(6.8)%	6.1%
Operating Expenses	(256)	(265)	(266)	(278)	(251)	(9.7)%	(2.0)%
Pre-Provision Profit	277	339	299	330	315	(4.4)%	13.7%
Provisions	(243)	(246)	(262)	(245)	(307)	25.6%	26.7%
Operating Profit	35	93	37	85	8	NM	NM
Non-Operating Items	16	(25)	(17)	(80)	(17)	NM	NM
Pre-Tax Income	51	68	21	5	(9)	NM	NM
Net Income to sh/holders	27	59	5	5	(11)	NM	NM
Key Balance Sheet Data							
Total Assets	61,614	62,964	62,725	63,458	66,632	5.0%	8.1%
Average Interest Earning Assets	52,618	53,569	53,929	53,950	55,836	3.5%	6.1%
Risk Weighted Assets	47,837	47,562	48,107	47,494	47,617	0.3%	(0.5)%
Total Gross Customer Loans	51,836	51,330	49,147	48,731	49,095	0.7%	(5.3)%
Total Customer Deposits	38,937	39,263	39,612	40,364	41,894	3.8%	7.6%
Tier 1 Capital	8,121	8,454	8,671	8,495	7,840	(7.7)%	(3.5)%
Tangible Equity	7,687	7,919	8,050	7,939	7,714	(2.8)%	0.3%
Common Shareholders' Equity	8,132	8,389	8,527	8,432	8,236	(2.3)%	1.3%
Key Balance Sheet Data							
Net Interest Margin	2.99%	2.91%	2.82%	2.85%	2.75%		
Rev grw (core)	(26.0)%	(4.1)%	(12.8)%	1.3%	6.1%		
Costs grw (core)	(3.6)%	(1.7)%	(2.3)%	(0.6)%	(2.0)%		
Oper Leverage	(22.4)%	(2.4)%	(10.5)%	1.8%	8.2%		
Cost / Income Ratio	48%	44%	47%	46%	44%		
LLPs	189bp	191bp	207bp	198bp	254bp		
CET1 phased in	17.0%	17.8%	18.0%	17.9%	16.5%		
CET1 fully loaded	14.0%	14.8%	15.1%	14.9%	14.0%		
NPE %	48.9%	48.1%	45.5%	44.8%	43.5%		

Source: Bank; BofA Global Research

Price objective basis & risk

Alpha Bank (ALBKF)

Our €0.94 PO for Alpha is based on a Gordon Growth model. We use a 12.7% cost of equity (2.5% Risk-free rate, 6% Equity risk premium, 1.7x beta) and 2022-24E average RoTEs to value Alpha shares. Our terminal growth rate assumption is 2.5%.

Upside risks to our PO would be the following: 1) Accelerating GDP growth could lead to better volumes and faster reduction of NPEs (organically). 2) Alpha has the healthiest capital levels of the Greek banks. Alpha has expressed desire to use its capital for increased securitizations, which could help set more ambitious targets. 3) The Hercules asset protection scheme can provide additional upside to Alpha's securitization plan.

Downside risks to our PO would be the following: 1) A potential macro disturbance could negatively affect NPE reductions and the rate of new loan disbursements. 2) Negative-for-ever rates in the Eurozone could put pressure on NIIs. Furthermore, Alpha starts with a large proportion of NII coming from NPEs, and its plan to reduce NPEs through increased securitizations poses risks of a larger and faster NIM contraction. 3) With improving conditions in Greece, regulators may increase capital buffers or overall capital requirements. In addition, regulators can impose more stringent capital quality requirements, although with low probability.

Analyst Certification

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EEMEA - Financials Coverage Cluster

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BUY				
	Absa Group Ltd	AGRPF	ABG SJ	Bankole Ubogu, CFA
	ADCB	XBUDF	ADCB UH	Hootan Yazhari, CFA
	Akbank	XHRAF	AKBNK TI	David Taranto
	Al Rajhi Bank	XRHJF	RJHI AB	Hootan Yazhari, CFA
	Alpha Bank	ALBKF	ALPHA GA	Alberto Cordara
	Capitec Bank	CKHGF	CPI SJ	Bankole Ubogu, CFA
	Dubai Islamic Bank	XUIBF	DIB UH	Hootan Yazhari, CFA
	Emirates NBD	XHGGF	EMIRATES UH	Hootan Yazhari, CFA
	Eurobank	EGFEF	EUROB GA	Alberto Cordara
	First Abu Dhabi Bank	XNBUF	FAB UH	Hootan Yazhari, CFA
	Garanti Bank	TKGBF	GARAN TI	David Taranto
	Investec	XBZGF	INVLP LN	Bankole Ubogu, CFA
	Investec	IVTJF	INP SJ	Bankole Ubogu, CFA
	Pekao S.A.	BKPKF	PEO PW	Olga Veselova
	Samba Financial Group	XMAFB	SAMBA AB	Hootan Yazhari, CFA
	Saudi British Bank	XBUAF	SABB AB	Hootan Yazhari, CFA
	Transaction Capital	XTLTF	TCP SJ	Bankole Ubogu, CFA
	Yapi Kredi Bank	YVKBF	YKBNK TI	David Taranto
NEUTRAL				
	Banque Saudi Fransi	XRDCF	BSFR AB	Hootan Yazhari, CFA
	Isbank	TYIBF	ISCTR TI	David Taranto
	OTP Bank	OTPBFB	OTP HB	Olga Veselova
	PKO BP	PSZKF	PKO PW	Olga Veselova
	Riyad Bank	XRYDF	RIBL AB	Hootan Yazhari, CFA
	Sberbank	AKSJF	SBER RM	Olga Veselova
	Sberbank preferred shares	AGNYF	SBERP RM	Olga Veselova
	Vakif Bank	TKYVF	VAKBN TI	David Taranto
UNDERPERFORM				
	Alinma Bank	XALBF	ALINMA AB	Hootan Yazhari, CFA
	FirstRand	FANDF	FSR SJ	Bankole Ubogu, CFA
	Halkbank	THBIF	HALKB TI	David Taranto
	Komercni Banka	KMERF	KOMB CP	Olga Veselova
	National Commercial Bank	XBYNF	NCB AB	Hootan Yazhari, CFA
	Natl Bank Greece	NBGF	ETE GA	Alberto Cordara
	Nedbank	NDBKF	NED SJ	Bankole Ubogu, CFA
	Piraeus Bank	BPIRF	TPEIR GA	Alberto Cordara
	Qatar National Bank	XQTNF	QNBK QD	Hootan Yazhari, CFA
	Standard Bank	SBGOF	SBK SJ	Bankole Ubogu, CFA

iQ^{method} SM Measures Definitions

Business Performance		
Return On Capital Employed	Numerator NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Denominator Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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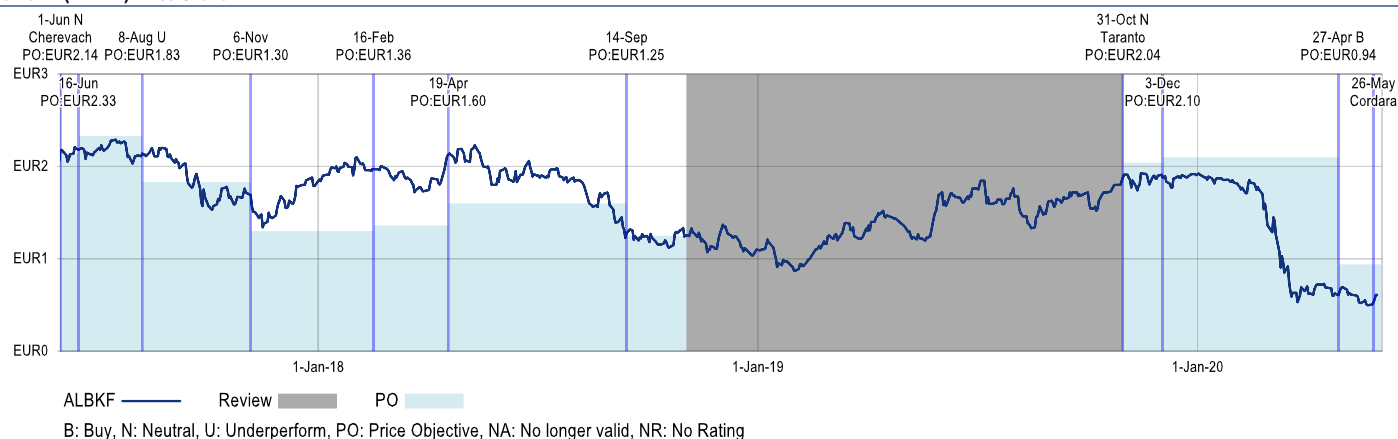
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Alpha Bank (ALBKF) Price Chart



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Equity Investment Rating Distribution: Banks Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	41.40%	Buy	65	84.42%
Hold	52	27.96%	Hold	45	86.54%
Sell	57	30.65%	Sell	44	77.19%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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