

Banca Transilvania (TLV)

BUY

Company Update

Price Target: 30.7 RON (+17,0%)

Key Points

- Banca Transilvania delivered another solid year of performance, with the stock price outperforming the BET Index by 17.0%. The bank announced yet another acquisition - of OTP Bank, the tenth largest bank in Romania, for 1.712 mln. RON. The bank made a profit of 675 mln. RON on the transaction, not considering integration costs, and thus managed to increase its assets by 7.0%, further consolidating its market share.
- On a consolidated basis, we expect an increase of 24.7% in net interest income, to 6.5 bln. RON by the end of 2024, and a 16.3% increase in non-interest income, to 2.61 bln. RON. We estimate the bank will make a hefty profit, of some 4.6 bn. RON for the full year, (including a total of 807 mln. RON in bargain gains), a more than 55% increase compared to 2023. We believe this will allow the bank to boost the dividend payout to 50% and therefore estimate a DPS of 2.4 RON, almost double compared to 2023, implying a DY of 9.3%.
- The Cost/Income ratio increased slightly to 47.4%, though only two months were consolidated in Q3 from OTP, so the increase might have not been related to the acquisition.
- TLV managed to increase its assets this year by a whopping 20.4%, and its share of customer loans has now reached 22.5% of total banking system loans (households & corporates only) while its deposits are now 20% of banking system deposits. We therefore pencil in a CAGR of 4.7% in assets for the next five years, slightly lower than the nominal GDP (+6.0% CAGR) especially as the macro backdrop for the next two years might prove quite challenging.
- We expect no rate cuts from the NBR at least until Q3 2025, factoring in the recent upside surprises in the inflation rate as well as the ongoing political crisis, making it increasingly likely that no fiscal measures will be announced in the first half of the next year, keeping the central bank on hold. We see the current NBR inflation forecast for both 2025 (3.5%) and 2026 (3.3%) at risk of an upside shock of at least 1 ppt. and expect a more gradual easing, leading to a decline in TLV's NIM to 3.3% in 2026, followed by a rebound to 3.5% by 2029.
- We value TLV at 30.7 RON/share, implying a 17.0% upside from the recent market price, albeit most of the upside stems from the relative valuation (33.6 RON/share) as we see the stock trading very close to fair value in our new DDM model (27.8 RON/share).

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Sector: Retail Banks

Shares information

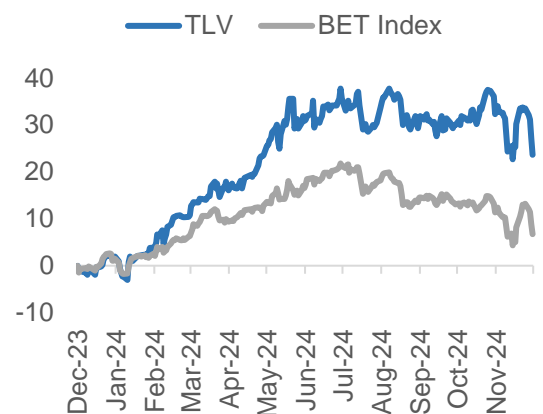
Min/max price, 52 weeks.	20.55 – 29.7
Dividend/share	1.2521
Total Shares (mln.)	916.9
Capitalization (RON mln.)	24,755.8
52 weeks liquidity (RON mln.)	3,366.7

Major Shareholders

	%
Institutional	74.88
Retail	25.12

1 year performance vs BET

	%
TLV	23,6
BET Index	6,7



source: Bloomberg

9M Results Overview

Banca Transilvania reported a consolidated net interest income of 5,01 bn. RON, marking a 32,1% increase compared to last year boosted by organic growth and the acquisition of OTP Bank Romania and BCR Chisinau. The group net interest margin (NIM) increased to 3,7% from 3,56% last year as a result. Net commission income increased by 15,7% to 1,08 bn RON with the total number of processed transactions rising by 30,7% and the number of customers reaching 4,4 mln. Net trading and securities income increased by some 22%, and total revenue at the group level increased by 27,9% compared to the same period last year, reaching 7,3 bn. RON.

Operating expenses increased by 32,6% to 3,5 bn. RON was impacted by a 25,4% increase in personnel costs, as average wages at the national level maintained a double-digit pace of growth.

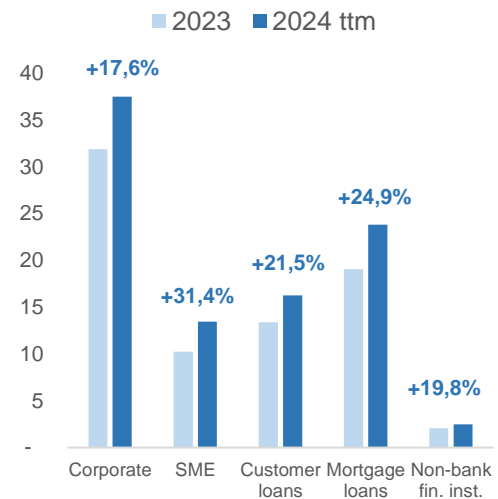
Consolidated net profit stood at 3.907,5 mln. out of which 807.4 mln were from gains from acquisitions and 391 mln. were from subsidiaries and equity participations. As a result group level, ROE reached 30,0% (TTM) compared to 26,1% last year.

The bank CET1 ratio increased to 22,88% compared to 17,4% in 2023, while the CAR ratio reached 26,3%. The bank is more than well-capitalized and we expect it to be able to pay next year some 50% of profits in dividends, amounting to 2.241 mln. RON and a DPS of 2,4 which is almost double compared to last year.

The 9-month results saw the OTP integration for just two months in Q3. Nonetheless, group-level CoR (cost of risk) declined to 0,51% compared to 0,64% last year. With the integration, loan loss provisions increased by 7,54% to 5,2 bn. RON while the NPL ratio declined to 2,84% (group) compared to 3,26% last year.

The corporate loan portfolio increased by 17,6% compared to 5,7% in the banking system, while its mortgage loan book increased by 24,9% compared to 8,2% for the banking system.

Lending by segment (RON, bn.)



source: TLV, own calculations

(RON mln, consolidated)	30-Sep-23	30-Sep-24	% chg
Net Interest Income	3.794	5.011	32,1%
Non-interest Income	1.672	1.988	18,9%
net commission income	942	1.090	15,7%
net trading income	525	647	23,2%
securities income	205	252	22,6%
Other Income	256	320	24,9%
Total income	5.721	7.319	27,9%
Personnel Costs	-1.450	-1.833	26,4%
Depreciation	-331	-372	12,2%
Other Costs	-844	-1.278	51,4%
Pre-provision Result	3.095	3.836	23,9%
Net Provisions	-215	-206	-4,5%
Other gains/losses	0	807	
Pretax Profit	2.880	4.438	54,1%
Income Tax	-589	-530	-9,9%
Net Profit	2.291	3.908	70,5%
minorities	79	155	95,2%
Net Profit after minorities	2.212	3.753	69,6%

source: TLV, own estimates

(RON mln, consolidated)	2023	2024 ttm	% chg
Net Interest Income	5.214	6.432	23,4%
Non-interest Income	2.252	2.568	14,0%
net commission income	1.284	1.432	11,5%
net trading income	657	779	18,5%
securities income	311	358	14,9%
Other Income	370	434	17,2%
Total income	7.836	9.434	20,4%
Personnel Costs	-1.968	-2.350	19,4%
Depreciation	-451	-491	9,0%
Other Costs	-1.199	-1.633	36,2%
Pre-provision Result	4.219	4.960	17,6%
Net Provisions	-513	-503	-1,9%
Other gains/losses	0	807	
Pretax Profit	3.706	5.264	42,0%
Income Tax	-722	-663	-8,1%
Net Profit	2.985	4.601	54,1%
minorities	95	170	79,8%
Net Profit after minorities	2.890	4.431	53,3%

source: TLV, own estimates

OTP Acquisition

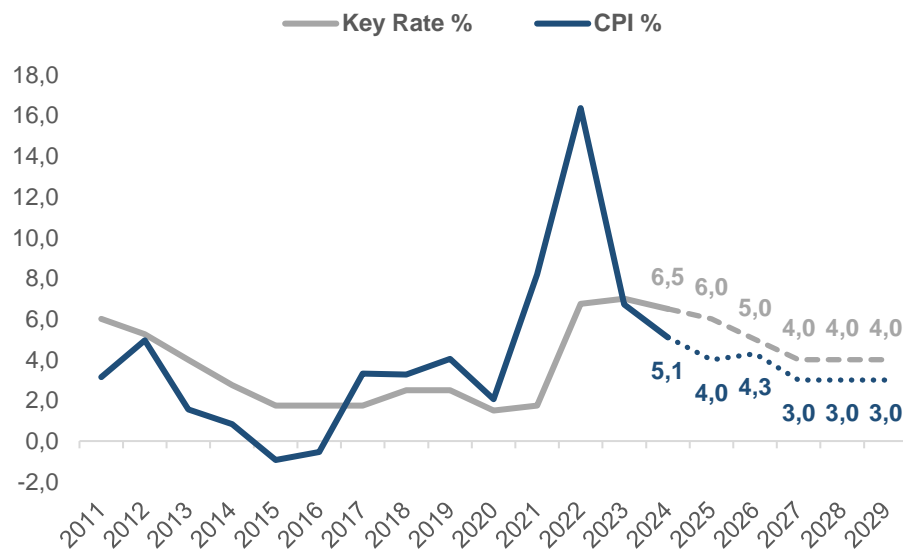
Banca Transilvania has managed to sign yet another deal that increases its market share at a lower cost than what the assets are worth. The OTP acquisition contributed 7% to total assets, adding some 2.387 mln. RON at a cost of 1.712 mln. RON, meaning the bank booked gains of 675 mln. RON. Also, the OTP consolidation contributed some 91,9 mln. RON to the group bottom line. One particular downside was related to a slight decrease in the bank CET1 ratio after the acquisition of 96 bps, including profits and bargain gains, and of 241 bps without including these.

TLV now has a market share of 20% by assets, and the latest acquisition further widened the gap to its closest peer BCR which now has a 13% market share. Its customer deposits now make up 20.4% of the total banking system deposits while its customer loan portfolio represents some 22.5% of total households and corporate loans. Absent any other acquisitions, we believe it will be harder for the bank to grow its assets organically at an above-market level, and therefore pencil in a 4.7% 5-year CAGR in assets, slightly below the 6% annual rate in nominal GDP.

Macro Backdrop and Forecasts

Next year will be more difficult to navigate for Banca Transilvania as we see tighter financial conditions compared to expectations and a more volatility-prone market. Given the large government deficit for this year (8.2%) discussions on fiscal consolidation measures will take center stage in 2025. The government agreed with the European Commission on a 7-year plan to bring down the deficit to below 3% only by 2031, implying a more gradual approach in implementing fiscal measures. More recently, Fitch Ratings changed its rating outlook for Romania to negative, in light of the higher deficit forecast, caused by higher expenditures and unfunded pensions increases.

We see the end-2025 inflation rate at 4.0% compared to the NBR's 3.5%



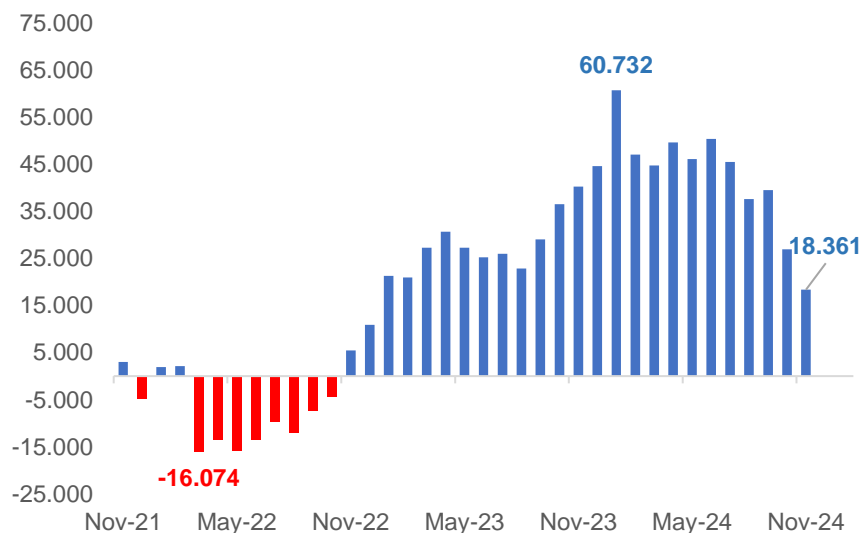
source: NBR, own estimates

The current deficit forecast of 7.5% in 2025 and 6.8% in 2026 leaves no room for mistakes whatsoever and is subject to even further downside in the event of a material macroeconomic slowdown, potentially triggered by US tariffs on all EU products.

Implementing new fiscal measures that will have a relevant impact on the deficit is mandatory but the exact details of it remain uncertain and discussions on the fiscal plan will be the main contention point amongst political parties. Previously, the government opted to increase taxes instead of cutting down expenses and we expect it to continue to do so next year. We don't see a major increase in any one tax rate but instead expect a broad "package of hikes" with changes to the VAT of 1-2% and changes to corporate taxes, including for the banks. Any such fiscal package will therefore inevitably be inflationary, and given the recent upside surprise in the inflation rate, the current forecast for both 2025 and 2026 will likely go out the window.

In its November inflation report, the NBR forecast now shows a gradual decline in the inflation rate to 3.5% by the end of 2025 and 3.3% by end-2026. However, the central bank also mentioned growing uncertainties regarding the inflation outlook with potential upside pressures going into next year. The tight labor market will likely continue to put pressure on wages, a major driver of the stubborn service prices. We therefore see a higher inflation path for both 2025 (+0.5%) and 2026 (+1.0%) compared to NBR's forecast and expect the central bank restart the easing cycle only in the second part of the year and to cut by only 50 bps next year.

Liquidity conditions causing unwarranted tightening in financial conditions



source: NBR, own estimates

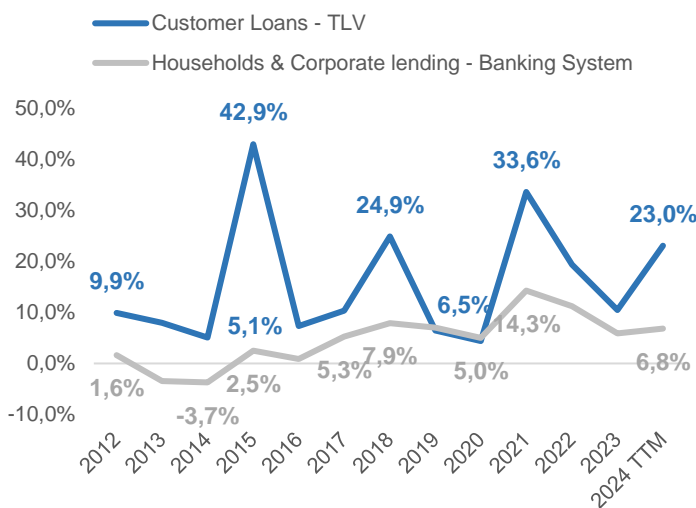
The recent political turmoil, with the breakdown in the right-wing coalition and postponement of the presidential elections all but guarantees that forming a new government will take longer than expected, and any fiscal measures, if any, will be announced only by Q2 next year. This also impacted the interbank liquidity

conditions, with a quicker-than-expected decline in liquidity, which caused an increase in the interbank rates (3M rate now at 5.9% from 5.55% in October).

Given the current backdrop, we expect interest rates to follow a more gradual path, with the 3M rate dropping below 5% only in 2026. We see TLV's NIM to slightly decrease next year to 3.5%, as the bank will have to be competitive in the context of a slowdown in banking system lending. The annual rate of growth in corporate lending slowed down this year to 5.7% (banking system) compared to 10.3% last year and the trend is likely to continue given downbeat economic expectations and a slower pace of easing.

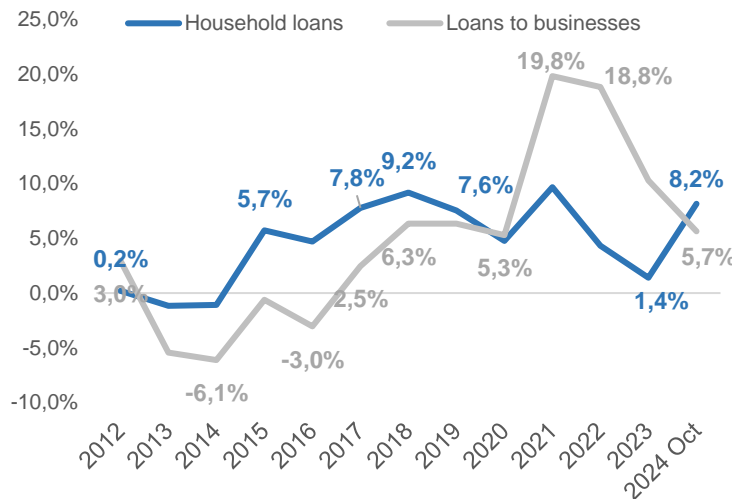
We forecast a 5.3% increase in total lending for TLV in 2025, and expect a slowdown in the annual growth rate to 4.0% by 2029, while customer deposits should grow at a CAGR of 4.68%. We see both the growth in loans and deposits below the current forecast for nominal growth (IMF) of 6.0% annualized.

TLV maintained an above market growth rate in lending



source: NBR, own estimates

Lending slowdown in the banking system dragged by slower corporate growth



source: NBR, own estimates

Despite the macro backdrop, we don't see a material slowdown in economic activity and forecast the NPL ratio to remain stable at around 2.8% for the next two years, followed by a gradual increase to 3.0% by 2029, in light of the medium-term outlook uncertainty.

We expect ROE to decline in 2025 to a more normal 21.8% from 30.0% currently and forecast a gradual decline to 19.2% by 2029. TLV still has an above-average ROE when compared to its peer group average of 11.9%, and we believe it to be one of the main reasons for its solid stock price performance in the last few years. Given the higher profitability and larger size, we expect the bank to increase its payout ratio closer to 50% going forward, to maintain investors' interest after the large increase in the stock price in the last year.

DDM Valuation

We value TLV based on a DDM model where we assume a 50% payout ratio for the next three years and a gradual increase to 85% afterward. The price target of 27.8 RON/share shows that TLV trades very close to fair value. We believe the current size and market share of the bank will make it increasingly challenging for the bank to expand and expect an increase in dividends paid out as a result. Other forecast assumptions include:

- Cost of Equity (COE) of 14.6%, calculated using a market risk premium of 8.2%, representing the historical total return of the BET index over the 10-year government bond yield of 7.6%;
- Levered Beta of 0.85, estimated through linear regression against the BET index, using the entire dataset;
- Terminal Value estimated using the Gordon Growth model, with a terminal growth rate of 3.0%, aligned with the long-term inflation rate.

(Ron, mln, consolidated)	Reported	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
DDM Model	31-Dec-23	31-Dec-24	31-Dec-25	31-Dec-26	31-Dec-27	31-Dec-28	31-Dec-29
Net Interest Income	5.214	6.500	6.939	6.922	7.890	7.997	8.362
% chg	17,8%	24,7%	6,7%	-0,3%	14,0%	1,4%	4,6%
Non-interest Income	2.252	2.619	2.807	2.934	3.064	3.189	3.350
% chg	31,3%	16,3%	7,2%	4,5%	4,5%	4,1%	5,1%
Net Profit	2.890	4.482	3.926	3.976	4.416	4.513	4.736
% chg	20,2%	55,1%	-12,4%	1,3%	11,1%	2,2%	4,9%
Shareholders Equity	13.224	16.337	16.981	19.111	21.119	22.903	24.270
ROE	21,9%	27,4%	23,1%	20,8%	20,9%	19,7%	19,5%
Payout	33,5%	50%	50%	50%	60%	60%	85%
Dividends	1.000	2.241	1.963	1.988	2.649	3.159	4.025
<i>discount factor</i>		0,87	0,76	0,66	0,58	0,51	0,44
<i>NPV Dividends</i>		1.955	1.494	1.321	1.536	1.598	1.777
PV Dividends	9.681						
PV Terminal Value	15.770						
g	3,0%						
Equity Value	25.451						
Nr Shares Out	917						
Price/share	27,8						
Market Price	26,25						
Upside/Downside	5,75%						

source: TLV, own estimates

Multiples Valuation

Based on our custom peer group, we price TLV at 33.6 RON/share, implying a 28.2% upside from the current market price. The bank trades at a forward 2024 and 2025 PE of 5.2x and 5.9x respectively, close to the peer group average of 5.5x, implying no upside from the PE multiple. Our higher price forecast comes from the PB multiple, where we make an adjustment to account for TLV's higher ROE. The peer group's median PB stands at 1.2x, and adjusted for the ROE difference will bring it to 2.06x, compared to TLV's PB of 1.4x based on forward 2024 BV.

Name	Country	sector	Market Cap (EUR M)	BETA	ROE	ROE 5Y	PE	PB	DVD y 12mp
BRD-GROUPE SOCIE	RO	Financials	2.576,8	0,61	17,1%	16,0%	8,44	1,40	6,39
ERSTE GROUP BANK	AT	Financials	24.113,6	1,31	16,4%	11,5%	7,66	1,15	4,59
RAIFFEISEN BANK	AT	Financials	6.480,1	1,30	12,8%	12,5%	2,80	0,35	6,35
OTP BANK PLC	HU	Financials	14.492,7	0,98	21,7%	18,7%	5,36	1,24	2,51
ALPHA SERVICES A	GR	Financials	3.729,5	1,54	8,0%		8,99	0,51	1,64
PIRAEUS FINANCIA	GR	Financials	4.865,2	1,60	13,7%	3,4%	3,83	0,60	1,62
EUROBANK ERGASIA	GR	Financials	8.151,3	1,48	15,9%	9,6%	5,48	0,93	4,23
KOMERCNI BANKA	CZ	Financials	6.399,8	0,75	13,0%	11,9%	9,82	1,31	9,77
PEKAO	PL	Financials	8.688,9	1,31	22,0%	11,5%	5,38	1,21	13,61
MTLVTA MTLVY BAN	CZ	Financials	2.550,4	0,50	17,4%	14,5%	11,74	2,01	2,39
MILLENNIUM	PL	Financials	2.467,9	1,29	9,3%	16,1%	4,07	1,37	
GARANTI	TR	Financials	14.605,0	0,74	36,9%	27,2%	5,58	1,76	2,46
YAPI KREDI	TR	Financials	6.740,4	0,72	23,6%	27,9%	5,90	1,29	4,15
ALIOR BANK SA	PL	Financials	2.693,9	1,40	25,0%	10,6%	4,74	1,06	5,03
ZAGREBACKA BANKA	HR	Financials	8.838,7	0,27	21,3%	10,9%	14,98	3,27	5,07
TATRA BANKA	SK	Financials	1.688,5		16,9%	11,8%	5,19	0,95	
		Average	7.443	1,05	18,2%	14,3%	6,9	1,3	5,0
		Median	6.440	1,29	17,0%	11,9%	5,5	1,2	4,4

source: BBG

Multiples	2025e
Target Price @ P/E	24,45
Target Price @ P/B	42,84
Average Target Price	33,65
TLV Market Price	26,25
Upside/Downside	28%

source: BBG

2025e	TLV	Industry
PE	5,17	5,53
PB	1,42	1,22
PB ROE adj.		2,06
ROE	20,0%	11,9%

source: BBG

Financial Statements

(Ron, mln, consolidated)	Reported 2020	Reported 2021	Reported 2022	Reported 2023	Estimated 2024	Estimated 2025	Estimated 2026	Estimated 2027	Estimated 2028	Estimated 2029
Net Interest Income	2.977	3.142	4.427	5.214	6.500	6.939	6.922	7.890	7.997	8.362
Non-interest Income	1.496	1.707	1.715	2.252	2.619	2.807	2.934	3.064	3.189	3.350
net commission income	776	961	1.168	1.284	1.461	1.565	1.636	1.709	1.778	1.868
net trading income	345	529	686	657	794	851	890	929	967	1.016
securities income	375	217	-139	311	365	391	408	427	444	466
Other Income	137	182	292	370	443	474	496	518	539	566
Total income	4.611	5.031	6.434	7.836	9.562	10.220	10.351	11.472	11.724	12.278
Personnel Costs	-1.097	-1.328	-1.656	-1.968	-2.382	-2.546	-2.578	-2.857	-2.920	-3.058
Depreciation	-328	-358	-393	-451	-498	-532	-539	-597	-610	-639
Other Costs	-697	-786	-1.089	-1.199	-1.656	-1.769	-1.792	-1.986	-2.030	-2.126
Pre-provision Result	2.488	2.559	3.296	4.219	5.027	5.373	5.442	6.031	6.164	6.455
Net Provisions	-866	-257	-495	-513	-510	-545	-552	-612	-625	-655
Other gains/losses	0	0	0	0	807	0	0	0	0	0
Pretax Profit	1.622	2.303	2.801	3.706	5.325	4.828	4.890	5.419	5.538	5.800
Income Tax	-198	-278	-313	-722	-671	-772	-782	-867	-886	-928
Net Profit	1.424	2.025	2.488	2.985	4.654	4.055	4.107	4.552	4.652	4.872
minorities	44	41	84	95	172	130	131	137	140	136
Net Profit after minorities	1.380	1.983	2.404	2.890	4.482	3.926	3.976	4.416	4.513	4.736

source: TLV, own estimates

(Ron, mln, consolidated)	Reported 2020	Reported 2021	Reported 2022	Reported 2023	Estimated 2024	Estimated 2025	Estimated 2026	Estimated 2027	Estimated 2028	Estimated 2029
Balance Sheet										
Cash	22.133	18.321	14.541	24.253	29.992	31.806	31.448	32.848	34.181	35.911
Due from banks	7.223	10.394	5.567	12.273	6.749	7.121	7.443	7.774	8.090	8.499
Held for Trading	369	419	540	471	520	661	691	722	751	789
Financial assets through P/L	1.086	1.108	1.106	1.233	1.386	1.463	1.529	1.597	1.662	1.746
Financial assets through OCI	30.877	41.193	43.486	40.600	40.880	47.279	51.664	53.964	56.155	58.997
Debt Instruments	990	1.483	2.060	9.472	21.526	21.636	21.491	22.448	23.359	25.651
Customer loans	40.893	54.630	65.201	72.008	90.354	95.140	100.116	104.574	108.819	113.217
Fixed Assets	904	1.064	1.174	1.279	1.520	1.700	1.777	1.856	1.932	2.029
Intangible Assets	305	406	506	694	883	741	775	809	842	885
Goodwill	16	22	154	154	157	101	105	110	114	120
Other Financial Assets	2.538	3.039	5.191	6.058	9.004	6.510	6.805	7.108	7.396	7.770
Other Assets	158	420	984	675	729	749	783	818	851	894
TOTAL Assets	107.492	132.501	140.511	169.169	203.701	214.907	224.626	234.627	244.153	256.509
Liabilities - HFT	35	39	42	89	239	231	219	205	189	173
Deposits w banks	319	1.024	1.678	1.035	726	774	825	873	920	970
Deposits w customers	90.942	108.022	119.732	138.053	162.637	171.275	180.183	188.138	196.186	204.418
Loans from banks	1.692	7.930	4.841	9.549	13.578	13.250	12.726	12.120	11.391	10.685
Subordinated liabilities	1.668	1.762	1.748	2.423	2.513	2.651	2.771	2.894	3.012	3.164
Other Provisions	616	538	501	651	786	830	867	906	943	990
Other debt	1.806	2.622	2.498	3.473	4.947	5.337	3.995	3.695	3.176	4.846
TOTAL Debt	97.078	121.937	131.039	155.272	185.426	194.348	201.586	208.830	215.817	225.245
Share capital	5.840	6.414	7.130	8.076	9.271	9.271	9.271	9.271	9.271	9.271
Retained earnings	2.858	3.737	4.458	5.445	7.686	9.648	11.636	13.403	14.756	15.467
Other reserves	1.323	-59	-2.669	-296	25	191	211	229	243	250
Total Capital	10.021	10.092	8.919	13.224	16.981	19.111	21.119	22.903	24.270	24.988
Non-controlling Interests	393	472	553	673	823	573	634	687	485	500
Total Equity	10.414	10.564	9.472	13.897	17.805	19.684	21.752	23.590	24.756	25.488
Total Liabilities & Equity	107.492	132.501	140.511	169.169	203.231	214.032	223.338	232.420	240.572	250.733

source: TLV, own estimates

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Company	Symbol	Explanatory note No.
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