ProCredit Holding

Q124 results

A solid start to 2024

Banks

ProCredit Holding (PCB) has delivered another strong set of results, posting Q124 net income of €33.5m (up 14% y-o-y), which translates into an annualised ROE of 13.4%. Earnings were supported by a sustained solid net interest margin (NIM; at 3.7% annualised vs 3.4% in Q123) and low cost of risk (2bp). Meanwhile, PCB reported a higher cost-income ratio (CIR, 61.7% in Q124 vs 59.7% in Q123) as it ramps up its new strategic agenda. In line with PCB's dividend policy, the management board will propose at the AGM (on 4 June 2024) the payout of one-third of PCB's FY23 profits, translating into a dividend per share of €0.64, which implies a healthy 6.4% dividend yield.

Year end	Net interest income (€m)	EPS* (€)	DPS (€)	P/BV (x)	P/E* (x)	ROE (%)	Dividend yield (%)
12/22	264.6	0.28	0.00	0.64	35.7	1.9	N/A
12/23	337.2	1.92	0.64	0.56	5.2	12.2	6.4
12/24e	365.9	1.94	0.65	0.52	5.2	11.2	6.5
12/25e	391.6	1.97	0.66	0.49	5.1	10.6	6.6

Note: *EPS as reported by the company

FY24 management guidance maintained

Despite the very strong start of the year (including solid loan book and deposit growth of 3.0% and 2.8%, respectively), management has refrained from raising its FY24 guidance and reiterated its earlier expectations. It therefore continues to assume an FY24 return on equity of 10–12% (based on a cost of risk of up to 40bp), growth in loan portfolio at around 10% excluding fx, a cost-income ratio of around 63%, as well as a CET-1 ratio above 13%. We maintain our forecasts as well and expect an FY24 ROE of 11.2% on the back of a 10% loan book growth and a CIR of 63.5%.

Successful placement of green tier-2 bonds

Since the reporting date, PCB has strengthened its total capital ratio (TCR) by the successful placement of €125m green tier-2 (subordinated) bonds on 25 April 2024. The bonds bear a fixed coupon at 9.5%, mature in 2034 (with a call right in 2029) and were rated BB- by Fitch (PCB's issuer rating of this agency is BBB). Management highlighted that the geographically diverse strong demand allowed PCB to upsize the issue from the originally assumed €100m. The placement was carried out under PCB's green bond framework, which was subject to a second-party opinion from Sustainalytics. The bond issue (which, according to PCB, can finance more than €1bn of asset growth) resulted in a 2pp increase in the TCR to a pro-forma end-March 2024 figure of 17.7%.

Valuation: Offering close to 43% upside potential

We have reduced our fair value estimate slightly for PCB's shares to €14.30 per share (compared to €14.70 previously) on the back of updated peer multiples. We retain our sustainable return on tangible equity assumption of 11% for now. Reflecting PCB's targeted 13–14% profitability (see our recent outlook note for details) would bring our valuation to €16.90–18.20 per share.

21 May 2024

Price	**€10.00**
Market cap	**€589m**
Total assets (€bn) at end-March 2024	10.0
Shares in issue	58.9m
Free float	38.7%
Code	PCZ
Primary exchange	Frankfurt Prime Standard
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	14.4	35.1	71.8
Rel (local)	8.1	22.9	49.0
52-week high/low		€10.0	€5.9

Business description

Based in Germany, ProCredit Holding operates regional banks across Southeastern and Eastern Europe and Ecuador. The banks focus on micro, small and medium-sized enterprises and private individuals.

Next events

AGM	4 June 2024
H124 results	14 August 2024

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Edison profile page

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High NIM continues to support PCB's profitability

PCB delivered a healthy annualised Q124 ROE of 13.4% (slightly above the 13.3% in Q123), with both Southeastern Europe and Eastern Europe making good contributions with annualised ROE of 16.3% and 20.6%, respectively (partly offset by the -9.3% return in Ecuador). PCB's profitability was assisted by continued strong NIM of 3.7% (vs 3.8% in Q423 and 3.4% in Q123) on the back of supportive volume effects and the positive impact from assets repricing (€15.8m), which more than offset liabilities repricing (€8.9m). The slight sequential NIM reduction came primarily from banks in Serbia (seasonal effect in Q423 and increased liability volume effects) and Ukraine (due to a lower base rate), while other local banks had a broadly stable NIM. Meanwhile, group net fee and commission income remained broadly stable year-on-year at €14.1m.

Exhibit 1: Q124 results highlights

€m, unless otherwise stated	Q124	Q123	y-o-y change
Net interest income	90.1	75.4	19.4%
Net interest margin (annualised)	3.7%	3.4%	26 bp
Expenses for loss allowances	0.3	1.9	-84%
Cost of risk (annualised, bp)	*2*	*12*	*-10 bp*
Net fee and commission income	14.1	14.0	0.6%
Pre-tax profit	40.7	35.9	13%
Net income	**33.5**	**29.5**	**14%**
ROE	13.4%	13.3%	8 bp
CIR	61.7%	59.7%	205 bp
CET-1 ratio (fully loaded)	14.3%*	14.1%	0.2 pp
Deposit to loan ratio	116.2%	104.3%	11.9 pp
Gross loan portfolio growth (q-o-q)	3.0%	-0.8%	3.8 pp
Customer deposits growth (q-o-q)	2.8%	0.6%	2.2 pp

Source: Company data. Note: *Updated for the recognition of Q124 profits based on the regulatory approval obtained on 6 May.

PCB's loan book increased by 3.0% in Q124 and management highlighted good contribution from all segments, with most of the increase coming from SMEs (as investment appetite is picking up, especially in Western Balkans), but growth was also assisted by micro (12.8% sequential growth) and private clients (6.7%). The solid momentum was despite some further reduction in the loan book in Ukraine (by €42m or 8.4% vs end-2023) due to higher-than-expected repayments and early repayments (loan book growth excluding Ukraine was 4.0% in Q124). The Ukrainian loan book now accounts for 7% of PCB's total loan portfolio (down from c 13% at end-2021).

PCB continues to attract significant deposit volumes, which grew by 2.8% (or by €200m) in Q124, with private client deposits accounting for 80% of growth (and increasing by more than 5%). As a result, PCB's deposit-to-loan ratio stood at 116.2% at end-March 2024, up by 11.9pp y-o-y (slightly down from 116.5% at end-December 2023). The year-on-year deposit growth allowed PCB to reduce non-customer funds by €185m, supporting its NIM.

As a result, PCB's operating income grew by 14.3% y-o-y to €107.2m in Q124. PCB's cost-income ratio stood at 61.7% in Q124 vs 59.7% in Q123, as personnel and administrative expenses (most notably IT, marketing and infrastructure expenses) grew by €10.2m (or 18%) y-o-y to support PCB's updated strategy (see our recent outlook note for details). It is worth highlighting that the average salary across the group increased by only 3% y-o-y in Q124 (vs 8% y-o-y in 2023), despite the 14% y-o-y increase in headcount.

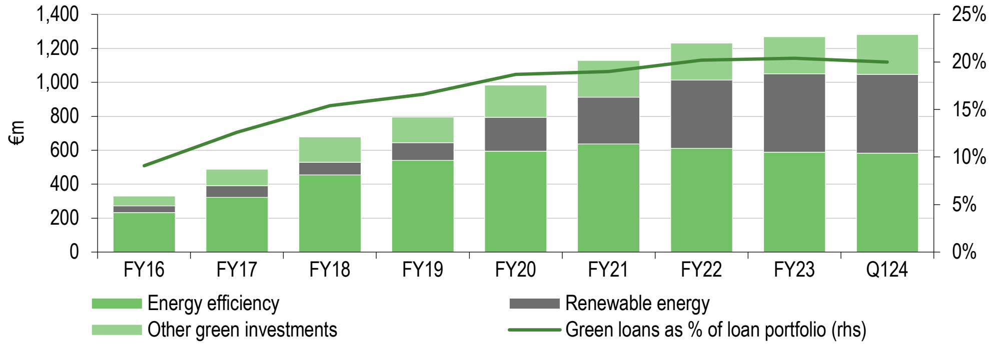
The company's profitability was further assisted by a very low cost of risk of €0.3m in Q124 (or 2bp annualised), as €1.4m of provisions for credit risk (which accounts for the growth in PCB's loan book in the quarter) and €2.2m of management overlays booked for Ukraine was largely offset by recoveries of written off loans (€3.3m). We note that PCB maintained a high level of management overlays at €64.4m as at end-March 2024, of which €25.5m were attributable to Ukraine. The share of stage three loans declined slightly to 2.6% at end-March 2024 from 2.7% at end-December 2023 (3.2% at end-March 2023).

PCB's fully loaded CET-1 ratio stood at 14.3%, while its TCR was 15.7% at end-March 2024. As discussed above, this was further supported by the green tier-2 bond issue, which added 2pp to the TCR. Here, we note that c €30m of PCB's €139m subordinated debt outstanding at end-2023 was classified as short term (ie with a maturity of up to 12 months) and PCB's management will decide on its refinancing on a case-by-case basis.

Making steady progress on its ESG agenda

PCB's green loan portfolio reached almost €1.3bn (c 20% of total loan book) at end-March 2024, increasing by 1.0% sequentially after growing at an FY18–23 CAGR of 13% (see Exhibit 2). The renewable energy projects financed by PCB translated into a 191.9k tonne reduction of carbon dioxide emissions in 2023. Management targets a green loan book of at least 25% of total loan portfolio in the medium term. PCB also measures its ESG impact through the number of business clients and the number of jobs supported through its business loan clients, which in 2023 stood at 72,477 and 193,344, respectively. The latter includes 42% and 7% of female and youth employment, respectively.

Exhibit 2: Evolution of PCB's green loan book



Source: Company data

PCB recently highlighted that its near-term targets were validated by the Science Based Targets initiative as science-based in accordance with the Paris Climate Agreement. PCB committed to reducing the group's absolute Scope 1 and Scope 2 greenhouse gas emissions by 42% by 2030 compared to 2022. It plans to achieve this mainly through increasing the share of renewable energy providers among its suppliers (we also note it recently commissioned its own 3 MW photovoltaic park in Kosovo), as well as increasing the electric cars fleet (electric and hybrid plug-in cars made up 61% of its fleet at end-2023) and introducing energy efficiency measures at its premises and in its processes. It reduced group energy consumption and indoor water consumption per employee by 7.4% and 7.8% in 2023, respectively, and six of its premises are certified by EDGE. The company also noted that its validated Scope 3 Portfolio Targets cover 57% of its overall investment and lending by total assets as of 2022 (Scope 3 emissions represent over 95% of its total emissions). PCB's Scope 3 target is to engage with SMEs responsible for 28% of the group's portfolio emissions (with an emphasis on agriculture and manufacturing sectors) to encourage them to set their own science-based targets by 2027.

PCB's social performance is also measured by its employee diversity (54% of female representation in the middle management in 2023, up from 48% in 2022), as well as hours of training per employee (114 in 2023 vs 139 in 2022) and annual investment in employee training

(€9.4m in 2023 vs €7.4m in 2022). We also note the low turnover rate at group level of 8% in 2023 (down from 11% in 2022).

Exhibit 3: Financial summary

Year ending 31 December, €000s	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Income statement										
Net interest income	194,533	201,561	222,021	264,634	337,224	365,945	391,639	432,587	477,867	529,361
Net fee and commission income	51,972	47,380	50,855	54,731	57,525	60,300	65,164	69,472	74,165	79,279
Operating income	249,275	252,114	281,881	339,848	412,506	442,896	475,119	522,401	574,626	633,688
Operating expenses	175,737	171,430	180,859	217,428	246,979	281,034	312,782	335,939	358,942	377,394
Loss allowances	(3,327)	28,600	6,490	104,573	15,513	25,889	23,798	26,497	29,765	33,102
PBT	**76,865**	**52,084**	**94,532**	**17,847**	**150,015**	**135,973**	**138,538**	**159,965**	**185,918**	**223,191**
Net profit after tax	**54,304**	**41,395**	**79,641**	**16,497**	**113,372**	**114,156**	**116,210**	**134,641**	**156,584**	**188,328**
Reported EPS (€)	**0.89**	**0.70**	**1.35**	**0.28**	**1.92**	**1.94**	**1.97**	**2.29**	**2.66**	**3.20**
DPS (€)	0.00	0.53	0.00	0.00	0.64	0.65	0.66	0.76	0.89	1.07
Balance sheet										
Cash and balances at central banks	1,081,723	1,405,349	1,545,523	1,939,681	2,347,617	2,668,376	2,821,521	3,123,343	3,529,375	3,970,793
Loans and advances to banks	320,737	236,519	252,649	280,453	372,141	372,141	372,141	372,141	372,141	372,141
Investment securities	378,281	336,476	410,400	480,168	750,542	750,542	750,542	750,542	750,542	750,542
Loans and advances to customers	4,690,961	5,131,582	5,792,966	5,892,796	6,029,715	6,643,442	7,385,232	8,243,839	9,189,951	10,246,999
Property, plant and equipment and investment properties	138,407	140,744	137,536	133,703	137,423	137,423	137,423	137,423	137,423	137,423
Intangible assets	20,345	19,316	18,411	17,993	22,732	22,732	22,732	22,732	22,732	22,732
Other assets	67,106	59,315	58,416	81,330	88,798	93,444	88,798	93,444	88,798	93,444
Total assets	**6,697,560**	**7,329,301**	**8,215,901**	**8,826,124**	**9,748,968**	**10,688,100**	**11,578,389**	**12,743,464**	**14,090,962**	**15,594,074**
Liabilities to banks	1,079,271	1,235,763	1,313,666	1,318,647	1,127,680	1,048,742	1,111,667	1,067,200	1,045,856	993,563
Liabilities to customers	4,333,436	4,898,897	5,542,251	6,289,511	7,254,236	8,070,940	8,820,147	9,933,784	11,190,923	12,610,193
Debt securities	343,727	266,858	353,221	191,988	147,088	147,088	147,088	147,088	147,088	147,088
Subordinated debt	87,198	84,974	87,390	93,597	139,269	264,269	264,269	264,269	264,269	264,269
Other liabilities	50,436	63,080	63,059	62,946	96,906	96,906	96,906	96,906	96,906	96,906
Total liabilities	**5,894,068**	**6,549,573**	**7,359,587**	**7,956,689**	**8,765,179**	**9,627,946**	**10,440,077**	**11,509,247**	**12,745,042**	**14,112,020**
Total shareholders' equity	**803,492**	**779,728**	**856,314**	**869,435**	**983,789**	**1,060,154**	**1,138,312**	**1,234,216**	**1,345,920**	**1,482,054**
BVPS	13.5	13.2	14.5	14.8	16.7	18.0	19.3	21.0	22.9	25.2
TNAV per share	13.1	12.9	14.2	14.5	16.3	17.6	18.9	20.6	22.5	24.8
Ratios										
NIM	3.10%	2.90%	2.90%	3.11%	3.63%	3.58%	3.52%	3.56%	3.56%	3.57%
Costs/Income	70.5%	68.0%	64.2%	64.0%	59.9%	63.5%	65.8%	64.3%	62.5%	59.6%
ROE	6.9%	5.3%	9.7%	1.9%	12.2%	11.2%	10.6%	11.3%	12.1%	13.3%
CET1 Ratio	14.1%	13.3%	14.1%	13.5%	14.3%	14.3%	14.4%	14.5%	14.5%	14.8%
Tier 1 ratio	14.1%	13.3%	14.1%	13.5%	14.3%	14.3%	14.4%	14.5%	14.5%	14.8%
Capital adequacy ratio	15.7%	14.7%	15.3%	14.3%	15.8%	17.6%	17.5%	17.3%	17.1%	17.1%
Payout ratio (%)	33.3%*	33.3%*	0.0%**	0.0%**	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Customer loans/total assets	71.6%	71.7%	72.1%	69.1%	63.9%	64.1%	65.5%	66.3%	66.8%	67.2%
Deposits/loans	90.3%	93.2%	93.5%	103.0%	116.5%	117.9%	116.3%	117.6%	119.0%	120.4%

Source: PCB data, Edison Investment Research. Note: *In 2021, PCB distributed one-third of the accumulated profits from 2019 and 2020. **In light of the war in Ukraine and the risk of a broader escalation of the conflict, which could have adversely affected PCB's business in the entire region, no dividends were paid in 2022 and 2023, contrary to PCB's dividend policy of distributing one-third of consolidated profits.

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