ProCredit Holding

Q224 results

Executing its updated strategy

Banks

ProCredit Holding (PCB) recorded strong sequential loan book growth of 3.8% in Q224 (and 6.9% in H124), a run-rate ahead of management's FY24 guidance of 10% (excluding FX). This was achieved at a stable year-on-year net interest margin of 3.6%, translating into a 12.8% y-o-y increase in net interest income to €90.5m in Q224. The execution of the company's updated strategy resulted in a 27.4% y-o-y increase in personnel and administrative expenses, leading to a cost-to-income ratio (CIR) of 66.3% (Q223: 59.7%). Moreover, PCB booked €5.4m in loss allowances (vs a net €1.3m release in Q223), which still represents a limited annualised cost of risk of 33bp (in line with PCB's FY24 guidance of up to 40bp). As a result, net income declined 30.5% y-o-y in Q224, with a return on equity (RoE) of 9.5% (H124: 11.6%), compared to management's FY24 guidance of 10–12%.

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	0.58	30.4	1.9	N/A
12/23	337.2	1.92	0.64	0.51	4.4	12.2	7.5
12/24e	365.3	1.85	0.62	0.48	4.6	10.7	7.3
12/25e	386.6	1.92	0.64	0.44	4.4	10.4	7.5

Note: *EPS as reported by the company.

Improving the granularity of the client base

PCB displayed good early traction, with respect to increasing its loan book and deposit base diversification. Its micro, small and private clients accounted for 60% of loan book growth in H124. Average loan book growth across PCB's subscale banks was c 12% in H124, supporting PCB's efforts to drive scaling effects at these banks. Moreover, 90% of the deposit growth in H124 came from private clients. Although the sequential deposit growth at 1.3% in Q224 and 4.1% in H124 was below the new lending momentum, it resulted in a 16.9% y-o-y increase and is above PCB's assumptions as it usually posts stronger growth in H2.

FY24 guidance unchanged

PCB's management reiterated the above-mentioned FY24 guidance for loan book growth and CIR, though management highlighted that it will closely watch both metrics as they were at higher levels in H124 than originally anticipated. Management confirmed its 10–12% ROE guidance for FY24 (assuming cost of risk of up to 40bp) and a common equity tier 1 (CET1) ratio of more than 13%, which, at end-June 2024, was comfortably in line at 14.3%. PCB also confirmed its c 9% leverage ratio expectations and the payout of a third of its profits in dividends.

Valuation: Fair value estimate implies c 80% upside

Despite a slight reduction in our net income forecasts for FY24 and FY25, we have raised our fair value estimate for PCB to €15.25/share (compared to €14.30 previously) as we now use a blend of FY23 and FY24e peer multiples to value PCB (vs FY23 multiples previously). We retain our sustainable return on tangible equity (RoTE) assumption of 11%. Incorporating PCB's targeted 13–14% profitability (see our April outlook note for details) would bring our valuation to €17.55–18.70/share.

20 August 2024

Price	**€8.50**
Market cap	**€501m**
Total assets (€bn) at end-June 2024	10.1
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	(3.0)	(14.0)	19.0
Rel (local)	(4.3)	(12.6)	0.6
52-week high/low		€10.0	€6.4

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

Hamburger Investorentage	22 August 2024
Q324 results	14 November 2024

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RoE lower due to higher opex, cost of risk and taxes

PCB reported a Q224 net income of €24.1m (implying an annualised RoE of 9.5%), down 30.5% y-o-y, as the 14.8% y-o-y increase in operating income was more than offset by: higher loss allowances; a higher effective tax rate; and a 27.4% y-o-y rise in personnel and administrative expenses (driven by PCB's strategic initiatives outlines in March's strategy update). However, we note that, coupled with a strong Q124 (see our previous note for details), this translated into an H124 net income of €57.6m (down 10.1% y-o-y) and annualised RoE of 11.6%, which is closer to the upper end of management's FY24 guidance of 10–12%. Both the Southeastern European (SEE) and Eastern European (EE) segments contributed strongly in H124, with annualised RoEs of 16.4% and 17.7%, respectively (with the local bank in Ukraine at 22.6%), while Ecuador posted a net loss of €4.6m (implying an annualised RoE of -19.6%).

PCB group's operating income was supported by the 12.8% y-o-y increase in net interest income, following the healthy growth of PCB's loan book of 3.8% in Q224. This resulted in a 6.9% increase in H124 (or 6.7% at constant currency), which is a run-rate ahead of management's reiterated FY24 guidance of 10% at constant currency. These positive volume effects were accompanied by a continued net positive asset/liability repricing effect. Consequently, PCB's net interest margin (NIM) remained broadly stable year-on-year at 3.6% in Q224, in line with management's expectations. It was down 4bp versus Q124, which includes an 8bp negative impact from interest on the recently issued €125m green tier-2 bond. As discussed in our last outlook note, PCB aims to support margins (and offset the impact of the expected decline in base rates) through a more granular deposit base and loan book resulting from the targeted significant medium-term increase in the number of micro, small and medium-sized enterprises and private individual clients of 50% and 150%, respectively.

Net commission and fee income rose slightly by 2.5% y-o-y to €15.3m, while income from FX transactions increased significantly by 16.1% to €7.5m in Q224. PCB's capital base remains sound, with a CET1 ratio of 14.3% and a total capital ratio of 17.7%, the latter being recently strengthened by the above-mentioned green bond issue. Both capital ratios are well above the regulatory requirements of 9.3% and 14.3%, respectively.

Exhibit 1: Q224 results highlights

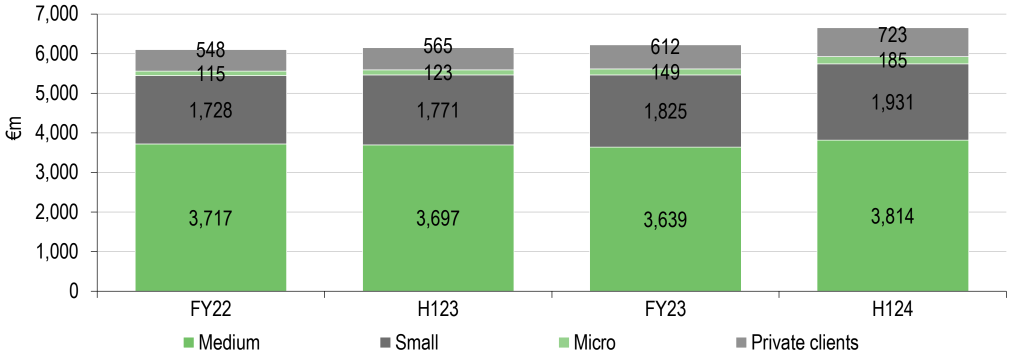
€m, unless otherwise stated	Q224	Q223	y-o-y change	H124	H123	y-o-y change
Net interest income	90.5	80.2	12.8%	180.6	155.7	16.0%
Net interest margin (annualised)	3.6%	3.6%	0bp	3.6%	3.5%	10bp
Expenses for loss allowances	5.4	(1.3)	N/A	5.7	0.5	N/A
Cost of risk (annualised, bp)	33	(9)	N/A	18	2	16bp
Net fee and commission income	15.3	14.9	2.5%	29.3	28.9	1.6%
Pre-tax profit	32.5	40.8	(20.4)%	73.2	76.7	(5)%
Net income	**24.1**	**34.6**	**(30.5)%**	**57.6**	**64.1**	**(10)%**
RoE	9.5%	15.0%	(550)bp	11.6%	14.2%	(258)bp
CIR	66.3%	59.7%	660bp	64.1%	59.7%	436bp
CET1 ratio (fully loaded)	14.3%	14.2%	0.2pp	14.3%	14.2%	0.2pp
Deposit-to-loan ratio	113.4%	104.9%	8.5pp	113.4%	104.9%	8.5pp
Gross loan portfolio growth (q-o-q)	3.8%	1.6%	2.2pp	6.9%	0.8%	6.1pp
Customer deposits growth (q-o-q)	1.3%	2.1%	(0.8)pp	4.1%	2.7%	1.4pp

Source: ProCredit Holding data

Loan book growth aligned with strategic objectives

Around 60% of PCB's loan book growth in H124 came from lower-volume segments (micro, small and private clients, see Exhibit 2), which is in line with PCB's strategy to put greater emphasis on these client segments, which are higher margin, more capital efficient and offer greater scope for growth (see our outlook note for details).

Exhibit 2: PCB's loan book evolution by client segment



Source: ProCredit Holding data

PCB's green loan book grew at a slower pace than the rest of PCB's loan portfolio at 3.3% in H124 to €1.3bn and made up of c 20% of the total loan book at end-June 2024. Management believes that one of the reasons for the slower growth is that, in some of its markets, PCB has provided a high volume of loans to finance rooftop photovoltaic panels in recent years, which saturated these markets (resulting in a lower number of loan applications currently). Moreover, PCB introduced stricter criteria for energy efficiency loans. Finally, no loans to private individuals are classified as green due to lack of local green certifications. That said, PCB's management is confident that the company is well-positioned to further expand lending for small renewable projects (with a capacity of 3–5MW) and it sees a stronger pipeline for these projects building up. Therefore, it is optimistic about PCB's prospective green lending growth.

Regionally, PCB's SEE and EE portfolio grew by 3.9% and 5.3% in Q224, respectively (8.1% and 4.6% in H124, respectively, the latter despite a 3.5% reduction in Ukraine). Notably, average loan book growth across PCB's smaller banks (Georgia, Romania, Bosnia, Albania and Moldova) was c 12% in H124, with all growing at 10% or more, except for Romania (7% growth). This is important in the context of PCB's efforts to drive scaling effects at these banks, which PCB's management considers subscale at present. PCB's Ecuadorian loan portfolio remained stable in Q224 (and increased slightly by 1.7% in H124), which reflects its ongoing efforts to rotate its loan portfolio from small and medium-sized enterprises (which are subject to lending rate caps that make this business unprofitable) to micro and private clients (for which lending caps are higher). These activities resulted in an increase of the weighted average interest rate on its local loan book by 1pp year-on-year. That said, the bank continues to face significant headwinds from deteriorating macroeconomic and security conditions in Ecuador.

PCB booked €5.4m loss allowances in Q224 (representing an annualised cost of risk of 33bp, with €3.3m in Ukraine), bringing the H124 figure to €5.7m (18bp). This is ahead of the very limited provisioning in H123 of €0.5m (2bp) but remains moderate and well within management's FY24 guidance of up to 40bp. PCB's management highlighted the continued high stock of management overlays of €66.0m at end-June 2024, of which €25.8m was in Ukraine (mostly booked in 2022). Stage 3 loans at group level stood at 2.5% at end-June 2024 (0.2pp down vs end-2023), including PCB's Ukrainian portfolio at 5.9% (with an 83% stage 3 coverage ratio in Ukraine). The Ukrainian bank remains well-capitalised, with a local capital buffer in excess of 5pp and a deposit-to-loan ratio of 156% at end-June 2024. In the context of Ukraine's ongoing sovereign debt restructuring negotiation and the recently signed law allowing the government to suspend foreign debt payments until 1 October, we note that PCB does not hold any Ukrainian foreign currency sovereign debt on its balance sheet.

Deposit growth over the last 12 months supports margins

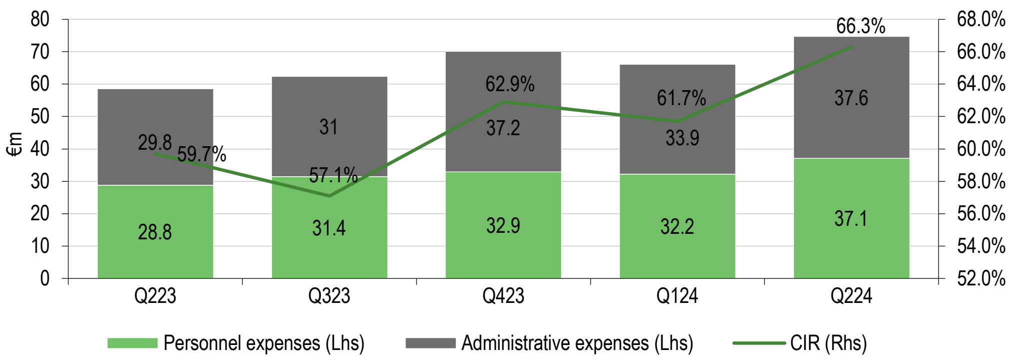
PCB continues to put an emphasis on expanding its customer deposit base, which grew 16.9% y-o-y to end-June 2024, enabling a €100m year-on-year reduction in expensive non-customer liabilities. As a result, PCB's deposit-to-loan ratio increased by 8.5pp y-o-y to 113.4%. Growth in H124 reached 4.1% versus end-2023 (with 1.3% growth in Q224 alone) and was primarily driven by the 8.6% growth from private clients (which accounted for 90% of the H124 deposit growth), supporting PCB's efforts to increase the diversification of deposits. The number of clients rose by 5.0% in H124, with private clients up by 5.5%. Although the deposit-to-loan ratio declined versus the 116.5% at end-2023 (as loan growth outpaced deposit growth in SEE), PCB's management underlined that deposit growth tends to be stronger in the second half of the year and that it remains confident in its ability to increase the ratio going forward (it targets 120% in all its entities in the medium term). Moreover, it highlighted that recent growth in deposits was ahead of its expectations.

Operating expenses rise to drive updated strategic agenda

The 28.7% y-o-y growth in personnel expenses to €37.1m in Q224 came from a combination of a c 600 (or 14%) year-on-year increase in average headcount and salary hikes (which in H124 amounted to 8% y-o-y on average), reflecting an inflationary catch-up but also high competition for skilled employees in the local markets. That said, PCB's management highlighted that the company is ahead of its original plan in terms of hiring pace and it remains confident in the quality of the new staff, supported by PCB's extensive employee training programme. PCB targets a total headcount increase of 25% within its revised strategy.

Administrative expenses increased by 26.2% y-o-y to €37.6m, on the back of a 15% increase in expenses for internal IT development (related to its subsidiary Quipu), as well as higher expenses for marketing and branches. As a result, PCB's CIR reached 66.3% in Q224 (vs 59.5% adjusted for one-offs in Q223) and 64.1% in H124 (vs 60.8% adjusted CIR in H123), which is slightly higher than PCB's management had originally expected. The company reiterated its FY24 guidance of 63% (with a possible deviation to the upside or downside by up to 1pp), although it highlighted that it will closely watch the development of operating expenses throughout the rest of the year. H124 operating expenses do not include any major one-off factors, though they reflect the usual seasonal impact of the Bulgarian annual deposit insurance in Q224.

Exhibit 3: PCB's operating expenses and CIR



Source: ProCredit Holding data

Forecast and valuation revisions

We have slightly reduced our net income forecasts for FY24 and FY25 by 4.5% and 2.7% respectively, mostly due to higher CIR assumptions of 65.0% and 67.1% in FY24e and FY25e, respectively (vs 63.5% and 65.8% previously). Consequently, we now assume RoEs of 10.7% in FY24e (broadly in line with management guidance) and 10.4% in FY25e. Our forecasts for FY26 and beyond remain largely unchanged, as we still consider management's medium-term objectives as achievable.

Despite the moderate near-term forecast reduction, we have raised our fair value estimate for PCB's shares by 6.6% to €15.25 on the back of higher peer multiples as we now use a blend of FY23 and FY24e multiples for the first time (with the latter being higher than the FY23 actuals, see Exhibits 6 and 7). While the r-squared for our regression analysis based on FY24e RoE and P/BV multiples is below that based on FY23 figures, we still believe it is justified to use the FY24e figures as we are now well into 2024.

Exhibit 4: Forecast revisions

	2023	2024e				2025e			
€m, unless otherwise stated	**Actual**	**Old**	**New**	**Change**	**Growth y-o-y**	**Old**	**New**	**Change**	**Growth y-o-y**
Net interest income	337.2	365.9	365.3	*-0.2%*	*8.3%*	391.6	386.6	*-1.3%*	*5.8%*
Net interest margin (%, annualised)	3.6%	3.6%	3.6%	*0 pp*	*-1.0%*	3.5%	3.5%	*0 pp*	*-0.1 pp*
Expenses for loss allowances	15.5	25.9	25.4	*-1.8%*	*63.8%*	23.8	20.9	*-12.1%*	*-17.7%*
Cost of risk (annualised in bp)	25	40	39	*-1 bp*	*53.4%*	33	29	*-4 bp*	*-10 bp*
Net fee and commission income	57.5	60.3	60.2	*-0.2%*	*4.6%*	65.2	65.0	*-0.3%*	*8.1%*
Operating expenses	247.0	281.0	288.8	*2.8%*	*16.9%*	312.8	317.0	*1.4%*	*9.8%*
Pre-tax profit	150.0	136.0	129.8	*-4.5%*	*-13.4%*	138.5	134.4	*-3.0%*	*3.5%*
Net income	**113.4**	**114.2**	**109.0**	***-4.5%***	***-3.8%***	**116.2**	**113.1**	***-2.7%***	***3.8%***
ROE	**12.2%**	**11.2%**	**10.7%**	***-0.5 pp***	***-1.5 pp***	**10.6%**	**10.4%**	***-0.2 pp***	***-0.3 pp***
CET1 ratio (%)	14.3%	14.3%	14.3%	*0 pp*	*0 pp*	14.4%	14.6%	*0.1 pp*	*0.3 pp*
Total capital ratio (%)	15.8%	17.6%	17.6%	*0.1 pp*	*1.8 pp*	17.5%	17.7%	*0.2 pp*	*0.1 pp*
CIR (%)	59.9%	63.5%	65.0%	*1.6 pp*	*5.2 pp*	65.8%	67.1%	*1.3 pp*	*2.1 pp*
Gross loan portfolio	6,226.5	6,846.7	6,938.8	*1.3%*	*11.4%*	7,587.0	7,682.7	*1.3%*	*10.7%*
Net loan portfolio	6,029.7	6,643.4	6,734.2	*1.4%*	*11.7%*	7,385.2	7,483.2	*1.3%*	*11.1%*
Customer deposits	7,254.2	8,070.9	7,969.1	*-1.3%*	*9.9%*	8,820.1	8,594.0	*-2.6%*	*7.8%*

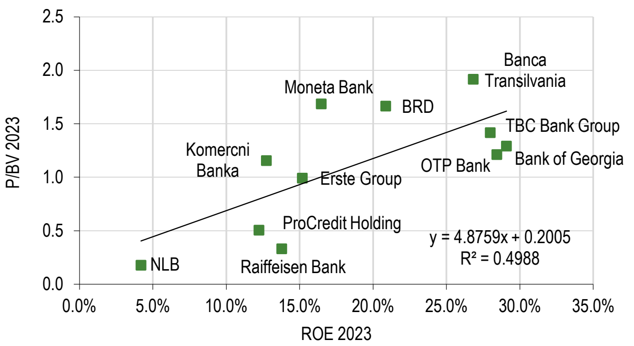
Source: ProCredit Holding data, Edison Investment Research

Exhibit 5: PCB's P/BV-ROE valuation

€'000s unless otherwise stated	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Shareholder's equity	983,789	1,050,851	1,127,625	1,223,228	1,335,798	1,472,679
Intangibles	22,732	22,732	22,732	22,732	22,732	22,732
Tangible equity	**961,057**	**1,028,119**	**1,104,893**	**1,200,496**	**1,313,066**	**1,449,947**
Net attributable profit	**113,372**	**109,026**	**113,116**	**133,308**	**157,006**	**189,217**
RoTE	***12.5%***	***11.0%***	***10.6%***	***11.6%***	***12.5%***	***13.7%***
Tangible equity per share (€)	**16.3**	**17.5**	**18.8**	**20.4**	**22.3**	**24.6**
Tangible equity per share (FY24e, €)	17.5					
Sustainable RoTE	11.0%					
Growth rate	2.0%					
Cost of equity	11.0%					
Fair value multiple – CAPM model	1.00x					
Fair value multiple – regression multiple*	0.82x					
Fair value multiple – simple average	**0.91x**					
Fair value per share (€)	**15.25**					
Current share price (€)	8.50					
Potential upside/downside	*79%*					

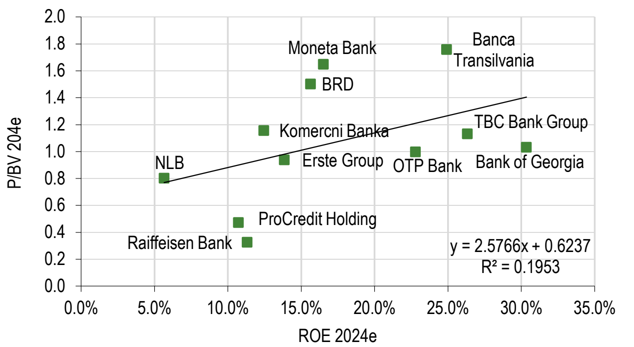
Source: ProCredit Holding data, Edison Investment Research. Note: *Average of FY23 and FY24e multiples based on LSEG Data & Analytics consensus for peers as at 16 August 2024.

Exhibit 6: P/BV versus ROE – PCB's peers (2023)



Source: LSEG Data & Analytics as at 16 August 2024, Edison Investment Research

Exhibit 7: P/BV versus ROE – PCB's peers (2024e)



Source: LSEG Data & Analytics consensus as at 16 August 2024, Edison Investment Research

Exhibit 8: Financial summary

Year ending 31 December, €000s	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
Income statement								
Net interest income	222,021	264,634	337,224	365,294	386,612	430,646	478,044	529,513
Net fee and commission income	50,855	54,731	57,525	60,153	64,999	69,292	73,968	79,062
Operating income	281,881	339,848	412,506	444,084	472,362	523,000	577,616	636,935
Operating expenses	180,859	217,428	246,979	288,833	317,025	339,160	361,888	380,473
Loss allowances	6,490	104,573	15,513	25,412	20,920	26,043	30,119	32,994
PBT	**94,532**	**17,847**	**150,015**	**129,840**	**134,417**	**157,796**	**185,609**	**223,468**
Net profit after tax	**79,641**	**16,497**	**113,372**	**109,026**	**113,116**	**133,308**	**157,006**	**189,217**
Reported EPS (€)	**1.35**	**0.28**	**1.92**	**1.85**	**1.92**	**2.26**	**2.67**	**3.21**
DPS (€)	0.00	0.00	0.64	0.62	0.64	0.75	0.89	1.07
Balance sheet								
Cash and balances at central banks	1,545,523	1,939,681	2,347,617	2,466,444	2,486,724	2,753,911	3,126,650	3,530,390
Loans and advances to banks	252,649	280,453	372,141	372,141	372,141	372,141	372,141	372,141
Investment securities	410,400	480,168	750,542	750,542	750,542	750,542	750,542	750,542
Loans and advances to customers	5,792,966	5,892,796	6,029,715	6,734,245	7,483,211	8,353,716	9,309,476	10,378,194
Property, plant and equipment and investment properties	137,536	133,703	137,423	137,423	137,423	137,423	137,423	137,423
Intangible assets	18,411	17,993	22,732	22,732	22,732	22,732	22,732	22,732
Other assets	58,416	81,330	88,798	93,444	88,798	93,444	88,798	93,444
Total assets	**8,215,901**	**8,826,124**	**9,748,968**	**10,576,971**	**11,341,571**	**12,483,909**	**13,807,763**	**15,284,866**
Liabilities to banks	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	5,542,251	6,289,511	7,254,236	7,969,115	8,594,016	9,685,218	10,917,845	12,310,360
Debt securities	353,221	191,988	147,088	147,088	147,088	147,088	147,088	147,088
Subordinated debt	87,390	93,597	139,269	264,269	264,269	264,269	264,269	264,269
Other liabilities	63,059	62,946	96,906	96,906	96,906	96,906	96,906	96,906
Total liabilities	**7,359,587**	**7,956,689**	**8,765,179**	**9,526,120**	**10,213,946**	**11,260,681**	**12,471,965**	**13,812,187**
Total shareholders' equity	**856,314**	**869,435**	**983,789**	**1,050,851**	**1,127,625**	**1,223,228**	**1,335,798**	**1,472,679**
BVPS	14.5	14.8	16.7	17.8	19.1	20.8	22.7	25.0
TNAV per share	14.2	14.5	16.3	17.5	18.8	20.4	22.3	24.6
Ratios								
NIM	2.90%	3.11%	3.63%	3.59%	3.53%	3.62%	3.64%	3.64%
Costs/Income	64.2%	64.0%	59.9%	65.0%	67.1%	64.8%	62.7%	59.7%
ROE	9.7%	1.9%	12.2%	10.7%	10.4%	11.3%	12.3%	13.5%
CET1 ratio	14.1%	13.5%	14.3%	14.3%	14.6%	14.6%	14.6%	14.9%
Tier 1 ratio	14.1%	13.5%	14.3%	14.3%	14.6%	14.6%	14.6%	14.9%
Capital adequacy ratio	15.3%	14.3%	15.8%	17.6%	17.7%	17.5%	17.3%	17.3%
Payout ratio (%)	0.0%*	0.0%*	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Customer loans/total assets	72.1%	69.1%	63.9%	65.6%	67.7%	68.5%	69.0%	69.4%
Deposits/loans	93.5%	103.0%	116.5%	114.8%	111.9%	113.2%	114.6%	116.0%

Source: PCB data, Edison Investment Research. Note: *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.