

ProCredit Holding

Impact of war in Ukraine

In light of the recent developments in Ukraine, we have temporarily suspended our forecasts and fair value estimate for ProCredit Holding (PCB) until further notice. The conflict is likely to have a significant impact on PCB's operations in Ukraine (gross loan book of €732m or c 13% of the total loan portfolio at 30 September 2021). Potential effects are likely to include 1) a spike in default rates (although this could be mitigated by credit moratoria), 2) a decline in interest and fee income, 3) a collapse in lending volumes, and 4) a negative FX impact from the depreciating Ukrainian Hryvnia (although we note that PCB normally matches the foreign currency exposure of its assets and liabilities). The local banking system is now operating under Ukraine's [martial law](#) (introduced on 24 February), which should help to mitigate the short-term impact. We note that PCB has no exposure to Russia and thus the sanctions imposed on Russia will have no meaningful impact on PCB's business.

Year end	Net interest income (€m)	EPS* (€)	DPS (€)	P/BV (x)	P/E (x)	ROE (%)	Yield (%)
12/19	194.5	0.89	0.00	0.3	5.2	6.9	N/A
12/20	201.6	0.70	0.53	0.3	6.6	5.3	11.4

Note: ProCredit Holding. Note: *From total operations.

No new capital needed even in a worst-case scenario

We calculate that PCB Ukraine had total equity of c €123m at 30 September 2021. This compares with the group's CET-1 capital and total regulatory capital at 30 September 2021 of c €772m and c €840.6m respectively. Moreover, based on our conversation with the management, we understand that the risk weighted assets (RWA) of PCB Ukraine are around €850m (vs total group at c €5.6bn at end-September 2021). Consequently, we estimate that even in a hypothetical worst-case scenario of a defaulting PCB Ukraine, the capital ratios of PCB group would change only marginally (as the decline in regulatory capital would be offset by declining RWA) and remain well ahead of its regulatory requirements. The group's CET-1 ratio and capital adequacy ratio was 13.8% and 15.0% at end-September 2021, respectively, versus the regulatory requirement of 8.2% and 12.6%, respectively.

Potential write-down of PCB Ukraine already priced in

For illustrative purposes, we estimate that even a complete write-down of the equity in PCB Ukraine would reduce our previous FY21 forecast of PCB's tangible book value from €14.2 per share to €12.7. While this is a considerable decline, we note that PCB's share price is currently well below book value per share at c €4.63 (although this may also discount geopolitical risks around Georgia and Moldova). That said, we note that in 9M21, PCB's Eastern Europe segment (where 57% of the loan book is in Ukraine versus 30% in Georgia and 13% in Moldova) recorded net interest income of €51m (32% of group) and net profit of €28m (vs PCB group at €62m).

Temporary suspension of forecasts

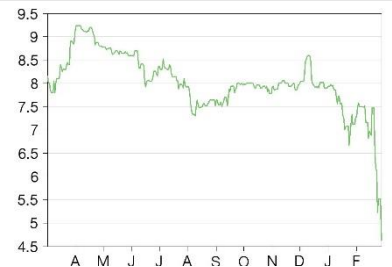
Banks

1 March 2022

Price €4.63
Market cap €273m

Total assets (€bn) at end September 2021	7.9
Shares in issue	58.9m
Free float	35.7%
Code	PCZ
Primary exchange	Frankfurt Prime Standard
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(36.4)	(41.8)	(43.5)
Rel (local)	(32.0)	(39.3)	(46.2)
52-week high/low		€9.26	€4.63

Business description

ProCredit is a Germany-based group operating regional banks across South Eastern and Eastern Europe and Ecuador. The banks focus on SMEs and private middle-income and high earners.

Next events

FY21 results	24 March 2022
Jefferies Pan-European Mid-cap conference	29–30 March 2022

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Ukraine's banking system under martial law

PCB has extensive experience navigating in political and military unrest. For instance, it was one of the last banks to stay open in several countries during the global financial crisis of 2008/09 and the military conflict in Georgia in 2008, according to the company. However, Russia's invasion of Ukraine is hardly comparable with any of the previous conflicts in the region. The Ukrainian banking system is operating under martial law based on a resolution implemented on 24 February 2022. Consequently, Ukraine's central bank (NBU) will grant unlimited and unsecured loans to banks with a maturity of up to one year (and an option to extend to another year). Moreover, among other things, the official Ukrainian Hryvnia exchange rate has been fixed and a moratorium on cross-border payments has been introduced. Experts from the International Monetary Fund view positively all the measures taken by NBU and are in discussions with the NBU on possible support measures, including assistance under the [Rapid Financing Instrument](#).

PCB Ukraine has seven branches, of which three are in Kyiv (currently closed), and five 24/7 self-service branches (which are still open). PCB's successful digitalisation and physical branch reduction strategy (see our June 2020 [initiation note](#) for details), should help it to operate as normally as possible.

Exhibit 1: Financial summary

Year ending December (€000s)	FY18	FY19	FY20
Income Statement			
Net interest income	186,235	194,533	201,561
Net fee and commission income	52,172	51,972	47,380
Loss allowances (-)	(4,714)	(3,327)	28,600
Operating income	245,394	252,603	223,514
Operating expenses	167,866	175,737	171,430
PBT	77,528	76,866	52,085
Net profit after tax	54,479	54,305	41,396
Reported EPS (€)	0.90	0.89	0.70
DPS (€)	0.30	0.00	0.53
Balance sheet			
Cash and balances at Central Banks	963,714	1,081,723	1,405,349
Loans and advances to banks	211,592	320,737	236,519
Investment securities	297,308	378,281	336,476
Loans and advances to customers	4,267,829	4,690,961	5,131,582
Property, plant and equipment and investment properties	130,153	138,407	140,744
Intangible assets	22,191	20,345	19,316
Other assets	73,396	67,106	59,315
Total assets	5,966,184	6,697,560	7,329,301
Liabilities to banks	1,014,182	1,079,271	1,235,763
Liabilities to customers	3,825,938	4,333,436	4,898,897
Debt securities	206,212	343,727	266,858
Subordinated debt	143,140	87,198	84,974
Other liabilities	33,076	50,436	63,080
Total liabilities	5,222,549	5,894,068	6,549,573
Total shareholders' equity	743,634	803,492	779,728
BVPS	12.5	13.5	13.2
TNAV per share	12.1	13.1	12.9
Ratios			
NIM	3.30%	3.10%	2.90%
Costs/income	69.7%	70.5%	68.0%
ROAE	7.6%	6.9%	5.3%
CET1 ratio	14.4%	14.1%	13.3%
Tier 1 ratio	14.4%	14.1%	13.3%
Capital adequacy ratio	17.2%	15.7%	14.7%
Payout ratio (%)	33.3%	0.0%	33.3%
Customer loans/total assets	73.6%	71.6%	71.7%
Loans/deposits	114.8%	110.7%	107.3%

Source: Company data

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