EDISON

ProCredit Holding

Q324 results

Management expects ROE of c 10% in FY24

Banks

ProCredit Holding (PCB) posted a net profit of €27.2m in Q324 (down c 9% y-o-y), which represents an annualised return on equity (ROE) of 10.7% in the quarter. This is well within PCB's previous ROE guidance of 10–12% for FY24, with the year-on-year fall reflecting, primarily, the impact of PCB's investments as part of its updated strategy (see our previous outlook note for details). Management recently revised its FY24 ROE guidance to around 10%, mostly due to the temporary increase in the corporate income tax rate for Ukrainian banks from 25% to 50% in 2024 (which will have a high single-digit million euro negative impact on earnings), continued strong macroeconomic headwinds in Ecuador, as well as faster execution of some of its strategic investments and projects. Nevertheless, we remain confident in PCB's ability to achieve its medium-term goals to grow its loan book to more than €10bn and reach a medium-term ROE of 13–14%.

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	0.53	28.0	1.9	N/A
12/23	337.2	1.92	0.64	0.47	4.1	12.2	8.2
12/24e	360.4	1.74	0.58	0.44	4.5	10.1	7.4
12/25e	383.0	1.86	0.62	0.41	4.2	10.1	7.9

Note: *EPS as reported by the company.

An attractive dividend even amid growth investments

PCB's management now expects a cost-to-income ratio (CIR) of around 66% in FY24 (vs 63% ±1% previously and our last forecast of 65.0%). It is ahead of plan in terms of its strategic investments. For instance, it reached its end-December goal for headcount expansion at end-September. We expect further extensive expenses in FY25, and management indicated that it assumes a CIR peak around Q324–Q125, followed by a flattening out in subsequent quarters and conversion to its 57% CIR target over the medium term. We therefore assume CIRs of 66.0% and 67.7% in FY24e and FY25e, respectively. Still, our updated ROE forecast of 10.1% for both FY24e and FY25e, coupled with PCB's target payout ratio of one-third, implies a healthy prospective dividend yield of c 7.5–8.0% (above the peer average of c 7.0% based on current LSEG consensus). PCB now trades at undemanding FY24e P/BV and P/E ratios of 0.4x and 4.5x, respectively, which becomes even more attractive if we assume a successful path to its medium-term targets.

Valuation: Potential to double in value

We have lowered our earnings forecast for FY24e to reflect the higher corporate tax rate in Ukraine and have made some limited downward revisions for subsequent years (mostly due to the situation in Ecuador). That said, our fair value estimate (based on FY24e tangible book value per share) for PCB's shares increases slightly to €15.70 (vs €15.25 previously) due to discount unwinding, which is double the current share price. For now, we retain our sustainable return on tangible equity (RoTE) assumption of 11%. Incorporating PCB's targeted 13–14% profitability would bring our valuation to €18.10–19.30/share (vs €17.55–18.70/share previously).

22 November 2024

Price	**€7.84**
Market cap	**€462m**
Total assets at end-September 2024	€10.3bn
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

Deutsches Eigenkapitalforum	25 November 2024
FY24 results	27 March 2025

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Edison profile page

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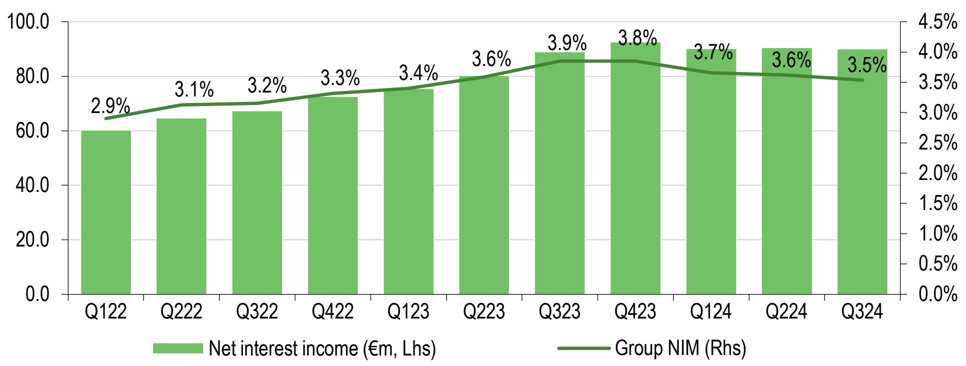
Q324 results shaped by PCB's strategic agenda

PCB delivered sustained strong loan book growth of 9.0% in the first nine months of 2024 (9M24) to €6.8bn (of which 1.9% was in Q324), with more than 60% coming from lower-volume segments (micro, small and private clients), supporting the diversification of its loan portfolio. This was despite the €50m reduction in Ukrainian and Ecuadorian loan books in 9M24. PCB's smaller regional banks grew their loan portfolios by around 15% in 9M24 and continue to outpace group growth, in line with management's strategic objective for these banks to reach critical mass and realise economies of scale.

PCB's net interest income (NII) remained broadly stable in Q324 at c €90.0m compared to last year and the two preceding quarters in 2024, as loan portfolio growth was coupled with a gradual, moderate NIM compression to 3.5% (9M24 NIM was up 4bp y-o-y). The latter stemmed from lower income on cash and cash equivalents (including central bank balances) amid falling base rates, especially in Eastern Europe (primarily Ukraine and Moldova). We calculate that in Southeastern Europe (SEE), NIM remained stable year-on-year at c 3.6%, supporting a 10% y-o-y increase in NII (and 18% in 9M24). In Ecuador, PCB faces continued margin pressure due to regulatory lending rate caps on SME loans, as well as a higher cash position held on the balance sheet amid tight liquidity in the local banking sector. Finally, Q324 NIM at group level reflects the first-time full-quarter recognition of interest expense on PCB's €125m green tier-2 bonds placed in April 2024 (on which it pays a 9.5% coupon, or c €3m per quarter). We note that this temporary pause in NII growth at group level followed a quite dynamic increase since early 2022 (see Exhibit 1).

We also note that PCB's deposit base grew significantly by 3.6% sequentially in Q324 (and 7.8% in 9M24), bringing the deposit-to-loan ratio to 115.3% at end-September 2024 (up from 111.4% at end-September 2023). The higher relation of deposits to loans offset part of the NIM compression as it allowed for a c €150m y-o-y reduction in expensive non-customer funding. Around 60% of the 9M24 deposit growth came from private clients, which supports PCB's objective to improve the granularity of its deposit base.

Exhibit 1: PCB's quarterly NII and NIM evolution



Source: ProCredit Holding data

With net fee and commission income up by a modest 2% y-o-y to €14.7m, PCB's total operating income was also broadly in line with last year (up 1.4% y-o-y to €111.0m). This was coupled with a significant increase in both personnel (up 18.3% y-o-y) and administrative (up 26.6% y-o-y) expenses amid headcount expansion (the average number of staff was up by 13% or by more than 500 employees in 9M24), an average 4% salary increase in 9M24, as well as higher external IT costs, marketing expenses and depreciation to drive PCB's new strategic agenda. As a result, PCB's CIR reached 68.8% in Q324 (65.7% in 9M24) compared to 57.1% in Q323 (58.7% in 9M23).

PCB's bottom line was assisted by the release of €10.4m in management overlays (mostly outside of Ukraine), with a further €51.6m remaining on PCB's books (of which €21.9m was in Ukraine).

Together with €9.6m in recoveries of written-off loans, this offset most of the €24.1m loss allowances in 9M24, which were mostly driven by loan book growth and stage transfers. Consequently, net provisions were at a limited level of €4.1m in 9M24 (representing 8bp of annualised cost of risk), while Q324 alone saw a net release of €1.6m. Encouragingly, the share of credit-impaired loans in PCB's loan book fell to 2.3% at end-September 2024 (from 3.0% at end-September 2023) and is now back to levels seen before the war in Ukraine.

With a higher effective tax rate (24.9% in Q324 vs 22.3% in Q323), PCB's net profit decreased by 9.1% y-o-y to €27.2m in Q324 and represented an annualised ROE of 10.7% (vs 12.5% in Q323) (see Exhibit 2). PCB's CET-1 ratio of 14.1% and total capital ratio (TCR) of 17.3% at end-September 2024 remain well above regulatory requirements of 9.3% and 14.4%, respectively, with the TCR strengthened by the above-mentioned green tier-2 bonds issue. The CET-1 ratio at end-September 2024 does not include PCB's Q324 results (if these were accounted for, the ratio would be 14.4%), though it is adjusted for the one-third dividend accrual from the H124 profit.

Exhibit 2: Q324 results highlights

€m, unless otherwise stated	Q324	Q323	y-o-y change	9M24	9M23	y-o-y change
Net interest income	90.0	89.0	1.1%	270.6	244.7	10.6%
Net interest margin (annualised)	3.5%	3.9%	(32) bp	3.6%	3.6%	4 bp
Expenses for loss allowances	(1.6)	8.5	NM	4.1	9.0	(54.6)%
Cost of risk (annualised, bp)	(10)	55	NM	8	20	-11 bp
Net fee and commission income	14.7	14.4	2.0%	44.0	43.2	1.8%
Pre-tax profit	36.2	38.5	(5.9)%	109.4	115.2	(5.0)%
Net income	**27.2**	**29.9**	**(9.1)%**	**84.8**	**94.0**	**(9.8)%**
RoE	10.7%	12.5%	(178) bp	11.3%	13.6%	(233) bp
CIR	68.8%	57.1%	1180 bp	65.7%	58.7%	693 bp
CET1 ratio (fully loaded)	14.1%	14.9%	(0.8) pp	14.1%	14.9%	(0.8) pp
Deposit-to-loan ratio	115.3%	111.4%	3.8 pp	115.3%	111.4%	3.8 pp
Gross loan portfolio growth (q-o-q)	1.9%	1.1%	0.8 pp	9.0%	1.9%	7.1 pp
Customer deposits growth (q-o-q)	3.6%	7.4%	(3.8) pp	7.8%	10.3%	(2.5) pp

Source: ProCredit Holding data

Ukraine highly profitable, but Ecuador still loss-making

While the frontline and macroeconomic situation in Ukraine remain tense, PCB's local bank (the loan book of which made up 6.9% of PCB's portfolio at end-Q324) has been performing well recently, with a €7.9m net profit in Q324 (€19.2m in 9M24), representing a healthy annualised ROE of 39.5% (33.7%). The Q324 results were supported by a c €2.2m net provision release, coming primarily from organic loan book reduction. The local bank retained a solid balance sheet at end-September 2024, with a deposit-to-loan ratio of 157% and a local capital buffer above 5pp. The share of its credit-impaired loans stood at 4.8% in Q324 (vs 10.5% in Q323), with a stage 3 coverage ratio of 83%.

While PCB's SEE and Eastern European segments grew their profits by c 2% and 19% y-o-y, respectively, in Q324, the results of the Ecuadorian bank weighed on PCB's group results. The difficult macroeconomic and sociopolitical situation persists in Ecuador, further exacerbated by a recent drought that significantly affected the local hydro-power-reliant energy sector. There is no major improvement in sight in the short term, with the International Monetary Fund forecasting GDP growth of 0.3% in 2024 and 1.2% in 2025. This situation, together with the corporate lending caps imposed on local banks, resulted in ProCredit Ecuador posting another quarterly net loss of €3.3m in Q324 (bringing the 9M24 loss to c €8.0m, ie a -23.7% ROE). The bank continues to rotate its lending book into smaller enterprises (for which lending caps are higher), while reducing its overall loan portfolio by €20.3m or c 4.2% year-to-date (the bank still represents c 7% of PCB's loan book). The share of credit-impaired loans increased to 7.9% versus 6.9% at end-2023, and the 9M24 cost of risk reached 79bp (annualised).

ProCredit Bank Ecuador's equity declined to €40.5m at end-September 2024 versus €48.9m at end-2023. In its quarterly report, PCB highlighted that due to covenant breaches by the Ecuadorian bank with respect to return on average assets, the loan loss reserve ratio, the solvency ratio, open assets exposure and tier 1 capital ratio, €18m of liabilities to banks (c 3% of the bank's total assets) were classified as short term, though PCB does not expect early repayment of these liabilities. The corresponding waiver agreements had not been concluded by the time PCB's consolidated Q324 accounts were prepared. That said, the local bank's capital ratios are still more than 2pp above regulatory requirements, according to PCB's management, which also noted that the bank's funding includes a subordinated loan with a long maturity that can be converted to strengthen the bank's equity. PCB's management highlighted during the Q324 earnings call that PCB provided some group funding to its local bank in Ecuador, which, while significantly reduced recently, remains at a mid-two-digit million euro amount. We estimate that PCB's total capital exposure to ProCredit Bank Ecuador is the equivalent of c 10% of our current PCB valuation.

Forecast and valuation revisions

PCB's management recently updated its FY24 guidance and now expects loan book growth of more than 10% (previously around 10% excluding the impact of fx), an ROE of c 10% (vs 10–12% previously, based on up to 40bp cost of risk) and a CIR of 66% (previously 63% ±1%). Management also reiterated its CET-1 guidance of more than 13.0%, and expects a leverage ratio of 9% and a dividend payout ratio of one-third (in line with its dividend policy).

We now expect loan book growth for FY24e of around 11.0% (vs 11.6% previously), with c 11% pa on average thereafter until FY28e. While PCB has seen some moderate NIM pressure in recent quarters, this is well within our expectations, and we maintain our mid-term assumptions of c 3.5–3.6% (broadly in line with management's earlier comments). This is underpinned by PCB's strategic focus on: 1) increasing the diversification of PCB's loan and deposit base through growing the number of clients in the micro, SME (with particular emphasis on loan exposures of €100–750k) and private segments; 2) a shift to higher-margin customer groups (micro and small enterprises); and 3) increasing its deposit-to-loan ratio (we conservatively expect 116.7% at group level by FY28e vs 115.3% at end-September 2024 and management's target of 120%). That said, we acknowledge that recent rate cuts across the SEE region have been moderate so far, and the possibility of strong and fast rate cuts across countries where PCB operates represents a near-term downside risk.

While part of the recent CIR increase was due to bringing some growth investments forward, we conservatively assume FY24e and FY25e CIRs of 66.6% and 67.7%, respectively, followed by a gradual improvement to c 60% by FY28e (somewhat above management's mid-term target of c 57%). We have reduced our FY24e ROE expectation to 10.1%, from 10.7% previously, mostly due to the temporarily higher corporate income tax rate in the Ukrainian banking sector, as discussed above (even if the law raising the tax rate is yet to be signed by the president). Accordingly, we estimate FY24e EPS of €1.74, which at a one-third payout ratio implies a dividend per share of €0.58, and which at the current share price represents an attractive dividend yield of 7.4%. We maintain our mid-term expectations of c 13%+ ROE by FY28e. Importantly, these forecasts already factor in a continued profitability drag from Ecuador (with the bank's potential turnaround providing some upside opportunity).

Exhibit 3: Forecast revisions

€m, unless otherwise stated	2023 Actual	2024e Old	2024e New	2024e Change	2024e Growth y-o-y	2025e Old	2025e New	2025e Change	2025e Growth y-o-y
Net interest income	337.2	365.3	360.4	*(1.3)%*	*6.9%*	386.6	383.0	*(0.9)%*	*6.3%*
Net interest margin (%, annualised)	3.6%	3.6%	3.6%	*0pp*	*(2.1)%*	3.5%	3.5%	*0pp*	*(0.1)pp*
Expenses for loss allowances	15.5	25.4	8.3	*(67.2)%*	*(46.3)%*	20.9	19.0	*(9.0)%*	*128.6%*
Cost of risk (annualised in bp)	25	39	13	*(26)bp*	*(49.6)%*	29	26	*(2)bp*	*13bp*
Net fee and commission income	57.5	60.2	58.6	*(2.6)%*	*1.9%*	65.0	64.8	*(0.3)%*	*10.5%*
Operating expenses	247.0	288.8	292.2	*1.2%*	*18.3%*	317.0	317.3	*0.1%*	*8.6%*
Pre-tax profit	150.0	129.8	137.9	*6.2%*	*(8.1)%*	134.4	132.3	*(1.6)%*	*(4.1)%*
Net income	**113.4**	**109.0**	**102.6**	***(5.9)%***	***(9.5)%***	**113.1**	**109.4**	***(3.3)%***	***6.6%***
ROE	**12.2%**	**10.7%**	**10.1%**	***(0.6)pp***	***(2.1)pp***	**10.4%**	**10.1%**	***(0.3)pp***	***0pp***
CET-1 ratio (%)	14.3%	14.3%	14.3%	*0pp*	*0pp*	14.6%	14.4%	*(0.2)pp*	*0.1pp*
Total capital ratio (%)	15.8%	17.6%	17.4%	*(0.2)pp*	*1.5pp*	17.7%	17.2%	*(0.4)pp*	*(0.1)pp*
CIR (%)	59.9%	65.0%	66.6%	*1.6pp*	*6.8pp*	67.1%	67.7%	*0.6pp*	*1.1pp*
Gross loan portfolio	6,226.5	6,938.8	6,912.0	*(0.4)%*	*11.0%*	7,682.7	7,654.6	*(0.4)%*	*10.7%*
Net loan portfolio	6,029.7	6,734.2	6,717.7	*(0.2)%*	*11.4%*	7,483.2	7,469.9	*(0.2)%*	*11.2%*
Customer deposits	7,254.2	7,969.1	7,989.7	*0.3%*	*10.1%*	8,594.0	8,616.6	*0.3%*	*7.8%*

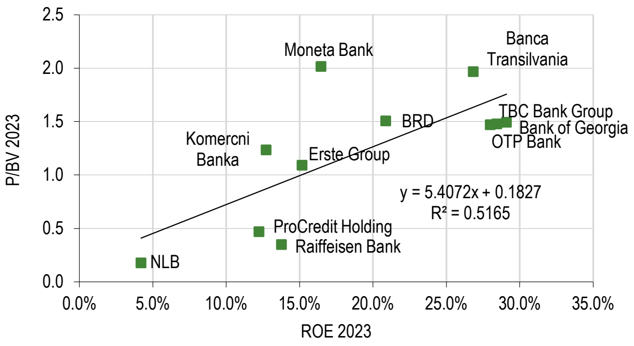
Source: ProCredit Holding data, Edison Investment Research

Exhibit 4: PCB's P/BV-ROE valuation

€'000s unless otherwise stated	FY23	FY24e	FY25e	FY26e	FY27e	FY28e
Shareholder's equity	983,789	1,045,014	1,120,167	1,213,412	1,324,123	1,458,792
Intangibles	22,732	22,732	22,732	22,732	22,732	22,732
Tangible equity	**961,057**	**1,022,282**	**1,097,435**	**1,190,680**	**1,301,391**	**1,436,060**
Net attributable profit	113,372	102,610	109,357	129,697	153,943	185,984
RoTE	***12.5%***	***10.3%***	***10.3%***	***11.3%***	***12.4%***	***13.6%***
Tangible equity per share (€)	**16.3**	**17.4**	**18.6**	**20.2**	**22.1**	**24.4**
Tangible equity per share (FY24e, €)	17.4					
Sustainable RoTE	11.0%					
Growth rate	2.0%					
Cost of equity	10.9%					
Fair value multiple – CAPM model	1.02x					
Fair value multiple – regression multiple*	0.81x					
Fair value multiple – simple average	**0.91x**					
Fair value per share (€)	**15.70**					
Current share price (€)	7.84					
Potential upside/downside	*100%*					

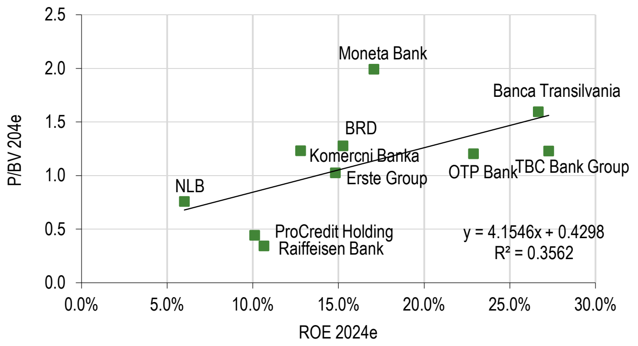
Source: ProCredit Holding data, Edison Investment Research. Note: *Average of FY23 and FY24e multiples based on LSEG Data & Analytics consensus for peers as at 20 November 2024.

Exhibit 5: P/BV versus ROE – PCB's peers (2023)



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 6: P/BV versus ROE – PCB's peers (2024e)



Source: LSEG Data & Analytics as at 20 November 2024, Edison Investment Research. Note: Excludes Bank of Georgia due to lack of consensus estimates for FY24 book value per share.

Exhibit 7: 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	360,417	383,001	427,159	475,244	526,255
Net fee and commission income	50,855	54,731	57,525	58,608	64,781	69,078	73,759	78,860
Operating income	281,881	339,848	412,506	438,465	468,656	519,415	574,721	633,589
Operating expenses	180,859	217,428	246,979	292,222	317,324	339,173	361,900	380,484
Loss allowances	6,490	104,573	15,513	8,325	19,029	24,327	28,635	31,682
PBT	**94,532**	**17,847**	**150,015**	**137,918**	**132,303**	**155,915**	**184,185**	**221,423**
Net profit after tax	**79,641**	**16,497**	**113,372**	**102,610**	**109,357**	**129,697**	**153,943**	**185,984**
Reported EPS (€)	**1.35**	**0.28**	**1.92**	**1.74**	**1.86**	**2.20**	**2.61**	**3.16**
DPS (€)	0.00	0.00	0.64	0.58	0.62	0.73	0.87	1.05
Balance sheet								
Cash and balances at central banks	1,545,523	1,939,681	2,347,617	2,435,161	2,590,425	2,905,946	3,279,625	3,704,684
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	6,717,716	7,469,874	8,337,293	9,291,094	10,357,248
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**	**10,529,160**	**11,431,934**	**12,619,521**	**13,942,354**	**15,438,214**
Liabilities to banks	1,313,666	1,318,647	1,127,680	1,003,635	1,204,362	1,204,362	1,180,275	1,144,867
Liabilities to customers	5,542,251	6,289,511	7,254,236	7,989,704	8,616,598	9,710,940	10,947,149	12,343,749
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	246,813	246,813	246,813	246,813	246,813
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**	**9,484,146**	**10,311,767**	**11,406,110**	**12,618,231**	**13,979,422**
Total shareholders' equity	**856,314**	**869,435**	**983,789**	**1,045,014**	**1,120,167**	**1,213,412**	**1,324,123**	**1,458,792**
BVPS	14.5	14.8	16.7	17.7	19.0	20.6	22.5	24.8
TNAV per share	14.2	14.5	16.3	17.4	18.6	20.2	22.1	24.4
Ratios								
NIM	2.90%	3.11%	3.63%	3.55%	3.49%	3.55%	3.58%	3.58%
Costs/Income	64.2%	64.0%	59.9%	66.6%	67.7%	65.3%	63.0%	60.1%
ROE	9.7%	1.9%	12.2%	10.1%	10.1%	11.1%	12.1%	13.4%
CET1 ratio	14.1%	13.5%	14.3%	14.3%	14.4%	14.4%	14.4%	14.7%
Tier 1 ratio	14.1%	13.5%	14.3%	14.3%	14.4%	14.4%	14.4%	14.7%
Capital adequacy ratio	15.3%	14.3%	15.8%	17.4%	17.2%	17.0%	16.8%	16.9%
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%	67.0%	67.5%	68.1%	68.5%
Deposits/loans	93.5%	103.0%	116.5%	115.6%	112.6%	113.9%	115.3%	116.7%

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.

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