EDISON

Deutsches Eigenkapitalforum 2021

ProCredit Holding

Banks

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Well-positioned to achieve its targets

ProCredit (PCB) maintains its market position as an impact-oriented bank for small and medium-sized enterprises (SMEs) in Southeastern (SEE) and Eastern Europe (EE) as well as Ecuador. It has navigated the COVID-19 crisis well and posted strong 7.7% loan book growth in H121, a 10bp cost of risk (below its closest peers) and a solid capital base (CET1 ratio of 13.7% at end-H121 versus a regulatory requirement of 8.2%). Management has confirmed its FY21 guidance and medium-term targets, but plans to update the latter in March 2022 as the targeted 10% ROE and 20% share of green loans in loan book are already within reach in FY21.

Strong H121 in the 2021 macro recovery

PCB's net income came in at a strong €20.7m in Q221 (versus €8.0m in Q220), translating into an annualised return on equity (ROE) of 10.2% (and 9.1% in H121). This was assisted by a favourable cost of risk development (with a net positive P&L impact of €0.9m), solid loan book growth (4.5% quarter-on-quarter in Q221) and stable year-on-year net interest margin (NIM) of 2.9%. PCB's business progress has been coupled with economic recovery across its markets. In October 2021, the IMF updated its forecasts for real GDP growth in emerging and developing Europe to 6.0% in 2021 (from 4.9% previously) and to 3.6% in 2022 (unchanged). It expects real GDP growth in Ecuador of 2.8% in 2021 and 3.5% in 2022.

On track to scale the business further

In October 2021, management confirmed its FY21 guidance (c 10% loan portfolio growth, 8.0–9.5% ROE, c 65% CIR, >13% CET1 and >9% leverage ratio, a one-third dividend payout) and medium-term targets (c 10% loan portfolio growth pa, c 10% ROE, a CIR below 60%, a 20% share of green loans in total loan book and one-third dividend payout). PCB's emphasis is now on realising scalability effects from its tailored digital platform (developed by its in-house IT company Quipu) and lean branch structure, which would contribute to a further decline in CIR and enhance ROE. PCB's performance should be supported by its conservative approach to credit risk management, translating into lower credit default rates than the levels seen in the countries where it conducts operations.

Valuation: Offering 59% upside potential

PCB's shares currently trade at a FY21e P/BV multiple of 0.6x versus an average 1.3x for a group of local and Austrian banks active in SEE and EE, which we believe is only partially justified by PCB's lower ROE. Our P/BV-ROE valuation currently stands at €12.60 per share, implying c 59% upside.

Edison estimates

Year end	Net interest income (€m)	ROE (%)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	194.5	6.9%	0.89	0.00	8.9	0.0
12/20	201.6	5.3%	0.70	0.53	11.3	6.7
12/21e	215.3	8.7%	1.19	0.40	6.7	5.0
12/22e	235.9	8.8%	1.28	0.43	6.2	5.4

Source: ProCredit, Edison Investment Research. Note: *From total operations.

Price	€7.90
Market cap	€465m

Share price graph

Share details

Code	PCZ
Shares in issue	58.9m
Total assets (€bn) at end June 2021	7.6

Business description

ProCredit Holding is a Germany-based group operating regional banks across Southeastern and Eastern Europe, as well as in Ecuador. The banks focus on SMEs and private middle-income and high earners (SME borrowers represented c 93% of its loan book at end-June 2021). At end-June 2021, the group's total assets stood at €7.6bn.

Bull

- Management reaffirmed its FY21 and medium-term guidance.
- Focus on well-established SMEs, reflected in high quality of loan portfolio.
- Transition economies exhibit better growth prospects than developed markets, albeit with higher risk of operations.

Bear

- A new COVID-19 wave remains a potential risk factor given vaccination rates in the region south of Western Europe.
- Low interest rate environment puts pressure on net interest margin (although monetary tightening has started in some countries).
- ROE below peers over recent years, although relatively stable throughout the cycle.

Analyst

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