September 16, 2011

BANCA TRANSILVANIA (TLV)

Founded in 1994 in Cluj-Napoca, Banca Transilvania became the largest independent bank operating in the Romanian market, by the end of H1 2011 ranking third based on assets and sixth based on net profit in the Romanian banking sector.

Target price: 0.9729 lei/share (by the end of 2011)

BVB Ticker Symbol	TLV
Last closing price (RON)	1.0090
Change since the beginning of the year	-1.40%
Average of price estimates (RON)	1.4300
Capitalization (mil RON, 15.09.2011)	1,789.62

Source: Thomson Reuters; Tradeville

Performance of TLV shares vs BET over the past 12 months

— TLV; — BET

Source: Thomson Reuters

Banca Transilvania is the largest independent and privately-owned bank that operates in the Romanian capital market and in the Cypriot market as of October 2007. In 2010, the bank gained ground in the rankings of the Romanian banking sector, holding the fifth place by the end of 2010 with assets of Lei 21.59 billion and third after H1 2011, with assets of Lei 22.67 billion and a market share of 6.7%. The third position will be ceded to the banking group established through the merger between the Greek banks EFG Eurobank and Alpha Bank. Nonetheless, from a profitability viewpoint the bank holds the sixth position among Romanian banks with net profit of Lei 65.7 mil lei at the end of H1 2011.

Despite the tensions emerged on international financial markets worldwide and the high level of uncertainty prevailing over the internal market, Banca Transilvania can be considered rather solid based on capitalization, solvency and liquidity, all these having complied with prudential requirements at the end of H1 2011. The bank increased its share capital both in 2010, with Lei 384.3 mil, and in 2011, with Lei 295.7 mil, by incorporating retained earnings formed of previous years' net profit, operation ended in July 2011. The solvency ratio stood at 12.09% at the end of H1 2011, above the minimum established by legal provisions, but sliding from 12.93% at the end of Q1 2011 and below the sector's average of 14.19%. The liquidity ratio computed according to NBR regulations stood at 2.68 at the end of H1 2011, considerably above the minimum imposed value of 1.00.

In May 2011, SIF Oltenia announced that it holds, along with other companies that act concertedly 5.07% in the bank's share capital, joining the issuer's significant shareholders: EBRD (14.6108%) and Bank of Cyprus (9.7068%).

Activity Sector

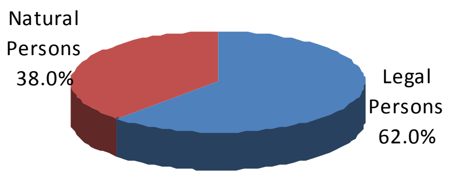
Banca Transilvania is one of the three Romanian Banks listed on the Bucharest Stock Exchange that stands (from an asset viewpoint) between BRD – Groupe Societe Generale (BRD), ranking second in the Romanian banking system but with a twofold asset value (Lei 47.63 billion), and Banca Comerciala Carpatica (BCC), with approximately eight times lower assets (Lei 2.77 billion). Romanian capital weighs 53.11% in the bank's shareholding structure. Romanian natural persons hold 27.18%, while legal entities control 25.93%. Foreign investors with 46.89% stake in the bank are mostly represented by institutions (44.52%).

While other banks started to close down their territorial networks expanded at a rapid pace before the beginning of the financial crisis, Banca Transilvania added 22 new locations set against H1 2010 and 445 employees, thus reaching 542 locations and 6,825 employees respectively. Furthermore, it has also enlarged its ATM and POS network from 779 ATMs and 12,444 POS to 830 ATMs and 14,927 POS thus generating a 9.0% upturn in operating expenses and a 49% cost/ income ratio at the end of H1 2011 set against 46% at the end of H1 2010. The ratio is still quite low compared to the average of the Romanian banking sector.

A positive aspect is the fact that this expansion took place at the same time with a rising number of active customers, i.e. 1.46 mil compared to 1.41 mil at the end of H1 2010. Part of these helped to augment the bank's deposits. The bank posted fewer new deposits (7.6% ytd) set against other banks (eg. BRD: 2.3% ytd). The loan/deposit ratio stays proper with a value of 0.78 on June 30 2011, far better compared to 1.18 for the entire Romanian banking sector.

Structure, governance and activity

Loan portfolio by types of debtors (H1 2011)



Source: Tradeville

On the Bucharest Stock Exchange, the banking sector is usually characterized by a corporate governance superior to other sectors.

According to the sector rotation theory, the best time to invest in stocks of the financial sector (including commercial banks) is the peak of the recession.

Compared to the end of 2010, Banca Transilvania narrowed its activity at the level of interbank lending but expanded it by 5.7% at the level of loans granted to non-banking clients. The portfolio of loans, mostly Lei-denominated, surged particularly due to legal persons, this segment accounting for 62% of total loans. The positive results recorded by the industrial sector throughout the past year have also contributed considerably.

Considering the offer of loans, we notice looser lending terms as well as a decline in interest rates on new loans, favoured mainly by the banks' relatively improved expectations regarding the economic situation as well as by the fiercer competition in the banking sector having as consequence a narrower interest margin. The bank's main new products are "the fast loan without any material collateral" designed for Small and Medium Enterprises in order to help them carry out their core activity, and a loan for agricultural purposes in collaboration with the Rural Credit Guarantee Fund for companies operating in the rural area.

Financials Analysis

Government bond acquisitions kept gaining ground, their weight in total assets standing at 15.7% compared to 13.4% in H1 2010, noticing a consolidation at the level of the entire banking sector.

On the other hand, the rising weight of non-performing loans (from 5.97% in H1 2010 to 8.32% in H1 2011, but below the sector's average) in the total loan portfolio, as well as the higher risk carried by collateral led to tighter lending terms such as a growing risk premium and collateral demand. As the loan portfolio deteriorated at a slower pace, the bank reduced provisions thus having a positive impact on profitability. The net cost of H1 2011 provisions totalled Lei 295.2 mil, down by Lei 34.9 mil set against last year's similar period this being the decisive factor in spurring net profit given that profit before provisions shrank by 2.5%.

Net banking income climbed 2.9% set against H1 2010, interest income gaining 2.0%, while commission income dropped 1.5%. In its structure, revenues from financial operations were the most dynamic, i.e. + 20.5%, however, this is an unpredictable income source.

At the end of H1 2011, solvency ratio stood at 12.09%, above the minimum value established by regulations but declining from 12.93% at the end of Q1 2011. Considering the sector's 14.19%, average, we think that the bank stands at the bottom of the rankings.

Liquidity ratio computed according to NBR regulations at the end of H1 2011 mounted to 2.68, considerably above the minimum imposed value of 1.00. At the system's level, the ratio recorded a value of 1.37 by the end of H1 2011. The current ratio, computed as a ratio between current assets and current liabilities, stood at 107.9% on June 30, 2011. In H1 2011, the quick ratio oscillated between 40.5% - 44.1%, the minimum value imposed by NBR regulations standing at 30.0%. Apart from building up the 15% minimum reserve in RON-terms and 20% in foreign currency, the cash surplus was placed both in interbank deposits and securities, mainly in government-issued ones.

The bank did not pay dividends in 2009 and 2010, preferring to incorporate the largest part of retained earnings into its share capital. 2009 represented an exception from the bank's usual dividend policy, i.e. to grant free shares.

		2009	S1 2010	2010	S1 2011	2011e
Net banking income	564,124,219	1,276,885,978	716,815,108	1,469,023,670	736,815,938	1,370,501,900
y/y growth %	16.38	36.41	27.07	15.05	2.79	-6.71
General and admin. expense	307,233,468	621,972,215	307,737,208	657,766,690	341,378,922	660,000,000
Net cost of risk	221,572,164	524,171,104	330,062,182	640,047,418	295,229,997	528,000,000
Net profit	11,068,951	61,935,038	33,211,279	97,493,089	65,671,689	112,994,606
net margin %	1.96	4.85	4.63	6.64	8.91	8.24
Net profit/share	0.0104	0.0570	0.0306	0.0718	0.0444	0.0637
y/y growth %	-96.29	-45.81	192.68	25.93	45.35	-11.27
Dividend/share	-	0.0472	-	0.0000	-	
Dividend yield %	-	5.77	-	-	-	-

Source: issuer; Tradeville

Evaluation

In Romania, the level of monetary intermediation is relatively low set against the European average and even below values recorded by the other new member states, the level reached at the end of 2010 standing at 41% calculated as a ratio between loans granted to the private sector and GDP, i.e. 67% in case of computing it by considering banking assets relative to GDP. Among others, the lower intermediation level is caused by the lack of services in the rural area. The Romanian banking system keeps being inferior to the European average, based on both the number of territorial units and that of credit institutions per 100,000 inhabitants.

The below table displays a synthesis of some ratios of Banca Transilvania set against BRD – Groupe Societe Generale (BRD) as the most similar bank listed on the Bucharest Stock Exchange from the viewpoint of assets on the one hand, and compared to the entire Romanian banking sector on the other hand. The sector's ratios marked with asterisk include only banks that are registered in Romania because branches of foreign banks do not report solvency, equity and types of loan classifications.

Comparison with the internal sector

Company	Banca Transilvania	BRD	Banking sector
Capitalization (mil lei)	1,789.6	7,665.9	n/a
Total assets (bil lei)	22.7	47.6	338.9
Equity* (mil lei)	2,063.1	4,921.5	56,483.3
Loan /Deposit ratio	0.78	1.13	1.18
Solvency* (%)	12.1	14.3	14.2
Cost/Income ratio (%)	49.0	42.8	64.9(2010)
ROA (%)	0.6	0.9	0.1
ROE (%)	6.71	11.00	0.62
Non-performing loans* (%)	8.32	n/a	13.35
Liquidity ratio	2.68	n/a	1.37

Source: issuers; NBR; Tradeville

The bank will keep dealing with an important weight of outstanding and problematic loans in total loans and total assets, the growth rate of non-performing loans and high cost of credit risk being the most important peril that TLV has to tackle. After non-performing loans have reached their peak, most probably this year, we estimate a lower pressure on the quality of banking assets.

An increasing risk throughout the current period is represented by the contagion risk caused by some adverse movements on an international scale with direct consequences over Romania's economic growth, the banking sector's capacity to access financing and the quality of bank assets.

By the end of the year, the National Bank of Romania plans to change prudential regulations in order to get ready for implementing IFRS as accounting base for putting together individual financials (at the beginning of 2012) , in fields such as equity, classification of loans and provisions and solvency. The legislative project initiated by the National Bank of Romania on loans for natural persons, currently the subject of a public debate, will have a limited impact on the bank's activity. The portfolio of loans granted to natural persons hold approximately 38% of the total figure. The population's demand for loans is still affected by the negative outlook concerning a steady job and future revenues, as well as by the high leverage. The most vulnerable area considering this regulation is that of refinancing loans granted to natural persons, while the "First house" program is an exception to the new legislative provisions.

Evaluation

Taking into account the starting point for the bank's 2011 revenue and expense statement, we considered the following criteria in evaluating TLV shares:

- 10-12% higher value set against 2010;
- Loan portfolio up by 12-14% compared to 2010;
- 10% higher resources gathered from clients, compared to 2010;
- Significant level of loan provisions but slightly declining set against the level recorded in 2010 with relevant effects on the bank's financials.

We have used the multiples approach, choosing a group of banks from Europe, mainly from Central and Eastern Europe, that hold, from a value viewpoint, assets comparable to Banca Transilvania's. In applying this method we've taken into account the P/BV multiple, being the least volatile and best reflecting the bank's capacity to support its activity. The valuation based on the P/E multiple has an informative purpose.

Comparison with the international sector

Company	Country	Total assets (mil USD)	P/BV	P/E
Banca Transilvania SA	Romania	7,276.16	0.91	13.00
Alandsbanken Abp (B-share)	Finland	4,751.43	1.01	n/r
Banca Popolare di Spoleto SpA	Italy	4,304.21	n/r	8.15
Banco di Desio e della Brianza SpA	Italy	11,519.59	0.54	8.27
Bank BPH SA	Poland	12,843.64	0.71	n/r
Bank Coop	Switzerland	17,420.76	1.20	20.90
Bank fuer Tirol und Vorarlberg AG	Austria	12,813.15	0.68	9.59
Bank Handlowy w Warszawie SA	Poland	12,868.08	1.29	10.40
Bank Millennium S.A.	Poland	16,125.07	1.24	15.00
Bank Sankt-Peterburg OAO	Russia	8,951.20	0.95	11.36
Bank Uralsib OAO	Russia	13,671.50	1.04	n/r
Bankas Snoras AB	Latvia	4,393.76	0.69	n/r
BKS Bank AG	Austria	8,889.71	0.87	12.50
Credito Artigiano SpA	Italy	12,391.38	0.38	11.64
Getin Holding SA	Poland	16,272.28	0.97	12.11
Kredyt Bank S.A.	Poland	14,886.06	1.18	18.70
MDM Bank OAO	Russia	12,681.32	0.95	26.07
Nordea Bank Polska SA	Poland	8,484.77	1.02	7.00
Spar Nord Bank A/S	Denmark	13,026.52	0.43	18.29
SpareBank 1 Nord-Norge	Norway	12,167.21	n/r	2.10
Sparebanken More	Norway	8,184.42	0.42	3.01
TransKreditBank OAO	Russia	12,906.54	n/r	7.20
European sector average			**0.8650**	**11.8994**
BVPS/EPS TLV			1.1247	0.0637
TLV Target price			**0.9729**	**0.7578**

Source: issuer; Thomson Reuters; Tradeville

Research Author
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EPS = net profit / share;
FCF/S = free cash flow / share;
Div./NP(%) = dividend / net profit;
Dy(%) = dividend yield;
TD /TA (%) = total debts / total asset;
Nm (%) = net margin;

ROA = return on asset;
ROE = return on equity;
P/E = price-to-earnings;
P/BV = price / book value;
P/S = price / sales;
P/FCF = price /free cash flow;

EV = market cap + debt - cash and cash equivalents ;
EBIT(DA) = operating profit (+ amort.);
Beta = price sensitivity to market changes;
Vol.** = annualized daily volatility ;
Sharpe (12M) = Sharpe ratio;

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Schedule—Simplified Financials

Lei

Profit and loss statement	S1 2009	2009	S1 2010	2010	S1 2011	2011e
Net interest income	299,693,282	742,387,573	491,150,124	980,776,106	500,865,442	920,501,900
Net commission income	172,476,000	353,056,355	174,334,639	356,968,581	176,924,213	355,000,000
Net income from financial operations	91,954,937	181,442,050	51,330,345	131,278,983	59,026,283	95,000,000
Net banking income	564,124,219	1,276,885,978	716,815,108	1,469,023,670	736,815,938	1,370,501,900
Other operating income	7,206,568	16,430,581	9,021,014	18,024,588	9,773,632	18,000,000
General and administrative expense	307,233,468	621,972,215	307,737,208	657,766,690	341,378,922	660,000,000
Operating margin	*54.46%*	*48.71%*	*42.93%*	*44.78%*	*46.33%*	*48.16%*
Amortization	31,456,204	61,152,209	28,007,837	54,212,639	24,724,129	48,000,000
Net cost of risk	221,572,164	524,171,104	330,062,182	640,047,418	295,229,997	528,000,000
Current result	11,068,951	86,021,031	60,028,895	135,021,511	85,256,522	152,501,900
Extraordinary result	0	0	0	0	0	0
Taxes	0	24,085,993	26,817,616	37,528,422	19,584,833	39,507,294
Net Profit	11,068,951	61,935,038	33,211,279	97,493,089	65,671,689	112,994,606
Net margin	*1.96%*	*4.85%*	*4.63%*	*6.64%*	*8.91%*	*8.24%*

Balance Sheet	S1 2009	2009	S1 2010	2010	S1 2011	2011e
Cash on hand and at banks	3,850,706,756	3,141,131,011	3,343,533,767	3,640,949,028	3,675,657,819	3,834,222,356
Government bonds and other securities accepted for refinancing	3,205,814,597	2,410,831,750	2,687,332,479	3,436,263,694	3,549,573,876	3,560,000,000
Receivables from credit institutions (interbank placements)	432,767,434	1,485,272,784	632,357,188	1,075,749,312	1,003,971,242	975,749,312
Receivables from clients (loans)	10,871,542,569	11,507,766,997	12,130,312,672	12,184,132,507	12,877,540,756	13,524,387,083
Bonds and shares and other fixed and variable-income securities	178,220,212	233,560,949	503,266,736	509,853,742	769,089,691	737,000,000
Interests and stakes in credit institutions and other companies	170,439,614	144,128,170	170,833,232	157,284,048	138,088,297	140,000,000
Intangible assets	10,496,621	10,198,407	9,093,843	47,362,862	47,202,931	47,000,000
Tangible assets	296,479,224	276,624,831	260,535,707	260,513,366	252,775,459	244,513,366
Other assets	41,289,665	63,234,649	19,503,616	29,624,305	35,454,585	35,000,000
Prepaid expense and accrued revenue	231,076,468	199,520,236	243,377,880	247,356,974	317,952,928	371,261,944
TOTAL ASSET	19,288,833,160	19,472,269,784	20,000,147,120	21,589,089,838	22,667,307,584	23,469,134,061
Debts to credit institutions	3,608,624,022	1,900,613,682	1,614,116,854	1,532,176,264	1,552,119,545	1,570,000,000
Debts to clients(deposits)	13,389,430,011	15,243,687,322	15,998,393,429	17,474,246,374	18,488,435,183	19,221,671,011
Debts from securities	0	0	0	0	0	0
Other liabilities	33,043,416	17,102,232	39,870,034	68,186,264	47,755,269	48,000,000
Unearned revenue and accrued debt	277,514,643	280,386,201	275,656,442	262,552,774	261,844,683	265,000,000
Provisions for risks and expenses	0	0	0	0	0	0
Subordinated debt (money from parent banks)	317,586,896	254,044,332	262,555,404	257,088,000	254,046,000	254,046,000
TOTAL Debts	17,626,198,988	17,695,833,769	18,190,592,163	19,594,249,676	20,604,200,680	21,358,717,011
Share captial and share premium	1,136,261,791	1,184,021,843	1,184,021,843	1,470,600,998	1,478,654,489	1,774,390,202
Reserves	525,981,977	533,097,705	590,535,330	431,462,907	516,122,669	220,374,220
Own shares	-12,165,898					
Retained earnings	1,487,351	1,682,481	1,786,505	2,034,244	2,658,021	2,658,021
Financial result	11,068,951	61,935,038	33,211,279	97,493,089	65,671,725	112,994,606
Profit distribution	0	-4,301,052	0	-6,751,076	0	0
TOTAL Equity	1,662,634,172	1,776,436,015	1,809,554,957	1,994,840,162	2,063,106,904	2,110,417,049
TOTAL LIABILITIES	19,288,833,160	19,472,269,784	20,000,147,120	21,589,089,838	22,667,307,584	23,469,134,060

Source: issuers; Tradeville