

AIK Banka

12 March 2010

Doing well

Banks				Current price	RSD 2,828*	Buy			
Serbia				Fair value	RSD 4,007	Rating reiterated			
Performance over	1m	3m	12m	FY/e 31.12 (RSD m)	2008A	2009A	2010F	2011F	
Absolute	-2%	14%	129%	Net interest income	6,449.5	7,617.6	6,719.7	7,271.9	
Rel. to MSCI index	-11%	-9%	-9%	Non-interest income	4,063.0	3,092.7	3,109.2	3,347.6	
12m Hi/Lo	RSD 3,200 / 1,150			Non-interest expense	1,678.9	2,018.3	2,168.0	2,336.6	
Reuters	AIKB.BEL			Operating profit	8,833.5	8,691.9	7,660.8	8,283.0	
Bloomberg	AIKB SG			Net income**	5,344.0	5,436.9	3,727.2	4,688.5	
Market Cap	EURm 243.9			Cost / income (%)	16.0	18.8	21.9	22.0	
Free float	80%			ROE (%)	17.3	15.3	9.4	10.7	
Next corporate event				P/E (x)	4.4	4.3	6.3	5.0	
-				P/B (x)	0.8	0.7	0.6	0.6	

Source: KBC Securities

**Net attributable income, *priced at COB 11/3/2010

AIK Banka reported pre-tax earnings of RSD 3.2bn for 4Q09, up 288.6% q/q and 71.4% y/y, on better-than-expected net interest income and a lower-than-expected cost of risk. This translates into net income of RSD 5.6bn (up 2.0% y/y) for full-year 2009, well above our expectation for RSD 3.3bn, management guidance for RSD 4.0bn and the consensus estimate of RSD 3.2bn (ranging from RSD -0.1bn to RSD 3.6bn, source: Bloomberg). While we expect both margins and the provisioning level to normalise in 1Q10, against the outlook for a relatively dynamic economic recovery, we have revised our net attributable earnings estimates upwards by 33.6% to RSD 3.8bn (-31.4% y/y) for 2010 and by 9.2% to RSD 4.7bn (+25.8% y/y) for 2011. This has resulted in a 9.0% increase of our fair value estimate to RSD 4,007 per share, implying 38.2% upside. We reiterate our Buy recommendation.

Buy rating maintained

- 4Q09 results beat expectations:** Against our expectations for flat margins and elevating risk costs, the bank reported a 675bp margin expansion and a decline in net provisioning expense to an estimated 95bp of gross loans. Whereas the bank indicated that this came as a result of an aggressive collection policy, we do not expect to see a slowdown in NPL formation yet. The outlook for 1Q10 is for seasonally lower costs, margin contraction and a pick up in cost of risk, which should result in a 58.8% decline in the bank's pre-tax earnings.
- Resilient to deterioration in asset quality:** Cost of risk slipped to an estimated 370bp of gross loans in 2009, but this is expected to rise to 400bp in 2010 before falling back to 300bp in 2011. Despite its high exposure to the SME segment, due to its wide margin of 8.3% over average assets and unrivalled efficiency (cost-to-income of 18.8%), enabling an estimated pre-provision operating profit to average gross loans of 12.7% in 2009, AIK Banka is highly profitable in good times but resilient in a difficult operating environment.
- Margins to remain wide amid anticipated pressure:** The net interest margin is expected to normalise already in 1Q10, which should lead to a 49.0% q/q drop in net interest income for the quarter. Overall, we forecast margins to contract 210bp y/y in 2010, as an aggressive pricing policy is expected to mitigate the positive effect of upcoming changes in minimum reserve requirements and an anticipated decrease in the country risk premium. The margin is forecast to decline to 6.2% in 2010 and 6.0% in 2011.
- Risk and reward:** Up 14.4% year-to-date, AIK banka has emerged as the best performing Serbian bank, outperforming BELEX15 by 14.4% and MSCI index by 1.5%. On a 2011F P/E of just 5.0x and 2009 P/BV of 0.7x, AIK banka trades at a broad discount to CEE banks on 10.5x and Serbian banks on 13.0x. While a discount is justified due to the bank's high exposure to sectors that are vulnerable in the downturn, we believe the gap is likely to narrow as confidence in Serbian economic recovery builds.

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EBITDA = EBIT + amortization and depreciation EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

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