



Bank of Cyprus

Equity / Cyprus / Banks

Reuters / Bloomberg: BOCH CY / BOCH CY

12 November 2024

3Q24 Review: Capital thrills

Bank of Cyprus (BOCH) released a strong set of 3Q24 results, reporting an RoTE of 21.6%, beating our 21% estimate (consensus at 19%). This was supported by resilient NII that slightly dropped by 1% quarter-on-quarter, reflecting mainly the reduction in reference rates, partially offset by continued increased liquidity and one additional calendar day. Net fee and commission income generation came in elevated by 2% sequentially, in line with our estimates, on strong fees from net FX gains and financial instruments trading. On the cost line, group posted a 14% increase quarter-on-quarter on higher staff costs and other operating expenses, impacted by inflation. Provisions remained flat compared to the previous quarter as asset quality remained benign. Group's net profit for the quarter stood at EUR 131m, -6% vs 2Q24 and +3% above AXIAe. In 3Q24 BOCH's capital adequacy remained robust with CET1 reaching 18.5%, in line with our estimates. For FY24 the group is targeting a 50% payout ratio, which corresponds to a more than 10% distribution yield based on current share price.

Strong 3Q24 results provide a solid platform for the outer quarters. The bank reported another strong set of 3Q24 results, on the back of strong profitability. Overall, RoTE reached 21.6% (AXIAe 21.0%). BOCH continues to accrue a 50% payout ratio at the top end of their policy as a result of its strong organic profitability, and a CET1 ratio of 18.5%. Management guided that the final mix between buybacks and dividends has not been decided yet, as such cash dividend payments should be considered the main source of shareholder remuneration. In addition, group anticipates that the current regulatory approval requirement for dividend payments to be lifted in January 2025.

As a result, we reiterate our Buy rating, at an unchanged TP of EUR 5.90 reflecting the sustained higher profitability. Despite the strong 3Q24 performance, management left targets unchanged for FY24. In our view, BOCH is set to outperform August's guidance. That said, we are looking forward to the detailed financial targets updates along with the release of the 4Q24/FY24 earnings release.

In our view, key highlights of the quarter included:

- **Base rates to drive NII in 2H24** | NII showed some resilience in 3Q24 posting a drop of 1% quarter-on-quarter to EUR 204m, following the reduction in ECB depo rate by 25bps in June 2024. NII is expected to further decrease in 4Q24 reflecting the full impact of the September and October cuts, which is already factored-in our numbers.
- **On track to meet FY24 hedging strategy target** | The bank maintains one of the most liquid balance sheets among EU banks, with RoTE supported by variable lending loans (lion's share in CY), and very low deposit betas. Group has almost completed its FY24 hedging strategy of EUR 4-5bn of structural hedges, adding another EUR 0.6bn in 3Q24 in their strategy (9M24 at EUR 4bn with an average duration of c. 3-4 years). The actions are consistent with previous strategies and include received fixed-interest rate swaps, further investment in fixed rate bonds, and reverse repos.
- **Deposit betas still on the low-end of expectations** | Deposit costs remain subdued, indicating the strong foundation of the banking sector, marked by low LDRs (BOCH at 50% in line with AXIAe) and a significant proportion of retail deposits. Cost of deposits have posted a gradual increase, yet remained low at 37bps in 3Q24 vs 34bps in 2Q24 (cost of deposits expected to reach 35bps by year-end), with mix flat sequentially at 33. The low deposit beta contributes to NII growth and the aforementioned RoTE performance.
- **Strong results continue to boost capital** | BOCH's strong 3Q24 top-line performance was supported by resilient NII generation that despite a 1% quarter-on-quarter contraction, maintaining momentum. This result coupled with organic growth, boosted the CET1 ratio to increase to 18.5%. This increases the available war-chest of the group to grow organically, inorganically and deliver capital distributions. BOCH continues to accrue a 50% payout ratio at the top end of their policy. During the 3Q24 conference call, management guided that the final mix between buybacks and dividends has not been decided yet, as such cash dividend payments should be considered the main source of shareholder remuneration. In addition, group anticipates that the current regulatory approval requirement for dividend payments to be lifted in January 2025.

Rating	Buy
Target Price	5.90
Current Share Price ¹	4.44

1. 11 November 2024

Stock Data

Market Cap (EUR m)	1,936
Free Float	50%
Outstanding Shares (m)	442
Shareholders	Lamesa, CarVal Investors, Senvest Management

Performance

	1m	3m	12m
Absolute (%)	-0.5	8.4	50.0

DATV – 3M (k)	93.36
Price high – 12 months (EUR)	5.10
Price low – 12 months (EUR)	2.90



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Appendix: Bank of Cyprus 3Q24 Review

Exhibit 1: BOCH 3Q24 Quarterly review

	Quarters					Change (%)			
	3Q23	2Q24	3Q24E	3Q24C	3Q24A	YoY	QoQ	AXIAe	Consensus
PROFIT & LOSS (EUR m)									
Net interest income	214	207	202	196	204	-5%	-1%	1%	4%
Net commission income	45	44	44	46	45	0%	2%	2%	-2%
Core banking income	259	251	246	242	249	-4%	-1%	1%	3%
Trading income	7	6	9	6	14	n/a	n/a	56%	n/a
Other operating income	18	16	15	19	16	-13%	0%	7%	-16%
Total revenues	285	273	270	266	279	-2%	2%	4%	5%
Costs	(97)	(93)	(104)	(101)	(106)	9%	14%	2%	5%
Underlying costs	(97)	(93)	(104)	(101)	(106)	9%	14%	2%	5%
<i>o/w Personnel costs</i>	<i>(48)</i>	<i>(48)</i>	<i>(50)</i>	<i>(51)</i>	<i>(55)</i>	14%	15%	11%	8%
<i>o/w General and administrative</i>	<i>(38)</i>	<i>(38)</i>	<i>(43)</i>	<i>(53)</i>	<i>(44)</i>	17%	16%	2%	-17%
Core PPI	217	212	199	n/a	169	-22%	-20%	-15%	n/a
Pre-provision income	472	180	165	165	173	-63%	-4%	5%	5%
Loan loss charge	(34)	(18)	(16)	(28)	(18)	-47%	0%	11%	-35%
Underlying loan loss charge	(20)	(9)	(8)	(12)	(9)	-54%	0%	12%	-25%
Pre-tax profit	153	162	149	138	162	6%	0%	9%	18%
Tax	(23)	(23)	(22)	(20)	(25)	8%	9%	12%	23%
Net profit from continuing operations	129	139	127	115	131	1%	-6%	3%	14%
Disc. Operations & other	-	-	-	-	-	n/a	n/a	n/a	n/a
Net profit	129	139	127	115	131	1%	-6%	3%	14%
Adj. net profit	129	139	127	115	131	1%	-6%	3%	14%
AXIAe PAT	122	132	120	n/a	n/a	n/a	n/a	n/a	n/a
PER SHARE DATA (EUR) (unless stated)									
Basic EPS	0.29	0.31	0.28	0.27	0.29	2%	-6%	3%	9%
Diluted EPS	0.29	0.31	0.28	0.27	0.29	2%	-6%	3%	9%
Diluted EPS (adj.)	0.27	0.30	0.27	0.25	0.29	7%	-1%	9%	18%
DPS	0.31	0.53	0.53	0.52	n/a	n/a	n/a	n/a	n/a
Tangible Book Value	5.19	5.31	5.53	5.43	6.08	17%	15%	10%	12%
Period-end shares issued (m)	446	446	443	443	445	0%	0%	0%	0%

Source: AXIA estimates, Company data

Appendix: Bank of Cyprus 3Q24 Review (cont'd)

Exhibit 2: BOCH 3Q24 Quarterly review

	3Q23	2Q24	Quarters			Change (%)			
			3Q24E	3Q24C	3Q24A	YoY	QoQ	AXIAe	Consensus
BALANCE SHEET (EUR m)									
ASSETS									
Net customer loans	9,910	10,085	10,098	10,112	10,031	1%	-1%	-1%	-1%
Securities	3,636	3,959	3,979	3,958	4,199	15%	6%	6%	6%
Intangibles	27	21	21	45	45	n/a	n/a	n/a	-1%
Other assets	1,836	1,917	1,917	n/a	1,952	6%	2%	2%	n/a
Total assets	26,352	25,467	25,722	25,722	25,863	-2%	2%	1%	1%
LIABILITIES									
Customer deposits	19,267	19,723	19,845	19,862	19,989	4%	1%	1%	1%
Total liabilities	23,986	22,837	23,009	23,031	23,112	-4%	1%	0%	0%
Shareholders' Equity	2,341	2,387	2,471	2,438	2,751	17%	15%	11%	13%
Total liabilities and equity	26,572	25,466	25,722	25,722	25,863	-3%	2%	1%	1%
MEMO ITEMS									
Tangible Equity	2,314	2,366	2,450	2,403	2,705	17%	14%	10%	13%
Gross loans	10,167	10,318	10,344	10,429	10,250	1%	-1%	-1%	-2%
Performing loans	9,552	9,791	9,809	n/a	9,785	2%	0%	0%	n/a
Deferred tax credit (DTC)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
CET1 (fully loaded)	1,565	1,937	1,985	2,008	1,992	27%	3%	0%	-1%
Total Regulatory Capital	2,743	3,420	3,455	2,528	2,534	-8%	-26%	-27%	0%
Risk-weighted assets	10,264	10,580	10,739	10,777	10,441	2%	-1%	-3%	-3%
Loan loss reserve (EURm)	275	251	246	n/a	237	-14%	-6%	-4%	n/a
NPE (EURm)	358	294	289	259	246	-31%	-16%	-15%	-5%
KPI (%) (unless stated)						(in bps)	(in bps)	(in bps)	(in bps)
PROFITABILITY									
NIM (% of net loans)	2.1%	2.1%	2.0%	1.9%	2.0%	-12	-3	3	9
NII (% of revenues)	75.1%	75.8%	74.8%	73.6%	73.1%	-202	-271	-165	-45
Cost / core banking income (%) (adj.)	37.7%	37.1%	42.5%	41.9%	42.6%	490	552	7	69
Cost / income (%) (adj.)	34.2%	34.1%	38.7%	38.0%	38.0%	375	393	-72	-3
Reported RoTE (%)	24.2%	23.5%	21.0%	19.0%	21.6%	-258	-193	57	264
RoTE (%) adj.	26.2%	24.1%	21.6%	19.0%	22.9%	-333	-117	129	394
RoTE (%) (AXIAe)	22.9%	22.4%	19.9%	n/a	n/a	n/a	n/a	n/a	n/a
ASSET QUALITY									
Underlying cost of risk	0.77%	0.35%	0.31%	0.45%	0.26%	-51	-9	-5	-19
NPE ratio	3.5%	2.8%	2.8%	2.5%	2.4%	-112	-45	-39	-6
NPE coverage	77.0%	85.4%	85.2%	88.3%	96.0%	n/a	n/a	n/a	775
LIQUIDITY & CAPITAL									
Loan to deposit ratio (%)	51.4%	51.1%	50.9%	50.9%	50.2%	-125	-95	-70	-73
Investment securities (% of assets)	13.8%	15.5%	15.5%	15.4%	16.2%	244	69	77	85
TLTRO (% of assets)	7.7%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
DTC (as % CET1 capital)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
CET1 ratio (fully loaded) (%)	15.2%	18.3%	18.5%	18.6%	18.5%	325	19	1	-13
Total Regulatory Capital ratio (%)	20.4%	23.3%	23.3%	23.5%	23.7%	331	35	37	24
MREL ratio (%)	26.7%	32.3%	32.2%	n/a	33.8%	707	147	162	n/a

Source: AXIA estimates, Company data

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* Exceptions to the bands may be granted by the Investment Review Committee of AXIA taking into account specific characteristics of the Subject Company

**Total return: % price appreciation equals percentage change in share price from current price to projected target price plus projected dividend yield

Rating history for Bank of Cyprus Holdings

Date	Rating	Share Price (€)	Target Price (€)
21/04/2016	Neutral	0.15	0.20
24/07/2018	Buy	2.44	2.95
09/01/2019	Buy	1.48	2.25
19/08/2019	Buy	1.59	2.85
21/07/2020	Buy	0.49	1.40
16/09/2021	Buy	1.07	1.90
21/06/2022	Buy	1.05	3.00
28/09/2022	Buy	1.27	2.20
21/02/2023	Buy	2.49	3.70
18/04/2023	Buy	2.54	3.80
16/05/2023	Buy	2.65	4.10
10/08/2023	Buy	2.98	5.30
05/01/2024	Buy	3.42	5.00
21/05/2024	Buy	4.35	5.90

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Coverage Universe	Count	Percent	Of which Investment Banking Relationships	Count	Percent
Buy	16	52%	1	1	20%
Neutral					
Sell					
Restricted					
Not Rated	3	10%			
Under Review	12	39%	1	1	3%

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