



Bank of Cyprus

Equity / Cyprus / Banks

Reuters / Bloomberg: BOCH CY / BOCH CY

05 November 2024

3Q24 Preview: Don't stop till you RoTE enough

Having reported a very strong set of 2Q24 results, Bank of Cyprus (BOCH) is anticipated to continue its overall positive progress with the release of the 3Q24 earnings on 12 November before market open. Visible Alpha consensus expects NII to post a contraction of 5% quarter-on-quarter, which is 3% lower than AXIAe (see Appendix for detailed estimates). Our projection is supported by strong loan volumes despite the summer seasonality in the quarter. We anticipate that fee & commission income should remain at broadly similar levels to the previous quarter (AXIAe 4% below consensus), regardless of the seasonally weak pattern of the quarter, with the move primarily driven by a pickup in lending expansion, as we view that growth should continue from both corporates and the retail part of the book. In other lines, cost-to-income ratio in our numbers is expected to stand at 37.3% (c. 70bps below consensus), reflecting mainly lower income on gradually declining interest rates and higher staff costs due to the related pay accrual (variable pay driven by both delivery of the group's strategy as well as individual performance). We expect cost of risk to continue its path to normalization, reaching 31bps in our 3Q24 numbers (14bps below street estimates), as we also account for zero NPE formation, and hence anticipate a flat NPE ratio of 2.8% on the back of curings and write-offs. All-in-all, we estimate 3Q24 RoTE adj. to reach 21.6% (street estimates at 19.0%). During the 3Q24 conference call, investors should look for details vis-à-vis: a) any new NII sensitivity guidance that could derive from new assumptions regarding ECB rates, b) the lending trends of the quarter and BOCH's credit expansion as well as the loan book's outlook on the back of the progress of the anticipated pipeline of loans in the coming periods, c) deposit growth trends as well as any changes in the deposit mix, and d) updates on the group's medium-term strategic plans for leveraging its excess capital (AXIAe CET1 capital ratio at 18.5% as of 3Q24), including potential questions on enhancing shareholder returns, either through a buyback program, an increase in the Group's payout ratio, or a combination of both (we continue to accrue a 50% payout ratio). BOCH trades at 0.79x FY25 P/TE for AXIA's c. 17.8% FY25 RoTE adj. We reiterate our Buy rating with an unchanged TP of EUR 6.90.

Strong 3Q24 results to provide a solid platform for FY24 numbers. BOCH is expected to report another strong set of 3Q24 results, on the back of resilient profitability and credit growth that will set the floor for a strong FY24 performance. We continue to account for a 50% payout ratio at the top end of group's policy as a result of its strong organic profitability, and a CET1 ratio estimate of 18.5%.

In our view, key areas of focus in 3Q24 should be:

- **NII sensitivity expected to decrease further** | 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 completed 2/3 of its FY24 hedging strategy of EUR 4-5bn of structural hedges, adding EUR 3.4bn in 1H24 (average duration of c. 3-4 years). The NII sensitivity is expected to decrease further by c. EUR 10m by the end of 2024. That said, we will be looking for any updates on the NII sensitivity guidance that could derive from new assumptions regarding ECB rates or changes in the group's hedging strategy.
- **Resilient deposit pricing to support NII** | Deposit costs remain subdued, indicating the strong foundation of the banking sector, marked by low LDRs and a significant proportion of retail deposits. Cost of deposits is expected to remain at similar levels with 2Q24, at c. 34bps, while the FY24 cost of deposits is expected to reach 35bps. The low deposit beta contributes to NII growth and the aforementioned RoTE performance.
- **Strong results continue to boost capital as distribution policy will be reviewed** | BOCH's strong 3Q24 top-line performance is expected to be supported by resilient NII generation that despite a 3% quarter-on-quarter contraction accounted in our numbers, will maintain momentum. This result coupled with organic growth, should boost 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, that the group has already guided will be reviewed with the FY24 results. The communicated main method of reward so far has been the dividend but management would also consider a buyback in the coming periods. We would welcome an earlier update or guidance on group's preferred approach.

3Q24 should underline the group's strong fundamentals. We anticipate BOCH's increased profitability, combined with high CET1 organic capital generation, will be converted into hefty payouts. BOCH trades at 0.79x FY25 P/TE for AXIA's c. 17.8% FY25 RoTE adj. We reiterate our Buy rating with an unchanged TP of EUR 6.90.

Rating Buy
Target Price 6.90
Current Share Price ¹ 4.22

1. 04 November 2024

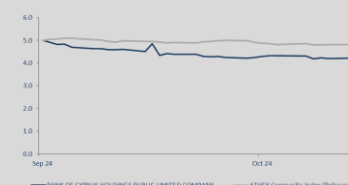
Stock Data

Market Cap (EUR m) 1,874
 Free Float 50%
 Outstanding Shares (m) 221
 Shareholders Lamesa, CarVal Investors, Senvest Management

Performance

	1m	3m	12m
Absolute (%)	-8.3	N/A	N/A

DATV – 3M (k) 718.61
 Price high – 12 months (EUR) -3.30
 Price low – 12 months (EUR) -5.0



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Appendix: Bank of Cyprus 3Q24 Preview

BOCH will report its 3Q24 results on 12 November before market open and host a conference call on the same day at 10:00am UK time.
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BOCH: QUARTERLY PREVIEW

QUARTERS	3Q23	2Q24	3Q24E	3Q24C	Change / Variance (%)		
					YoY	QoQ	Cons. vs AXIAe
PROFIT & LOSS (EUR m)							
Net interest income	214	207	202	196	(8%)	(5%)	(3%)
Net commission income	45	44	44	46	2%	4%	4%
Core banking income	259	251	246	242	(6%)	(4%)	(1%)
Trading income	7	6	9	6	(25%)	(8%)	(39%)
Other operating income	18	16	15	19	3%	19%	27%
Total revenues	285	273	270	266	(6%)	(2%)	(1%)
Costs	(97)	(93)	(101)	(101)	4%	9%	1%
Underlying costs	(97)	(93)	(101)	(101)	4%	9%	1%
<i>o/w Personnel costs</i>	<i>(48)</i>	<i>(48)</i>	<i>(50)</i>	<i>(51)</i>	6%	7%	3%
<i>o/w General and administrative</i>	<i>(38)</i>	<i>(38)</i>	<i>(39)</i>	<i>(53)</i>	41%	39%	35%
Core PPI	217	212	199	N/A	N/A	N/A	N/A
Pre-provision income	472	180	169	165	(65%)	(8%)	(2%)
Loan loss charge	(34)	(18)	(16)	(28)	(18%)	54%	71%
Underlying loan loss charge	(20)	(9)	(8)	(12)	(39%)	33%	50%
Pre-tax profit	153	162	153	138	(10%)	(15%)	(10%)
Tax	(23)	(23)	(23)	(20)	(12%)	(12%)	(11%)
Net profit from continuing operations	129	139	130	115	(11%)	(17%)	(11%)
Disc. Operations & other							
Net profit	129	139	130	115	(11%)	(17%)	(11%)
Adj. net profit	129	139	130	115	(11%)	(17%)	(11%)
AXIAe PAT	122	132	123	N/A	N/A	N/A	N/A
KPI (%) (unless stated)					(in bps)	(in bps)	(in bps)
PROFITABILITY							
NIM (% of net loans)	2.15%	2.06%	2.00%	1.94%	-21	-12	-6
NII (% of revenues)	75.1%	75.8%	74.8%	73.6%	-157	-226	-121
Cost / core banking income (%) (adj.)	37.7%	37.1%	41.0%	41.9%	421	483	91
Cost / income (%) (adj.)	34.2%	34.1%	37.3%	38.0%	378	396	70
Reported RoTE (%)	24.2%	23.5%	21.0%	19.0%	-522	-457	-207
RoTE (%) adj.	26.2%	24.1%	21.6%	19.0%	-727	-511	-265
RoTE (%) (AXIAe)	22.9%	22.4%	19.9%	N/A	N/A	N/A	N/A
ASSET QUALITY							
Underlying cost of risk	0.77%	0.35%	0.31%	0.45%	-32	10	14
NPE ratio	3.5%	2.8%	2.8%	2.5%	-106	-39	-33
NPE coverage	77.0%	85.4%	85.2%	88.3%	14.6%	3.4%	3.6%
LIQUIDITY & CAPITAL							
Loan to deposit ratio (%)	51.4%	51.1%	50.9%	50.9%	-52	-22	3
Investment securities (% of assets)	13.8%	15.5%	15.5%	15.4%	159	-16	-8
TLTRO (% of assets)	7.7%	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
CET1 ratio (fully loaded) (%)	15.2%	18.3%	18.5%	18.6%	339	32	14
Total Regulatory Capital ratio (%)	20.4%	23.3%	23.3%	23.5%	307	11	13
MREL ratio (%)	26.7%	32.3%	32.2%	N/A	N/A	N/A	N/A

Source: Visible Alpha compiled consensus correct as of 04 November 2024, AXIA estimates

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Buy	The stock to generate total return** of and above 10% within the next 12-months
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Not Rated	There is no rating for the company by AXIA Ventures Group Limited

* 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
12/06/2024	Buy	4.88	6.90

AXIA Ventures Group Limited Rating Distribution as of today

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

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