

30 Iunie 2021

Sectorul Bancar din Romania

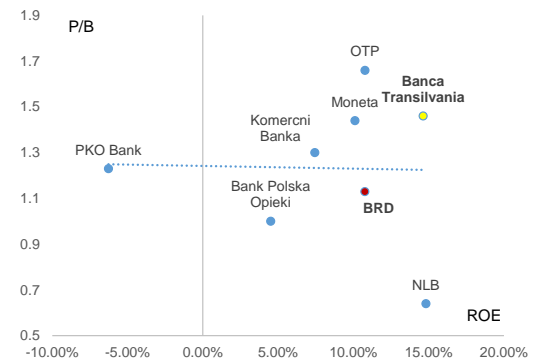
The Roaring 20s'

- **Initiem acoperirea pentru Banca Transilvania (TLV) si BRD Groupe Societe Generale (BRD) cu o recomandare de CUMPARARE pentru ambele banci.** Concluzionam ca atat TLV si BRD sunt subevaluate, deoarece ambele au un ROE superior atunci cand sunt comparate cu alte banci din regiune (TLV: 14.6%, iar BRD: 10.8% vs 8.0% media bancilor din CEE).
- **In T1 2021, o crestere a creditelor acordate catre consumatori si companii si...** Conform Bancii Nationale din Romania (BNR), creditele totale acordate pana la finalul primului trimestru din 2021 au crescut cu 8.0% fata de aceeaasi perioada in 2020. Impartindu-le pe categorii, creditele de consum au crescut cu 6.2%, in timp ce creditele acordate companiilor au crescut cu 9.1%. Odata cu redeschiderea economiei, este posibil ca acest trend sa continue pe termen scurt, datorita consumului care este de asteptat sa creasca mai puternic decat inainte.
- **... acest trend de crestere este asteptat sa continue pana in 2022.** Asa cum am mentionat anterior, creditele de consum si pentru companii sunt asteptate sa inregistreze crestere pe fondul consumului puternic pe termen scurt datorita faptului ca finantarea operatiunilor companiilor ar putea fi afectata pana atunci ca urmare a cresterii costului materiilor prime. Pe acest considerent, numarul total de credite acordate in Romania este asteptat sa creasca cu 4.9% in 2021 si 3.6% in 2022. Motivele care ar putea afecta cresterea creditelor in 2022 sunt o potentiala crestere a dobanzilor si o dependenta diminuata marginal de operatiunile de finantare. Aceasta dependenta va continua sa joace un rol important in sectorul bancar, inasa, celelalte industrii sunt asteptate sa isi ajusteze marjele pana atunci.
- **Un alt catalizator ar putea fi reprezentat de revenirea economica treptata.** Un aspect strategic cheie este digitalizarea creditelor pentru consumatori si companii. Pe masura ce consumatorii isi comanda din ce in ce mai mult bunurile si serviciile online, serviciile bancare au devenit o baza solida de crestere pentru acest sector. Mobilitatea consumatorilor a crescut in ultima luna. Acest lucru ar putea actiona ca si un alt catalizator pentru sectorul bancar, deoarece consumatorii vor cheltui mai mult atat in magazine, cat si in comenziile online pentru activitati care nu au putut fi facute pana acum.
- **Cresterea preturilor materiilor prime ar putea fi benefica pentru ambele banci.** In principal alimentat de cresterea brusca a cererii globale de bunuri si servicii, dar nu exclusiv, preturile marfurilor au crescut considerabil. Acest lucru ar putea creste si mai mult imprumuturile totale acordate, deoarece companiile vor trebui sa isi finanteze operatiunile.
- **Riscurile recomandarilor noastre** includ un soc indus de inflatie excesiva, care ar duce la cresterea ratelor dobanzilor si ar declansa, de asemenea, diminuare a imprumuturilor si o crestere a creditelor neperformante (NPL) ca urmare a acordarii creditelor mai putin adecvate. Aceasta ar determina o crestere a costului riscului si cauzeaza astfel, pierderi. Programul creditelor IMM Invest – care au fost acordate – nu reprezinta un risc deoarece sunt suportate in proportie totala de autoritatile legislative in cazul neplatii.

| Simbol | Recom. | Pret tinta | Rand. (%) | P/E (x) Dec-21F | P/BV (x) Dec-21F | Rand. dividend (%) Dec-20F |
|--------|-----------|------------|-----------|-----------------|------------------|----------------------------|
| TLV | CUMPARARE | 3.6 | 30.4 | 12.35 | 1.89 | 4.7 |
| BRD | CUMPARARE | 20.2 | 15.4 | 9.84 | 1.12 | 7.1 |

Sursa: Datele bancilor, BRK

Sectorul bancar regional



Sursa: Bloomberg, iunie 2021

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Nota

Aceasta pagina tradusa in limba Romana reprezinta doar versiunea prescurtata a raportului original, scris in limba Engleza, si este doar cu titlu informativ. Sfatuim cititorii sa se refere la raportul original in limba Engleza (atasat aici incepand cu pagina 2) pentru a afla mai multe detalii. Denegarea responsabilitatii legale se afla la sfirsitul raportului si in limba Romana.

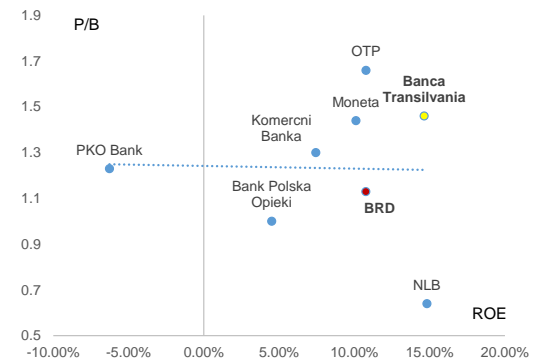
June 30 2021

The Banking Sector of Romania

The Roaring 20s'

- **Initiating coverage for Banca Transilvania (TLV) and BRD Groupe Societe Generale (BRD) with a BUY recommendation for both banks.** We conclude that both banks are undervalued since both deliver superior ROEs when compared to their peers (TLV: 14.6% and BRD: 10.8% vs 8.0% the average ROE of the CEE sector).
- **In Q1 2021 an increase in consumer and business loans and....** Based on the National Bank of Romania's monthly credit data, the total loans granted up until the end of the first quarter in 2021 were up by 8.0% compared to the same period in 2020. Breaking it down by categories, total consumer credit increased by 6.2% while total business credit went up by 9.1%. As the economy gradually reopens, this trend is likely to continue over the short-term as consumption is expected to pick up even stronger than before.
- **... the growth trend is likely to continue through 2022.** As previously mentioned, the increases in consumer and business loans are expected to be fueled by strong consumption in the short-term since financing operations could be affected up to that point due to a rise in the cost of goods sold. In this regard, the total loans granted in Romania could increase by 4.9% in 2021 and 3.6% in 2022. The reasons which may affect growth in 2022 are a potential rise in interest rates and a marginally diminishing reliance on financing operations. This reliance will still play a key role in the banking industry; however, the other industries are expected to adjust their margins until then.
- **The gradual recovery may push consumer spending to act as a favorable catalyst.** A key strategical aspect would be the digitalization of consumer and business loans. As consumers have been increasingly ordering their goods and services online, banking as a service has become a solid growth foundation for the banking sector. Consumer mobility has increased over the last month. This might act as a catalyst factor for the industry because consumers will spend more in both physical stores and online orders for activities that could not be performed until now.
- **The rise in commodity prices could be beneficial for both banks.** Mainly fueled by the sudden increase in global demand for goods and services, but not exclusively, the commodity prices have increased considerably. This could further increase the total loans granted since businesses will need to finance their operations.
- **The risks to our call** include a shock caused by excessive inflation which would send the interest rates up and it would also trigger a lower loan growth and a rise in non-performing loans (NPL) as a result of bad credit given, which would increase the cost of risk and thereby cause losses. The IMM Invest loans - which were offered - do not represent a risk since these are supported by the legislative authority in case of a default.

A relative view of the regional banking sector



Source: Bloomberg, June 2021

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| Ticker | Recomm. | Target Price | Return (%) | P/E (x) Dec-21F | P/BV (x) Dec-21F | Dividend Yield (%) Dec-20F |
|--------|---------|--------------|------------|-----------------|------------------|----------------------------|
| TLV | BUY | 3.6 | 30.4 | 12.35 | 1.89 | 4.7 |
| BRD | BUY | 20.2 | 15.4 | 9.84 | 1.12 | 7.1 |

Source: Banks' data, BRK

June 30, 2021

Banking sector

Historically speaking, the total loans granted in Romania have grown at a compound annual growth rate (CAGR) of 12.8%. We chose 2005 as the reference year since it represents the moment in time when Romania adopted direct [inflation targeting](#) as a monetary policy strategy. In this regard, the value of total loans granted has risen to RON530.2 billion on December 31st 2020.

Our forward-looking growth rate is based on 2020 as the reference year. Moreover, we used our own proprietary statistical model to estimate what the total credit exposure could be. As such, we see the total loans granted increasing by a CAGR of 2.9% by 2022, translating into a forecasted value of RON577.2 billion.

It is imperative to consider the fact that our baseline assumption relies on the idea of inflation ticking higher in 2021 and the subsequent years, implying that some consumers would be discouraged to leverage themselves due to a rise in interest rates. In the opposite case, the value of total loans granted would increase more. We show our findings split by sectors in the table below.

Figure 1: Total credit exposure by economic sector (RON bn)

| Year | Agriculture | Industry | Construction | Financial | Public | Services | Individuals | Total |
|-------|-------------|----------|--------------|-----------|--------|----------|-------------|-------|
| 2020 | 23.7 | 87.0 | 37.1 | 18.7 | 23.5 | 132.7 | 207.7 | 530.3 |
| 2021E | 26.0 | 87.1 | 38.2 | 20.1 | 26.3 | 140.0 | 219.1 | 556.8 |
| 2022E | 28.1 | 85.9 | 38.8 | 21.3 | 29.0 | 145.9 | 228.1 | 577.2 |

Source: [NBR](#), [BRK](#)

We have also looked at how the Romanian banking sector is divided by market share in order to draw inferences about future exposures. We used the total interest-generating assets to estimate the market share. The interest-generating assets were computed for each bank using the 2020 annual financial statements. We did not include the banks which have yet to publish their results in their own separate rows, however, these were included among the other credit institutions.

Thus, the three biggest banks have an almost 39.0% market share and we estimate these gaining a higher share over the medium-term. The table below presents the market share estimations up to 2022.

Figure 2: Banking sector by market share in Romania

| Market share | 2019 | 2020 | 2021E | 2022E |
|--------------|-------|-------|-------|-------|
| TLV | 15.1% | 15.5% | 15.9% | 16.2% |
| BCR | 12.6% | 12.6% | 12.6% | 12.6% |
| BRD | 10.6% | 10.8% | 11.0% | 11.1% |
| Raiffeisen | 7.2% | 7.4% | 7.6% | 7.8% |
| Unicredit | 7.8% | 7.3% | 7.3% | 7.3% |
| Others | 46.7% | 46.3% | 45.7% | 45.1% |

Source: [Banks data](#), [BRK](#)

Figure 3: Total exposure by banks (RON bn)

| Bank | 2019 | 2020 | 2021E | 2022E |
|--------------|--------------|--------------|--------------|--------------|
| TLV | 74.6 | 82.3 | 88.0 | 93.5 |
| BCR | 62.4 | 66.7 | 70.2 | 72.7 |
| BRD | 52.5 | 57.5 | 61.0 | 63.8 |
| Raiffeisen | 35.5 | 39.4 | 42.3 | 45.0 |
| Unicredit | 38.8 | 38.7 | 40.6 | 42.1 |
| Others | 231.2 | 245.6 | 254.7 | 260.0 |
| Total | 495.1 | 530.3 | 556.8 | 577.2 |

Source: [Banks data](#), [BRK](#)

- ◆ The total loans granted in Romania could reach a value of RON577.2 billion by 2022.

- ◆ The three biggest banks in Romania dominate the market. There is a high likelihood that these will gain more market share in the future.

June 30, 2021

Analysis of CEE Banks

We used our proprietary statistical model to estimate Romania's GDP and also used the European Commission's [economic forecast](#) for 2021 and 2022 for the other CEE countries. Showing signs of rebounding, and as the economies gradually reopen, we believe the banking sectors in the CEE region are set for two robust years. We see the same growth catalysts fueling the CEE banking scene as in Romania.

Figure 4: Forward looking GDP growth rates for some CEE countries

| Country | 2020 | 2021E | 2022E |
|----------|-------|-------|-------|
| Bulgaria | -4.2% | 3.5% | 4.7% |
| Croatia | -8.0% | 5.0% | 6.1% |
| Czechia | -5.6% | 3.4% | 4.4% |
| Hungary | -5.0% | 5.0% | 5.5% |
| Poland | -2.7% | 4.0% | 5.4% |
| Romania | -3.9% | 4.4% | 5.0% |
| Slovakia | -4.8% | 4.8% | 5.2% |
| Slovenia | -5.5% | 4.9% | 5.1% |

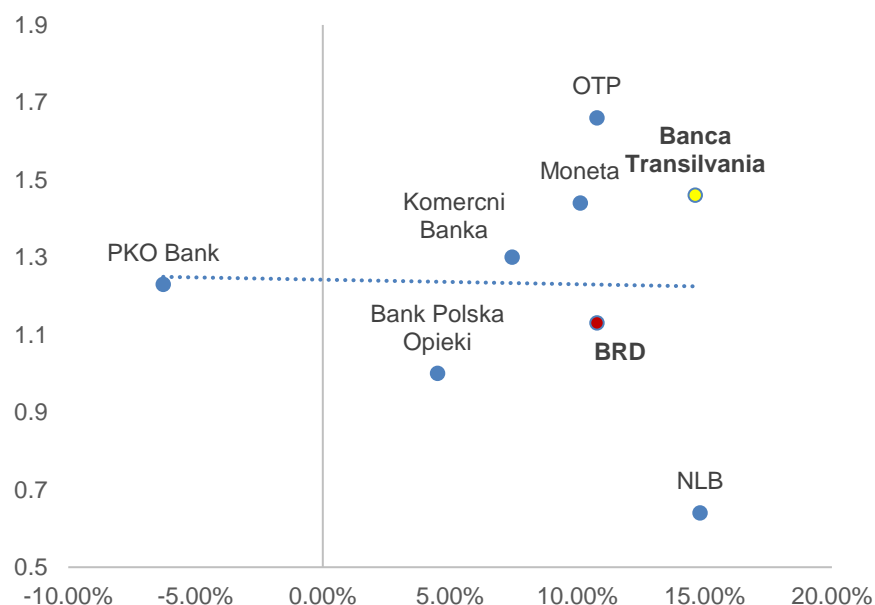
Source: European Commission, BRK

- ◆ In this table we present the 2021 and 2022 GDP growth estimates

We analyzed the multiples of several regional peers that most closely resemble TLV and BRD in terms of activity and market capitalization. This approach was deemed suitable in order to do a sanity check on the market positioning of Romania's banks. In this regard, we have considered P/BV vs ROE.

We found that both banks trade at P/BV multiples close to the average, albeit with small differences. We argue that both banks are currently undervalued since both deliver superior ROEs when compared to their peers (TLV: 14.6% and BRD: 10.8% vs 8.0% the average ROE of the CEE sector).

Figure 5: TLV and BRD shown by P/BVx multiples vs ROEs (%) against other CEE banks



Source: Bloomberg

- ◆ We suggest that both banks are undervalued since both deliver a superior ROE when compared to their peers

In terms of intrinsic valuation, we chose the Gordon Growth Model (GGM) as our primary method and the Residual Income Model (RIM) as corroborative evidence. We believe this model makes most sense since banks operate differently than other types and companies. Moreover, these financial institutions operate in a stable and consolidated industry.

June 30, 2021

Cost of Equity (COE) of 9.6%.

The Equity Risk Premium (ERP) which we used as well as BETA were taken from Damodaran's latest database, while the chosen risk-free rate was the Romanian 10-year yield. As such, the risk-free rate used was 3.2%, ERP was 6.85% and BETA was 0.94. This resulted in a Cost of Equity (COE) of 9.6%.

Investment risks

Both banks are exposed to the same risk factors, namely, credit risk, liquidity risk and market risk. In terms of credit risk, both banks may see a rise in non-performing loans as a result of bad credit, however, both of them have strong policies set up to counteract granting loans to consumers that could potentially not be able to repay them. Nevertheless, there is enough exposure in both cases that would cause significant losses in a bearish case.

Another risk to consider is the overall macroeconomic environment, including the interest rate levels. We believe that a sharp and sudden rise in interest rates could turn out to be a factor that would cause growth impediments. Moreover, we believe that excessive inflation could also be damaging to the overall growth, however, we consider this to be a manageable aspect in the long-run.

- ◆ Inflation is manageable; however, it should not be ignored. The same goes for interest rates.

June 30, 2021

Banca Transilvania SA (TLV RO)

BUY

A Higher Share: BUY

| | |
|------------------------------|----------------|
| Target Price (Return): | RON3.6 (30.4%) |
| Price: | RON2.76 |
| Market Cap: | EUR3,224m |
| Avg Daily Turnover (RON/EUR) | 4.04m/0.82m |

- Initiating coverage on Banca Transilvania (TLV) with BUY recommendation and a target price of RON3.6, implying an upside of 30.4% with a dividend yield of 4.7%.** TLV has shown resilience in fending off the risks caused by the COVID-19 virus. We expect the bank to incur a net income of RON1.86 billion in 2021 and RON2.02 billion in 2022, which represents an increase of 19.1% and 8.7% respectively. This growth could be fueled by a higher need for credit in both the consumer and business sectors.
- Potential for higher yields.** Considering that the European recommendation with respect to dividend distribution in the banking sector is bound to expire this fall, the dividend yield could edge higher due to a potential payment of special dividends. Our baseline assumption does not rely on this scenario but we do not rule it out as a possibility in which case, the yield would certainly be higher.
- M&A sets the growth pace as well.** In addition to growing organically, TLV announced the acquisition of Idea::Bank, as a group, for approximately EUR43 million. Based on these two factors, we see TLV consolidating its leading market share in Romania. As such, the bank is expected to increase in terms of interest income by 8.5% in 2021 and 7.1% in 2022.
- A combination of retail and corporate agendas.** Currently, the bank targets retail, corporate, and SME clients. Having such a wide market exposure and considering the strong economic rebound potential along with the expected increases in prices, we believe that TLV can capitalize on this growth since business may face increased working capital financing needs and consumers may be incentivized to increase spending.
- Digital banking is maturing.** Since going digital has almost become the norm, TLV has been quick to adapt to the global trend. With a 12% increase in the retail digital banking user base, the bank is expected to further consolidate the 1.2 million retail users of digital financial products. Moreover, the bank has seen a 96% increase in the online loan initiation for the SME segment. We see any further increases in terms of user base as a key strategic element.
- The interest rate playing field.** The interest rates are at records low and they are expected to keep this trend in the short-term due to quantitative easing. Even though we see the policy rate increasing and consequently the total growth in loans granted, TLV might be less affected by this event due to its leading market share.

Share Data

| | |
|----------------------------|-------------|
| 52-wk Price low/high (RON) | 1.81 – 2.80 |
| Dividend per share (RON) | 0.11 (2019) |
| Shares outstanding (m) | 696,901,518 |

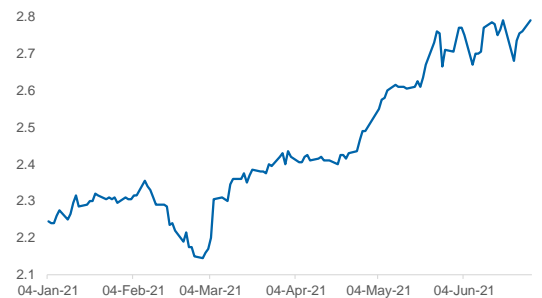
Shareholders (%)

| | |
|----------|--------|
| NN Group | 10.16% |
| EBRD | 6.87% |
| Others | 82.97% |

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|-----------------|------|------|------|------|------|
| Absolute | 22.9 | 2.03 | 14.2 | 22.9 | 42.8 |
| Relative to BET | 0.8 | -2.7 | 7.3 | 0.8 | 4.6 |

Share price evolution - TLV



Source: Bloomberg

| Estimates and Valuation | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
|------------------------------|--------|--------|--------|---------|---------|
| Reported net profit (RONm) | 1,261 | 1,848 | 1,424 | 1,857 | 2,023 |
| Net profit growth (%) | 2.9 | 46.6 | -22.9 | 30.4 | 8.8 |
| Recurring net profit (RONm) | 2,750 | 3,074 | 2,977 | 3,134 | 3,372 |
| Recurring EPS (RON) | 0.56 | 0.56 | 0.50 | 0.48 | 0.52 |
| BVPS (RON) | 1.17 | 1.37 | 1.55 | 1.87 | 2.03 |
| DPS (RON) | 0.17 | 0.11 | 0 | 0.15 | 0.17 |
| Recurring P/E (x) | 4.87 | 4.85 | 5.48 | 5.68 | 5.28 |
| P/B (x) | 1.70 | 2.01 | 1.77 | 1.89 | 1.75 |
| Dividend Yield (%) | 8.6 | 4.6 | N/A | 4.7 | 4.7 |
| Return on average equity (%) | 16.0 | 20.9 | 14.2 | 15.4 | 15.50 |
| Return on average assets (%) | 1.6 | 1.4 | 1.7 | 1.2 | 1.5 |

Source: Company, BRK

June 30, 2021

Valuation And Recommendation

Initiating coverage on TLV with a BUY recommendation and a target price of RON3.6, implying an upside of 30.4% and a potential yield of 4.7%. Our baseline assumption does not follow the scenario in which special dividends are to be paid. Instead, we used a reasonable payout ratio. We used GGM as the primary valuation method and RIM as corroborative evidence. Currently, TLV is:

- i. The leader by market share both in terms of total assets and in terms of interest generating assets;
- ii. A strong player with regards to retail and corporate clients;
- iii. An innovator with respect to Romanian digital banking;

The stock is trading at a P/BV of 1.46x against 1.19x the industry average; however, TLV's superior and sustainable ROE is more than enough to make up for the difference. In addition, the bank has shown resilience during the pandemic and the future increases in loans granted can only benefit the financial institution.

◆ RON3.6 target price and a potential yield of 4.7%.

◆ A superior ROE against its peers implies TLV is undervalued.

Our key assumptions are:

- i. TLV will increase in market share organically and as a result of the acquisition of Idea::Bank;
- ii. The cost of risk will not increase significantly;
- iii. We did not make any assumption about any stock issuing in 2022, but we will update our model if that happens;
- iv. The 10-year yield will not modify significantly within a 1-year timeframe. It will stay at 3.20%;
- v. The long-term growth rate is 2.0%;
- vi. A standard 16% tax rate.

Figure 1: TLV GGM valuation

| | | | |
|--|-----|----------------------|----------------|
| Cost of equity (COE) computation: | | Sustainable ROE (%) | 15.4 |
| Risk free rate (%) | 3.2 | COE (%) | 9.6 |
| Equity premium (%) | 6.8 | Long-term growth (g) | 2.0% |
| Beta (x) | 0.9 | Implied P/BV (x) | 1.76 |
| Cost of equity - CAPM (%) | 9.6 | BVPS: FY22F | RON2.01 |
| | | Target price | RON3.56 |
| | | TP (rounded) | RON3.60 |

Source: Company data, BRK

We used the Residual Income Model (RIM) as corroborative evidence.

Figure 2: RIM valuation

| | 2021 | 2022 | | |
|-------------------------|------|------|---------------------|----------------|
| EPS | 0.29 | 0.31 | Terminal Value | 1.55 |
| Equity Charge | 0.18 | 0.20 | BVPS: FY22F | 2.03 |
| Residual Income | 0.11 | 0.12 | TP | RON3.78 |
| Implied Residual Income | 0.10 | 0.10 | TP (rounded) | RON3.80 |

Source: Company data, BRK

June 30 2021

BRD Groupe Societe Generale SA (BRD RO)

BUY

The Consolidation: BUY

| | |
|------------------------------|-----------------|
| Target Price (Return): | RON20.2 (15.4%) |
| Price: | RON17.50 |
| Market Cap: | EUR2,478m |
| Avg Daily Turnover (RON/EUR) | 2.52m/0.51m |

- Initiating coverage of BRD Groupe Societe Generale (BRD) with a BUY recommendation, a target price of RON20.2, implying an upside of 15.4% and a dividend yield of 7.1%.** BRD has shown resilience in fending off the risks caused by the COVID-19 virus as well. We project a net income of RON1.23 billion in 2021 and RON1.31 billion in 2022, suggesting an increase of 28.8% and 6.1% respectively. The main growth catalyst could be the need for credit from businesses and consumers.
- Potential for higher yields.** Considering that the European recommendation with respect to dividend distribution in the banking sector is bound to expire this fall, the dividend yield could edge higher due to a potential payment of special dividends. Our baseline assumption does not rely on this scenario; however, we do not rule it out as a possibility. If that were the case, the yield would certainly be higher.
- Digital channels are the name of the game.** In Q1 2021, with a 45% increase in the total number of transactions vs Q1 2020 - while 99% of large corporate clients and 96% of SME clients performed transactions using digital channels only - BRD is sure to rule the market going forward in this regard. Considering the convenience brought to customers by digitalization, we expect this to act out as a strategic element in the bank's operations.
- A combination of retail and corporate agendas.** Currently, the bank targets retail, corporate, and SME clients. Having such a significant market exposure and considering the strong economic rebound potential along with the expected increases in prices, we believe that BRD can capitalize on this growth since business may face increased working capital financing needs and consumers may be incentivized to increase spending.
- The rebound.** Based on the latest filings, BRD reported that it had registered an increase of 24.7% in loans to SMEs, while the loans to large corporate clients also increased by 2.4%. Moreover, the consumer loans went up by 19% against the first quarter of 2020. We expect this trend to continue, and so, BRD can not only incur a higher net income but also expand as a potential leader.
- The interest rate playing field.** The interest rates are at records low and they are expected to keep this trend in the short-term due to quantitative easing. Even though we see the policy rate increasing and consequently the total growth in loans granted, BRD might be less affected by this event due to its' long-standing and consolidated market positioning.

Share Data

| | |
|----------------------------|---------------|
| 52-wk Price low/high (RON) | 11.28 – 18.14 |
| Dividend per share (RON) | 0.074 (2020) |
| Shares outstanding (m) | 696,901,518 |

Shareholders (%)

| | |
|------------------|--------|
| Societe Generale | 60.17% |
| NN Group | 5.31% |
| Others | 34.52% |

Share Performance (%)

| | | | | | |
|-----------------|------|-----|------|------|------|
| | YTD | 1m | 3m | 6m | 12m |
| Absolute | 17.8 | 8.2 | 10.0 | 17.8 | 51.4 |
| Relative to BET | -4.2 | 3.5 | 3.0 | -4.2 | 13.3 |

Share price evolution - BRD



Sursa: Bloomberg

| Estimates and Valuation | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
|------------------------------|--------|--------|--------|---------|---------|
| Reported net profit (RONm) | 1,563 | 1,499 | 963 | 1,239 | 1,315 |
| Net profit growth (%) | 10.5 | -5.0 | -34.9 | 28.8 | 6.1 |
| Recurring net profit (RONm) | 1,989 | 2,150 | 2,087 | 2,267 | 2,402 |
| Recurring EPS (RON) | 2.84 | 3.04 | 2.99 | 3.24 | 3.44 |
| BVPS (RON) | 10.91 | 11.66 | 13.94 | 15.52 | 16.01 |
| DPS (RON) | 1.64 | 0 | 0.07 | 1.30 | 1.40 |
| Recurring P/E (x) | 6.16 | 5.75 | 5.84 | 5.38 | 5.08 |
| P/B (x) | 1.60 | 1.50 | 1.22 | 1.12 | 1.26 |
| Dividend Yield (%) | 12.0 | N/A | 0.4 | 7.1 | 7.1 |
| Return on average equity (%) | 20.4 | 18.4 | 9.9 | 11.5 | 11.8 |
| Return on average assets (%) | 2.8 | 2.6 | 1.5 | 1.9 | 1.9 |

Source: Company, BRK

June 30 2021

Valuation And Recommendation

Initiating coverage on BRD with a BUY recommendation and a target price of RON20.2, implying an upside of 15.4% and a potential yield of 7.1%. Our baseline assumption does not follow the scenario in which special dividends are to be paid. Instead, we took a reasonable payout ratio. We used GGM as the primary valuation method and RIM as corroborative evidence. Currently, BRD is:

- i. The 3rd largest bank in Romania in terms of interest generating assets;
- ii. A consolidated and long-standing bank in the Romanian financial sector;
- iii. A pioneer in terms of digitalization and adoption of online transactions for both businesses and retail clients;

Our key assumptions are:

- i. BRD will marginally consolidate its market share in 2021 and 2022;
- ii. The cost of risk will not increase significantly;
- iii. The bank will not issue any stock in 2021 and 2022;
- iv. The 10-year yield will not modify significantly within a 1-year timeframe. It will stay at 3.2%;
- v. The long-term growth rate is 2%;
- vi. A standard 16% tax rate.

The stock is trading at a P/BV of 1.20x against 1.19x the industry average; however, BRD's superior ROE and consolidated market position are more than enough to make up for the difference. In addition, the bank has shown resilience during the pandemic and the future increases in loans granted can only benefit the financial institution.

◆ RON20.2 target price and a potential yield of 7.1%.

◆ A superior ROE and a consolidated market position imply that BRD is undervalued.

Figure 1: BRD GGM valuation

| | | | |
|--|-----|----------------------|-----------------|
| Cost of equity (COE) computation: | | Sustainable ROE (%) | 11.6 |
| Risk free rate (%) | 3.2 | COE (%) | 9.6 |
| Equity premium (%) | 6.8 | Long-term growth (g) | 2.0% |
| Beta (x) | 0.9 | Implied P/BV (x) | 1.26 |
| Cost of equity - CAPM (%) | 9.6 | BVPS: FY22F | RON16.01 |
| | | Target price | RON20.15 |
| | | TP (rounded) | RON20.20 |

Source: Company data, BRK

We used the Residual Income Model (RIM) as corroborative evidence.

Figure 2: BRD RIM valuation

| | 2021 | 2022 | | |
|-------------------------|------|------|---------------------|-----------------|
| EPS | 1.77 | 1.89 | Terminal Value | 4.49 |
| Equity Charge | 1.49 | 1.54 | BVPS: FY22F | 16.01 |
| Residual Income | 0.28 | 0.34 | TP | RON21.05 |
| Implied Residual Income | 0.25 | 0.28 | TP (rounded) | RON21.00 |

Source: Company data, BRK

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Appendix – Financial Exhibits

TLV

| Bloomberg | TLV RO | | Financial summary | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
|-----------|--------|--|--------------------------------|---------------|---------------|---------------|----------------|----------------|
| BUY | | | Recurring EPS (RON) | 0.56 | 0.56 | 0.50 | 0.48 | 0.52 |
| | | | DPS (RON) | 0.17 | 0.11 | 0 | 0.15 | 0.17 |
| | | | BVPS (RON) | 1.17 | 1.37 | 1.55 | 1.87 | 2.03 |
| | | | ROE (%) | 15.98 | 20.92 | 14.21 | 15.36 | 15.50 |
| | | | Valuation metrics | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | Valuation basis | Recurring P/E (x) | 4.87 | 4.85 | 5.48 | 5.68 | 5.28 |
| | | Gordon Growth Model (GGM) | P/E (x) | 10.62 | 8.07 | 11.46 | 12.35 | 8.90 |
| | | Residual Income Model (RIM) | P/B (x) | 1.70 | 2.01 | 1.77 | 1.89 | 1.75 |
| | | Key drivers | Income statement (RONm) | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | i. M&A through the acquisition of Idea::Bank | Interest income | 3,182 | 3,654 | 3,660 | 3,971 | 4,254 |
| | | ii. Organic growth | Net fee and commission income | 777 | 822 | 776 | 754 | 802 |
| | | iii. Digital banking | Operating income | 3,945 | 4,606 | 4,537 | 4,767 | 5,108 |
| | | iv. Interest rates | Operating expenses | 2,238 | 2,475 | 2,915 | 2,556 | 2,699 |
| | | | Earnings before taxes | 1,706 | 2,131 | 1,622 | 2,211 | 2,408 |
| | | | Taxes | 446 | 283 | 198 | 353 | 385 |
| | | | Net income | 1,260 | 1,847 | 1,424 | 1,857 | 2,023 |
| | | | Recurring net profit | 2,750 | 3,074 | 2,977 | 3,134 | 3,372 |
| | | Key risks | Balance sheet (RONm) | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | i. Bad credit | Total cash and equivalents | 10,322 | 14,583 | 22,133 | 23,788 | 25,060 |
| | | ii. Inflation | Tangible fixed assets | 593 | 727 | 904 | 949 | 996 |
| | | iii. Rise in interest rates | Total investments | 21,374 | 23,658 | 30,877 | 33,006 | 34,894 |
| | | | Total assets | 77,896 | 91,722 | 107,492 | 115,319 | 122,048 |
| | | | Deposits from customers | 65,160 | 77,037 | 90,942 | 95,798 | 100,949 |
| | | | Total liabilities | 70,016 | 82,508 | 97,078 | 102,684 | 108,407 |
| | | | Total equity | 7,880 | 9,213 | 10,414 | 12,634 | 13,641 |
| | | | Total liabilities & equity | 77,896 | 91,722 | 107,492 | 115,319 | 122,048 |
| | | Bank overview | Key metrics | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | TLV is currently the largest bank in Romania both by market share and in terms of assets. In addition, TLV is also an innovator with respect to digital banking. | Interest income growth (%) | 51.37 | 14.84 | 0.17 | 8.50 | 7.13 |
| | | | Recurrent EPS growth (%) | 45.41 | 0.33 | -11.48 | -3.51 | 7.60 |
| | | | Net interest margin (%) | 3.53 | 3.35 | 2.77 | 2.72 | 2.76 |

Source: Company, BRK

June 30 2021

BRD

| Bloomberg | BRD RO | | | | | | |
|------------------------|--------|---|---------------|---------------|---------------|----------------|----------------|
| BUY | | Financial summary | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | Recurring EPS (RON) | 2.84 | 3.04 | 2.99 | 3.24 | 3.44 |
| | | DPS (RON) | 1.64 | 0 | 0.07 | 1.30 | 1.40 |
| | | BVPS (RON) | 10.91 | 11.66 | 13.94 | 15.52 | 16.01 |
| | | ROE (%) | 20.41 | 18.43 | 9.90 | 11.45 | 11.78 |
| | | Valuation metrics | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | Recurring P/E (x) | 6.16 | 5.75 | 5.84 | 5.38 | 5.08 |
| | | P/E (x) | 7.83 | 8.25 | 12.67 | 9.84 | 9.27 |
| | | P/B (x) | 1.60 | 1.50 | 1.22 | 1.12 | 1.26 |
| Valuation basis | | | | | | | |
| | | Gordon Growth Model (GGM) | | | | | |
| | | Residual Income Model (RIM) | | | | | |
| Key drivers | | Income statement (RONm) | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | Interest income | 2,158 | 2,337 | 2,261 | 2,499 | 2,646 |
| | | Net fee and commission income | 797 | 805 | 711 | 865 | 905 |
| | | Operating income | 3,080 | 3,197 | 3,044 | 3,378 | 3,564 |
| | | Operating expenses | 1,224 | 1,401 | 1,897 | 1,902 | 1,998 |
| | | Earnings before taxes | 1,856 | 1,796 | 1,147 | 1,475 | 1,566 |
| | | Taxes | 292 | 296 | 184 | 236 | 250 |
| | | Net income | 1,563 | 1,499 | 962 | 1,239 | 1,315 |
| | | Recurring net profit | 1,989 | 2,150 | 2,087 | 2,267 | 2,402 |
| | | Balance sheet (RONm) | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | Total cash and equivalents | 2,236 | 2,077 | 1,889 | 2,438 | 2,551 |
| | | Tangible fixed assets | 801 | 1,193 | 1,065 | 1,119 | 1,175 |
| | | Total investments | 12,142 | 13,066 | 16,028 | 17,619 | 18,432 |
| | | Total assets | 55,719 | 57,770 | 63,557 | 66,807 | 69,892 |
| | | Deposits from customers | 45,216 | 45,898 | 49,957 | 51,799 | 54,351 |
| | | Total liabilities | 48,061 | 49,586 | 53,785 | 55,914 | 58,657 |
| | | Total equity | 7,657 | 8,183 | 9,772 | 10,893 | 11,234 |
| | | Total liabilities & equity | 55,719 | 57,770 | 63,557 | 66,807 | 69,892 |
| | | Key metrics | Dec-18 | Dec-19 | Dec-20 | Dec-21F | Dec-22F |
| | | Interest income growth (%) | 15.64 | 1.06 | -11.69 | 21.69 | 4.62 |
| | | Recurrent EPS growth (%) | 15.67 | 7.12 | -1.66 | 8.61 | 5.98 |
| | | Net interest margin (%) | 3.57 | 3.72 | 3.28 | 3.39 | 3.44 |
| Key risks | | | | | | | |
| | | i. Bad credit | | | | | |
| | | ii. Inflation | | | | | |
| | | iii. Rise in interest rates | | | | | |
| Bank overview | | | | | | | |
| | | BRD is currently the third largest bank in Romania by market share and assets. Moreover, BRD is a consolidated and long-standing bank in Romania with a significant growth potential. | | | | | |

Source: Company, BRK

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| Company | Ticker | The explanatory note applies number: |
|-----------------------------|--------|--------------------------------------|
| Banca Transilvania | TLV | 10 |
| BRD Groupe Societe Generale | BRD | 10 |

BRK Financial Group SA is a provider of liquidity in respect to the structured products it issued.

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2. BRK Financial Group SA acts as a market maker or liquidity provider for the issuer's financial instruments.
3. The issuer is a significant shareholder of BRK Financial Group SA (holds more than 10% of the share capital).
4. The issuer is a shareholder of BRK Financial Group SA (holds a stake of more than 5% of its total issued share capital).
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10. The authors of the investment research do not hold shares in the issuer.
11. BRK Financial Group is a market maker.

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Cumparare : Este estimat că instrumentul financiar va genera un randament mai mare de 15% în următoarele 12 luni, conform cu prețul țintă

Mentineră: Este estimat că instrumentul financiar va genera un randament între -15% și 15% în următoarele 12 luni, conform cu prețul țintă

Vinzare: Este estimat că instrumentul financiar va genera randament negativ de peste -15% în următoarele 12 luni, conform cu prețul țintă

Restrictionat: Divulgarea de estimări financiare, preț țintă sau rating pentru un instrument financiar este temporar restricționată pe motive de conformitate (ex: conflict de interese)

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| Analist | Companie |
|---------|----------|
| - | - |

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| Societate | Simbol | Se aplică nota explicativă nr. |
|-----------------------------|--------|--------------------------------|
| Banca Transilvania | TLV | 10 |
| BRD Groupe Societe Generale | BRD | 10 |

BRK Financial Group SA este furnizor de lichiditate în ceea ce privește produsele structurate emise de aceasta

Note explicative

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