

SUNIL VIDYARTHI

Greek bank a haven from the subprime slime

Living close to Wall Street, one gets the impression that the world has just three regions that matter: North America, Europe and now reluctantly included the eastern regions of China and India.



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In fact, it is just China but to make it sound more thorough and diversified, analysts include India along with Russia and Brazil and call it BRIC. Unfortunately when you live close to each other, viruses like the flu and money problems like subprime mortgages migrate fast, making it what we call the contagion. And boy, do we have a dose of contagion right now.

I just listened to a Florida mayor who pulled his money out of a fund and wouldn't buy anything but U.S. Treasuries until this contagion is cleaned up. His estimated time to recuperate: perhaps early 2009 and that is after Bush and Paulson nearly guaranteed the whole thing.

So what is the first thing you do when you get the chills and fever? You try to stay away from the infected regions. It is hard to find companies and countries among this new block of globalized traders which are not infected. One week, a bank says it has a \$2-billion problem, but the next, it is twice that. Analysts have pretty much given up on estimating who is next and how much is the damage.

The morning CIBC reported its results, the stock actually went up by a few dollars then suddenly, after a couple of hours, tanked by more than 10 per cent. Same information, same people, just reacting differently after digesting the facts. That is what happens when you have no clue as to what is around the corner.

So it looks like Canadian banks are also suspect, not just the U.S. and European ones. Even if they weren't, as I reported in an earlier

issue, our banks have never been as expensive as they are today because of our resource connection. Japan keeps getting in and out of depression and recession.

I do like some Indian banks, but you really have to visit a State Bank of India branch before you will understand my reluctance in owning some of their shares. It is the old 19th-century British bureaucracy still being perpetrated on the unsuspecting clients.

No, let's just get out of here and go to Greece. Why? First of all, it is warmer there, and the Greek stock market has the distinction of being even hotter than Shanghai. Also it is far enough and small enough that the suits may not have found their way there to peddle the slime.

Greeks are well known for shipping, and it has been their shipping industry that has led to incredible performance at the Greek stock market. Now, shipping companies can be very volatile and often are responding to the daily gyrations of the Baltic Dry Index, so I felt it safer to investigate the leading bank in Greece, the **National Bank of Greece SA** (NBG-NYSE, \$13.75).

This bank is not only the major bank in Greece, but also has operations in the United Kingdom, southeastern Europe, Cyprus, and Egypt. As of Dec. 31,

2006, National Bank of Greece operated 567 branches in Greece. It also operates 1,370 ATMs.

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It has ambitions to become the leading financial institution of the region including many of the smaller European countries (number of branches in brackets) like Bulgaria (173), Romania (76), Serbia (203) and Turkey (309). Today, after recent acquisitions in southeast Europe, the Group's network overseas includes 983 units.

While the Asian economies may be growing at a 10 per cent plus rate, Greece and its neighbors are expected to have GDP growth in the five per cent plus range. In other words, the need for NBG's services will be growing for some years at least.

The bank has been quite active in mergers and acquisition as well. The latest numbers reported at the end of November showed that the bank's nine months' profit rose by 66 per cent on strong loan growth and consolidation of its Turkish acquisition. The growth did include the proceeds from sale in April of a minority stake in a cement company. As prosperity takes hold in Greece,

the need for cement-shoes diminishes, I suppose.

Net interest income rose by 53 per cent to \$3.25 billion from \$2.14 billion in the same period of 2006. These figures were higher than analysts' expectations. Like the country, NBG is experiencing a consumer-led boom, increase in real interest rates, a buoyant real-estate market and easing of consumer credit restrictions.

Just this year, it completed its acquisition of a 46 per cent stake in Turkey's Finansbank. Nearly a third of NBG's profits came from foreign subsidiaries, and it is this diversification that makes NBG an interesting stock, not just as a growing bank-representative of the non-Russian part of eastern Europe.

Using my age-old General Valuation Model which uses its sector-high return on equity of 25 per cent and a low cost of capital, the fair value of NBG should be close to 20 times its earnings, similar if not higher than that of the Australian and Indian banks; both regions trading at high multiples.

Of course, there is the subprime issue that must be at the centre of any study of a bank today. I combed through the Q&A at a recent NBG meeting and found no mention of the toxicity.

This doesn't mean that the problems currently faced by the developed world will not spill first into the developing world and then also to perhaps Greece and some of the other eastern European regions.

Surely the housing market and consumer markets would probably soften, if the world economy slows. However, given the outstanding performance this bank has had and the large margin it has over other growing companies around the world, this one seems like another antidote to the coming slow-down or recession at home.

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