

Subject: Jeffrey - I like Alpha Bank (Greece) listed Call Warrants (ticker ALPHAW GA) to play the Greek story from here
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Jeffrey

I like the Greek recovery story, I like Alpha Bank among the banks there and I think the 3.5yr call warrants issued a year ago which have very little time value priced in and priced close to intrinsic, are the best way to buy the stock and the broader story.

Background

1. Greece experienced a worse recession than the Eurozone. The wage and unemployment adjustments have been far more severe than the Eurozone. Greece's economy is showing signs of return to growth over the next year. IMF forecasts 0.6% GDP growth 2014 and faster growth than broad Eurozone from 2015+.
2. In the short term bank asset quality continues to deteriorate. NPL is 35, double the rate of Italy and > 3x that of Spain
3. Greek banks raised eur50bn in 2013 to recapitalize losses from Greek Govt bond PSI (private sector involvement). The sector is now 35-70% state owned.

Greek Banks

Presently Greek banks rank as some of the least profitable in Europe (ROA <0.5%, ROE 2-2.5%). Looking forward to 2018 they should trade at least in line with European banks. Sector consolidation, NC asset disposal, rapidly declining cost of wholesale funds and efficiency savings will all contribute to that. The Sector comprises Alpha Bank, Eurobank, Nat Bk of Greece and Piraeus. They are no longer distressed and trade broadly in-line with European peers in terms of EPS and TBV multiples.

Alpha Bank (ALPHA GA)

Of the three, Alpha Bank looks the most interesting. It trades at a discount to the others and has less complex re-structuring. A recent capital raise increased CT1 to 12%. Most analysts prefer Alpha Bank to its peers for these reasons.

Alpha Bank Stock Price

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Very recent analyst target prices for Alpha Bank are largely above the current price

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Warrants

A year ago the bank issued 4.5year call warrants, exercisable every six months into the stock at a price schedule (appendix A) that varies over time

the relationship between the warrant (which settles physically) and the stock price is:

$[\text{current stock price (0.69)} - \text{next exercise price of warrant (0.4686)}] \times \text{leverage ratio 7.408} = \text{intrinsic warrant px} = 1.64.$

Now, the warrant is offered at 1.83. The value here is that the difference between 1.83 and 1.64, in my view, doesn't compensate for the optionality you get holding the warrant compared to just holding the stock.

Warrant price

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Were the stock to rise 10% over the next month the warrant would rise in value from 1.83 by approx 22%. Conversely if the stock were to fall the warrants would also fall - but it's unlikely the warrant price trades at zero anytime soon due to the 3.5years of remaining time value.

The warrants are quoted several thousand up 1tick wide on exchange.

Any qns shout.

Appendix A

WARRANT ENTITLES HOLDER TO ACQUIRE NEW COMMON SHARES HELD BY HFSF AT A RATIO OF 7.408683070. ISSUE AMOUNT: 1,233,503,482. STEP-UP STRIKE:0.4488
12/10/2013,
0.4576 06/10/2014, 0.4686 12/10/2014, 0.4796 06/10/2014, 0.4928 12/10/2015,
0.506 06/10/2016, 0.5214 12/10/2016, 0.5368 06/10/2017, 0.5544 12/10/2017

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