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Haitong Bank in a report from October 23 (08:00) keeps Komerční Banka at BUY (FV CZK 690).

### **Valuation Methodology**

**Valuation:** We use a Dividend Discount Model (DDM) with a 50% weighting and an excess return on capital method with a 50% weighting to value Czech Banks. We also use a peer multiples' analysis, but only for comparison purposes.

**Sensitivity:** We provide two sensitivity analyses for our fair value estimates wherein we examine two sets of variables: (i) ROEs and perpetuity growth rates; and (ii) equity risk premium and the risk-free rate.

**Main assumption changes:** We assume a terminal ROE at 9.7% (down from 10%). We apply a cost of equity of 7.5% (unchanged). We use a risk-free rate of 2.5% (based on the 10Y Czech Government Bond Yield).

**Forecast revisions:** We have adjusted earnings for: 1) lower margin assumption and volatility on the long end of the reinvestment yield of deposits; 2) lower business activity; and 3) higher risk costs due to recently introduced partial lock-down; 4) further savings in costs in anticipation of a new strategy (branch & employment optimisation). We lower our '20-22E NI by 10%/3%/3% to CZK8.51bn (-43% YoY), CZK9.34bn (+10% YoY) and CZK11.44bn (+23% YoY), respectively.

Our earnings expectations are above consensus by +4%/+6%/5% for '20-22E. We admit however that the impact of the COVID-19 pandemic, especially in terms of volumes and risk costs, is very unpredictable.

### **Risks to Fair Value**

**Macro related:** Risks of a different macroeconomic scenario, especially in light of the highly unpredictable outcome of the COVID-19 outbreak, both in terms of magnitude and length, including: i) interest rates; ii) asset quality/cost of risk; iii) volume growth in Czech Republic.

**Interest rate related:** Material difference in size and timing of Central Bank interest rate changes versus our base assumption of flat interest rates at 0.25% through 2021 and 2022.

**Stricter capital requirements and liquidity regulations** may require more capital to be retained and may limit the bank's ability to pay dividends further;

**Competitive risks** - significant worsening of the competitive situation in the Czech banking market, leading to material erosion of profit spreads on key products, may put pressure on revenues,

**Credit concentration risk** – given KB's exposure to large corporates, the risk remains of a solitary impairment of a large credit exposure,

**Regulatory risk** - concerning the potential introduction of a banking tax;

**Costs related-** higher inflationary pressure and increase in wages may well inflate costs growth;

### **IMPORTANT DISCLOSURES**

Please find updated IMPORTANT DISCLOSURES at: <http://www.haitongib.com/en/what-we-do/research>