

Warsaw, October 28, 2020

Marta Czajkowska-Bałdyga, Analyst, Haitong Bank

Haitong Bank in a report from October 27 (08:00) keeps Moneta Money Bank at BUY (FV CZK 73.2).

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 apply a cost of equity of 8.5% (Beta 1.2, following the acquisition of Wustenrot and given uncertainty concerning MMB's risk profile in the downturn). We assume a terminal ROE at 12.9% (up from 12.4%). We use a risk-free rate of 2.5% (based on the 10Y Czech Government Bond Yield).

Forecast revisions: We have adjusted earnings marginally for: 1) B/S adjustment following the Wustenrot consolidation; 2) higher than-anticipated bad-will revaluation (CZK1.5bn vs CZK 0.5bn expected); 3) increased expenses on higher marketing spending; 4) adjusted net provisioning assumptions. We increased our '20-22E NI by 1%/2%/2% to CZK2.43bn (-39% YoY), CZK 2.59bn (+6% YoY), and CZK 3.61bn (+40% YoY), respectively.

Our earnings expectations are above consensus by +9%/+2%/-1% for '20-22E. At the same time we are slightly below mgmt. guidance for '21-22E by 4%-5% respectively. We admit however that the impact of the COVID-19 pandemic, especially in terms of volumes and risk costs, is highly 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; Regulator may lift the dividend ban in Autumn'20, which would have a positive impact on the valuation.

Competitive risks - significant worsening of the competitive situation in the Czech banking market leading to material erosion of profit spreads on key products, and may put pressure on revenues, which despite continued change in the asset mix, is still dominated by its retail division;

Credit concentration risk – given MMB's exposure to the agricultural sector (historical legacy);

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

Costs related - Higher inflationary pressure and increase in wages may well inflate costs growth; Further reduction of branch network.

Fee income pressure - MMB may not be able to fully offset the decline in retail revenues and fee income from retail customers (including service fees on current accounts and interchange fees on debit and credit cards) by the expansion of retail or SME-related volumes;

Solvency regime - Potential introduction of new insolvency regime for individuals (in the legislative proceeding) which may lift the 30% required payment – which may decrease the level of recoveries (as of 2019 some 30% of the Group's net consumer loans were unsecured);

Strategy implementation - potential risk to successful implementing of its strategy, including digitalisation and change in the clients mix towards younger clients;

NPL sale - The bank may not deliver upon its expected sale of the NPLs, which in turn may increase risk costs and lower the bottom line.

M&A risk:

- Given the recent acquisition of Wustenrot's Czech assets (0.88x 19 P/B), we see a risk of non-delivery of strategic goals and synergies.
- According to the CEO Moneta Bank is actively looking for acquisition targets and could also be attractive for potential shareholders;

Strategic shareholder - lack of a strategic shareholder makes access to additional capital or liquidity more difficult.

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