

*Warsaw, January 28, 2021*

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Haitong Bank updates recommendations on Czech banks:

- In a report from 25 January (8:00) downgrades recommendation for Komerční Banka to NEUTRAL (from Buy), upgrading FV to CZK 710;
- In a report from 27 January (8:00) keeps BUY for Moneta Money Bank, upgrading FV to CZK 86,7.

### **Valuation Methodology**

#### **Komerční Banka**

**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 9.9% (up from 9.7%). 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) adjusted interest rate forecast (to remain at 0.25% in '21 and rise to 0.5% in '22 vs flat 0.25% previously); 2) higher-than-expected NIM pressure due to competition; 3) reported employee restructuring (to be lowered by 3.5% in '21); 4) costs guidance (additional costs in 4Q20 and '21 outlook of up to 2% growth) 5) slight upward adjustment in business activity and 6) changes to risk costs. We change our '20-22E NI by -6%/-2%/0% to CZK7.96bn (-47% YoY), CZK9.11bn (+14% YoY) and CZK11.47bn (+26% YoY), respectively.

Our earnings expectations are above consensus by +1%/-2%/6% 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.

#### **Moneta Money Bank**

**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% (unchanged). We assume a terminal ROE at 14.1% (up from 12.9%). We use a risk-free rate of 2.5% (based on the 10Y Czech Government Bond Yield).

**Forecast revisions:** We increased our '20-22E NI by 10%/14%/1% to CZK 2.69bn (-33% YoY), CZK 2.95bn (+9% YoY) and CZK 3.64bn (+24% YoY), respectively. It now accounts for 1) adjusted interest rate forecast (to remain at 0.25% in '21 and rise to 0.5% in '22); 2) mgmt. updated guidance prior to the announcement.

Our earnings expectations differ from consensus for '20-22E by +8%/+3%/-4%. At the same time we differ from minimum mgmt. guidance for '21-22E by +5%/-4%, respectively.

### **Risks to Fair Value**

#### **Komerční Banka**

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% in 2021 and rising to 0.5% in 2022 and 1.00% in 2023.

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

Dividend payment: Different scenario concerning dividend payout would change the FV, with higher/lower payout would increase/lower FV,

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/lower inflationary pressure and increase/decrease in wages may well inflate/reduce costs growth;

Revenues related: Upside risk to revenue growth caused by i.e. further tightening of monetary policy and/or lower competition on the product margins and/or higher loan growth and/or higher trading income run rate.

#### **Moneta Money Bank**

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% in 2021 and rising to 0.5% in 2022 and 1.00% in 2023.

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

Dividend payment: Different scenario concerning dividend payout would change the FV, with higher/lower payout would increase/lower FV,

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;



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

Financial targets – risk of not delivering upon its financial targets

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:

- The PPF Group's assets acquisition-related incl. overpaying for assets
- 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.

#### **IMPORTANT DISCLOSURES**

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