

| Banking | Update | Czech Republic |

# MONETA Money Bank

We updated our target price to CZK104.6 and reiterate our Buy recommendation

## Buy

Price 05.09.22	<b>CZK 73.2</b>
12m target	<b>CZK 104.6</b>
Upside to TP	<b>42.9%</b>
Dividend	<b>CZK 7.5</b>
Total return	<b>53.1%</b>

### Sector stance

Overweight

### Investment type

High dividend yield

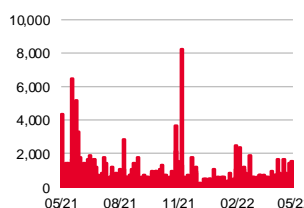
Sensitivity to economic cycle

### 1 year performance



Source: Bloomberg

### Trading volume (in ths of shares)



Source: Bloomberg

### Share data

RIC MONET.PR Bloom	MONET CP
52-week range	73 - 97.9
Market cap. (CZKbn)	37.4
Market cap. (EURm)	1519
Free float (%)	57.49
Performance (%) 1m 3m 12m	
Share	-10.7 -4.8 -17.8
Rel. to PX Index	-3.5 11.0 -6.8

Source: Bloomberg

### The latest analysis and report:

[https://bit.ly/Moneta\\_2Q22results\\_EN](https://bit.ly/Moneta_2Q22results_EN)
[https://bit.ly/Moneta\\_PPF\\_end\\_EN](https://bit.ly/Moneta_PPF_end_EN)

SOCIETE  
GENERALE  
GROUP

**Investment recommendation:** Based on our updated model, we have adjusted our target of Moneta Money Bank. Our new target price for Moneta shares is CZK104.6 with a Buy recommendation. The recommendation remains unchanged, with the target price reduced from CZK109.7 (issued 31 August 2021). Moneta shares are traded at a premium compared to peers. Moneta is valued at P/B 1.3x, P/E 9.4x and P/S 3.4x. Comparable banks trade at multiples of 0.8x, 6.3x and 0.9x respectively. However, Moneta offers a higher return on equity compared to its peers and we expect it to pay higher dividends, as well. Thus, we consider Moneta's premium to be justified.

**Company results and expected development:** The current high interest rate environment is favourable for the banking sector, and we expect further monetary tightening this autumn. This should have a positive effect on net interest income growth. The net interest margin should continue to be well above peers. We see the risk of a special tax for the banking sector as very high. We conservatively assume there will be an increase in the tax rate on profits for the next two years. We estimate it should rise from the current level of around 20% to reach 40%. This will obviously affect net profits in those years. We expect net profit of CZK4.8bn this year and CZK3.5bn and CZK3.6bn in 2023 and 2024, respectively. If the special tax does not occur, Moneta would report CZK4.6bn and CZK4.9bn, according to our estimates. The lower net profit will also affect the dividend payout.


**Shareholder remuneration:** Moneta's dividend policy is to distribute at least 70% of net profit. However, management aims to pay out at least 80%. Due to the regulation by the CNB, this year for the first time in two years there was a dividend payment. For the following years, we conservatively assume a payout ratio of 80% of net profit. Moneta paid out CZK7 per share from 2021 earnings. Next year, we estimate CZK7.5 (from 2022 earnings). However, in the following two years, 2024 and 2025, the payout should fall to CZK5.4 and CZK5.7, respectively, due to the introduction of a special tax. Thereafter, we estimate the dividend will return to almost CZK8 and the gross dividend yield should exceed the 9% level. In addition, Moneta has CZK5.2bn of excess capital (CZK10.2 per share), including CZK2.3bn for future dividend payments.

**Valuation:** We used the average of three methods to determine the share price: (1) excess return model, (2) dividend discount model and (3) discounted cash flow model. Compared to Moneta's current stock price, our target price offers a total return of 53.1%, which is consistent with a Buy recommendation.

Financial data	2021	e2022	e2023	e2024	Ratios	2021	e2022	e2023	e2024
Revenues (CZKm)	11,168	12,206	12,662	13,263	P/E (actual, x)	10.1	8.5	11.6	11.1
Cost / Income ratio (%)	49.6	46.1	45.6	44.5	Price / book value (x)	1.4	1.3	1.3	1.3
Net interest margin (%)	2.7	2.8	2.7	2.7	Price / sales (x)	3.6	3.3	3.2	3.0
Net income (CZKm)	3,984	4,770	3,472	3,641	Dividend yield (%)	0.0	8.9	9.5	6.9
EPS	7.8	9.3	6.8	7.1	ROE (%)	13.5	15.6	11.5	11.8
Cash flow per share	12.4	10.6	8.7	9.4	ROTE (%)	15.2	17.5	12.9	13.2
Dividend per share	0.0	7.0	7.5	5.4	ROA (%)	1.2	1.3	0.9	0.9
Payout ratio (%)	0.0	89.8	80.0	80.0	Loan-to-deposit (%)	89.6	88.0	86.2	86.7

**Upcoming events:** 27 October – 3Q21 results

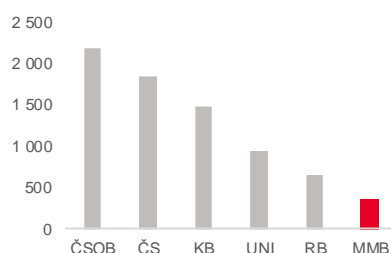
3 February – 4Q22 results

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## Company overview

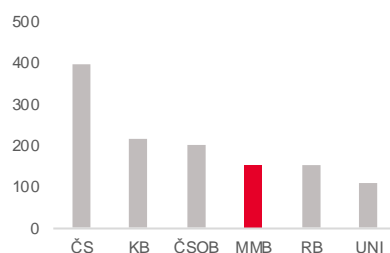
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Strong position in both retail and SME segments</li> <li>Extensive and evenly spread distribution network of branches and ATMs</li> <li>High capital adequacy and asset profitability</li> <li>Independence from external financing</li> <li>Long-term management experience of the Czech banking sector</li> </ul>	<ul style="list-style-type: none"> <li>Limited regional diversification</li> <li>High competition in fees and commissions among banks</li> <li>Highly sector regulation</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Favourable macroeconomic environment of the Czech economy</li> <li>Rising interest rates with a positive impact on net interest income</li> <li>Low penetration of financial services among the population and corporate clients</li> <li>Expansion of provided services</li> <li>Attractive price policy that should increase client portfolios</li> <li>Growth through acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>Stricter regulation</li> <li>Unsuccessful strategy without the desired effect of increasing loan volumes</li> <li>Lower dividend payout than estimated</li> <li>Special bank levy or sectorial tax</li> </ul>

Balance sheet total (CZKbn, end of 2Q22)

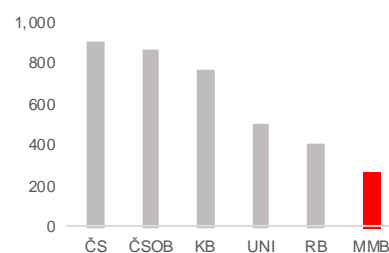


Source: banks' websites

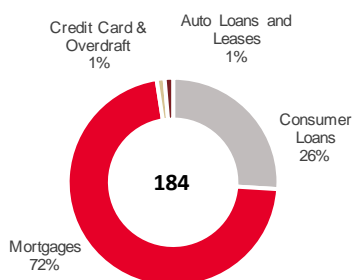
Number of branches by the end of 2Q22



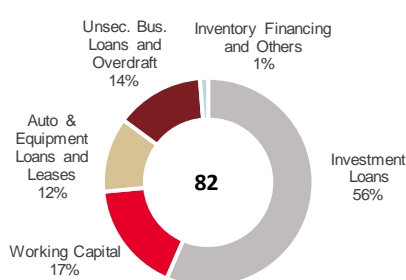
Loans provided to clients (CZKbn, 2Q22)



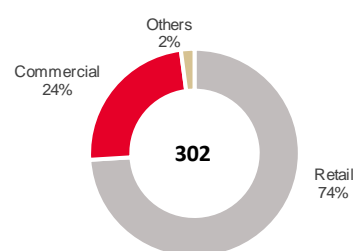
Retail loans (CZKbn, 2Q22)



Corporate loans (CZKbn, 2Q22)



Clients' deposits (CZKbn, 2Q22)



Source: MONETA Money Bank

## Financial situation of the company

### Company results for 2Q22

CZKm	2Q21	2Q22	change	KB estimate	Consensus
Net Interest Income	2,056	2,458	19.6%	2,414	2,476
Net fees and commission	495	545	10.1%	507	520
Total operating income	2,704	3,066	13.4%	2,997	3,081
Total operating expenses	-1,333	-1,275	-4.4%	-1,300	-1,299
Net profit	833	1,582	89.9%	1,368	1,492
Earnings per share	1.63	3.10	89.9%	2.68	2.92

Source: Moneta Money Bank, Economic & Strategy Research, Komerční banka; MONETA Money Bank consensus among 12 analysts, including KB

**Moneta's second-quarter results for the year were up substantially on a year-on-year basis. The positive impact is due to high interest rates and the release of provisions at the net profit level. Results were in line with the consensus, with a small difference in net profit, which was 6% better than expected.**

Second-quarter results showed substantial growth.

The loan portfolio reached CZK267.1bn, which means year-on-year growth of 11.7%. Retail loans accounted for 69% of this, reaching CZK184.2bn. The commercial portfolio grew to CZK83bn (9.4% yoy). Given the rapid rise in interest rates, net interest income reached CZK2.5bn (19.6% yoy). The net interest margin of 2.7% is unchanged year-on-year and down by one-tenth compared to the previous quarter. Net fee and commission income increased 10.1% to CZK545m due to the higher number of transactions. Total operating income was 13.4% higher at CZK3.1bn. Operating expenses were impacted by a reimbursement of M&A costs of CZK113m. Inflation was reflected in other expenses. Personnel costs increased, but the increase was partly eliminated by a decrease in the number of employees. Total operating expenses were 4.4% lower yoy at CZK1.3bn. The volume of NPLs decreased 39.3% to CZK3.8bn. Part of NPLs were upgraded and part successfully disposed. For the second consecutive quarter, Moneta released provision bookings of CZK155m (CZK-344m in 2Q22). Net profit amounted to CZK1.6bn and represented year-on-year growth of almost 90%. The high growth is mainly due to the difference in provisions.

The capital adequacy ratio is 16.8%. This was comfortably above the capital requirement of 15.1% (including the buffer set by MMB management).

RoTE return on tangible equity increased to 24.9% (13.1% last year).

Excess capital amounted to CZK5.2bn or CZK10.2 per share. This amount already includes CZK2.3bn for future dividend payments.

The reported results for 2Q22 were in line with estimates, with only net profit being 6% better. Moneta's management confirmed its full-year guidance. The results for the full first half of the year present about half of the expected revenues (50.8%) and expenses (49%). For net profit, the figure is 65.3%. From this perspective, Moneta's target seems very conservative. However, in the second half, given the expected deterioration in the macro environment, provisioning against their dissolution in the first half of the year can be expected. According to the current targets, Moneta should achieve total revenues of at least CZK12bn, operating expenses of up to CZK5.7bn and net profit above CZK4.4bn. The cost of risk should be in the range of 20-40bp and RoTE above 16%.

## Outlook for this year

**The government is likely to introduce a special tax for the banking sector. In our projections, we expect the windfall tax to apply to the next two years' profits. See below.**

### Rising interest rates.

This year's GDP is projected to show 2.5% growth, with us expecting a shallow recession in the second half of this year. Next year, there should be 1.7% growth. Inflation, especially due to the current tense situation of energy commodities, is likely to move above 20% by the end of the year. In an effort to maintain price stability, the CNB has hiked raise interest rates. The key interest rate is now 7% and we estimate a further increase to 7.5% by the end of the year. The banking sector as a whole should be supported by high interest rates. For more economic projections, see the latest edition of the Economic Outlook from our colleagues in Economic and Strategic Research. The publication is called "The Targeting Woes of the Central Banker" and is available here <https://bit.ly/3qc8mao><sup>1</sup>.

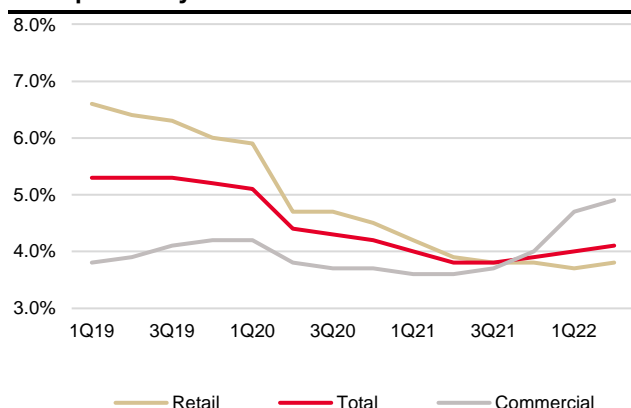
### Faster growth in new lending compared to the overall market.

Loans to customers grew at a rate of 11.7% in the first half of this year, outpacing growth of the overall market. Growth in retail lending plays a leading role without any surprises. We expect faster growth in Moneta's loan portfolio for the whole of this year.

### The growth in loan portfolio profitability has followed the rise in interest rates.

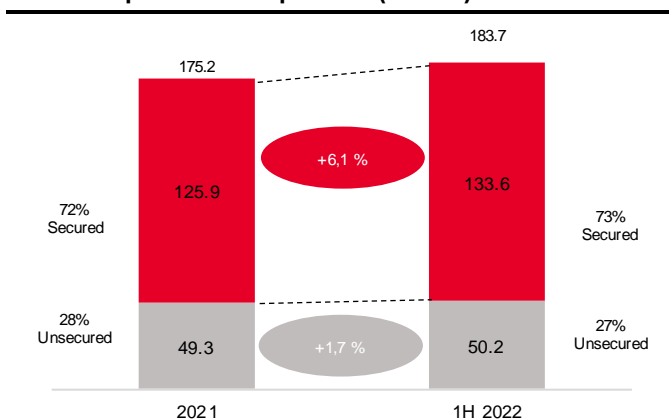
The bottom left chart shows growth in loan portfolio profitability. This is particularly evident in corporate loans, where the yield reached 4.9% from 3.6% a year ago. The yield on retail loans is almost unchanged at 3.8%. The total return was 4.1% in the first half of the year. Of the total loans, 69% are retail. The structure of the retail portfolio is one of the most important factors. The proportion of secured retail loans has risen 6.1% over the past year, while unsecured loans have risen only 1.7%. The overall ratio of secured increased slightly to 73% and unsecured accounted for the remaining 27%. Mortgages form the largest volume of retail lending at almost 71%. This affects the yield in this segment. Of all loans, it accounts for almost half.

**Loan portfolio yield**



Source: Moneta Money Bank

**Retail net portfolio composition (CZKbn)**



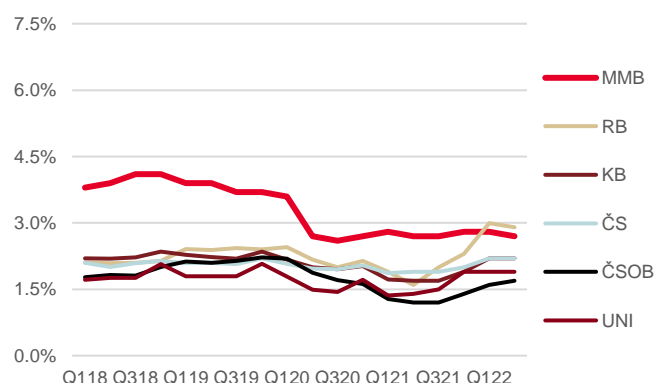
Note: Retail secured includes mortgages, auto loans and financial leases; retail unsecured includes consumer loans, consumer authorised overdrafts and credit cards

<sup>1</sup> See more in our report "The Targeting Woes of the Central Banker" published on 26 July 2022, 1:56pm CEST

Net interest should be more or less stable.

Last year, net interest income grew almost 4%. The net interest margin fell by one-tenth of a percentage point to 2.7%. We estimate that net interest income will rise 14.1% to CZK9.8bn this year. The net interest margin should increase slightly to 2.8% and return to the previous year's level. The decline in the net interest margin is due to the structure of the loan

Comparison of net interest margins



Source: Moneta Money Bank, Economic & Strategy Research, Komerční banka

portfolio. The adjacent chart compares the margins of the six largest banks, including Moneta. Moneta has above-average margins compared to the others. We estimate Moneta will continue to achieve higher margins compared to its peers in the coming years. The development of interest margins in the banking sector is of course positively affected by high interest rates. The CNB started raising interest rates rapidly in June 2021 in an attempt to reduce inflation. The base repo rate jumped from 0.25% then to 7.0% today (5 September 2022). We estimate that this rate will peak this autumn, when it should reach 7.5%. Monetary policy should be eased gradually thereafter.

This year, we expect an improvement in net fee and commission income.

Fees and commissions grew a high 8.4% last year (CZK2.05bn). This year we also expect an improvement, but the growth rate will be lower. We thus estimate 3.7% growth to CZK2.12bn. The growth is related to income from completed transactions, asset management, management of credit and deposit products.

The upward pressure on wages will lead to an increase in total operating costs.

In our estimates for this year, we anticipate a slight increase in operating expenses of 1.6% to CZK 5.6bn. Due to inflationary pressures, personnel costs will also rise. However, this will at least partially offset the decline in FTEs. Administrative costs will decrease year-on-year. This will also be related to the compensation of costs related to the cancelled acquisition. This is a one-off item booked in 2Q22 amounting to CZK113m. We expect a cost income ratio of 46.1% after 49.6% in 2021.

Increase of provisions in the second half of the year after release in the first half.

Provisions (CZK3.6bn, 174bps) for NPLs increase sharply in 2020. This was related to the outbreak of the coronavirus pandemic and subsequent restrictive measures. But already last year, these costs fell to CZK0.7bn, or 29bps. This year, they were released in the first and second quarters. The reason is better payment morale leading to reclassification of part of the portfolio. However, in the second half of the year, given the expected deterioration in the macro environment, they are expected to increase. In total, we expect provisioning this year to be similar to last year at CZK0.7bn, which represents 26bps.

Moneta continues to sell nonperforming loans. In the first half of the year, it sold another part of this portfolio and realised an additional gain of around CZK120m. The NPLs ratio fell to 1.4% in the first half of the year. This is a historically low level. We expect the ratio to rise to 2% by the end of the year.

Sharp increase in net profit due to the decline in provisions.

The increase in net profit is expected to be almost 20% to CZK4.8bn this year. This is due to growth in operating income, while costs should grow at a lower rate. The effective tax rate in this case was 19%.

In the table below you will find management's projections for this year, which were confirmed on the occasion of the publication of the 2Q22 report, along with a comparison with our estimates. The targets appear conservative compared to the reported 2Q22 results, even taking into account the expected deterioration in the macro environment. We estimate Moneta will beat its targets.

#### 2021 results and 2022 guidance

	2021	2022 mng guidance	2022 KB estimates
Total Operating Income	CZK11.2bn	≥ CZK12.0bn	CZK12.2bn
Cost Base	CZK5.5bn	≤ CZK5.7bn	CZK5.6bn
Cost of Risk	174bps	20-40bps	26bps
Effective Tax Rate	19.3%	~20%	19%
Net Consolidated Profit	CZK4.0bn	≥ CZK4.4bn	CZK4.8bn
EPS	CZK7.8	≥ CZK8.6	CZK9.3
DPS	CZK7	≥ CZK6.8	CZK7.5
Reported Return on Tangible Equity	15.2%	≥ 16.0%	17.5%

Source: MONETA Money Bank, KB Economic & Strategy Research

#### Special tax

The likelihood of a special tax is indeed high.

Given the current situation and the expectation of a still-high government budget deficit, the government will likely introduce a special tax not only for the banking sector. This would be a so-called windfall tax. We assume the majority of the government coalition will agree on this.

However, there are no proposals yet on how or on what part of the profits the special tax should apply.

In our estimates, we assume the effective tax rate will increase to roughly double, reaching 40%. This would be applied to profits for the next two years (2023 and 2024).

We originally expected next year's net profit to be CZK4.6bn and CZK4.8bn for 2024. However, after the introduction of the special tax, we expect profits to fall to CZK3.5bn and CZK3.6bn, respectively.

The likelihood of a special tax is indeed high.

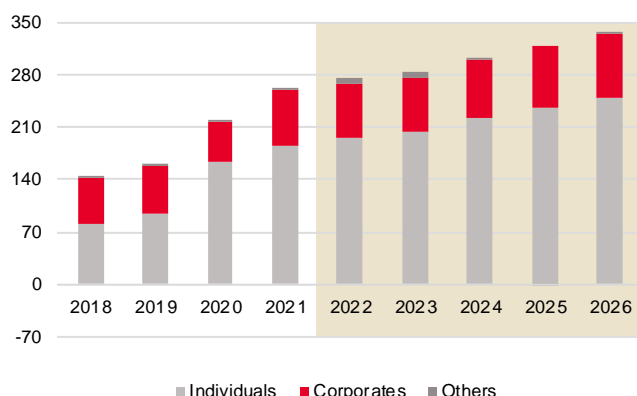
This will of course affect the dividend payout from the profits of both years. Instead of the current expectation of CZK7.2 and CZK7.6 per share due to the higher tax, we estimate the dividend to fall to CZK5.4 and CZK5.7.

### Our long-term outlook

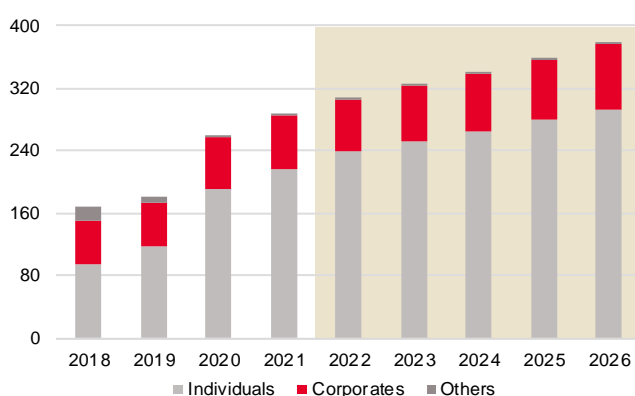
**Our long-term projections are based on the expected level of interest rates and increasing loan volumes.**

Retail loans will grow faster compared to the market.

We expect the loan portfolio to grow in both the retail and corporate segments. We estimate an average annual growth rate (CAGR) of 5.2% in total loans over 2022 to 2026. The growth rate of retail loans is expected to be slightly higher at 6.0%, outperforming the expected market growth. For commercial loans, we expect a pace of 3.6%.

**Loan breakdown and its expected development (CZKbn)**


Source: MONETA Money Bank, KB Economic &amp; Strategy Research

**Deposit breakdown and its expected development (CZKbn)**


As for deposits, we estimate a growth rate of 5.2% (CAGR) over the period of 2022-2026. For households, we estimate an average annual growth rate of 6.0%, reflecting the growing savings of the retail segment. Commercial deposits are expected to grow 3.6%. For the market as a whole, we expect a growth rate of 4.9%.

The net interest margin should stabilise in the coming years.

We expect the net interest margin to reach 2.8% this year. High interest rates will have a positive impact. We estimate that it will stabilise at around 2.7% over the forecast period (2022-2026). Net interest income will grow 5.1% on average over the forecast period and reach CZK11.1bn at the end of our horizon.

Traditional fees will decline while other income will grow and overcome this decline.

Net fee and commission income is expected to grow at an average annual rate of 4.8% over the forecast period. Downward pressure on traditional fees will persist, but asset management and other services should more than offset this negative trend.

Total operating income is projected to grow 4.7% on average to CZK14bn in 2026.

We expect average growth in total operating expenses to be around 2.4% in the coming years.

We estimate total operating costs at CZK6.2bn in 2026. This will imply an average annual growth rate (CAGR) of 2.4%. Personnel costs account for the largest share of total costs. Given the current situation of high inflation and a very tight labour market, they will grow the fastest (4.0%). We expect only a slight increase in administrative costs.

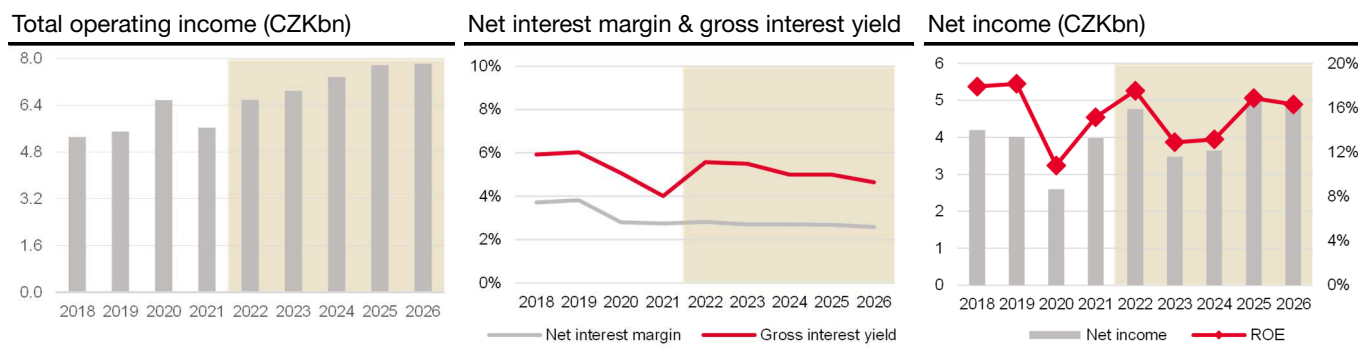
We estimate net profit growth over our estimate horizon.

We estimate that net profit will rise from CZK4.0bn in 2021 to almost CZK5bn in 2026. For the cost of risk, we expect it to rise to 50bps from the 26bps expected this year. We assume an effective tax rate of 20%.

The special tax will reduce net profit and of course will also affect the dividend.

Unfortunately, there is a real risk that the special tax will be introduced. No concrete proposals are known yet. Our estimates conservatively assume an increase in the effective tax rate to 40% for the next two years.

We discuss this issue more in the preceding paragraphs and below, including the impact on dividends.



Source: MONETA Money Bank, KB Economic & Strategy Research, Czech National Bank

Our estimates, along with Moneta management's projection, are in the table below.

#### Medium-term guidance

	2021	2025 mng guidance	2026 KB estimates
Total operating income	CZK11.2bn	≥ CZK13.8bn	CZK14.0bn
Cost base	CZK5.5bn	≤ CZK6.1bn	CZK6.2bn
Pre-loss allowances profit	CZK5.6bn	≥ CZK7.7bn	CZK7.8bn
Cost of risk	29bps	40-60bps	50 bps
Net consolidated profit	CZK4.0bn	≥ CZK4.9bn	CZK5.0bn
EPS	CZK7.8	≥ CZK9.6	CZK9.7
DPS	CZK7	CZK7.6	CZK7.8

Source: MONETA Money Bank, KB Economic & Strategy Research

Our estimates suggest Moneta will meet its targets.

In our estimates, the rate of growth in total revenues will be higher than the growth in operating expenses. This will imply growth in operating profit. We estimate Moneta will meet its targets.



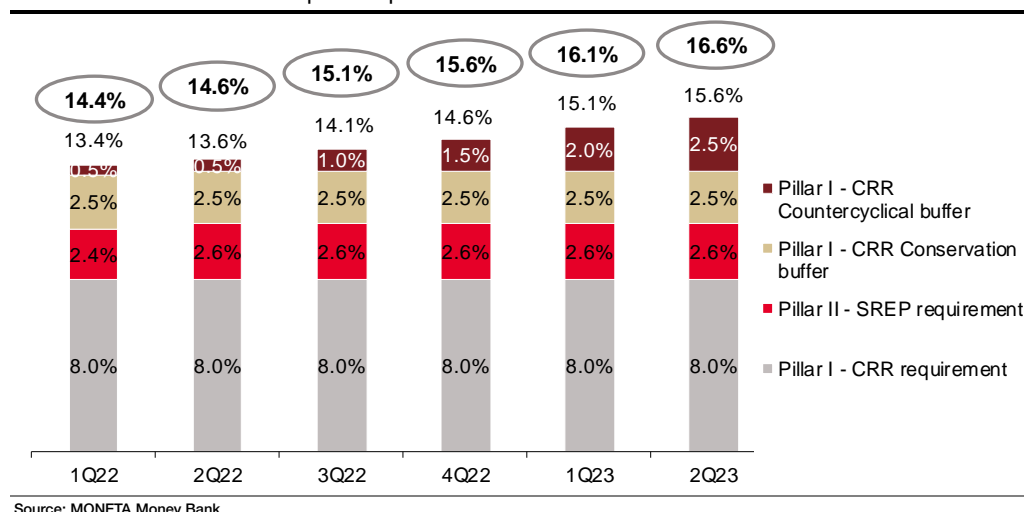
## Capital adequacy

Moneta has a strong capital position.

Moneta Money Bank is one of the best capitalised banks in the CEE region. The regulatory capital requirement is 14.1% as of July 1. It consists of 10.6% SREP requirement, 2.5% conservation buffer, 1.0% countercyclical capital buffer. In addition to this, Moneta has set a management buffer of 1.0%. In total, therefore, 15.1 %. The countercyclical capital buffer will gradually increase to 2.5% by April next year. This will bring the total regulatory capital requirement to 15.6% or 16.6% when the internal buffer is included. The composition of capital buffers is illustrated in the chart below.

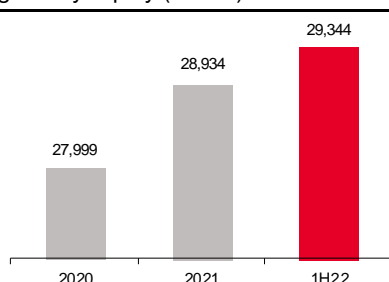
At the end of the first half of this year, Moneta's capital adequacy ratio was 16.8%. Therefore, Moneta comfortably meets the 15.1% requirement, which already includes the internal management reserve of 100bps.

### Trend and breakdown of capital requirement

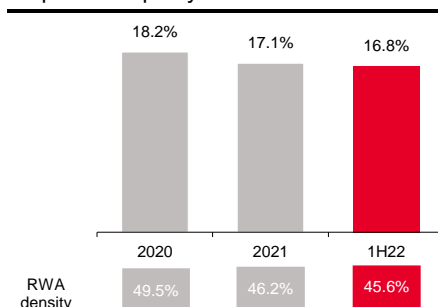


At the end of the second quarter, regulatory capital reached CZK29.3bn. Risk-weighted assets (RWA) reached CZK175.2bn. Surplus capital at the end of 2Q22 was CZK5.2bn, including CZK2.3bn for future dividend payments. In total, this represents CZK10.2 per share.

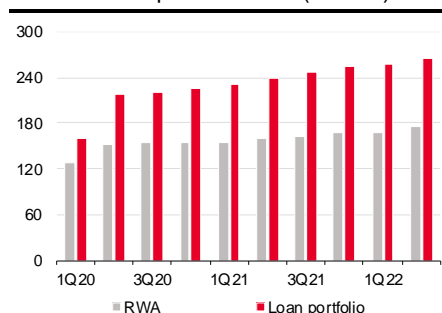
### Regulatory equity (CZKm)



### Capital adequacy ratio



### RWA vs loan portfolio dev. (CZKbn)



Source: MONETA Money Bank

We estimate the bank's risk-weighted assets to total assets ratio to be well below 50% in the period under review. This ratio has already fallen substantially in previous years. Moneta continues to sell its non-performing loan (NPL) portfolio. The reclassification of NPLs due to payment morality has also been positive. In our forecast, we also assume that the bank will continue to be able to fully fund its loans with deposits raised and will not be dependent on external funding. Thus, the loan-to-deposit ratio should remain below 100%.

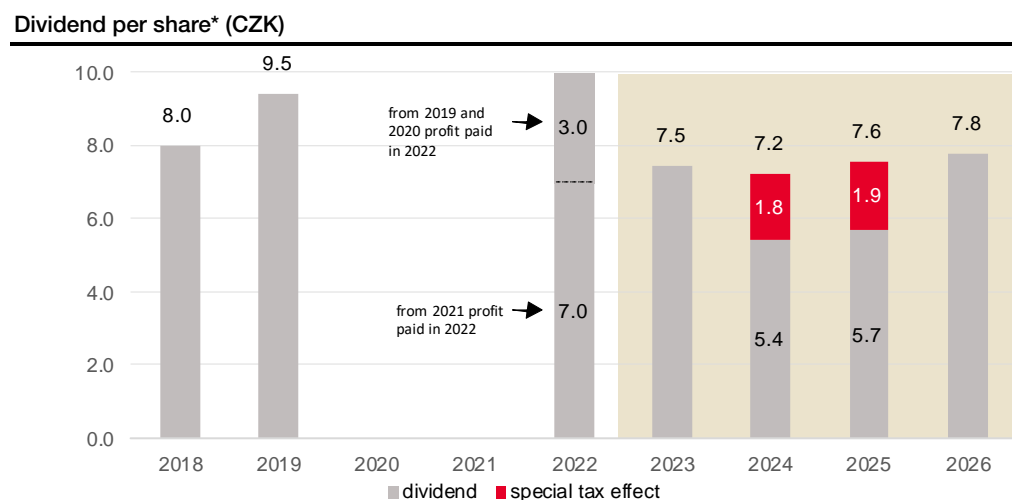
## Shareholder remuneration

Moneta's dividend policy is a minimum of 70% of net profit.

Moneta's standard dividend policy is at least 70% of net profit. However, Moneta's management has clearly stated its intention to pay out at least 80%. In the past two years, dividends were not paid due to CNB regulation.

This January, Moneta first paid a dividend of CZK3 per share from its 2019 and 2020 profits. And then in May, it paid another CZK7 per share from 2021 earnings. This meant a payout ratio of 90%. Next year, we estimate a dividend of CZK7.5 per share. If Moneta's earnings are burdened by a special tax in 2023 and 2024, the dividend will fall to CZK5.4 and CZK5.7 in those years. Without the special tax, distribution of CZK7.2 and CZK7.6 per share would occur. The gross yield is expected to reach over 9% in the coming years.

The following chart shows our dividend estimates for the coming years. Including a comparison of the standard scenario and with the special tax, which will affect the dividend amount.



Source: MONETA Money Bank, KB Economic & Strategy Research; \*Based on the year in which it is paid

## M&A activity

PPF Group has terminated its efforts to control Moneta.

PPF and Moneta terminated the acquisition of Air Bank Group. This was PPF's second attempt to take control of Moneta.

PPF reimbursed Moneta for transaction-related costs of CZK113m (reflected in the 2Q22 results). PPF will also not increase or decrease its existing 29.94% stake over the next 12 months. However, it may sell it to a strategic investor. Please see more in our report [https://bit.ly/Moneta\\_PPF\\_end\\_EN](https://bit.ly/Moneta_PPF_end_EN).

We expect Moneta to remain active in M&A. It may either acquire attractive targets or become an acquisition target itself.

## Company valuation

### Sector comparison

Moneta's shares trade at a premium to a select group of peers and to the European banking sector as a whole (EURO STOXX Banks) at the multiples (P/E, P/BV, P/S). MMB offers a higher return on equity compared to its peers. Moreover, it will pay higher dividends than its competitors in the coming years, in our view. It is very well capitalised and is not dependent on external funding, based on its loan-to-deposit ratio.

In our view, MMB's premium is justified. We would see its valuation above the market median.

#### MONETA Money Bank vs peers

	P/E akt.	P/E 2022	P/E 2023	P/BV akt.	P/TABV akt.	P/S akt.	Div. výnos 2022	ROE akt.	ROA akt.
<b>MONETA MONEY BANK</b>	<b>9.4</b>	<b>7.9</b>	<b>10.8</b>	<b>1.3</b>	<b>1.2</b>	<b>3.4</b>	<b>9.5</b>	<b>13.5</b>	<b>1.2</b>
Komerční Banka AS	6.8	6.8	7.5	0.9	1.0	1.6	11.6	13.2	1.1
BRD-Groupe Societe Generale SA	6.9	n/a	n/a	1.5	1.6	2.4	n/a	16.2	1.9
Privredna Banka Zagreb dd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.4	0.7
BNPP Bank Polska SA	17.4	4.1	3.5	0.6	0.7	1.0	0.0	3.6	0.3
Bank Handlowy w Warszawie SA	7.3	6.0	6.4	1.1	1.3	2.3	9.5	14.3	1.6
OTP Bank Nyrt	7.1	6.0	5.4	0.7	0.8	0.9	3.7	9.7	1.0
Santander Bank Polska SA	9.0	6.3	6.1	0.8	0.9	1.8	3.6	8.7	1.0
Bank Polska Kasa Opieki SA	6.0	8.5	4.4	0.8	0.8	1.3	6.2	11.5	1.0
Powszechna Kasa Oszczednosci B	6.6	6.1	4.7	0.9	1.0	1.3	5.9	11.9	1.0
Sberbank of Russia PJSC	2.6	2.4	2.3	0.6	0.6	0.8	20.3	23.3	3.2
Bank Millennium SA	n/a	n/a	3.0	0.8	0.9	0.9	0.0	-15.3	-1.0
Vseobecna Uverova Banka AS	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.6	0.5
Alior Bank SA	5.4	5.6	3.7	0.6	0.7	0.6	1.7	10.7	0.8
Akbank TAS	2.4	2.2	2.9	0.7	0.7	0.7	5.0	34.3	3.8
Türkiye Garanti Bankası AS	3.6	2.9	4.1	0.9	0.9	0.8	4.0	32.0	3.4
Yapı ve Kredi Bankası AS	2.6	2.0	3.2	0.7	0.7	0.7	6.0	35.4	3.4
Türkiye İş Bankası AS	2.8	1.9	2.5	0.7	0.8	0.6	8.4	33.4	3.0
Banca Transilvania SA	7.4	6.2	5.9	1.5	1.6	2.2	8.5	19.6	1.6
Hacı Ömer Sabancı Holding AS	2.2	2.1	2.4	0.8	1.0	0.4	5.5	44.9	3.1
<b>Medián srovnávací skupiny</b>	<b>6.3</b>	<b>5.6</b>	<b>3.9</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>5.7</b>	<b>13.2</b>	<b>1.1</b>
<b>EURO STOXX Banks Price EUR</b>	<b>7.4</b>	<b>6.7</b>	<b>6.2</b>	<b>0.6</b>	<b>0.7</b>	<b>1.5</b>	<b>6.5</b>	<b>8.1</b>	<b>0.4</b>
MMB vs. medián	49%	40%	177%	62%	43%	256%	68%	3%	3%
MMB vs. STOXX	27%	17%	75%	117%	85%	121%	48%	68%	187%

Source: Economic & Strategy Research, Komerční banka, Bloomberg

### Fair value and target price

We used three methods to value Moneta's shares.

To determine the fair value of the company's shares, we used the average of three methods: the excess return method (ERM), discounted dividends (DDM) and discounted free cash flow (DFCF).

We discount excess return and free cash flow estimated for 2022-2026 and dividends from profits of the 2022-2026 period to the end of September 2022. We calculate the required rate of equity capital based on the CAPM model when we used our prediction of a risk-free rate in the future years. Finally, we determine equity and country premiums using Aswath Damodaran. The cost of equity is in the range of 10.2-8.6% over the period of 2022-2026. For the terminal phase, we take into account the normalised values of risk-free interest rates and equity risk premia.

**Based on the average of the above models, we set the fair value of MONETA Money Bank shares at CZK104.6 per share.**

### Parameters and valuation methods for MONETA Money Bank stock

	2022	2023	2024	2025	2026		2023	2024	2025	2026	2027
<b>Cost of equity capital</b>	<b>10.2%</b>	<b>9.7%</b>	<b>9.0%</b>	<b>8.7%</b>	<b>8.6%</b>	<b>DDM</b>					
Risk-free rate	4.6%	4.1%	3.3%	3.1%	3.0%	Dividend per share	7.50	5.40	5.70	7.80	7.80
Beta	1.04	1.04	1.04	1.04	1.04	Explicit value	26.3				
Risk premium	5.4%	5.4%	5.4%	5.4%	5.4%	Terminal value	66.8				
Dividend growth after 2023	2.4%					Fair value (CZK)M	47,555				
FCFE growth after 2023	1.0%					<b>Fair value per share</b>	<b>93.1</b>				
Payout ratio after 2023	80%										
ROE after 2023	12.0%										
<b>Excess return model</b>						<b>DVCF</b>					
ROE	15.6%	11.5%	11.8%	15.2%	14.7%	Net income	4,770	3,472	3,641	4,999	4,97
Return spread	5.4%	1.8%	2.8%	6.5%	6.1%	Depreciation&Amortization	1,221	1,208	1,201	1,213	1,22
Equity	29,481	30,584	30,152	30,927	32,927	Provisions for loans	687	1,099	1,292	1,515	1,60
Excess return	1,585	549	849	1,998	2,005	Other non-cash adjustment	114	40	42	42	4
Opening equity capital	29,481					Change in working capital	0	0	0	0	
Explicit value	5,220					CAPEX	-1,372	-1,385	-1,399	-1,413	-1,42
Terminal value	15,571					Sale of PPE	11	11	11	11	1
Fair value (CZK)M	50,272					FCFE	5,431	4,445	4,787	6,366	6,421
<b>Fair value per share</b>	<b>98.4</b>					Explicit value	20,812				
						Terminal value	41,674				
						Fair value (CZK)M	62,485				
						<b>Fair value per share</b>	<b>122.3</b>				

Source: Economic & Strategy Research, Komerční banka, Bloomberg, MONETA Money Bank, A.Damodaran (New York University, risk premiums)

### Sensitivity analysis of our valuation (fair value)

<b>Excess return</b>					
Cost of equity / growth rate	1.4%	1.9%	2.4%	2.9%	3.4%
-100bp	98.4	100.6	103.3	106.3	109.9
-50bp	96.4	98.4	100.6	103.3	106.3
9.39% / 10.1% *	94.6	96.4	<b>98.4</b>	100.7	103.3
+50bp	93.0	94.6	96.4	98.4	100.7
+100bp	91.6	93.1	94.6	96.4	98.4
<b>DDM</b>					
Cost of equity / growth rate	1.4%	1.9%	2.4%	2.9%	3.4%
-100bp	93.1	98.1	103.8	110.5	118.3
-50bp	88.7	93.1	98.1	103.8	110.5
8.87% / 10.1% *	84.8	88.7	<b>93.1</b>	98.1	103.8
+50bp	81.4	84.8	88.7	93.1	98.1
+100bp	78.3	81.4	84.8	88.7	93.1
<b>FCFE</b>					
Cost of equity / growth rate	0.0%	0.5%	1.0%	1.5%	2.0%
-100bp	122.2	127.4	133.2	139.8	147.3
-50bp	117.6	122.3	127.4	133.2	139.8
8.87% / 10.1% *	113.5	117.7	<b>122.3</b>	127.5	133.3
+50bp	109.7	113.5	117.7	122.3	127.5
+100bp	106.3	109.8	113.5	117.7	122.4

Note: \*The first figure is the average for the 2021-26 period, the second is after 2026

Source: Economic & Strategy Research, Komerční banka

## Main risks

- **Regulation:** The banking sector is heavily regulated. Rising pressures on information duties, compliance, increasing capital and liquidity requirements have a negative impact on the bank's profitability and profit distribution to shareholders.
- **Taxation:** Special tax levy or sector-specific taxation would lead to lower net income and a lower company valuation.
- **Development of interest rates:** The long-term relaxed monetary policy in the Czech Republic has led to a fall in interest margins in the past. The CNB's very low rates would naturally affect the bank's profitability.
- **Economic situation:** A significant deterioration in the development of the Czech economy would lead to worse payment morale among business entities and households. This would be reflected in higher loan impairments and an increasing number of defaults with a negative impact on the company's profitability than we calculate in our analysis.
- **Geographical concentration:** Virtually all the bank's activities are concentrated in the Czech Republic. This could have a greater negative impact on MMB in the event of unfavourable conditions, higher competition or stricter regulation than if the bank had greater country diversification.
- **High competition:** The domestic environment is very competitive, as reflected, for example, in the decline in fees for common services related to retail banking.
- **Corporate banking and strategy:** The SME segment is generally more risky, which in the event of unfavourable economic developments may lead to problems in repaying loans.
- **Reputational risk:** The effects of any major negative impact on the bank's reputation could be reflected in a lack of potential client interest in services provided by MMB, or the departure of existing clients. Such a scenario would affect the bank's results adversely.
- **Risk management:** An insufficient or incomplete assessment of the client's risk profile could lead to higher impairments for provided loans in the future.
- **Dividend payment:** A lower dividend payout in the future would lead to a reassessment of our expectations and possibly a lower valuation of the stock.

**Financial figures of MONETA Money Bank**

<b>CZKkm</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
<b>INCOME STATEMENT</b>								
Net interest income	7,925	8,282	8,609	9,820	10,056	10,536	10,956	11,063
Net fee and commission income	1,950	1,891	2,050	2,126	2,241	2,353	2,471	2,594
Total operating income	10,519	12,098	11,168	12,206	12,662	13,263	13,809	14,048
Personnel expenses	-2,318	-2,519	-2,562	-2,653	-2,786	-2,884	-2,986	-3,122
Administrative expenses	-1,286	-1,372	-1,518	-1,435	-1,464	-1,493	-1,523	-1,553
Depreciation and amortisation	-967	-1,129	-1,196	-1,221	-1,208	-1,201	-1,213	-1,225
Total operating expenses	-5,019	-5,526	-5,538	-5,628	-5,776	-5,903	-6,046	-6,228
Net impairment of loans and receivables	-517	-3,562	-695	-687	-1,099	-1,292	-1,515	-1,604
Profit for the period before tax	4,983	3,010	4,935	5,891	5,787	6,068	6,248	6,216
Net income	4,019	2,601	3,984	4,770	3,472	3,641	4,999	4,973

<b>BALANCE SHEET</b>								
Cash and balances with the central bank	6,697	7,782	11,204	11,633	16,673	15,096	16,456	13,103
Financial assets available for sale	0	0	0	0	0	0	0	0
Loans and receivables to banks	23,485	22,872	15,602	26,108	25,847	25,589	25,333	25,080
Loans and receivables to customers	156,409	226,072	255,612	269,792	279,468	294,701	311,110	330,529
Intangible assets	2,283	2,957	3,184	3,380	3,216	3,248	3,280	3,313
Total assets	219,053	300,958	340,222	371,696	388,600	404,771	425,193	444,059
Due to customers	181,523	258,906	285,145	306,755	324,251	339,801	358,374	376,497
Provisions	209	289	234	222	211	201	191	181
Other liabilities	3,224	3,516	4,760	4,808	4,856	4,904	4,953	5,003
Total liabilities	194,642	273,908	310,741	341,111	358,448	373,844	392,266	410,242
Total equity	24,411	27,050	29,481	30,584	30,152	30,927	32,927	33,816
Risk-weighted assets	125,629	154,131	169,241	173,670	176,784	181,602	186,658	192,483

<b>CASH FLOW</b>								
Cash flows from operating activities	-2,038	3,411	13,977	4,305	14,489	7,340	10,777	7,391
Cash flows from investing activities	-6,556	-3,971	-16,960	-1,358	-1,371	-1,385	-1,399	-1,413
Cash flows from financing activities	-2,840	111	-300	-3,577	-3,816	-2,778	-2,913	-3,999
Free cash flow to equity	4,767	5,213	6,358	5,431	4,445	4,787	6,366	6,429

<b>DATA PER SHARE (CZK)</b>								
EPS	7.9	5.1	7.8	9.3	6.8	7.1	9.8	9.7
Book value	47.8	52.9	57.7	59.9	59.0	60.5	64.4	66.2
Free cash flow	9.3	10.2	12.4	10.6	8.7	9.4	12.5	12.6
Gross dividend	9.5	0.0	0.0	7.0	7.5	5.4	5.7	7.8

<b>RATIOS</b>								
Yield	6.0%	5.1%	4.0%	5.6%	5.5%	5.0%	5.0%	4.7%
Cost of funds	0.6%	0.6%	0.4%	1.6%	1.6%	1.2%	1.2%	1.1%
Net interest margin	3.8%	2.8%	2.7%	2.8%	2.7%	2.7%	2.7%	2.6%
Cost/Income ratio	47.7%	45.7%	49.6%	46.1%	45.6%	44.5%	43.8%	44.3%
ROE	16.5%	9.6%	13.5%	15.6%	11.5%	11.8%	15.2%	14.7%
ROTE	18.2%	10.8%	15.2%	17.5%	12.9%	13.2%	16.9%	16.3%
ROA	1.8%	0.9%	1.2%	1.3%	0.9%	0.9%	1.2%	1.1%
Total Equity / Total Assets	11.1%	9.0%	8.7%	8.2%	7.8%	7.6%	7.7%	7.6%
Loan-to-Deposit ratio	86.2%	87.3%	89.6%	88.0%	86.2%	86.7%	86.8%	87.8%
Dividend payout ratio	115.0%	0.0%	0.0%	89.8%	80.0%	80.0%	80.0%	80.0%

<b>VALUATION</b>								
P/E	9.3	14.4	9.4	7.9	10.8	10.3	7.5	7.5
P/BV	1.5	1.4	1.3	1.2	1.2	1.2	1.1	1.1
P/S	3.6	3.1	3.4	3.1	3.0	2.8	2.7	2.7
Dividend yield	12.9%	0.0%	0.0%	9.5%	10.2%	7.4%	7.8%	10.7%

Source: MONETA Money Bank, Economic & Strategy Research, Komerční banka

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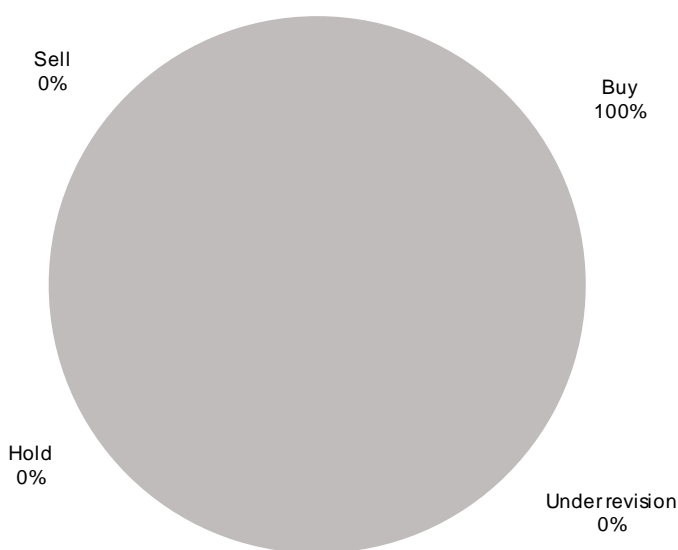
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (8 recommendations).

#### Investment recommendations of KB equity research



Source: Economic & Strategy Research, Komerční banka

#### KB Equity Research ratings on a 12 month period

**BUY:** absolute total shareholder return forecast of 15% or more over a 12 month period.

**HOLD:** absolute total shareholder return forecast between 0% and +15% over a 12 month period.

**SELL:** absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.



**Overview of recommendations published by KB and relationships with particular issuers**

	Avast	Colt CZ Group SE	CEZ	Kofola	MONETA Money Bank	O2 CR	PFNon-wovens	Philip Morris CR	Vienna Insurance
<b>Overview of last investment research and recommendations related to stocks of particular issuers</b>									
Recommendation	Buy	Buy	Buy	Buy	Buy	End	End	Buy	End
Target price	GBp 600	CZK 645	CZK 1 393	CZK 381	CZK 104.6	of coverage	of coverage	CZK 18183	of coverage
Date	11.02.2021	17.01.2022	07.06.2022	12.05.2022	05.09.2022	25.02.2022	15.02.2021	11.02.2022	22.11.2019
Price on the day of the publication	CZK 147	CZK 506	CZK 1 154	CZK 293	CZK 73.2	CZK 270	CZK 800	CZK 16760	EUR 24.7
Investment horizon	12 months	12 months	12 months	12 months	12 months			12 months	
Author	B. Trampota	B. Trampota	B. Trampota	B. Trampota	B. Trampota			B. Trampota	
<b>Overview of investment researches and recommendations for last 12M (quarterly)</b>									
Recommendation	Buy	In revision	In revision	In revision	Buy	Buy	In revision	Buy	Buy
Target Price	GBp 466	In revision	In revision	In revision	CZK 109.7	CZK 362	In revision	CZK 16 512	EUR 27
Date	30.08.2019	31.03.2021	10.05.2022	15.02.2022	31.08.2021	26.03.2021	30.04.2020	20.11.2020	11.09.2018
Recommendation	In revision	Buy	Buy	Buy	In revision	Buy	Buy	Buy	Buy
Target Price	In revision	CZK 357	CZK 905	CZK 367	In revision	CZK 293	CZK 924	CZK 18308	EUR 26
Date	14.08.2019	27.11.2020	10.12.2021	12.01.2021	07.05.2021	08.01.2020	01.04.2019	03.12.2018	03.03.2017
Recommendation	Buy		Buy	In revision	Buy	Buy	Hold	Buy	
Target Price	GBp 342		CZK 621	In revision	CZK 97	CZK 298	CZK 924	CZK 17546	
Date	15.06.2018		23.07.2020	26.11.2020	29.10.2019	12.12.2018	26.10.2018	22.08.2017	
Recommendation			Buy	Buy	Buy	Hold	In revision	Hold	
Target Price			CZK 717	CZK 482	CZK 97	CZK 270	In revision	CZK 13500	
Date			10.06.2019	04.07.2019	07.03.2019	18.08.2017	17.05.2018	25.05.2017	
Valuation methods	DFCF	DFCF	DFCF	DFCF	DFCF DDM ERM	DFCF DDM	DFCF	DDM	DDM ERM
Frequency of rec. (per year)	once	once	once	once	once	once	once	once	once
Direct or indirect share (5% or more) of the issuer of the registered capital of KB	no	no	no	no	no	no	no	no	no
Other significant financial interest of KB and/or its linked persons in the issuer	no	no	no	no	no	no	no	no	no
KB direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no	no	no
Author's direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no	no	no
Signific. fin. interest in the issuer of the persons partic. in elaboration of inv. research and rec.	no	no	no	no	no	no	no	no	no
<b>Relationships of Komerční banka with particular issuers</b>									
KB Management or co- management of public offerings in the past 12 month	no	yes	no	no	no	no	no	no	no
Agreements or contractual relations for providing investment services with the issuer	KB can have concluded agreements with the issuer for providing investment services. This information is protected by bank secret and could not be disclosed.								
Agreement with the issuer on production and dissemination of the research	no	no	no	no	no	no	no	no	no
KB market making for common stocks of the issuer	no	no	no	no	no	no	no	no	no

Note: DFCF – Discounted free cash flow model, DDM – Discounted dividend model, ERM – Excess return model

Source: Economic & Strategy Research, Komerční banka