

| Banking | Update | Czech Republic |

MONETA Money Bank

We increase the target price to CZK109.7 and confirm our Buy recommendation

Buy

Price 31.08.21	CZK 87.2
12m target	CZK 109.7
Upside to TP	25.8%
Dividend	CZK 3.0
Total return	29.2%

Sector stance

Overweight

Investment type

High dividend yield

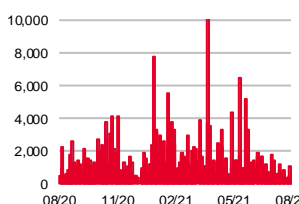
Sensitivity to economic cycle

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC MONET.PR	Bloom	MONET CP
52-week range	50.5 - 89.2	
Market cap. (CZKbn)	44.6	
Market cap. (EURm)	1746	
Free float (%)	57.49	
Performance (%)	1m	3m 12m
Share	-0.2	11.4 57.2
Rel. to PX Index	-5.9	1.0 10.7

Source: Bloomberg

The latest analysis and report:

<http://bit.ly/MONET1910updEN>
https://bit.ly/Moneta_AB_EN
https://bit.ly/Moneta_EGMvote_EN
https://bit.ly/Moneta_2Q21_results_EN

SOCIETE
GENERALE
GROUP

Investment recommendation: Based on our updated model, we confirm our **Buy** recommendation and increase our target price to **CZK109.7** per share for Moneta Money Bank. Our recommendation and target price had been under revision. Compared to the previous target price, our new one is 13.1% higher. Against a peer group, Moneta shares are traded at a premium. Moneta is valued at a 2020 P/B of 1.6x, P/E of 17.3x and P/S of 3.7x. Comparable banks are traded at multiples of 0.9x, 11.2x and 1.9x respectively. Due to the high return on equity and the expected high dividend payment, the Moneta premium is to some extent justified.

The PPF group tried unsuccessfully to take control of Moneta. We are convinced that PPF will try to control Moneta again in the near future.

Company results and expected development: We see the macroeconomic environment in the Czech Republic as favourable for the banking sector. After last year's restrictive measures, we expect a recovery in consumption and higher investment activity, not only by households. This should be reflected in an increase in lending activity. The growth of net interest income will be supported by the expected increase in Czech National Bank rates. This happened at the last two currency meetings and we expect further monetary tightening in September and November, as well as further hikes next year. The net interest margin has fallen from the values seen in previous years. As the quality of the loan portfolio grows, it should stabilise around the level of 3.0%. We assume that the net interest margin will remain well above the levels of competitors. In the coming years, the NPL ratio should decline and the cost of risk should be around 60 basis points.

Shareholder remuneration: Moneta's dividend policy is a payout of 70% of net profit. This year, following the lifting of restrictions by the CNB, Moneta should pay CZK3 per share in the fourth quarter. In the coming years, according to our estimates, MMB should be able to pay 90% of net profit. The gross dividend yield should hit 9%. In addition, Moneta has excess capital of CZK17.01 per share. We expect a gradual distribution of excess capital to shareholders over the coming years.

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 the current price of Moneta on the stock exchange, our target price offers a total yield of 29.2%, hence the Buy recommendation.

Financial data	2020	2021f	2022f	2023f	Ratios	2020	2021f	2022f	2023f
Revenues (CZKbn)	12,098	10,859	11,360	12,531	P/E (actual, x)	17.4	14.6	12.8	10.4
Cost / Income ratio (%)	46.0	51.3	48.9	45.0	Price / book value (x)	1.7	1.6	1.5	1.5
Net interest margin (%)	3.3	2.8	2.8	3.0	Price / sales (x)	3.7	4.1	3.9	3.6
Net income (CZKbn)	2,567	3,055	3,495	4,319	Dividend yield (%)	0.0	3.4	6.1	7.0
EPS	5.0	6.0	6.8	8.5	ROE (%)	9.5	10.7	12.0	14.3
Cash flow per share	10.1	9.1	9.5	11.4	ROTE (%)	10.7	12.0	13.5	15.9
Dividend per share	0.0	3.0	5.4	6.2	ROA (%)	0.9	1.0	1.1	1.2
Payout ratio (%)	0.0	59.7	90.0	90.0	Loan-to-deposit (%)	87.3	91.9	91.9	92.0

Upcoming events: 29 October – 3Q21 results

4th Quarter – Extraordinary General Meeting

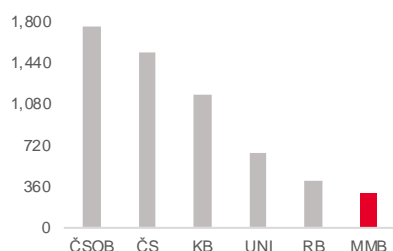


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Company overview

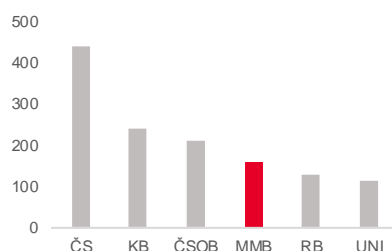
Strengths	Weaknesses
<ul style="list-style-type: none"> Strong position in both retail and SME segments Extensive and evenly spread distribution network of branches and ATMs High capital adequacy and asset profitability Independence from external financing Long-term management experience of the Czech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

Balance sheet total (CZKbn, end of 2020)

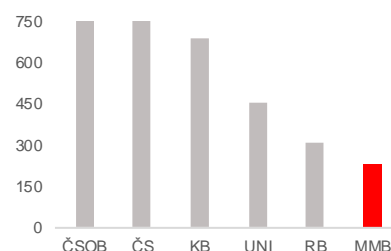


Source: banks' websites

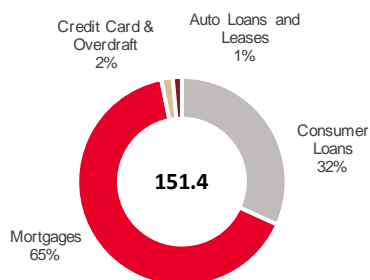
Number of branches by the end of 2020



Loans provided to clients (CZKbn, 2020)

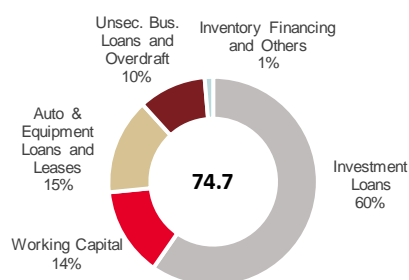


Retail loans (CZKbn, 2020)

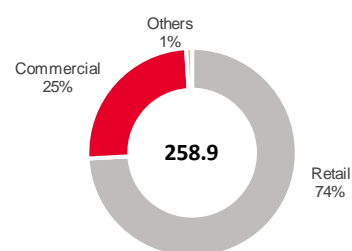


Source: MONETA Money Bank

Corporate loans (CZKbn, 2020)



Clients' deposits (CZKbn, 2020)



Financial situation of the company

Company results for 2Q21

CZKm	2Q20	2Q21	change	KB estimate	Consensus
Net Interest Income	2,083	2,056	-1.3%	2,105	2,087
Net fees and commission	423	495	17.0%	453	495
Total operating income	3,669	2,704	-26.3%	2,708	2,717
Total operating expenses	-1,384	-1,333	-3.7%	-1,319	-1,329
Net profit	435	833	91.5%	812	810
Earnings per share	0.85	1.63	91.5%	1.59	1.59

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

The results for the second quarter of this year certainly did not disappoint. On net profit, they were better than our estimates and consensus, but on other items, more or less in line. Moneta's management has raised expectations for full-year net profit, which serves as the basis for calculating the dividend.

The quarterly results sprang no surprises, with all main items as expected.

In terms of consumer loans, Moneta has traditionally outpaced market growth. Total loans increased by 9.2% in 2Q, of which the retail portfolio added 14.0%; commercial loans were stable. Overall growth was driven by mortgages (27.1%) together with loans to SME (20.0%). Total deposits increased by 3.9% (retail at 5.6%, commercial down slightly at -0.8%). Net interest income amounted to CZK2.1bn (1.5% yoy), in line with both the consensus and our projection. The net interest margin remained stable at 2.7%. Total operating revenues decreased by 26.3% yoy to CZK2.7bn. However, a year ago, an extraordinary gain from an acquisition (Wüstenrot) of CZK1.1bn was booked, which, of course, was not repeated this quarter. Without this item, total revenues would have increased by more than 5% yoy. Total operating expenses decreased by 3.7% yoy to CZK1.3bn, mainly due to lower personnel costs. Provisions for non-performing loans were only CZK334m, compared to CZK1.85bn last year. Provisions last year were made mainly in the second quarter, due to the pandemic. Mainly due to lower provisions, net profit increased by an unprecedented 91.5% to CZK833m.

Total capital adequacy increased to a high of 19.2% in 2Q21 from 18.5% in 1Q21.

Management's full-year guidance included total revenues of CZK10.8bn, which is lower than the original projection of CZK11.2bn. The reasons for the slight decrease are high competitive pressure, early repayments and non-performing loans due to the pandemic. Total operating costs should remain unchanged from the original projection (CZK-5.5bn). Unfortunately, the expected operating profit has fallen to CZK5.3bn from the previous estimate of CZK5.7bn, in line with the decline in revenue estimates. However, the expected cost of risk has fallen to 60-70bps from 80-100bps. Based on this, net profit should increase to CZK3.0bn from the original estimate of CZK2.8bn. This should be positive for the dividend payment, because it is calculated from the net profit.

As for the dividend, the CNB will decide on the possibility of payment around the end of the third quarter. We assume that the restrictions will be lifted by then and Moneta will be able to pay the proposed dividend of CZK3. In the coming years, we also expect, in addition to the dividend, the distribution of at least part of the surplus capital, which is CZK8.7billion or CZK17.01 per share.

Outlook for this year

Favourable macro environment for the banking sector.

GDP fell by 5.8% last year due to restrictive measures related to the pandemic. We expect it to grow by 4.2% this year due to the reopening of the economy. We estimate an increase in household consumption, especially in the second half of the year. Price pressures remain strong and inflation is expected to reach 3.0%, which is above the Czech National Bank's 2% inflation target. Behind this is last year's significantly relaxed economic policy and rising commodity prices, led by oil. We expect decent lending activity. We also expect the banking sector to be supported by rising interest rates. At its June and August meetings, the CNB raised rates by 25 basis points to 0.75%. This year we expect another double increase of 25 bps each to 1.25%. Next year, the CNB should raise rates four more times to 2.25%. You can read more about our economic outlook in the latest Economic Outlook, "Economy revving up" <https://bit.ly/KB21Q3AJ>.¹ Overall, we see the macroeconomic environment as favourable for the entire banking sector.

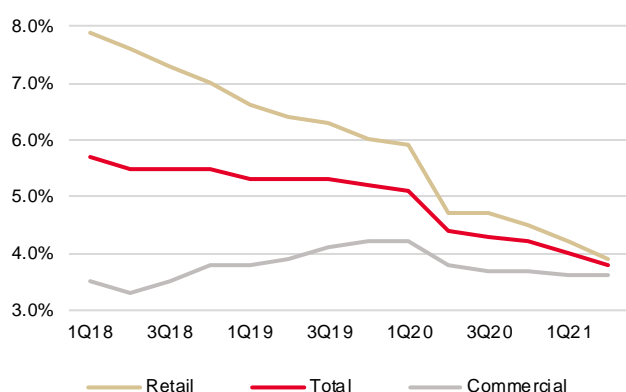
Faster growth of new loans compared to the entire market.

The growth in Moneta's loans last year outpaced the rest of the banking market. While total gross loans in the banking sector increased by 3.8%, Moneta was able to increase its portfolio by 45.5%, mainly due to the retail segment. We expect MMB to grow faster this year as well, by almost 7%, while we expect the sector to grow by less than 6%.

Decrease in interest margins due to the shift to secured loans.

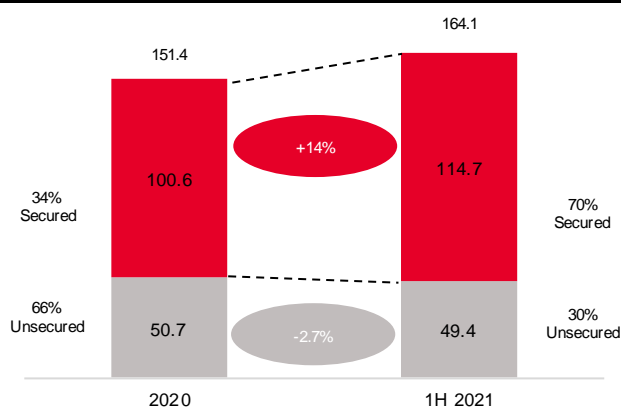
The following charts show a decline in interest margins. The yield on retail loans fell to 3.9% and the yield on corporate loans also fell slightly to 3.6%. The total yield thus reached 3.8% in the first half of the year. The structure of the retail portfolio is one of the most important factors. Over the last year, Moneta has managed to significantly change the ratio of secured and unsecured loans. At the end of 2019, 52% of the retail portfolio consisted of secured loans, while in the first half of this year, this climbed to 69%. Behind this is a sharp increase in mortgages after the acquisition of Wüstenrot. This increases the pressure on yields in this segment.

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

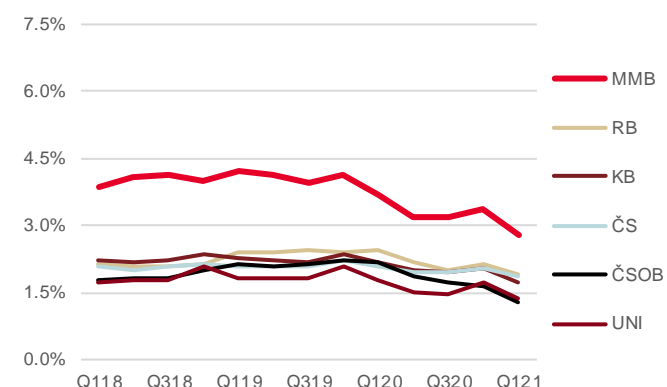
¹ See more in our report "Economy revving up" published on 28 July 2021, 10:32pm CEST

Net interest income should grow in the coming years.

Net interest income increased by 4.5% last year.

The net interest margin decreased slightly. This year, we expect net interest income to be 0.3% higher yoy, reaching CZK8.3bn. However, the net interest margin should fall further from 3.3% last year to 2.8%. The decrease in the net interest margin is due to a change in the structure of the loan portfolio. The chart on the right compares the margins of the six largest banks, including Moneta. It is clear how Moneta stands out vs the others. And in the coming years, we estimate that Moneta will achieve higher margins than comparable banks. The expected increase in interest rates by the CNB will clearly have a positive effect on the development of interest margins in the banking sector. Management estimates that an increase in interest rates of 25 basis points would have a positive impact of about CZK130m on net interest income on an annual basis.

Comparison of net interest margins



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

We expect an improvement in net fee and commission income this year.

After a decline last year (2020), we estimate that net fee and commission income will grow 5.1% this year to CZK1.99bn. The growth is related to income from completed transactions, asset management, management of credit and deposit products.

The pressure on wage growth will lead to increased operating costs.

For this year, we expect a slight increase in operating costs of 0.4% to almost CZK5.6bn. These costs should be affected primarily by higher depreciation and amortisation of fixed assets, which is related to investment activity. Of course, the pressure on wage growth will be related to the growth of wages themselves and a slight increase in the number of employees. Administrative costs should also increase this year. We expect the cost/income ratio to be 51.3%, which is above last year's 46.0%.

Decrease in provisions after a demanding 2020.

Last year, there was a sharp increase in provisions for non-performing loans. The creation of provisions was, of course, linked to the pandemic and the associated restrictive measures. **While last year these costs climbed to a record CZK3.6bn, this year, according to our projections, they should fall to CZK1.5bn.**

We estimate an decrease in the cost of risk to 60bp after last year's 174bps.

Moneta continues to sell non-performing loans. Last year, Moneta earned an additional CZK210m thanks to these sales, and it got rid of CZK2.3bn of this portfolio. This year it plans to sell CZK1.5 to 2.0bn, depending on market conditions. It has already sold CZK1.2bn of non-performing unsecured retail loan receivables, of which it will realise an extraordinary pre-tax profit of CZK104m. Our estimates indicate that non-performing loans this year will account for 2.8% of the total loan portfolio.

A sharp increase in net profit due to a decrease in provisions.

Net profit should show significant growth this year. We estimate an increase of 19.0% to CZK3.1bn. The main reason is the sharp decline in provisions. On the other hand, a higher effective tax rate will be negative. It should reach 20.3% after 13.7% recorded last year.

The following table shows the published management outlook for this year compared to our estimates. We expect Moneta to meet its goals. Our estimates are slightly above the bank's projection, but we consider them rather conservative.

2020 results and 2021 guidance

	2020	2021 mng guidance	2021 KB estimates
Total Operating Income	CZK12.1bn	≥ CZK10.8bn	CZK10.9bn
Cost Base	CZK5.6bn	≤ CZK5.5bn	CZK5.6bn
Cost of Risk	174 bps	60 – 70 bps	60 bps
Effective Tax Rate	13.7%	~20%	20%
Net Consolidated Profit	CZK2.6bn	≥ CZK3.0bn	CZK3.1bn
EPS	CZK5.0	≥ CZK5.9	CZK6.0
DPS	CZK3 (proposal)		CZK5.40
Reported Return on Tangible Equity	18.2%	≥ 12.0%	18.4%

Source: MONETA Money Bank, KB Economic & Strategy Research; * a dividend of the year and paid out in the following year

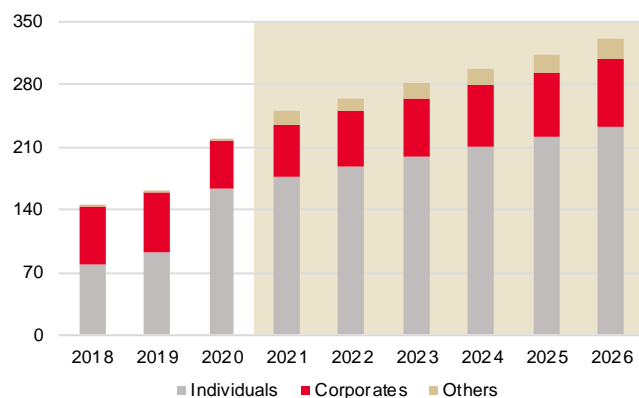
Our long-term outlook

Our long-term projections are based on the expected rise in interest rates and the increasing volume of loans provided.

We expect faster growth in Moneta's loans compared to the market.

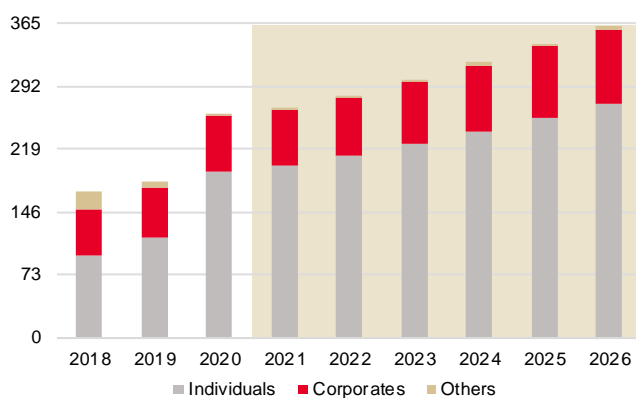
Thanks to investments in increasing sales capacity, we expect a growing loan portfolio in the retail and corporate segments. For the 2021 to 2026 period, we estimate the average annual growth of total loans at 6.1% (CAGR). The retail sector should grow at the same average annual rate and increase by 6.1%. And the pace will likely be very similar for corporate loans, where we estimate an average annual growth of 6.3%. Compared to the market, we expect a slightly faster increase in lending activity at Moneta. The market should grow by 6.0% over the same horizon.

Loan breakdown and its expected development (CZKbn)



Source: MONETA Money Bank, KB Economic & Strategy Research

Deposit breakdown and its expected development (CZKbn)



According to our projection, deposits should increase by an average of about 5.7% (CAGR) in the 2021-2026 period. Our estimate for the growth of the entire market is 5.1%. Rising household savings should be a key factor, with a likely average annual growth rate of 5.9%. Corporate deposits should increase by 5.1%.

The net interest margin should stabilize in the coming years.

From the expected 2.8% this year, the net interest margin should climb to 3.0% in the next two years. The expected increase in interest rates will have a positive effect. For the 2021-2026 period, we estimate the net interest margin will stabilise slightly below 3%. Net interest income should grow by an average of 3.1%, reaching CZK11.7bn by the end of our horizon.

Classic fees are likely to fall, while other revenues should rise to more than offset this decline.

We expect net fee and commission income to grow at an average annual rate of 3.9% between 2021 and 2026. There should be continued pressure on conventional fees, whereas asset management services and others should more than compensate for this negative trend.

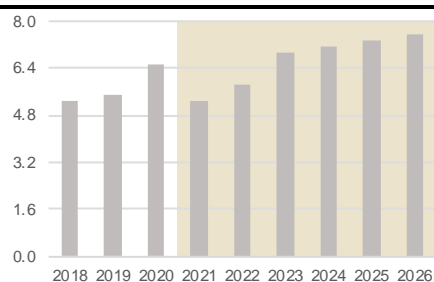
We expect the average growth of total operating costs to be around 1.2% in the coming years.

Total operating costs should reach CZK6bn over 2021-2026. The average annual growth rate (CAGR) should be 1.2%. Personnel costs are the largest item in this group and, given the current pressure on the labour market, these are likely to grow the fastest. We expect only modest growth in administrative costs.

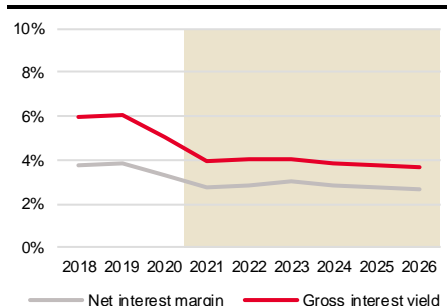
Net profit should increase over our estimate horizon.

After the decline in net profit in 2020 to CZK2.6bn, we estimate a gradual increase to CZK4.7bn in 2026. There has been a regular positive effect on net profit from the sale of non-performing loans in recent years and this year is no different. However, volumes should decline as the credit balance improves. We expect an effective tax rate of 20%.

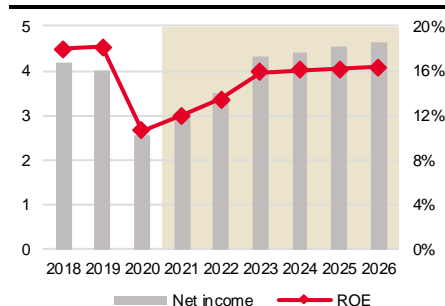
Total operating income (CZKbn)



Net interest margin & gross interest yield



Net income (CZKbn)



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

Moneta's management has provided a medium-term forecast up to 2026. These projections are shown in the following table, together with our estimates.

Medium-term guidance

	2020	2026 mng guidance	2026 KB estimates
Total operating income	CZK12.1bn	CZK13.9bn	CZK13.6bn
Cost base	CZK5.6bn	CZK6.0bn	CZK6.0bn
Pre-loss allowances profit	CZK6.6bn	CZK7.9bn	CZK7.6bn
Cost of risk	CZK3.6bn	CZK1.7bn	CZK1.8bn
Net consolidated profit	CZK2.6bn	CZK5.0bn	CZK4.7bn
EPS	CZK5.0	CZK9.8	CZK9.1
DPS	CZK3*	CZK7.8	CZK8.0

Source: MONETA Money Bank, KB Economic & Strategy Research; *A dividend for the year and paid out in the following year, proposal

We expect Moneta to meet its guidance.

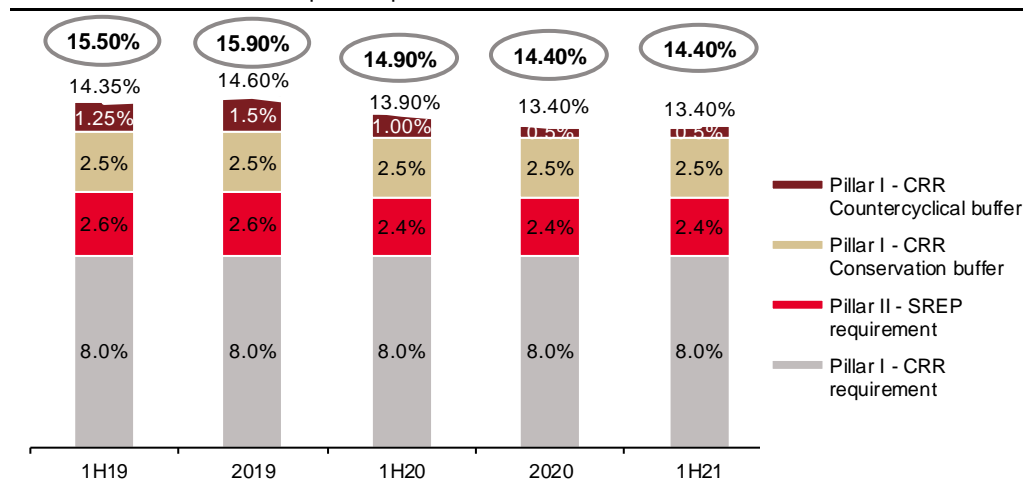
We expect the CNB to raise interest rates this year and next. The growth in operating profit should come from the growth in revenue items and lower cost growth. Based on our estimates (see table above), we think these goals are achievable.

Capital adequacy

Moneta has a solid capital position.

Moneta Money Bank is one of the best capitalized banks in the entire Central and Eastern Europe region. The bank's goal is to maintain its capital adequacy at 14.4% and this currently breaks down as follows: 10.4% total SREP ratio, 2.5% conservation buffer, 0.5% countercyclical buffer. In addition to this, Moneta has set a management buffer of 1.0%.

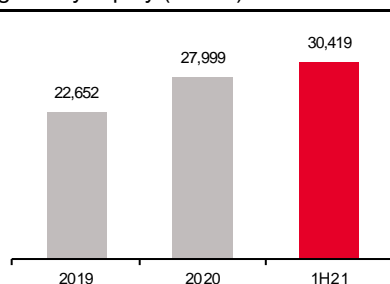
Trend and breakdown of capital requirement



Source: MONETA Money Bank

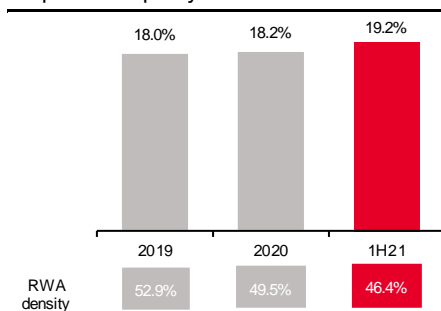
At the end of the first half of this year, the capital adequacy ratio was 19.2%. Regulatory capital reached CZK30.4bn. Risk-weighted assets (RWA) were at CZK158.8bn. The volume of risk-weighted assets has increased by 3.0% since the end of last year, while the volume of total loans provided increased by 5.9%. Excess capital increased to CZK8.7bn or CZK17.01 per share at the end of 2Q21 due to non-payment of dividends. We expect that, in the coming years, there will be a gradual distribution of excess capital to shareholders.

Regulatory equity (CZKm)

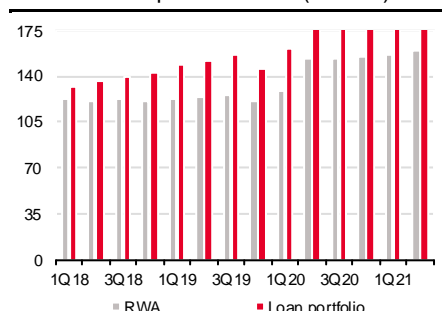


Source: MONETA Money Bank

Capital adequacy ratio



RWA vs loan portfolio dev. (CZKbn)



We estimate RWA density of below 50% on a five-year horizon. It has already fallen sharply in previous years when Moneta sold its portfolios of NPL and thus adjusted its balance sheet. In our forecast, we also assume that the bank will continue to be able to fully finance the provided loans with the obtained deposits and will not be dependent on external financing. The loan-to-deposit ratio should thus remain below 100%.

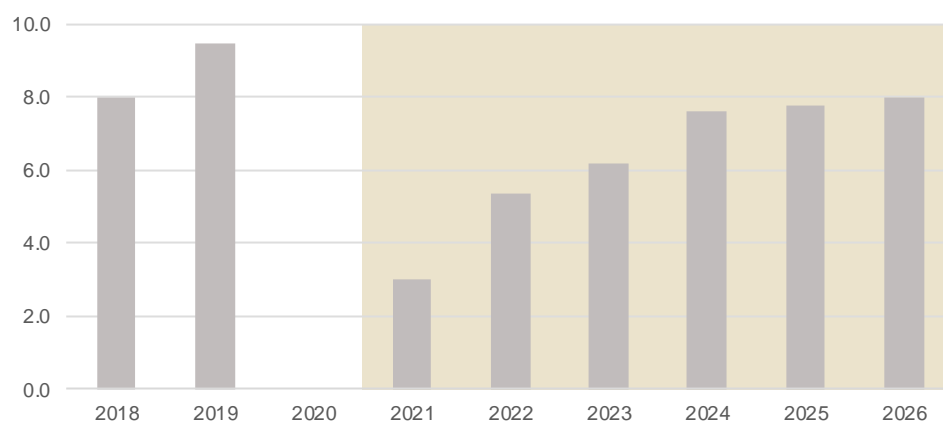
Moneta's dividend policy is to distribute at least 70% of net profit.

Shareholder remuneration

According to Moneta's standard dividend policy, the bank aims to distribute at least 70% of net annual profit. Note that, last year, the dividend was not paid due to the CNB's recommendation. This recommendation to withhold profits due to the COVID situation should remain in place at least until the end of the third quarter. However, we then expect the CNB to reconsider its position. Management has already proposed a dividend of CZK3, which the CNB will discuss near the end of the third quarter. We assume that the restriction will be lifted, and Moneta will be able to pay the dividend. Moneta is in a position to anticipate the payment of excess capital in the coming years.

The following chart shows our dividend estimates for the coming years.

Dividend per share* (CZK)



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

M&A activity

In 2021, the PPF group made an unsuccessful second attempt to take control of Moneta.

At the end of January this year, the **PPF Group announced a voluntary offer to Moneta shareholders for CZK80 per share** (see our comment here: https://bit.ly/Moneta_PPFOffer_ENG).

In this tender, PPF managed to acquire 27.73% of Moneta shares (see our comment here: https://bit.ly/Moneta_PPFOffer_acceptance_EN). Together with the shares that PPF already held (0.63%) and other purchases, this means **PPF now controls 29.941% of Moneta's shares**.

The next step in the PPF Group's move to take control of Moneta was to be the **acquisition by Moneta of Air Bank, the Czech and Slovak Home Credit and Benxy from the PPF Group**. The total purchase price for these assets was CZK25.9bn. Moneta was to pay CZK2.59bn in cash and to issue 291,375,000 new shares for CZK80 per share to PPF. **The total number of Moneta shares would thus increase to 802,375,000 from the current 511,000,000**. Following the settlement of the transaction, the PPF Group would control about 55.38% of Moneta's shares. This would dilute existing shareholders' holdings by 36.31%. **This was followed by a mandatory repurchase offer for the remaining shares of Moneta from PPF, probably for CZK80 per share** (see our comment here: https://bit.ly/Moneta_AB_EN).

The transaction was to be voted on at the Extraordinary General Meeting of Moneta, which took place on 22 June. There were two main points on the agenda:

1. Voting on the acquisition of Air Bank and other PPF assets. The condition was the participation of at least 50% of all shareholders plus one share (255,500,001) and that more than 50% must vote in favour of the acquisition proposal.
2. Voting on the issue of new shares. As in the previous point, at least 50% of all shareholders had to be present and 75% of them had to vote in favour.

While point number one was approved by shareholders, investors rejected the second point and the capital increase. This means the transaction that would give PPF control of Moneta will not take place, at least for now. See here for a more detailed comment: https://bit.ly/Moneta_EGM_EN.

In fact, shareholders say that they *like* the proposed acquisition of Air Bank, but they do not like the settlement of the transaction, i.e. the issue of new shares without the possibility of preferential subscription. This would lead to a dilution of their shares by about 36.31%.

What might the next steps be?

1. Moneta could continue to be active in M&A and will look for other acquisition targets
2. Moneta becomes an acquisition target
3. **It is much more likely that PPF will not give up its efforts to take control of Moneta. This was the second unsuccessful attempt to gain control of Moneta. PPF has invested a lot of time, effort and capital and is unlikely to give up so easily. PPF now holds 29.941% of Moneta's shares and we believe that PPF will return to the negotiations. From our point of view, this is only a matter of time.**

Company valuation

Sector comparison

Moneta's stock is trading at a premium (P/E, P/BV, P/S) against a group of peers and the whole European banking sector (EURO STOXX Banks). Moneta offers one of the largest returns on equity and assets compared to the competition. In addition, in our opinion, it will likely pay higher dividends than the sector in the coming years. It has a very strong capital position and is not dependent on external financing, which the loan-to-deposit ratio supports.

From our point of view, the MMB premium is justified. We would see its valuation above the median of the market.

MONETA Money Bank vs peers

	P/E act.	P/E 2021	P/E 2022	P/BV act.	P/TABV act.	P/S act.	Div. yield 2021	ROE act.	ROA act.
MONETA MONEY BANK	17.3	14.6	12.7	1.6	1.6	3.7	3.4	9.5	0.9
Komerční banka as	17.9	15.2	13.1	1.3	n/a	n/a	5.1	7.7	0.7
BRD-Groupe Societe Generale SA	11.3	11.9	11.0	1.3	1.4	3.8	8.0	12.6	1.8
Privredna Banka Zagreb dd	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.4	0.7
Bank BGZ BNP Paribas SA	14.6	12.0	10.1	0.8	0.9	1.8	0.0	5.9	0.6
Bank Handlowy w Warszawie SA	11.2	8.6	15.4	0.8	0.9	2.3	2.8	7.0	0.9
OTP Bank PLC	12.3	10.6	9.7	1.8	2.0	3.1	2.2	15.8	1.7
Bank Zachodni WBK SA	31.8	21.0	13.7	1.1	1.2	3.1	1.5	3.5	0.4
Bank Pekao SA	19.7	15.0	12.3	1.1	1.2	3.2	3.9	5.6	0.6
Powszechna Kasa Oszczednosci B	n/a	11.0	10.8	1.2	1.3	3.1	4.4	-3.4	-0.4
Sberbank of Russia PJSC	6.7	6.4	6.1	1.4	1.5	2.0	8.3	21.7	3.1
Bank Millennium SA	n/a	n/a	13.9	0.9	1.0	1.9	0.0	-6.4	-0.5
Vseobecna Uverova Banka AS	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.0	0.4
Alior Bank SA	13.3	13.7	11.1	0.9	0.9	1.2	0.0	6.7	0.6
Akbank TAS	4.0	3.4	2.8	0.4	0.5	0.6	5.5	12.0	1.5
Türkiye Garanti Bankası AS	4.9	3.4	2.9	0.6	0.6	0.6	7.4	13.4	1.5
Yapı ve Kredi Bankası AS	3.5	3.0	2.4	0.4	0.4	0.4	4.4	13.1	1.3
Türkiye İş Bankası	3.4	2.8	2.0	0.4	0.4	0.3	7.6	11.4	1.0
Banca Transilvania SA	11.1	11.3	10.3	1.6	1.7	3.2	5.3	17.4	1.6
Hacı Ömer Sabancı Holding AS	3.5	3.4	2.7	0.5	0.6	0.3	4.7	15.8	1.2
Group median	11.2	10.8	10.3	0.9	0.9	1.9	4.4	7.7	0.9
EURO STOXX Banks Price EUR	10.8	8.9	8.9	0.7	0.7	1.8	5.5	6.4	0.3
<i>MMB vs. median</i>	<i>54%</i>	<i>35%</i>	<i>24%</i>	<i>79%</i>	<i>65%</i>	<i>91%</i>	<i>-21%</i>	<i>23%</i>	<i>-4%</i>
<i>MMB vs. STOXX</i>	<i>60%</i>	<i>63%</i>	<i>44%</i>	<i>148%</i>	<i>109%</i>	<i>105%</i>	<i>-37%</i>	<i>49%</i>	<i>155%</i>

Source: Economic & Strategy Research, Komerční banka, Bloomberg

Fair value and target price

We used an average of three methods to calculate the fair value of the Moneta stock: excess return model (ERM), dividend discount model (DDM) and discounted free cash flow model (DFCF).

We discount excess return and free cash flow estimated for 2021-2026 and dividends from profits of the 2021-2026 period to the end of September 2021. 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.

Based on the average of our models, we estimate the fair value of MONETA Money Bank at CZK109.7 per share.

Parameters and valuation methods for MONETA Money Bank stock

	2021	2022	2023	2024	2025	2026		2021	2022	2023	2024	2025	2026
Cost of equity capital	7.8%	8.9%	9.2%	9.3%	9.4%	9.3%	DDM						
Risk-free rate	1.4%	2.5%	2.8%	2.9%	3.0%	2.9%	Dividend per share	3.00	5.40	6.20	7.60	7.80	8.00
Beta	1.08	1.08	1.08	1.08	1.08	1.08	Explicit value	29.1					
Risk premium	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	Terminal value	62.8					
Dividend growth after 2023	1.2%						Fair value (CZKm)	46,984					
FCFE growth after 2023	1.0%						Fair value per share	91.9					
Payout ratio after 2023	90%												
ROE after 2023	12.0%						DFCF						
Excess return model							Net income	3,055	3,495	4,319	4,415	4,529	4,646
ROE	10.7%	12.0%	14.3%	14.4%	14.5%	14.7%	Depreciation&Amortization	1,174	1,200	1,217	1,217	1,229	1,241
Return spread	3.0%	3.1%	5.1%	5.1%	5.2%	5.4%	Provisions for loans	1,456	1,411	1,496	1,589	1,677	1,769
Equity	27,050	28,484	29,143	30,231	30,676	31,150	Other non-cash adjustment	223	-8	28	29	30	31
Excess return	799	895	1,476	1,537	1,592	1,667	Change in working capital	0	0	0	0	0	0
Opening equity capital	27,050						CAPEX	-1,274	-1,275	-1,276	-1,277	-1,275	-1,276
Explicit value	6,006						Sale of PPE	23	23	23	23	23	23
Terminal value	13,032						FCFE	4,656	4,846	5,807	5,997	6,213	6,434
Fair value (CZKm)	46,087						Explicit value	26,106					
Fair value per share	90.2						Terminal value	48,977					
							Fair value (CZKm)	75,083					
							Fair value per share	146.9					

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

Our new target price is derived from the average of the three fair values we calculated.

To achieve the target price, we input three parameters that can be assigned values ranging from -10% to +10% each. As a result, the target price can range from 70% to 130% of the fair value.

- **Sector appeal (+5%):** SG maintains its *Buy* recommendation for the European banking sector.
- **Company appeal (-2%):** This mainly reflects uncertainty, especially on M&A. Moneta and the PPF's efforts to control it generate uncertainty for the market. And investors do not like uncertainty.
- **Speculative appeal (-3%):** Moneta trades at a premium to a group of peers.

Based on the factors mentioned above, **we set our new target price for MONETA Money Bank at CZK109.7 per share** (the same as the estimated fair value), implying a market capitalization of CZK52.052bn. In comparison with our previous target price, this is an increase of 13.1%.

Sensitivity analysis of our valuation (fair value)

Excess return					
Cost of equity / growth rate	0.2%	0.7%	1.2%	1.7%	2.2%
-100bp	92.0	93.7	95.6	97.8	100.3
-50bp	89.5	91.1	92.9	94.9	97.2
8.97% / 9.33% *	87.1	88.6	90.2	92.0	94.1
+50bp	84.8	86.0	87.5	89.2	91.0
+100bp	82.4	83.5	84.8	86.3	88.0

DDM					
Cost of equity / growth rate	0.2%	0.7%	1.2%	1.7%	2.2%
-100bp	91.9	96.4	101.5	107.3	114.1
-50bp	88.0	91.9	96.4	101.5	107.3
8.97% / 9.33% *	84.5	88.0	91.9	96.4	101.5
+50bp	81.4	84.5	88.0	91.9	96.4
+100bp	78.5	81.4	84.5	88.0	91.9

FCFE					
Cost of equity / growth rate	0.0%	0.5%	1.0%	1.5%	2.0%
-100bp	136.5	141.9	147.9	154.7	162.4
-50bp	136.1	141.4	147.4	154.2	161.8
8.97% / 9.33% *	135.7	141.0	146.9	153.6	161.3
+50bp	135.3	140.5	146.5	153.1	160.8
+100bp	134.9	140.1	146.0	152.6	160.2

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

CZKkm	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
INCOME STATEMENT								
Net interest income	7,925	8,282	8,309	8,881	9,927	10,131	10,362	10,598
Net fee and commission income	1,950	1,891	1,987	1,957	2,059	2,162	2,270	2,384
Total operating income	10,519	12,098	10,859	11,360	12,531	12,850	13,202	13,564
Personnel expenses	-2,318	-2,519	-2,507	-2,482	-2,557	-2,634	-2,713	-2,795
Administrative expenses	-1,286	-1,406	-1,643	-1,610	-1,594	-1,610	-1,626	-1,643
Depreciation and amortisation	-967	-1,129	-1,174	-1,200	-1,217	-1,217	-1,229	-1,241
Total operating expenses	-5,019	-5,560	-5,569	-5,550	-5,636	-5,742	-5,862	-5,988
Net impairment of loans and receivables	-517	-3,562	-1,456	-1,411	-1,496	-1,589	-1,677	-1,769
Profit for the period before tax	4,983	2,976	3,835	4,399	5,398	5,519	5,662	5,807
Net income	4,019	2,567	3,055	3,495	4,319	4,415	4,529	4,646
BALANCE SHEET								
Cash and balances with the central bank	6,697	7,782	4,206	5,862	8,159	12,418	18,835	22,023
Financial assets available for sale	0	0	0	0	0	0	0	0
Loans and receivables to banks	23,485	22,872	21,728	21,511	21,296	21,083	20,872	20,663
Loans and receivables to customers	156,409	226,072	245,633	258,539	275,863	291,672	307,382	324,302
Intangible assets	2,283	2,957	3,077	3,202	3,107	3,138	3,170	3,202
Total assets	219,053	300,958	315,241	329,856	349,381	369,481	391,643	411,791
Due to customers	181,523	258,906	267,341	281,479	299,944	319,624	341,336	361,015
Provisions	209	289	275	261	248	235	224	212
Other liabilities	3,224	3,516	3,633	3,669	3,706	3,743	3,780	3,818
Total liabilities	194,642	273,908	286,757	300,713	319,149	338,804	360,493	380,152
Total equity	24,411	27,050	28,484	29,143	30,231	30,676	31,150	31,639
Risk-weighted assets	125,629	154,131	160,225	164,434	170,033	174,905	179,615	184,559
CASH FLOW								
Cash flows from operating activities	-2,038	3,411	-3,715	7,910	8,777	11,696	14,039	11,015
Cash flows from investing activities	-6,556	-3,971	-1,249	-1,250	-1,251	-1,252	-1,250	-1,251
Cash flows from financing activities	-2,840	111	-1,533	-2,749	-3,146	-3,887	-3,974	-4,076
Free cash flow to equity	4,767	5,179	4,656	4,846	5,807	5,997	6,213	6,434
DATA PER SHARE (CZK)								
EPS	7.9	5.0	6.0	6.8	8.5	8.6	8.9	9.1
Book value	47.8	52.9	55.7	57.0	59.2	60.0	61.0	61.9
Free cash flow	9.3	10.1	9.1	9.5	11.4	11.7	12.2	12.6
Gross dividend	9.5	0.0	3.0	5.4	6.2	7.6	7.8	8.0
RATIOS								
Yield	6.0%	5.1%	3.9%	4.0%	4.0%	3.9%	3.8%	3.7%
Cost of funds	0.6%	0.6%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%
Net interest margin	3.8%	3.3%	2.8%	2.8%	3.0%	2.9%	2.8%	2.7%
Cost/Income ratio	47.7%	46.0%	51.3%	48.9%	45.0%	44.7%	44.4%	44.1%
ROE	16.5%	9.5%	10.7%	12.0%	14.3%	14.4%	14.5%	14.7%
ROTE	18.2%	10.7%	12.0%	13.5%	15.9%	16.0%	16.2%	16.3%
ROA	1.8%	0.9%	1.0%	1.1%	1.2%	1.2%	1.2%	1.1%
Total Equity / Total Assets	11.1%	9.0%	9.0%	8.8%	8.7%	8.3%	8.0%	7.7%
Loan-to-Deposit ratio	86.2%	87.3%	91.9%	91.9%	92.0%	91.3%	90.1%	89.8%
Dividend payout ratio	115.0%	0.0%	59.7%	90.0%	90.0%	90.0%	90.0%	90.0%
VALUATION								
P/E	11.1	17.4	14.6	12.8	10.3	10.1	9.8	9.6
P/BV	1.8	1.6	1.6	1.5	1.5	1.5	1.4	1.4
P/S	4.2	3.7	4.1	3.9	3.6	3.5	3.4	3.3
Dividend yield	10.8%	0.0%	3.4%	6.2%	7.1%	8.7%	8.9%	9.1%

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

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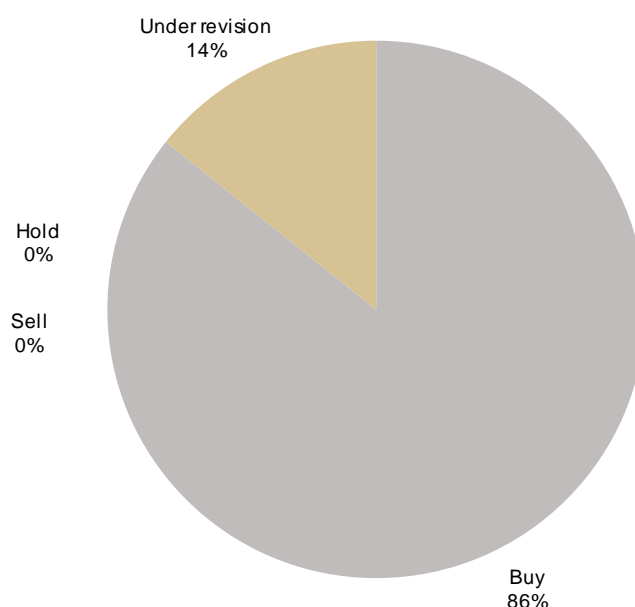
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Investment recommendations of KB equity research



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.

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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	Ceska zbrojovka	CEZ	Kofola	MONETA Money Bank	O2 CR	PFNon-wovens	Philip Morris CR	Vienna Insurance
Overview of last investment research and recommendations related to stocks of particular issuers									
Recommendation	Buy	In revision	Buy	Buy	Buy	Buy	End	Buy	End
Target price	GBP 600	In revision	CZK 621	CZK 367	CZK 109.7	CZK 362	of coverage	CZK 16 512	of coverage
Date	11.02.2021	31.03.2021	23.07.2020	12.01.2021	31.08.2021	26.03.2021	15.02.2021	20.11.2020	22.11.2019
Price on the day of the publication	CZK 147	CZK 370	CZK 474	CZK 246	CZK 87.1	CZK 259	CZK 800	CZK 14 320	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. Trampota	
Overview of investment researches and recommendations for last 12M (quarterly)									
Recommendation	Buy	Buy	Buy	In revision	In revision	Buy	In revision	Buy	Buy
Target Price	GBP 466	CZK 357	CZK 717	In revision	In revision	CZK 293	In revision	CZK 18308	EUR 27
Date	30.08.2019	27.11.2020	10.06.2019	26.11.2020	07.05.2021	08.01.2020	30.04.2020	03.12.2018	11.09.2018
Recommendation	In revision		Buy	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	In revision		CZK 620	CZK 482	CZK 97	CZK 298	CZK 924	CZK 17546	EUR 26
Date	14.08.2019		11.06.2018	04.07.2019	29.10.2019	12.12.2018	01.04.2019	22.08.2017	03.03.2017
Recommendation	Buy		Buy	Buy	Buy	Hold	Hold	Hold	
Target Price	GBP 342		CZK 542	CZK 484	CZK 97	CZK 270	CZK 924	CZK 13500	
Date	15.06.2018		20.09.2017	26.09.2018	07.03.2019	18.08.2017	26.10.2018	25.05.2017	
Recommendation					Buy	Hold	In revision	Buy	
Target Price					CZK 93	CZK 267	In revision	CZK13500	
Date					06.03.2018	31.01.2017	17.05.2018	13.06.2016	
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
Relationships of Komerční banka with particular issuers									
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