

| Banking | Update | Czech Republic |

MONETA Money Bank

We reiterate a Buy recommendation with TP of CZK102.8 per share

Buy

Price 19.10.23	CZK 84.0
12m target	CZK 102.8
Upside to TP	22.4%
Dividend	CZK 8.5
Total return	32.5%

Sector stance
Overweight

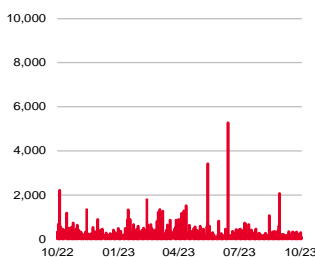
Investment type
High dividend yield
Sensitivity to economic cycle

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC	MONET.PR	Bloom	MONET	CP
52-week range			70.6 - 88.2	
Market cap. (CZKbn)			42.9	
Market cap. (EURm)			1738	
Free float (%)			57.49	
Performance (%)	1m	3m	12m	
Share	-0.7	1.0	16.3	
Rel. to PX Index	-1.2	-1.1	-2.0	

Source: Bloomberg

The latest analysis and report:

https://bit.ly/Moneta_1Q23_EN
https://bit.ly/Moneta_ex-diviCZK8_EN
https://bit.ly/Moneta_2Q23_EN

SOCIETE
GENERALE
GROUP

Investment recommendation: We have updated our estimates for MONETA Money Bank. Based on the adjusted model, we slightly lowered our TP for Moneta shares from CZK104.6 to CZK102.8. We also reiterate our **Buy** rating, which remains unchanged. (The previous price, CZK104.6 and a Buy recommendation, were issued on 5 September 2022.) The Moneta share trades at a premium to its peers. Our TP values Moneta at 1.8x P/B, 11.0x P/E and 4.4x P/S. Other peer banks trade at multiples of 1.1x, 6.8x and 1.0x. Given its strong capital position, very conservative business model and ability to pay a high dividend, we believe Moneta's premium to the sector is justified.

Results and outlook: We expect total revenues to decline slightly (-1.6% yoy) this year. This is due to a decline in net interest income (-8.9% yoy), mainly as a result of higher funding costs. Fees and commissions are expected to show decent growth (+13.9% yoy). However, this will only partially offset the decline in net interest income. The net interest margin is expected to remain stable on a quarterly basis (+2.1%), but to decline yoy. A special windfall tax has been introduced for 2023, 2024 and 2025. However, according to several statements by Moneta's CEO, its impact on financial results will be marginal. For this year, we estimate net profit at CZK4.8bn.

Shareholder remuneration: According to the dividend policy, at least 70% of net income should be distributed to shareholders. However, the bank's management aims to pay out at least 80%. This year, Moneta paid out CZK8.0 per share from last year's profit. This represents a payout ratio of 79%. In our projections, we expect Moneta to be able to afford to pay out 90% of net profit annually. Next year, we expect a dividend of CZK8.5 per share, which corresponds to the aforementioned payout ratio of 90%. Compared to our new TP, this implies a dividend yield of +8.3% (gross). In the following years, the dividend should rise to CZK9.4, which would imply a yield of +9.1%. As of 1H23, Moneta had excess capital above the Tier 1 target of CZK3.3bn, equivalent to CZK6.5 per share.

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 +32.5%, which is consistent with a Buy recommendation.

Financial data	2022	2023e	2024e	2025e	Ratios	2022	2023e	2024e	2025e
Revenues (CZKm)	12,116	11,925	12,644	12,882	P/E (actual, x)	10.1	10.8	10.8	11.1
Cost / Income ratio (%)	46.2	48.1	46.1	46.4	Price / book value (x)	1.7	1.6	1.6	1.6
Net interest margin (%)	2.6	2.1	2.0	1.9	Price / sales (x)	4.3	4.4	4.2	4.1
Net income (CZKm)	5,187	4,843	4,864	4,724	Dividend yield (%)	9.7	7.8	8.3	8.3
EPS	10.2	9.5	9.5	9.2	ROE (%)	16.7	15.2	15.0	14.4
Cash flow per share	9.0	10.8	11.6	11.8	ROTE (%)	18.7	17.0	16.8	16.1
Dividend per share	10.0	8.0	8.5	8.6	ROA (%)	1.3	1.1	1.0	0.9
Payout ratio (%)	128.3	78.8	90.0	90.0	Loan-to-deposit (%)	80.4	68.5	64.0	59.2

Upcoming events: 26 October 2023 – 3Q23 results

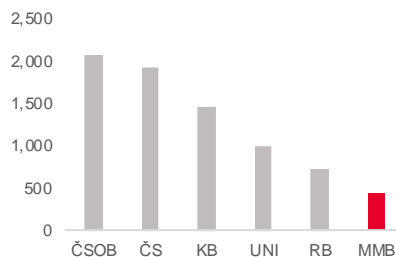
2 February 2024 – 4Q23 / FY24 results

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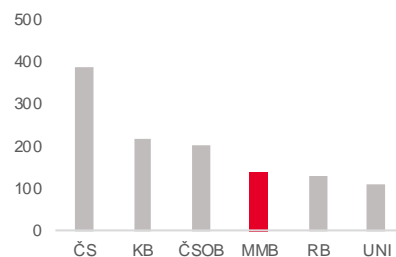
Company overview

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 ▪ Highly 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 that should increase client portfolios ▪ Growth through acquisitions 	<ul style="list-style-type: none"> ▪ Stricter regulation ▪ Unsuccessful strategy without the desired effect of increasing loan volumes ▪ Lower dividend payout than estimated ▪ Special bank levy or sectorial tax

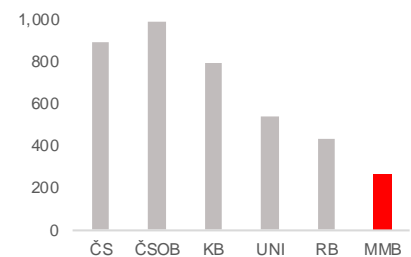
Balance sheet total (CZKbn, end of 2Q23)



Number of branches by the end of 2Q23

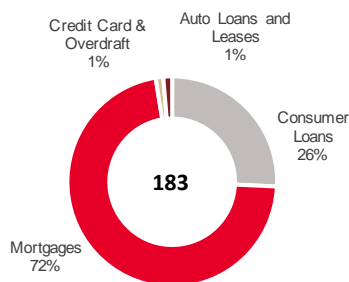


Loans provided to clients (CZKbn, 2Q23)

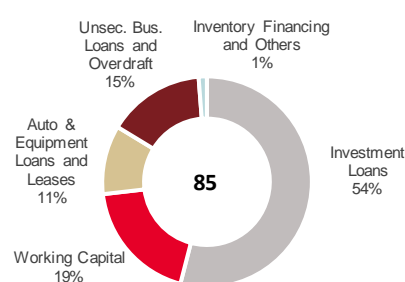


Source: banks' websites

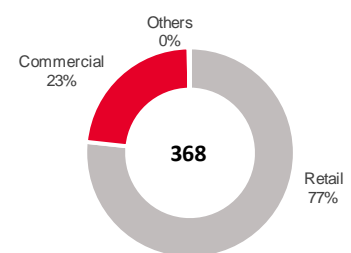
Retail loans (CZKbn, 2Q23)



Corporate loans (CZKbn, 2Q23)



Clients' deposits (CZKbn, 2Q23)



Source: MONETA Money Bank

Financial situation of the company

Company results for 2Q23

CZKmn	2Q22	2Q23	change	KB estimate	Consensus
Net Interest Income	2,458	2,167	-11.8%	2,134	2,104
Net Fees and Commission	545	663	21.7%	573	625
Others	63	198	2.4%	190	215
Total Operating Income	3,066	3,028	-1.2%	2,896	2,944
Total Operating Expenses	-1,275	-1,372	7.6%	-1,310	-1,351
Operating Profit	1,791	1,656	-7.5%	1,586	1,593
Net Impairment	155	-146	n.m.	-120	-152
Pre-tax	1,946	1,510	-22.4%	1,465	1,441
Net profit	1,582	1,263	-20.2%	1,225	1,174

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

2Q23 results ahead of market, FY net profit target raised.

Moneta's reported 2Q23 results exceeded market expectations. The company also raised its net income guidance for the year.

The loan portfolio grew by +0.8% yoy to CZK269bn. Retail loans accounted for 68% (CZK184bn) of the total volume, slightly down (-0.2% yoy). However, this was offset by a +2.9% yoy increase in the commercial portfolio (CZK85bn). Net interest income reached CZK2.17bn, down 11.8% yoy. The trend of skyrocketing interest expenses over the last few quarters continued. Their growth (+157% yoy) is significantly higher than the growth of interest income (+45% yoy). This naturally has an impact on the net interest margin, which fell to 2.1% in 2Q23 from 2.7% in 2Q22 but has stopped its decline and is stable on a quarterly basis. Fee and commission income of CZK0.66bn (+21.7% yoy), together with other income (CZK0.2bn, +214% yoy), almost offset the decline in net interest income. Total operating income amounted to CZK3.0bn (-1.2% yoy). Total operating expenses increased to CZK1.37bn (+7.6% yoy). However, this is due to the comparison basis, as a year ago Moneta recorded a one-off indemnification of acquisition costs (CZK0.11bn). The NPL ratio remains at an all-time low of 1.3%. As expected, provisions of CZK0.15bn were made (last year CZK+0.16bn). The effective tax rate was lower at 16.4%, similar to the previous quarter, due to investments in government bonds, which are exempt from income tax. Net profit in 2Q23 amounted to CZK1.26bn (-20.2% yoy).

The total capital adequacy ratio was 19.7%. The Tier 1 capital ratio was 15.4%, above the target of 13.5% (including MMB's 75bps management buffer). Excess capital over Tier 1 was CZK3.3bn, equivalent to CZK6.5 per share.

Outlook for this year

Increase projection.

In its 2Q23 report, MMB management raised its full-year net profit target to CZK4.7bn (from CZK4.3bn previously). It also lowered its risk cost forecast to 15-35 bp (from 25-45 bp previously). Other goals remain unchanged. Total operating income of at least CZK12bn, costs of up to CZK5.7bn, operating profit of at least CZK6.3bn. However, the CNB's decision to discontinue remuneration of mandatory reserves (as of October 5, see below) will have a negative impact on results in the second half or final quarter of the year.

Interest rates will remain stable until the end of the year. We expect a reduction at the beginning of next year.

The key 2T repo rate of the Czech National Bank is 7.00%. It was last raised in May 2022. Since then, the bank's board has not changed it and it remains at the aforementioned level of 7.00%. In our forecasts, we expect the first cut to take place in February next year. In the course of the year (March, July, August, November and December), we expect further monetary easing, with the policy rate falling to 4.00% by the end of the year. For more on the economic outlook, see the latest edition of the Economic Outlook from our colleagues in Economic and Strategic

Research. The publication is entitled "No rate cuts this year but more in 2024" and is available here https://bit.ly/CEO_3Q23_EN¹. The fall in interest rates will have an impact on the performance of the banking sector as a whole.

The CNB's decision to discontinue the remuneration of mandatory reserves means a decrease in interest income.

The results will also be affected by the CNB's decision to abolish the interest on required reserves as of October 5. This will affect results in the fourth quarter of this year.

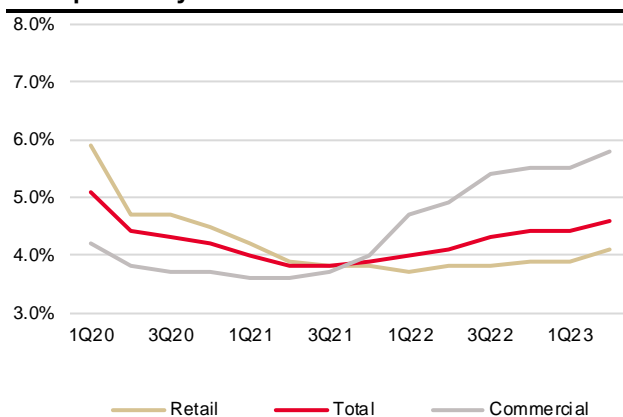
Banks are required to maintain minimum reserves of 2% at the CNB. These reserves were remunerated at the 2T repo rate, which is now 7.00%. As of mid-year, MMB had approximately CZK7bn in required reserves. As we do not expect a change in interest rates before the end of the year, this means a shortfall in interest income for MMB in the fourth quarter or for the whole year 2023 of approximately CZK120m and CZK450m (Moneta's estimate).

Next year (2024), however, we expect the interest-rate reduction cycle (see above) to begin, at the end of which the base rate should fall to 4.00%. For next year as a whole, we therefore estimate a decline in interest income of CZK390m. It is not clear whether Moneta's estimate of CZK450m for the 2024 includes the expected reduction in interest rates. According to the press release, MMB will look for business opportunities to eliminate this negative impact.

Growth in the profitability of the loan portfolio.

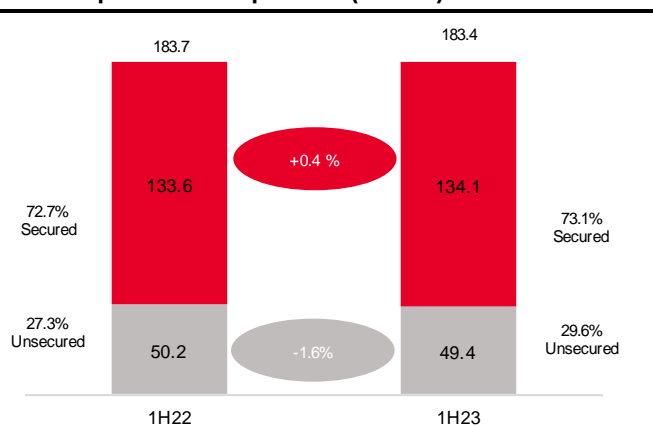
The chart below shows the performance of the loan portfolio. The total return for the first half of the year is +4.6% (+4.1% in the same period last year). Yields increased in both the retail and commercial loan segments. The higher growth rate is in corporate loans, where the yield is +5.8% (+4.9% last year). The yield on retail loans is +4.1% in 1H23 (+3.8% last year). Retail loans account for more than 68% of total loans. Their structure is important. Secured retail loans account for almost three quarters of total retail loans. Their share increased slightly yoy (+0.4%). Unsecured loans, on the other hand, decreased slightly (-1.6% yoy) and their share in total retail loans is 27%. Unsurprisingly, mortgages account for the largest share of secured retail loans at nearly 72%. This affects the return in this segment. It then accounts for almost half of all loans.

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

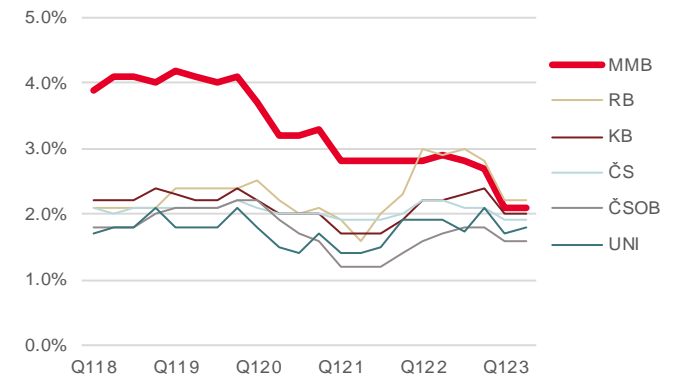
¹ See more in our report " No rate cuts this year but more in 2024" published on 25 July 2023, 2:21pm CEST

Net interest should be fairly stable.

Net interest income in the second quarter amounted to CZK2.2bn. This represents a decrease of 11.8% compared to the same period of the previous year. The decrease was due to a sharp increase in interest expenses in connection with the high CNB interest rates. As for the net interest margin, the rapid decline from the end of last year has stopped and the margin is stable at +2.1% on a quarterly basis.

This year, we estimate that net interest income will decline to CZK8.5bn (-8.9% yoy). The net interest margin should therefore remain at +2.1%. The chart compares the margins of the six largest banks, including Moneta. It shows that Moneta has one of the highest margins among the compared banks.

Comparison of net interest margins



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

High interest rates obviously have an impact on the development of interest margins in the banking sector. However, as interest income rises, so do interest costs and the complexity of financing. The CNB's key interest rate is now at 7.00% and has not changed since June 2022. We expect it to ease monetary policy gradually next year, with the rate falling to 4.00% by the end of the year.

Fee and commission income is expected to grow nicely this year.

According to our estimates, fees and commissions will grow by +13.9% to CZK2.6bn this year. This is a slightly higher growth rate than last year (+12.1%, CZK2.3bn). The growth is related to the sale of third-party products (mainly pension and life insurance).

Slight increase in operating expenses. Wage inflation moderated by lower headcount.

We estimate operating expenses at CZK5.7bn this year (+2.5% yoy). The slight increase is due to higher regulatory fees and administrative costs. On the personnel side, lower headcount will offset wage inflation. We expect the cost-to-revenue ratio to reach 48.1%, up from 46.2% in 2022.

Following the release of provisions in the first quarter, risk costs increased in the second quarter. Provisions for the full year remain very low.

Due to the coronavirus pandemic, there was a significant increase in provisions for non-performing loans in 2020 (CZK3.6bn, 174bps). However, the provisions were released in the following years and there was a sharp decrease to CZK90m last year. This means that the cost of risk was a low 3bps. This year there was a reversal of provisions in the first quarter and an increase in the second quarter. For the whole half-year, they are in the low CZK30m or only 2bps. The ratio of non-performing loans (NPLs) fell to an all-time low of 1.3%. The reasons for the decline are NPL sales, improved payment behavior and reclassification. We expect an increase of cost of risk in the second half of the year. They are expected to total CZK417m this year or 16bps.

Net income down from prior year.

Net profit this year is expected to decrease by 6.6% yoy to CZK4.8bn. The decrease is due to lower operating income compared to last year, which was negatively impacted by higher financing costs and higher operating expenses. Risk costs also more than doubled compared to the previous year.

Special tax

The impact of the special windfall profits tax will be marginal.

As a result of the energy crisis and the sharp rise in energy prices, the government introduced a windfall tax (WFT), which applies, to banks with net interest income exceeding CZK6bn,

among others. It therefore also applies to Moneta, which meets this test. It will apply for the years 2023, 2024 and 2025. Any profit above the 2018-2021 average plus 20% will be considered a windfall profit and taxed at a rate of 60%.

According to several statements by Moneta's CEO, the impact of this special tax on the bank's performance will be marginal.

2023 projection

The next table shows Moneta management's outlook for this year, including our estimates. Our estimates are roughly in line with Moneta's outlook.

Moneta's estimates do not take into account the abolition of interest on mandatory reserves, which took place October 5 and will therefore affect fourth-quarter results. According to Moneta's press release, the negative impact in this period will be CZK120m (see above).

2022 results and 2023 guidance

	2022	2023 mng guidance	2023 KB estimates
Total Operating Income (CZKbn)	12.1	≥12.0	11.9
Cost Base (CZKbn)	5.6	≤5.7	5.7
Operating Profit (CZKbn)	6.5	≥6.3	6.2
Cost of Risk (bps)	3	15-35	16
Effective Tax Rate (%)	19.4	16.0	16.1
Net profit (CZKbn)	5.2	≥4.7	4.8
EPS (CZK)	10.2	≥9.2	9.5
Reported Return on Tangible Equity	18.7	≥16.0	17.0

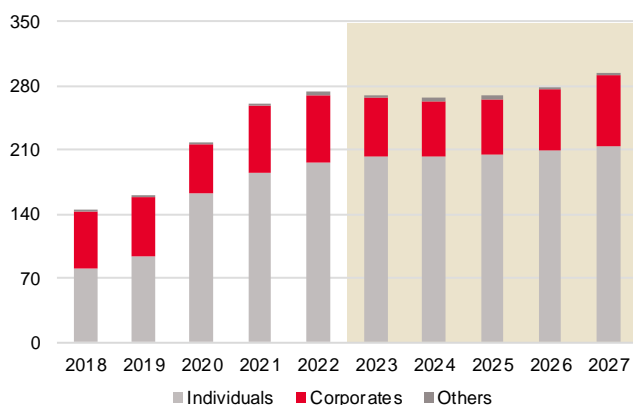
Source: MONETA Money Bank, KB Economic & Strategy Research

Our long-term outlook

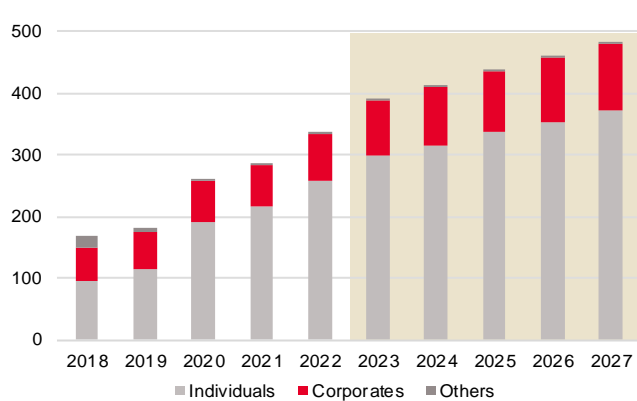
Our long-term projections are based on our estimates of interest rates and loan volumes.

In our forecast, we expect the loan portfolio to grow in the retail and corporate segments over the forecast period (2023-2027). We estimate the average annual growth of total loans at +2.2% (CAGR). We expect retail loans to grow by +1.4% and commercial loans by +4.6% over the forecast period.

Loan breakdown and its expected development (CZKbn)



Deposit breakdown and its expected development (CZKbn)



Source: MONETA Money Bank, KB Economic & Strategy Research

We also expect customer deposits to grow. We estimate their compound annual growth rate (CAGR 2023-2027) at +6.2%. In the retail (household) segment, we expect a slightly higher pace of growth, with deposits growing by +6.3%. Commercial deposits are expected to grow by +5.7% in our forecast. The retail sector should account for about three-quarters of funding sources and the commercial sector for about one-quarter.

We expect the net interest margin to decline slightly.

In the first half, the net interest margin was +2.1%. This is down from +2.3% in 4Q22. However, the decline has stopped and the margin is flat on a quarterly basis. This quarter, we expect the net interest margin to be +2.1%, unchanged from both the second and first quarters of this year. On the one hand, high interest rates are positive, but this has been more than offset by higher funding costs. Going forward, we expect the net interest margin to be +1.8%.

According to our forecast, net interest income should grow by an average +3.4% per year and reach CZK9.7bn in 2027.

Sales of third-party products will grow solidly.

Fee and commission income will grow faster than net interest income. We estimate that net fee and commission income will grow +6.0% (CAGR 2023-2027). This should be driven by successful sales of third-party products.

Total operating income is projected to grow by an average of +3.8% to CZK13.9bn in 2027.

Personnel costs will increase faster than administrative costs.

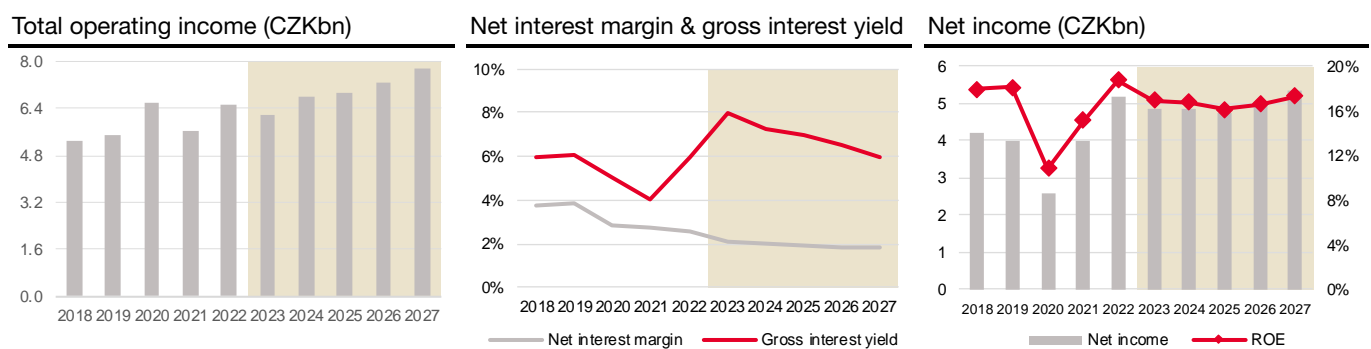
Total operating costs are expected to reach CZK5.7bn this year. In the last year (2027) of our forecast period, they are expected to increase further to CZK6.1bn. This corresponds to a compound annual growth rate (CAGR) of +1.7%. Personnel costs account for the largest share of operating costs (approx. 45%). Due to inflation and a tight labor market, they will grow the fastest among costs (+2.8%). We estimate moderate growth of around +1.0% for administrative costs.

The cost of risk will rise from low levels.

This year, we expect the cost of risk to increase. Last year, the cost was a mere, unprecedented 3bps, after the high levels created during the pandemic. This year, we expect it to increase to 16bps (CZK417m) and to 45bps (CZK1,267m) in the final year (2027).

Net income will grow +2.4% on average.

The level of risk costs will have an impact on net profit. We expect a decrease to CZK4.8bn this year (-6.6% yoy). In the last year of the forecast period, we estimate net profit at CZK5.3bn. The compound annual growth rate (CAGR) is +2.4%.



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

The outlook for Moneta's performance in the coming years compared to our expectations is shown in the table below.

Medium-term guidance

	2022	2027 mng guidance	2027 KB estimates
Total Operating Income (CZKbn)	12.1	≥14.0	13.9
Cost Base (CZKbn)	5.6	≤6.1	6.1
Operating Profit (CZKbn)	6.5	≥7.9	7.7
Cost of Risk (bps)	3	35-55	45
Effective Tax Rate (%)	19.4	16.5	17.5
Net profit (CZKbn)	5.2	5.6	5.3
EPS (CZK)	10.2	≥11.0	10.4
Reported Return on Tangible Equity	18.7	16.0	17.3

Source: MONETA Money Bank, KB Economic & Strategy Research

Our forecast assumes higher average growth in total revenues than in costs. Operating income should therefore increase.

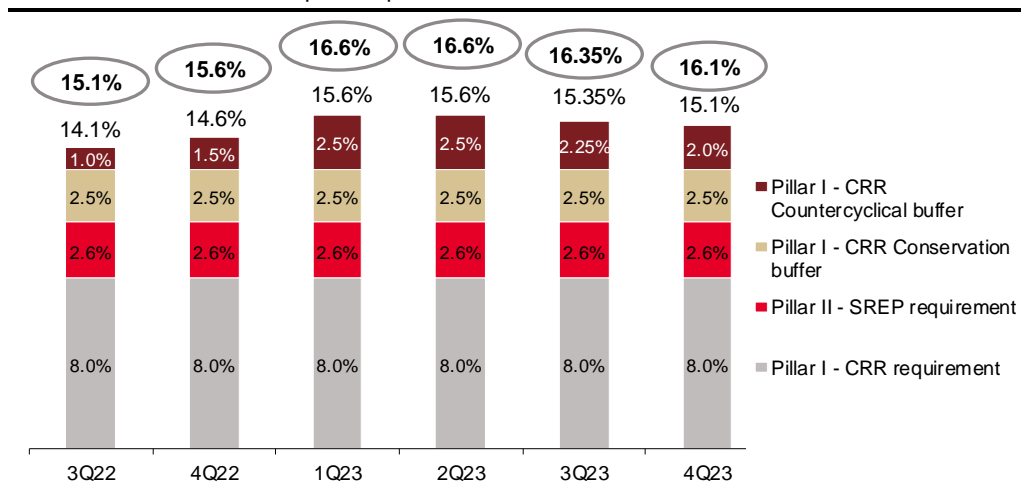
Capital adequacy

Strong capital position.

Moneta Money Bank comfortably meets the regulatory capital requirements. The regulatory capital requirement is set at 15.1% as of October 1, 2023. It consists of 10.6% of SREP requirement, 2.5% of safety capital buffer and 2.0% of countercyclical capital buffer. In addition, Moneta's management has set a voluntary internal capital buffer of 1.0% above this regulatory requirement. The total capital adequacy target is therefore 16.1%. In particular, the countercyclical capital surcharge is changing. The CNB assesses systemic risks on a quarterly basis and then decides on the setting of this rate. The structure of the capital requirements is shown in the next chart.

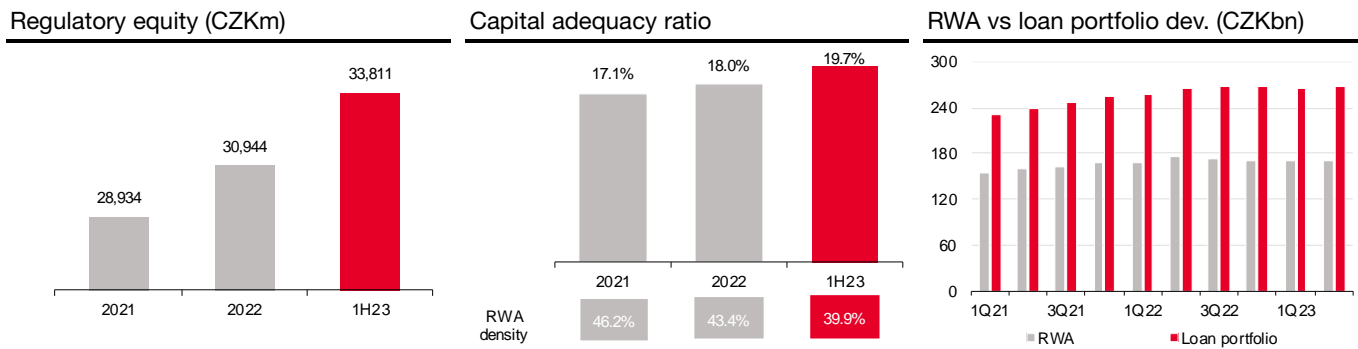
Moneta's capital adequacy ratio was 19.7% in the first half of this year. Moneta thus comfortably meets the requirement of 16.1%, which already includes the internal management reserve of 100bps.

Trend and breakdown of capital requirement



Source: MONETA Money Bank

According to the second-quarter report, regulatory capital on a consolidated basis for the first half of the year was CZK33.8bn. Excess capital at the end of 1H23 was CZK3.3bn. This corresponds to CZK6.5 per share. Risk-weighted assets (RWA) amounted to CZK171.4bn.



Source: MONETA Money Bank

We estimate that the ratio of risk-weighted assets to the bank's total assets will be well below 50% over the period. This ratio declined in 2021. Moneta is continuing to sell off its non-performing loan (NPL) portfolio. The reclassification of some NPLs due to good payment discipline had a positive impact. We also expect that the bank will be able to fund its loans with the deposits it collects and will not be dependent on external funding. The loan-to-deposit ratio should therefore remain well below 100%.

Shareholder remuneration

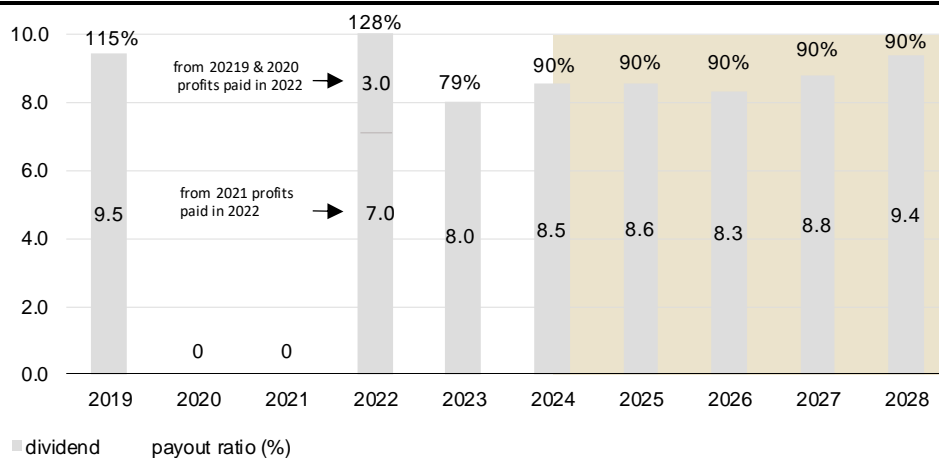
Moneta's dividend policy is at least 70% of net income.

Moneta's dividend policy is to distribute at least 70% of net income to shareholders. However, Moneta's management has clearly stated its intention to pay out at least 80%, which is made possible by Moneta's strong capital position.

This year, i.e. from the 2022 profit, Moneta paid CZK8.0 per share. This represents 79% of the payout ratio. Next year we expect a dividend of CZK8.5 per share. This represents a gross yield of +10.1% or a payout ratio of 90% of net income. We believe that a payout ratio of 90% is sustainable for Moneta in the coming years.

The chart below shows our estimated dividend payouts for the period. Recall that dividends will not be paid in 2020 and 2021 due to CNB regulations. Dividends were not paid in 2020 and 2021 due to CNB regulation.

Dividend per share* (CZK)



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

M&A activity

We do not expect any potential M&A developments in the near future.

After several attempts by the PPF Group to take control of Moneta, these attempts have ended. According to the current CEO of PPF, there is no room for further activity in this matter. PPF will still own 29.94% of Moneta. We can speculate whether the group would sell it to a strategic investor.

However, we are confident that Moneta will continue to monitor and evaluate consolidation opportunities in the sector. On the other hand, it may become an acquisition target itself.

Company valuation

Sector comparison

A premium over peers is justified.

Moneta's shares trade at a premium to a selected peer group and the European banking sector as a whole (EURO STOXX Banks) on the basis of the monitored multiples (P/E, P/BV, P/S). Moneta pays a significantly higher dividend than the group median. Moneta is very well capitalized and does not depend on external financing, according to its loan-to-deposit ratio.

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

MONETA Money Bank vs peers

	P/E akt.	P/E 2023	P/E 2024	P/BV akt.	P/TBV akt.	P/S akt.	Div. výnos 2024	ROE akt.	ROA akt.
MONETA MONEY BANK	11.0	10.8	10.8	1.8	2.0	4.4	8.3	16.3	1.1
Komerční Banka AS	7.3	8.1	8.9	1.1	1.2	1.1	8.3	14.4	1.2
BRD-Groupe Societe Generale SA	7.5	7.5	8.7	1.3	1.4	1.9	11.5	20.8	2.0
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	11.0	5.1	5.6	0.7	0.8	0.9	n/a	7.2	0.6
Bank Handlowy w Warszawie SA	3.8	4.8	6.5	1.3	1.5	2.0	10.9	26.0	2.8
OTP Bank Nyrt	4.3	4.3	4.9	1.1	1.1	0.9	4.1	25.8	2.6
Santander Bank Polska SA	12.2	8.6	9.3	1.4	1.5	2.5	4.3	12.0	1.4
Bank Polska Kasa Opieki SA	9.2	5.8	7.0	1.2	1.4	1.7	8.7	14.7	1.2
Powszechna Kasa Oszczedności B	14.6	7.0	6.9	1.3	1.4	1.6	5.3	9.8	0.8
Sberbank of Russia PJSC	n/a	n/a	n/a	1.0	n/a	n/a	n/a	n/a	n/a
Bank Millennium SA	n/a	4.6	6.6	1.4	1.5	1.0	0.0	-6.5	-0.4
Vseobecna Uverova Banka AS	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.4	1.0
Alior Bank SA	6.8	4.7	6.3	1.0	1.1	0.9	0.0	18.0	1.4
Akbank TAS	2.3	2.9	2.9	1.0	1.0	0.7	4.6	51.3	5.6
Türkiye Garanti Bankası AS	2.8	3.3	2.7	1.1	1.1	0.8	4.6	47.2	4.7
Yapı ve Kredi Bankası AS	2.7	3.4	3.1	1.1	1.1	0.7	3.7	49.4	4.7
Türkiye İş Bankası AS	3.3	4.3	3.7	1.1	1.1	0.8	n/a	42.1	3.8
Banca Transilvania SA	12.0	7.3	7.3	1.5	1.6	3.1	5.8	27.6	2.0
Hacı Omer Sabancı Holding AS	2.5	3.8	2.8	1.0	1.2	0.4	3.4	50.1	3.4
Medián srovnávací skupiny	6.8	4.7	6.4	1.1	1.2	1.0	4.6	19.4	1.7
EURO STOXX Banks Price EUR	6.3	6.2	6.2	0.8	0.8	1.3	7.3	11.3	0.6
<i>MMB vs. medián</i>	60%	129%	68%	62%	69%	349%	81%	-16%	-33%
<i>MMB vs. STOXX</i>	73%	76%	74%	137%	136%	251%	14%	43%	93%
<i>MMB vs. Komerční banka</i>	49%	33%	21%	65%	64%	319%	0%	13%	-3%

Source: Economic & Strategy Research, Komerční banka, Bloomberg

Fair value and target price

We have used three methods to value the Moneta share. We set the target price at CZK102.8.

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

We have discounted the excess return, free cash flow and dividends over the analysis period (2023-2027) to October 2023. We calculated the cost of equity using the CAPM model, taking into account our expectation of the risk-free interest rate in the coming years, and determined the risk premium based on the calculations of Aswath Damodaran. The key parameters and results are shown in the table below. The cost of equity for the forecast period is in the range of 11.3-10.8%. For the terminal phase, we consider the normalized values of interest rates and equity risk premia.

Based on the average of these models, we set the fair value of MONETA Money Bank shares at CZK102.8 apiece.

Parameters and valuation methods for MONETA Money Bank stock

	2023	2024	2025	2026	2027		2023	2024	2025	2026	2027
Cost of equity capital	11.3%	10.7%	10.7%	10.8%	10.8%	DDM					
Risk-free rate	4.4%	3.8%	3.8%	3.9%	3.9%	Dividend per share	8.50	8.60	8.30	8.80	9.40
Beta	1.01	1.01	1.01	1.01	1.01	Explicit value	34.2				
Risk premium	6.8%	6.8%	6.8%	6.8%	6.8%	Terminal value	63.2				
Dividend growth after 2023	1.2%					Fair value (CZKm)	49,771				
FCFE growth after 2023	1.0%					Fair value per share	97.4				
Payout ratio after 2023	90%										
ROE after 2023	12.0%										
Excess return model						DFCF					
ROE	15.2%	15.0%	14.4%	14.9%	15.5%	Net income	5,187	4,843	4,864	4,724	4,990
Return spread	3.9%	4.3%	3.7%	4.1%	4.8%	Depreciation&Amortization	1,249	1,257	1,253	1,293	1,237
Equity	31,091	31,856	32,373	32,732	33,484	Provisions for loans	90	417	950	1,184	1,211
Excess return	1,219	1,373	1,208	1,346	1,592	Other non-cash adjustment	-770	157	6	-5	-16
Opening equity capital	29,481					Change in working capital	0	0	0	0	0
Explicit value	5,585					CAPEX	-1,145	-1,156	-1,168	-1,180	-1,191
Terminal value	10,309					Sale of PPE	12	12	12	12	12
Fair value (CZKm)	45,375					FCFE	4,623	5,529	5,917	6,029	6,243
Fair value per share	88.8					Explicit value	22,865				
						Terminal value	39,525				
						Fair value (CZKm)	62,390				
						Fair value per share	122.1				

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

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	93.5	94.9	96.6	98.4	100.5
-50bp	89.9	91.1	92.5	94.0	95.7
10.84% / 10.78% *	86.7	87.7	88.8	90.0	91.4
+50bp	83.8	84.6	85.5	86.5	87.5
+100bp	81.1	81.8	82.5	83.3	84.1
DDM					
Cost of equity / growth rate	0.2%	0.7%	1.2%	1.7%	2.2%
-100bp	91.5	94.6	98.1	101.9	106.2
-50bp	91.2	94.3	97.7	101.6	105.8
10.84% / 10.78% *	90.9	94.0	97.4	101.2	105.5
+50bp	90.6	93.6	97.1	100.9	105.1
+100bp	90.2	93.3	96.7	100.5	104.7
FCFE					
Cost of equity / growth rate	0.0%	0.5%	1.0%	1.5%	2.0%
-100bp	122.1	126.7	131.8	137.5	143.9
-50bp	118.0	122.1	126.7	131.8	137.5
10.84% / 10.78% *	114.2	118.0	122.1	126.7	131.8
+50bp	110.8	114.2	118.0	122.1	126.7
+100bp	107.7	110.8	114.2	118.0	122.1

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 a higher 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 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 riskier, which may lead to problems in repaying loans in the event of unfavourable economic developments.
- **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

CZKm	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
INCOME STATEMENT								
Net interest income	8,282	8,609	9,311	8,478	8,917	9,010	9,251	9,680
Net fee and commission income	1,891	2,050	2,298	2,618	2,860	3,003	3,153	3,310
Total operating income	12,098	11,168	12,116	11,925	12,644	12,882	13,276	13,864
Personnel expenses	-2,519	-2,562	-2,528	-2,494	-2,543	-2,622	-2,704	-2,788
Administrative expenses	-1,372	-1,518	-1,523	-1,595	-1,611	-1,627	-1,643	-1,660
Depreciation and amortisation	-1,129	-1,196	-1,249	-1,257	-1,253	-1,293	-1,237	-1,250
Total operating expenses	-5,526	-5,538	-5,594	-5,735	-5,834	-5,972	-6,016	-6,131
Net impairment of loans and receivables	-3,562	-695	-90	-417	-950	-1,184	-1,211	-1,267
Profit for the period before tax	3,010	4,935	6,432	5,774	5,860	5,726	6,049	6,465
Net income	2,601	3,984	5,187	4,843	4,864	4,724	4,990	5,334
BALANCE SHEET								
Cash and balances with the central bank	7,782	11,204	12,467	32,453	56,907	91,027	104,785	113,526
Financial assets available for sale	0	0	0	0	0	0	0	0
Loans and receivables to banks	22,872	15,602	37,886	54,012	51,884	51,365	50,852	50,343
Loans and receivables to customers	226,072	255,612	268,752	265,823	262,495	263,936	274,189	289,038
Intangible assets	2,957	3,184	3,379	3,313	3,380	3,413	3,448	3,482
Total assets	300,958	340,222	387,510	444,322	466,763	502,746	527,208	551,274
Due to customers	258,906	285,145	334,251	387,969	410,149	445,800	469,531	492,757
Provisions	289	234	306	291	276	262	249	237
Other liabilities	3,516	4,760	3,570	3,606	3,642	3,678	3,715	3,752
Total liabilities	273,908	310,741	356,419	412,466	434,390	470,014	493,723	516,932
Total equity	27,050	29,481	31,091	31,856	32,373	32,732	33,484	34,342
Risk-weighted assets	154,131	169,241	171,718	170,640	169,743	170,209	173,515	178,214
CASH FLOW								
Cash flows from operating activities	3,411	13,977	36,712	47,271	34,786	42,003	21,491	16,787
Cash flows from investing activities	-3,971	-16,960	-11,273	-1,140	-1,152	-1,164	-1,175	-1,187
Cash flows from financing activities	111	-300	-1,808	-4,088	-4,358	-4,377	-4,252	-4,491
Free cash flow to equity	5,213	6,358	4,623	5,529	5,917	6,029	6,243	6,633
DATA PER SHARE (CZK)								
EPS	5.1	7.8	10.2	9.5	9.5	9.2	9.8	10.4
Book value	52.9	57.7	60.8	62.3	63.4	64.1	65.5	67.2
Free cash flow	10.2	12.4	9.0	10.8	11.6	11.8	12.2	13.0
Gross dividend	0.0	0.0	10.0	8.0	8.5	8.6	8.3	8.8
RATIOS								
Yield	5.1%	4.0%	5.9%	8.0%	7.3%	7.0%	6.5%	6.0%
Cost of funds	0.6%	0.4%	2.0%	3.6%	2.6%	2.2%	1.8%	1.5%
Net interest margin	2.8%	2.7%	2.6%	2.1%	2.0%	1.9%	1.8%	1.8%
Cost/Income ratio	45.7%	49.6%	46.2%	48.1%	46.1%	46.4%	45.3%	44.2%
ROE	9.6%	13.5%	16.7%	15.2%	15.0%	14.4%	14.9%	15.5%
ROTE	10.8%	15.2%	18.7%	17.0%	16.8%	16.1%	16.6%	17.3%
ROA	0.9%	1.2%	1.3%	1.1%	1.0%	0.9%	0.9%	1.0%
Total Equity / Total Assets	9.0%	8.7%	8.0%	7.2%	6.9%	6.5%	6.4%	6.2%
Loan-to-Deposit ratio	87.3%	89.6%	80.4%	68.5%	64.0%	59.2%	58.4%	58.7%
Dividend payout ratio	0.0%	0.0%	128.3%	78.8%	90.0%	90.0%	90.0%	90.0%
VALUATION								
P/E	20.2	13.2	10.1	10.8	10.8	11.1	10.5	9.8
P/BV	1.9	1.8	1.7	1.6	1.6	1.6	1.6	1.5
P/S	4.3	4.7	4.3	4.4	4.2	4.1	4.0	3.8
Dividend yield	0.0%	0.0%	9.7%	7.8%	8.3%	8.3%	8.1%	8.6%

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

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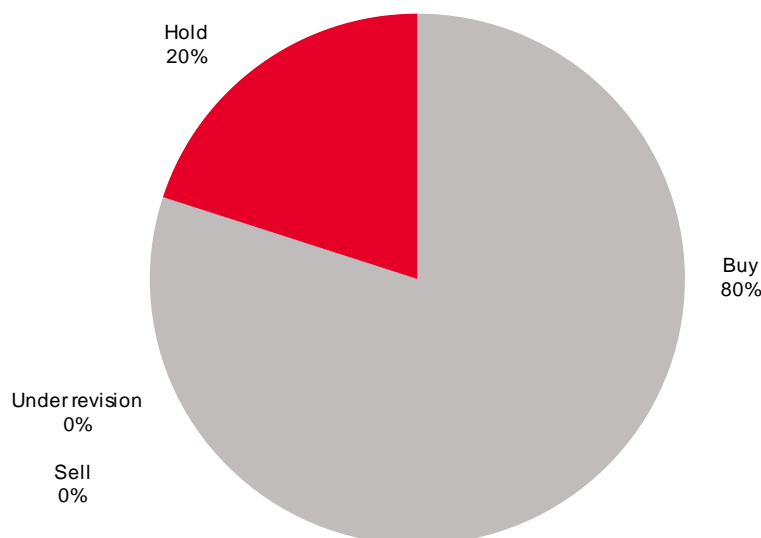
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (8 recommendations).

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

	CEZ	Colt CZ Group SE	Kofola	MONETA Money Bank	Philip Morris CR	Avast	O2 CR
Overview of last investment research and recommendations related to stocks of particular issuers							
Recommendation	Buy	Buy	Buy	Buy	Hold	End	End
Target price	CZK1,034	CZK652	CZK313	CZK102.8	CZK18,349	of coverage	of coverage
Date	07.09.2022	16.12.2022	29.05.2023	19.10.2022	03.03.2023	07.09.2022	25.02.2022
Price on the day of the publication	CZK923	CZK559	CZK244	CZK84	CZK17,200	CZK205.1	CZK270
Investment horizon	12 months	12 months	12 months	12 months	12 months		
Author	B. Trampota	B. Trampota	B. Trampota	B. Trampota	B. Trampota		
Overview of investment researches and recommendations for last 12M (quarterly)							
Recommendation	Buy	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	CZK1,393	CZK645	CZK381	CZK104.6	CZK18,183	GBp600	CZK362
Date	07.06.2022	17.01.2022	12.05.2022	05.09.2022	11.02.2022	11.02.2021	26.03.2021
Recommendation	In revision	In revision	In revision	Buy	Buy	Buy	Buy
Target Price	In revision	In revision	In revision	CZK109.7	CZK16,512	GBp466	CZK293
Date	10.05.2022	31.03.2021	15.02.2022	31.08.2021	20.11.2020	30.08.2019	08.01.2020
Recommendation	Buy	Buy	Buy	In revision	Buy	In revision	Buy
Target Price	CZK905	CZK357	CZK367	In revision	CZK18,308	In revision	CZK298
Date	10.12.2021	27.11.2020	12.01.2021	07.05.2021	03.12.2018	14.08.2019	12.12.2018
Recommendation	Buy		In revision	Buy	Buy	Buy	Hold
Target Price	CZK621		In revision	CZK97	CZK17,546	GBp342	CZK270
Date	23.07.2020		26.11.2020	29.10.2019	22.08.2017	15.06.2018	18.08.2017
Valuation methods	DFCF	DFCF	DFCF	DFCF DDM ERM	DDM	DFCF	DFCF DDM
Frequency of rec. (per year)	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
Other significant financial interest of KB and/or its linked persons in the issuer	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
Author's direct or indirect share (0.5% or more) of the registered capital of the issuer.	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
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
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
KB market making for common stocks of the issuer	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