

UmweltBank AG*1;4;5a;6a;7;11

Rating: BUY

Target price: € 16.00
(previously: €16.30)

Current rate: € 11.45
08.11.22 / XETRA / 12:35 am
Currency: EUR

Master data:

ISIN: DE0005570808
WKN: 557080
Ticker symbol: UBKG
Number of shares³: 35.44
Market cap³: 405.79
³ in million / in EUR million
Free float: 85%

Transparency level:

Open market
Market segment:
m:access
Accounting:
HGB

Financial year: 31.12.

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* Catalogue of possible conflicts of interest on page 6

Date (time) completion of the study: 08.11.22 (3:04 pm)

Date (time) first publication: 09.11.22 (09:30 am)

Target Price valid until: 31.12.2023

Company profile

Industry: Financial services

Focus: ecological investments, financing environmentally friendly projects

Employees: 314 (30.06.2022)

Foundation: 1997

Company headquarters: Nuremberg

Board of directors: Goran Bašić, Jürgen Koppmann, Heike Schmitz



UmweltBank AG stands for banking with ecological and social responsibility. It offers investors transparent ecological financial investments and supports private individuals and commercial customers throughout Germany by financing environmentally friendly projects. By exclusively offering a green product range, UmweltBank AG consistently implements its ecological orientation. In addition to the classic savings account, the company offers, among other things, green fund products, enters into ecological endeavours, offers ecological insurance and finances green projects. In doing so, UmweltBank AG acts as a direct bank, without the classic branch business. Since its founding in 1997, it has supported almost 25,000 credit projects. At the end of 2021, environmental loans (including open commitments) had a total volume of 3.5 billion euros. The majority of the loan volume consists of solar energy financing, residential real estate and wind power projects.

P&L in € million	FY 2021	FY 2022e	FY 2023e	FY 2024e
Interest income	70.90	75.39	83.52	86.02
Interest result	63.24	59.32	62.19	62.90
Other income	13.50	16.60	19.10	20.60
Result after taxes	25.37	23.13	27.05	28.81

Key figures in €				
EPS	0.72	0.65	0.76	0.81
Dividend per share	0.33	0.33	0.35	0.35

Balance sheet key figures in € million				
Customer deposits	2.954.09	2.983.63	3.073.14	3.165.33
Credit volume	3.072.52	3.164.70	3.259.64	3.357.43
Total capital	503.50	514.94	529.59	546.00
Return on investment (before taxes)	5.6%	4.5%	5.2%	5.4%
Cost-income ratio	49.8%	54.4%	50.1%	48.2%

Financial dates	**last research from GBC:
15.11.2022: MKK	Date: Publication / Target price in EUR / Rating
	22.08.2022: RS / 16.30 / HOLD
	04.07.2022: RS / 17.20 / HOLD
	24.02.2022: RS / 19.05 / BUY
	27.09.2021: RS / 21.00 / HOLD
	** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

Note in accordance with MiFID II regulation for research "Minor Non-Monetary Contribution": This research meets the requirements for classification as a "Minor Non-Monetary Contribution". For further information, please refer to the disclosure under "I. Research under MiFID II".

Extraordinary proceeds after sale of wind farm; EBT guidance raised to € 40 million; price target reduced to € 16.00 (previously: € 16.30) after raising cost of equity; Rating: BUY

in €m	FY 2021	FY 2022e (old)	FY 2022e (new)	FY 2023e	FY 2024e
Interest, financial and valuation result	66.03	60.62	60.62	64.99	65.70
Net commission and trading income	9.42	11.71	11.71	13.00	14.29
EBT	38.09	34.01	40.01	39.79	42.37
EAT	25.37	23.13	27.21	27.05	28.81
EPS in €	0.72	0.65	0.77	0.76	0.81
Dividend in €	0.33	0.33	0.33	0.35	0.35

Sources: UmweltBank AG; GBC AG

In an announcement dated 28 October 2022, UmweltBank's management announced the successful sale of a wind farm investment. The net proceeds of approximately € 20 million correspond to the order of magnitude communicated in advance, which had held out the prospect of an extraordinary contribution to earnings in the low double-digit million range. Including the extraordinary contribution to earnings, the company is adjusting the forecast for the current 2022 financial year. Earnings before taxes of approximately € 40 million are now expected, compared to the previous forecast, which had held out the prospect of EBT of € 34 million.

This means that not all of the net proceeds will be reflected in the after-tax result. On the one hand, the management of UmweltBank AG will make higher provisions in response to the current challenging business environment and the weaker business outlook in the securities business. Although this has an effect on earnings, the provision increases the regulatory equity capital and could thus be regarded as an anticipated retention of earnings. On the other hand, the extraordinary income is used to take into account currently visible burdens from the valuation of fixed-income securities in their own portfolio in advance in the current 2022 financial year. In total, the resulting burden on earnings is likely to amount to around € 14 million, although it is not clear from the company's announcement which portion is attributable to the higher provisioning and which portion to the valuation adjustment of fixed-interest securities.

However, since the fixed-interest securities are usually held by UmweltBank AG until final maturity, the nominal amount should flow back in the event of a trouble-free repayment of the bonds affected by the devaluation. In this case, there would then be a reversal of the devaluation previously made, which would be accompanied by a special income.

Basically, the current market environment presents a mixed picture with regard to the business prospects of UmweltBank AG. On the one hand, the interest rate turnaround is accompanied by an increase in the interest margin, although positive effects are only likely to become visible in the coming periods. In the period from January 2022 to September 2022, for example, construction interest rates have risen significantly from 1.0 % to around 3.5 %.

The picture for new lending business is also mixed. While, according to the company, demand for financing in the renewable energy sector remains high, demand for real estate financing is, as expected, subdued. As of 31 December 2021, real estate loans accounted for a total of 35% of UmweltBank AG's total loan volume.

Demand for investment funds is also below management expectations due to market conditions. In total, the three funds of the UmweltSpektrum family have a fund volume of around € 120 million. In their first press briefing in 2022, the UmweltBank management

announced € 230 million as their target fund volume by the end of the current financial year.

We are adjusting our forecasts for the current financial year 2022 to the newly issued guidance and now expect a pre-tax result of € 40.01 million (previously: € 34.01 million) with unchanged sales. Accordingly, the after-tax result should rise to € 27.21 million (previous year: € 23.13 million). Our forecasts for the coming financial years remain unchanged.

Evaluation

For the valuation of UmweltBank AG, we have used a residual income model, whereby the difference between the return on equity and the cost of equity is used to determine the surplus return of the estimation periods. In doing so, we have formulated concrete expectations for the estimation periods of the three financial years 2022e - 2024e with regard to the annual surpluses and the resulting changes in equity. The expected returns on equity can be derived from this. The residual income of the business year can be derived from the generated surplus return of a period. The expected residual income is then discounted to the valuation date with the cost of equity. To determine the terminal value, we apply a premium to the current book value.

$$\text{Fair Company Value} = EK_0 + \sum_{t=1}^T \frac{(ROE_t - r)EK_{t-1}}{(1+r)^t} + \frac{P_T - EK_T}{(1+r)^T}$$

EK = equity	ROE = return on equity
P = premium on book value	r = cost of equity capital
T = estimation period	T = last estimation period

Determination of the cost of capital

The relevant discount rate for use in the residual income model is the cost of equity. To determine the cost of equity, the market risk premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. **The currently used value of the risk-free interest rate is 1.50 % (previously: 1.25 %).**

We use the historical market risk premium of 5.50% as a reasonable expectation of a market risk premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the stock market is expected to yield better than low-risk government bonds.

The beta calculation is based on the historical price data of UmweltBank AG (monthly price development over the past four years). We used the SDAX price index and the STOXX® Europe 600 Banks price index as comparative indices and averaged them in the regression analysis over a period of five years. On this basis we calculated a beta of 0.49 (previously: 0.49), which we also adjusted and smoothed in accordance with Blume's work.

Using the assumptions made, we calculate a cost of equity of 4.20% (previously: 3.95%) (beta multiplied by risk premium plus risk-free interest rate).

Valuation model and valuation result

	31.12.21	31.12.22e	31.12.23e	31.12.24e	Final Value
Equity	380.27	409.78	424.44	440.85	
Net profit for the year	25.37	27.21	27.05	28.81	
ROE (after taxes)		6.89%	6.49%	6.66%	9.70%
Cost of equity		4.20%	4.20%	4.20%	4.20%
Excess return		2.69%	2.29%	2.46%	5.51%
Book value factor		1.64	1.55	1.59	2.31
Residual income		10.24	9.39	10.46	595.24

According to our valuation model, UmweltBank AG should be in a position to achieve a return on equity (after taxes) of a sustainable 9.70 %. Assuming a cost of equity of 4.20%, a sustainable excess return of 5.51% or a book value factor of 2.31 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium over the book value of 2.31.

Present value of residual income 2023 and 2024	€ 18.65 million
Present value of residual income Final value in € million	€ 548.28 million
Total present values in € million	€ 566.92 million
Shares outstanding in m	35.44 million
Fair enterprise value per share in €	€ 16.00

The sum of the discounted residual income results in a value of € 566.92 million on a target price basis of 31 December 2023. In view of an outstanding number of shares of 35.44 million, a fair enterprise value per share of € 16.00 (previously: € 16.30) is calculated. On the one hand, the forecast increase made after the sale of the wind farm has resulted in a higher fair value. However, the increase in the cost of equity to 4.20 % (previously: 3.95 %), resulting from the increase in the risk-free interest rate to 1.50 % (previously: 1.25 %), is accompanied by a reduction in the target price. Following the sharp decline in the UmweltBank share price, we now assign a rating of BUY (previously: HOLD).

ANNEX

I.

Research under MiFID II

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Other person involved in this study:

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