

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

Rating: BUY

Target price: €14.65
(previously: €16.00)

Current rate: € 12.30
24.02.23 / XETRA / 11:25 am
Currency: EUR

Master data:

ISIN: DE0005570808
WKN: 557080
Ticker symbol: UBKG
Number of shares³: 35.66
Market cap³: 438.62
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 9

Date (time) completion of the study: 24.02.23 (1:18 pm)

Date (time) first publication: 27.02.23 (10:00 am)

Target Price valid until: 31.12.2023

Company profile

Industry: Financial services

Focus: ecological investments, financing environmentally friendly projects

Employees: 332 (31.12.2022)

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 a 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 2022, environmental loans (including open commitments) had a total volume of 3.7 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 2022*	FY 2023e	FY 2024e
Interest, financial and valuation result	63.20	74.09	58.14	60.11
Net commission income and trading profit	9.42	9.35	9.23	13.43
Result before taxes	38.09	39.19	20.40	31.65
Result after taxes and before reserves	25.38	30.54	13.87	21.52

Key figures in €				
EPS	0.72	0.86	0.39	0.60
Dividend per share	0.33	0.33	0.16	0.24

*according to preliminary figures

Financial dates

24.04.2023: Final Figures 2022
End of May 2023: Annual Report 2022
29.06.2023: Annual General Meeting
07.08.2023: Half-Year Report 2023

****last research from GBC:**

Date: Publication / Target price in EUR / Rating
09.11.2022: RS / 16.00 / BUY
22.08.2022: RS / 16.30 / HOLD
04.07.2022: RS / 17.20 / HOLD
24.02.2022: RS / 19.05 / BUY

** 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".

Preliminary figures 2022: Successful closing in 2022 as expected; financial years 2023 and 2024 are to be seen as transformation years; initially significant decline in earnings expected; target price reduced to €14.65; Rating: BUY

in €m	2019	2020	2021	2022*
Interest, financial and valuation result	54.42	54.35	63.20	74.09
Net commission income and trading profit	5.08	5.15	9.42	9.35
Result before taxes	37.61	37.85	38.09	39.19
Result after taxes and before reserves	25.92	26.50	25.38	30.54

	31.12.2019	31.12.2020	31.12.2021	31.12.2022*
Balance sheet total	4,095	4,944	5,933	5,988
Customer deposits	2,529	2,694	2,954	3,176
Environmental loans	3,156	3,503	3,543	3,703
Own funds (prudential)	378	408	487	504
Equity ratio (supervisory)	14.5%	14.6%	16.1%	15.7%

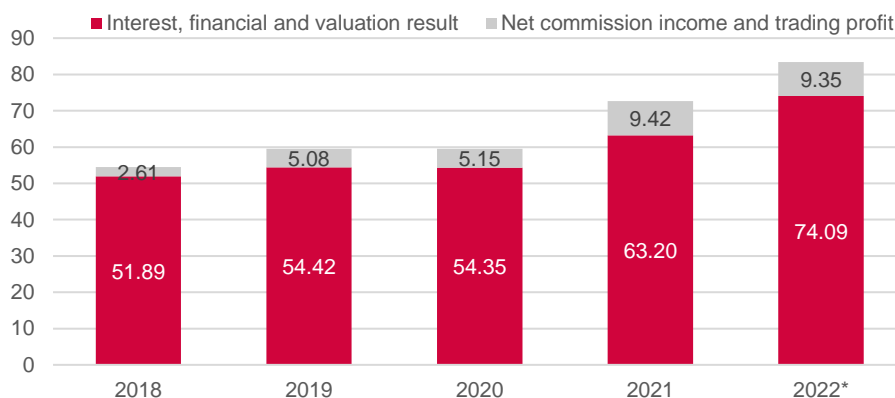
Sources: UmweltBank AG; GBC AG; *according to preliminary figures

Preliminary sales and earnings development 2022

According to preliminary figures, UmweltBank AG succeeded in continuing its growth course in a generally challenging market environment. The further increase in the balance sheet total by 1.0 % to € 6.00 billion (31.12.21: € 5.93 billion), which was supported on the assets side by an increase in environmental loans issued and on the liabilities side by an increase in customer deposits, is striking.

Outstanding environmental loans, which, including open commitments, amounted to € 3.70 billion as at 31.12.22 (31.12.21: € 3.54 billion), benefited from a new loan volume of € 623 million (PY: € 845 million). Although this remains at a high level, the speed of growth has slowed down in view of the economic situation. This applies in particular to the demand for loans for private construction financing, where, according to UmweltBank AG, a decline in demand was recorded, especially in the second half of the year. In view of the situation characterised by price and interest rate increases as well as the generally uncertain economic situation, this development is not surprising. On the other hand, demand from the renewable energy sector remained high and the commercial real estate financing business was comparatively robust.

Development of the two revenue segments (in € million)



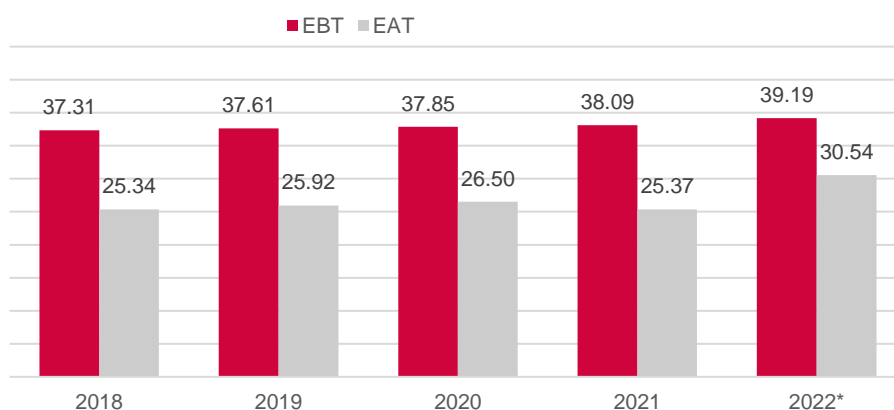
Sources: UmweltBank AG; GBC AG; *according to preliminary figures

In the preliminary figures, the interest result is not shown separately. However, despite the increase in the loan portfolio, we expect a decline in net interest income. This is due in particular to the continued decline in the interest margin to 0.93 % (previous year: 1.21 %). After the expiry of the Corona special conditions for the origin of funds, the general increase in the interest rate level played an important role in this development. This is because the interest rate increases in the loan portfolio only take place after the fixed-interest periods have expired or in the case of new loans. On the other hand, on the liabilities side, customer deposits have short maturities and thus react more quickly to interest rate increases. The fact that the net interest, financial and valuation result nevertheless increased significantly to € 74.09 million (previous year: € 63.20 million) is probably primarily due to the net proceeds of approximately € 20 million from the successful sale of a wind farm.

The second revenue stream communicated in the context of the preliminary figures, the commission and trading result, was slightly below the previous year's value at € 9.35 million (previous year: € 9.42 million). The tense stock market situation of the past financial year is particularly visible here.

Despite the significant increase in earnings, the pre-tax result of € 39.19 million (previous year: € 38.09 million) is "only" 2.9 % above the previous year's value. In October 2022, following the sale of the wind farm, UmweltBank's management had forecast EBT of approximately € 40 million, which can be considered largely fulfilled. The disproportionately low development of earnings is, on the one hand, a consequence of the 15.9 % increase in personnel expenses to € 19.88 million (previous year: € 17.15 million). This reflects an increase in the workforce on the one hand and general wage adjustments on the other. In addition, general administrative expenses, plus other expenses, also rose sharply by 40.1% to € 24.36 million (previous year: € 17.39 million). The introduction of the new core banking system (migration process), which is currently being implemented, alone resulted in expenses of around € 3.60 million in the past financial year. The migration process is also accompanied by a higher level of personnel commitment, which also explains part of the higher personnel expenses.

Development of the pre-tax and after-tax result (in € million)



Sources: UmweltBank AG; GBC AG; *according to preliminary figures

Forecast and model assumptions

in Mio. €	FY 2022e*	FY 23e (old)	FY 23e (new)	FY 24e (old)	FY 24e (new)
Interest, financial and valuation result	74.09	64.99	58.14	65.70	60.11
Net commission income and trading profit	9.35	13.00	9.23	14.29	13.43
Result before taxes	39.19	39.79	20.40	42.37	31.65
Result after taxes and before reserves	30.54	27.05	13.87	28.81	21.52

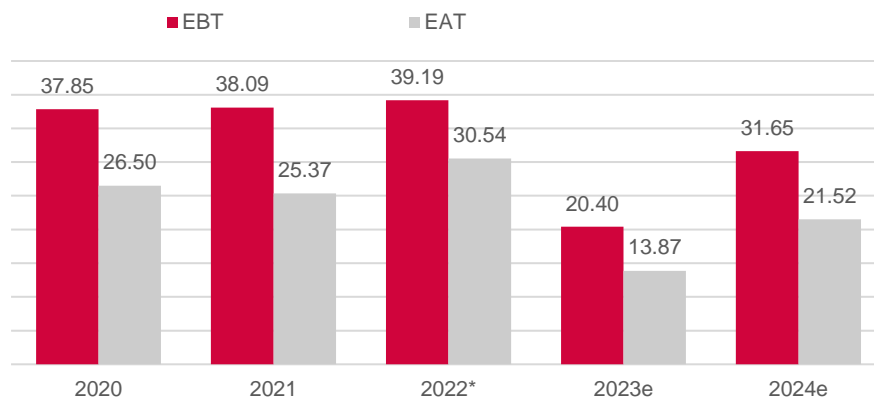
Sources: UmweltBank AG; GBC AG; *according to preliminary figures

Shortly before the publication of the preliminary figures, UmweltBank AG published its forecast for the current financial year 2023 on 10 February 2023. Accordingly, the management Board expects a pre-tax result of approximately € 20 million for the current financial year and thus anticipates a significant decline in earnings. The reasons for this are an expected decline in net interest income, which is likely to be influenced by the general rise in interest rates and the deterioration of conditions in refinancing transactions with the Bundesbank. In addition, customers are expected to be cautious in the securities business, which is likely to have a negative impact on the commission and trading result. Finally, declining income will be offset by rising expenses from the introduction of the new core banking system.

In terms of net interest income, UmweltBank AG should be able to achieve better conditions for loans in the current rising interest rate environment, but this only applies to new loans or loan extensions. Basically, the asset side of the UmweltBank balance sheet has a long fixed interest rate period compared to the liability side, which on the one hand brings with it a high security aspect, but on the other hand goes hand in hand with a sluggishness in interest rate adjustments. The source of funds, i.e. customer deposits, consists largely of overnight money, which reacts flexibly to interest rate increases. Consequently, the company expects the interest margin to remain low, at 0.93% in the past financial year. A noticeable increase in the interest margin is not expected until 2025. Another aspect of the interest result is the deterioration of the conditions for long-term loans (TLTRO) of the ECB, which will make the liabilities side even more expensive. According to UmweltBank AG, the positive effects of the TLTRO funds in 2022 contributed a total of about € 9 million to the result. The discontinuation of the extraordinary income in connection with the sale of the wind farm will also contribute to the overall decline in the interest, financial and valuation result.

The resulting decline in income is offset by expected further cost increases. These are related to the planned further investments in personnel, i.e. a continuation of the expansion of the workforce, although less dynamic growth is to be expected here. However, the expenses in connection with the introduction of the core banking system are likely to increase particularly strongly. In the 2022 financial year, these amounted to around € 4 million. An increase to around € 10 million is expected for 2023, before a decline to around € 4 million is anticipated in the coming 2024 financial year. In addition to these costs, the migration process also ties up personnel capacities. With Atruvia's new system, UmweltBank AG will offer its customers an improved customer experience, develop new products and improve internal workflows and processes.

In this respect, the company is undergoing a transformation process in the financial years 2023 and 2024, at the end of which a modern IT infrastructure will be in place from 2025 and more employees will be employed at the new company headquarters "UmweltHaus". Finally, from 2025 onwards, significant improvements in earnings and results are to be achieved, also against the background of the then increasing interest margin.

GBC forecast of EBT and EAT (in € million)


Sources: UmweltBank AG; GBC AG; *according to preliminary figures

We have taken this development into account in our estimates and made an adjustment to the company guidance for the current financial year 2023. We have also reduced the estimates for 2024 and now take into account a sideways development of the interest margin. Furthermore, we conservatively assume that securities customers will continue to be cautious. We have taken into account a significant improvement in revenue and earnings expected from 2025 onwards in the terminal value of our residual income model.

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

P = premium on book value

T = estimation period

ROE = return on equity

r = cost of equity capital

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: 1.50 %).**

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: 4.20%) (beta multiplied by risk premium plus risk-free interest rate).

Valuation model and valuation result

in Mio. €	31.12.2021	31.12.2022*	31.12.2023e	31.12.2024e	Endwert
Equity	380.27	413.11	421.44	434.35	
Net profit	25.37	30.54	13.87	21.52	
ROE (after taxes)		7.70%	3.32%	5.03%	9.55%
Cost of equity		4.20%	4.20%	4.20%	4.20%
Excess return		3.50%	-0.87%	0.83%	5.36%
Book value factor		1.83	0.79	1.20	2.28
Residual income		13.32	-3.59	3.52	567.27

*preliminary figures

According to our valuation model, UmweltBank AG should be in a position to achieve a return on equity (after taxes) of a sustainable 9.55 %. Assuming a cost of equity of 4.20%, a sustainable excess return of 5.36% or a book value factor of 2.28 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium over the book value of 2.28.

Present value of residual income 2023 and 2024	€ -0.20 million
Present value of residual income Final value in € million	€ 522.51 million
Total present values in € million	€ 522.32 million
Shares outstanding in m	35.66 million
Fair enterprise value per share in €	€ 14.65

The sum of the discounted residual income results in a value amounting to € 536.69 million. In view of an outstanding number of shares of 35.66 million, this results in a fair enterprise value per share of € 14.65 (previously: € 16.00). The reduction in the target price is a consequence of the significantly adjusted estimates for the specific estimation period 2023 and 2024. Based on the current share price of € 12.30 per share, we continue to assign a BUY rating.

ANNEX

I.

Research under MiFID II

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2. the research report shall be made available simultaneously to all investment service providers interested in it.

II.

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The analysts responsible for this analysis are:

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Marcel Goldmann, M.Sc., M.A., Financial Analyst

Other person involved in this study:

Jörg Grunwald, Executive Board

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