

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

Rating: BUY
Target price: €19.05
(previously: €21.00)

current share price: €15.95
 24.02.22 / XETRA / 09:44 am
 Currency: EUR

Key data:
 ISIN: DE0005570808
 WKN: 557080
 Ticker symbol: UBKG
 Number of shares³: 35.44
 Marketcap³: 565.27
³ in million / in EUR million
 Free float: 85%

Transparency level:
 Open Market
 Market segment:
 m:access
 Accounting:
 HGB

Financial-year end: 31.12.

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* Catalogue of possible conflicts of interest on page 8

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 Date (time) first transmission (English version): 28.02.22 (10:00am)

Target price valid: until max. 31.12.2022

Company profile

Industry: Financial services

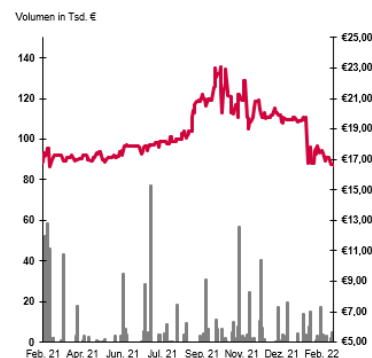
Focus: ecological investments, financing environmentally friendly projects

Employees: 299 (31.12.2021)

Foundation: 1997

Headquarters: Nuremberg

Board of Directors: Goran Bašić, Jürgen Koppmann



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 3.9 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 2020	FY 2021*	FY 2022e	FY 2023e
Interest, financial and valuation result	54.35	63.20	64.01	66.38
Net commission income and trading profit	5.15	9.42	10.15	11.27
Result before taxes	37.85	38.09	38.47	41.52
Result after taxes	26.50	25.38	26.16	28.23

Key figures in EUR	FY 2020	FY 2021*	FY 2022e	FY 2023e
EPS	0.85	0.72	0.74	0.80
Dividend per share	0.33	0.33	0.35	0.35

* according to preliminary figures

Balance sheet key figures in € million	FY 2020	FY 2021*	FY 2022e	FY 2023e
Customer deposits	2,694.11	2,919.78	2,978.18	3,067.52
Credit volume	2,792.66	3,071.93	3,133.37	3,227.37

Financial dates

27.04.2022: Audited figures

25.05.2022: Frühjahreskonferenz

End of May 2022: Annual Report 2021

23.06.2022: Annual General Meeting

08.08.2022: Half-year figures

15.11.2022: MKK

**last research from GBC:

Date: Publication / Target price in EUR / Rating

27.09.2021: RS / 21.00 / HOLD

13.07.2021: RS / 20.73 / BUY

15.02.2021: RS / 18.21 / BUY

09/03/2020: RS / 14.50 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

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Preliminary figures 2021: Strong increase in earnings; Constant development of pre-tax profit expected; Forecast slightly reduced and dilution effect taken into account; Target price slightly reduced to € 19.05 (previously: € 21.00); Rating: BUY

in €m	2018	2019	2020	2021*
Interest, financial and valuation result	51.89	54.42	54.35	63.20
Net commission income and trading profit	2.61	5.08	5.15	9.42
Result before taxes	37.31	37.61	37.85	38.09
Result after taxes and before reserves	25.34	25.92	26.50	25.38

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

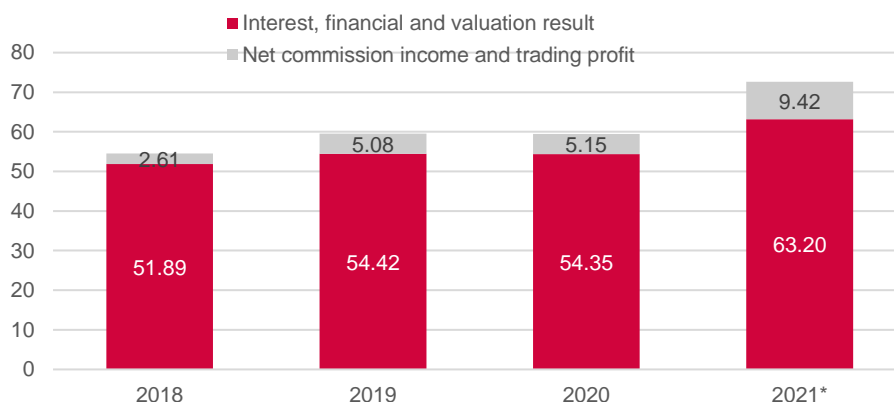
Preliminary turnover and earnings development 2021

As expected, the business development of UmweltBank AG was dynamic in the past financial year 2021. According to preliminary figures, the business volume, i.e. the balance sheet total plus contingent liabilities and other commitments, increased by 19.7% to € 6,456 million as of 31 December 2021 (31 December 2020: € 5,393 million). Originally, the UmweltBank management had assumed an increase in business volume to € 5.8 billion before its guidance was raised to € 6.4 billion with the publication of the 2021 half-year figures.

The better than expected development in each case is primarily due to the continued very positive development of the new loan volume. With new lending totalling € 845 million (previous year: € 689 million), there was a very high demand for financing from the real estate sector and the renewable energy sector. Compared to the previous year's reporting date, outstanding environmental loans increased by 10.8 % to € 3,880 million (previous year: € 3,503 million). Based on this expanded foundation, the company's main source of income, the interest, financial and valuation result, increased significantly to € 63.20 million (previous year: € 54.35 million).

In past reporting periods, UmweltBank AG also expanded its fund and investment business and thus also significantly increased its commission income and trading profit to € 9.42 million (previous year: € 5.15 million). The volume of the UmweltSpektrum Mix fund launched in February 2020 increased to around € 100 million as at 31 December 2021 (31 December 2020: € 42.5 million). At the same time, the investment business combined within UmweltProjekt was expanded.

Income on a full-year basis (in € million)



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

The only slight increase in the pre-tax result to € 38.09 million (previous year: € 37.85 million) compared to the significant increase in business was in line with the company's guidance, which had forecast a constant development of the pre-tax result. On the one hand, UmweltBank AG received one-off special income of € 4.16 million in the course of a settlement from a legal dispute in 2020, which resulted in a higher result in the previous year. On the other hand, the company has significantly increased its staff as a basis for expected further growth. Compared to the previous year's figure of 250, the number of employees climbed to 299 at the end of the year and thus personnel expenses rose significantly to € 16.77 million (previous year: € 13.78 million). Other administrative expenses, in particular the bank levy for deposit protection, also increased to € 4.10 million (previous year: € 2.68 million). The insolvency of the Greensill Group reduced the deposit insurance portfolio by around € 3.5 billion.

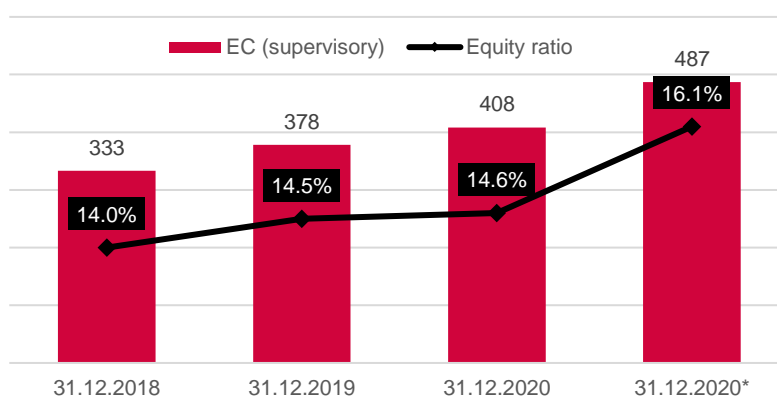
Balance sheet as at 31.12.2021

in € m	31.12.2018	31.12.2019	31.12.2020	31.12.2021*
Balance sheet total	3,699	4,095	4,944	5,933
Customer deposits	2,330	2,529	2,694	2,954
Environmental loans	2,895	3,156	3,503	3,880
Own funds (prudential)	333	378	408	487
Equity ratio (supervisory)	14.0%	14.5%	14.6%	16.1%

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

The expansion of business is reflected in the strong increase of the balance sheet total to € 5,933 million (previous year: € 4,944 million). On the liabilities side, this increase has been primarily driven by a rise in customer deposits and is also likely to be influenced by the low-interest borrowing of longer-term ECB refinancing funds (GLRG). Equity also recorded a visible increase to € 487 million (previous year: € 408 million). In addition to the positive after-tax result of €25.38 million (before allocation to reserves), the capital increase successfully carried out in October 2021 is particularly responsible for this. With the issue of 4.43 million new shares, the company raised gross proceeds of approximately € 73 million.

Regulatory capital (in € million) and capital ratio (in %)



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

On the assets side of the balance sheet, environmental loans issued in particular increased by 10.8 % to € 3,880 million (31.12.2020: € 3,503 million). In the past financial year, the credit institution met even stronger demand from the real estate sector and the renewable energy segment.

Forecast and model assumptions

in € m	2020	2021*	2022e (new)	2022e (old)	2023e (new)	2023e (old)
Interest, financial and valuation result	54.35	63.20	64.01	64.01	66.38	66.38
Net commission income and trading profit	5.15	9.42	10.15	6.90	11.27	7.56
Result before taxes	37.85	38.09	38.47	41.18	41.52	42.96
Result after taxes and before reserves	26.50	25.38	26.16	28.00	28.23	29.21

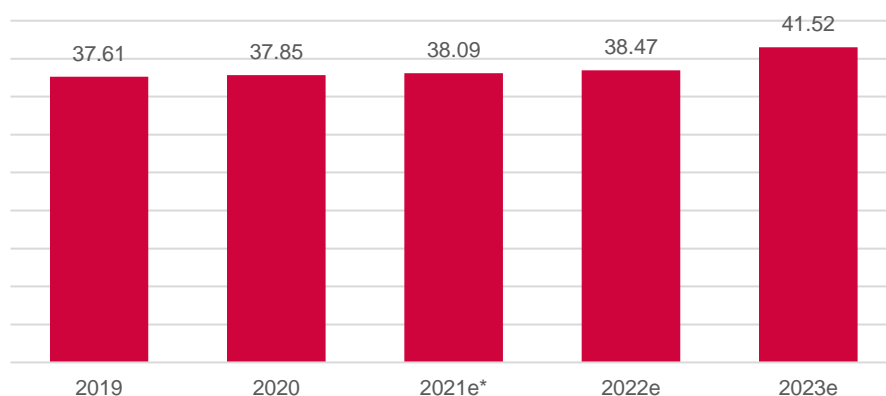
Sources: UmweltBank AG; GBC AG; *according to preliminary figures

With the publication of the preliminary figures, UmweltBank AG has published the forecasts for the current financial year 2022. Overall, the Board of Managing Directors anticipates rising income, which, however, will be offset by higher expenses, so that only a constant development of the pre-tax result in the amount of approximately € 38 million is expected. On the one hand, the expected increase in costs is related to the implemented expansion of the workforce, which provides a larger cost base. Above all, however, the higher costs are likely to be related to the planned change in the core banking system. According to UmweltBank's management, the investment costs associated with the change should total around € 3.0 million in 2022.

Overall, the UmweltBank management sees a good market environment in all borrower sectors (real estate, wind power, photovoltaics), especially against the background of the increased focus on sustainable issues. Their successful capital increase has significantly expanded their capital base for lending. In addition, the issuance of further UmweltSpektrum funds should further increase the basis for commission income. By the end of 2022, the volume of UmweltSpektrum funds is to be more than doubled to € 230 million. Furthermore, their investment business is also to be expanded. In this respect, the focus of the customer approach will be placed on the area of funds and securities investments.

We are adjusting our previous forecasts to the new corporate guidance. Similarly, we expect a pre-tax result of € 38.47 million for 2022 (previous GBC forecast: € 41.18 million) and a pre-tax result of € 41.52 million for the coming financial year 2023 (previous GBC forecast: € 42.96 million).

GBC forecast pre-tax result (in € million)



Source: GBC AG

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 2021e - 2023e 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 0.25 % (previously: 0.25%) as our assumed lower limit.

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 was based on the historical price data of UmweltBank AG (monthly price development over the past four years). We used the STOXX[®] Europe 600 Banks price index as a benchmark. On this basis we calculated a beta of 0.49 (previously: 0.51) which we adjusted or smoothed in accordance with the work of *Blume*. Using the assumptions made, we calculate a cost of equity of 2.96% (previously: 3.06%) (beta multiplied by risk premium plus risk-free interest rate).

Valuation model and valuation result

	31.12.20	31.12.21e	31.12.22e	31.12.23e	Terminal value
Equity	292.04	378.73	392.48	408.32	
Net profit for the year	26.50	25.38*	26.16	28.23	
ROE (after taxes)		7.57%	6.78%	7.05%	7.80%
Cost of equity		2.96%	2.96%	2.96%	2.96%
Excess return		4.61%	3.83%	4.09%	4.84%
Book value factor		2.56	2.29	2.38	2.64
Residual income		13.47	14.49	16.07	684.59

* according to preliminary figures

According to our valuation model, UmweltBank AG should be able to achieve a sustainable return on equity (after taxes) of 7.8 % in relation to the balance sheet equity. Assuming a cost of equity of 2.96 %, a sustainable excess return of 4.84 % or a book value factor of 2.64 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium over the book value of 2.64.

Present value of residual income and 2022/2023	€29.24m
Present value of residual income terminal value in € million	€645.83m
Total present values in € million	€675.06m
Shares outstanding in m	€35.44m
Fair enterprise value per share in €	€19.05

The sum of the discounted residual income results in a value of €675.06m. In view of an outstanding number of shares of 35.44m, this results in a fair enterprise value per share of € 19.05 (previously: € 21.00). The price target reduction is on the one hand a consequence of the dilution effect following the inclusion of the higher number of shares after the capital increase carried out. In addition, we have made a slight reduction in the expected results in 2022 and 2023. Based on the current share price of € 15.95 we assign a BUY rating (previously: HOLD).

APPENDIX

I.

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2. The research report is simultaneously made available to all interested investment services companies.

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The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10% and < + 10%.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the <= - 10%.

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Other person involved

Jörg Grunwald, Board Member

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