Complete research is available only to clients of Biuro maklerskie mBanku
To access our premium research, log in or open an account at www.mdm.pl

Monday, August 10, 2020 | update

Banks

Central and Eastern Europe

Free To Seize Rebound Opportunities

The Stoxx Europe 600 Banks index has tumbled 37% since the beginning of the year, with the drop from high to low measuring 46%. As the coronavirus pandemic continues to spread, economic forecasts for the euro area are getting increasingly bleak, with the European Commission currently guiding for an 8.8% contraction this year as compared with 8.3% predicted in March. The crisis has not spared the financial sector, with our aggregate net earnings expectations for the European coverage universe ex Poland slashed by 53% to reflect low interest rates and additional crisis provisions. At the revised level, our expectations look conservative at 13% below the market consensus. That being said, note that interest rates in the Czech Republic and Hungary are still above all-time lows, and in the Eurozone there have been no rate cuts at all so far this year. Moreover, thanks to various emergency relief programs, EU banks have not seen a big rise in recurring costs of risk. With the help of fiscal stimulus on an unprecedented scale, assuming fast-paced economic recovery and no more rate cuts, European banks should not have to set aside as much emergency capital in 2021 as they do this year. If we add to this relatively low sector levies, we believe many CEE banks will be able to resume dividend payments next year. Our more optimistic outlook for FY2021 is reflected in an aggregate net income estimate 6% above the market consensus. Moreover we are forecasting 45% earnings growth for our CEE universe in 2021 versus a 33% increase expected in Poland, where banks are weighed down by greater legal risk and higher taxes. Similarly, we see better ROE generating potential in foreign banks, reflected in a 2021 ROE forecast of 8.1% vis-à-vis 4.7% Poland. Another reason why we favor CEE banks are their more attractive valuations, with MSCI EME Financials currently trading at a 29% premium over the WIG-Banks index even though historically we usually saw an 11% discount. We see the premium as widening further in the months ahead. We select Erste Group and Moneta Money Bank as our top CEE picks. For Erste, we see a sharp pickup in profits in 2021, fueled among others by the Czech business, and for Moneta the momentum will build through to 2022, when the full synergies from the Wüstenrot acquisition should kick in.

Why Choose CEE over Poland

Market investors tend to favor CEE banks over Polish banks at the moment, as reflected in the premiums at which MSCI EM Financials are trading vis-à-vis WIG-Banks. What is driving these high expectations? The coronavirus crisis notwithstanding, for one thing Polish banks pay higher levies and face greater legal risk due to lawsuits being brought by Swiss franc mortgage borrowers. In 2021, according to our calculations, the various regulatory and fiscal charges imposed on the financial sector as a percentage of earnings before income tax will amount to 25% for the Polish sector as compared with only 8.5% for Euro banks. At the same time, by 2021 risk costs in CEE are forecast to decrease to about 55bp compared to a decline to 106bp in Poland. The ability of multi-national European organizations to flexibly redirect their focus on regions with the most growth potential depending on changing circumstances is also not without significance. In conclusion, the Polish financial sector currently offers much less promising growth prospects than its foreign counterparts.

Top picks: Erste and Moneta

Our preference for Moneta Money Bank despite a coronavirus-induced slump in 2020 core earnings stems from the acquisition of Wüstenrot, which on top of a badwill gain mitigating the covid blow is expected to help grow ROE to 11% by 2022. For Erste Group, our bullish view is based on expectations of a strong earnings rebound in 2021, driven by economic stimulus, and a high risk-cost forecast, close to the top end of the bank's own guidance, which leaves a lot of room for positive surprises.

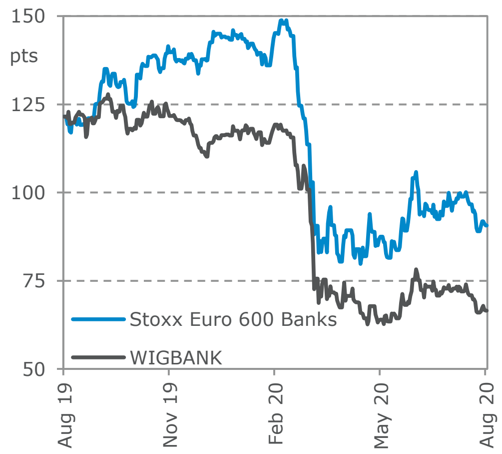
	P/E			P/B		
	2020E	2021E	2022E	2020E	2021E	2022E
OTP Bank	15.3	8.5	7.5	1.1	1.0	0.9
Komercni Banka	12.9	11.6	9.2	0.9	0.9	0.8
Moneta Money Bank	12.5	10.3	7.6	0.9	0.9	0.8
Erste Group	12.9	7.2	6.1	0.5	0.5	0.5
RBI	7.6	7.3	4.9	0.4	0.4	0.3

WIG-Banks	3,879
STOXX Europe 600 Banks	90.68
2020E P/E	13.8x
2020E P/B	0.7x

Sector Outlook

The coronavirus pandemic has had an equally damaging effect on all banks throughout Europe, but we see lenders from other countries as offering more growth potential and lower risk at this point in the crisis than institutions from our home country of Poland thanks to less burdensome sectoral levies and a lack of legal risk of the kind entailed in the CHF mortgage portfolios of their Polish peers. What is more, while interest rates in Poland and the Czech Republic have been slashed to just barely above zero, in the rest of Europe they are holding at somewhat higher levels which give banks a fighting chance to eventually recoup lost interest margins. In summary, we are overweight regional banks versus Polish banks.

Stoxx Euro 600 Banks vs. WIG-Banks



	Target Price		Recommendation	
	new	old	new	old
OTP Bank	11,039	14,681	hold	hold
Komercni Banka	618.97	928.20	buy	buy
Moneta MB	79.68	94.33	buy	buy
Erste Group	26.00	36.61	buy	buy
RBI	17.67	23.05	buy	accumulate

Spółka	Current Price	Target Price	Upside
OTP Bank	10,430	11,039	+5.8%
Komercni Banka	529.00	618.97	+17.0%
Moneta MB	54.20	79.68	+47.3%
Erste Group	19.85	26.00	+31.0%
RBI	15.20	17.67	+16.2%

Analysts:

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

Monday, August 10, 2020 | update

OTP Bank: hold (reiterated)

OTP HB; OTPB.BU | Banks, Hungary

No More Premium Over Peers

We maintain a hold recommendation for OTP Bank ("OTP"), but we reduce our target price to HUF 11,039 after revising the FY2020 earnings estimate downward by 57%, and cutting the 2021 forecast by 25%, to reflect greater downward pressure on net interest income and increased costs of risk. The massive, HUF 4bn loss that OTP Bank incurred in the first quarter of 2020 is not likely to be seen again in subsequent quarters, but risk costs will most likely remain high throughout the year, driving ROE down to a projected 7% (OTP is guiding for 10%), followed by likely a rebound to 13% in 2021. At 187bp, our FY2020 CoR estimate for OTP Bank is only a fraction below the level registered in 2008, and it is among the highest in the region. The reason why OTP has to increase provisioning so much this year is because of a substantial, 36% share in its loan portfolio of high-risk credit recoverable from SMEs and consumers that may become problematic in a period of economic crisis. Surprisingly, OTP Bank's geographic sales mix consists of countries where the coronavirus crisis has had the least effect on economic growth. The potential downside of this is that the future rebound may be smaller in magnitude. OTP stock is trading at 1.0x 2021E P/B on our updated estimates.

Massive Deterioration in Earnings

We cut OTP Bank's FY2020 and 2022 earnings estimates by 57% and 25%, respectively, after raising the corresponding provisioning expectations by 175% and 54% to reflect the potential negative impacts of COVID-19. Note that, in 2018/19, OTP was able to maintain very low cost of risk at 32-43bp. In the wake of higher provisioning, ROE will most likely fall to 7% in 2020, and although in 2021 it will probably bounce to 13% this will be a long way off the ">16%" goal declared back in 2019.

Risk Costs Peaked in Q1 2020

OTP Bank reported cost of risk of 257bp in Q1 2020, the highest quarterly level this year according to the bank (the average for the first half of the year amounted to 173bp). If not for additional crisis reserves, first-quarter CoR would have been 25bp, i.e. well below the average level recorded in the last two years. A geographic breakdown of 2020 H1 results revealed that the biggest increase in CoR occurred in Russia (10.3%), although nominally the largest emergency capital was set aside in Hungary, which was responsible for 30% of the total increase. Our current models assume that OTP will be able to reduce its risk costs to 111bp in 2021 and 91bp the year after, although historically the Bank needed seven years to bring risk costs down after the 2008 crisis. In FY2020 OTP is guiding for risk costs of 125bp, but the performance of the loan portfolio, especially in countries that do not benefit from EU aid programs, including Russia and Ukraine, remains the biggest source of potential surprises.

(HUF bn)	2018	2019	2020E	2022E	2022E
Net interest income	599.8	706.3	799.1	802.2	825.5
Noninterest income	571.8	748.9	730.2	755.7	780.2
Total costs	496.8	567.7	623.6	636.0	652.9
Operating income*	388.9	513.1	540.6	544.0	562.7
Net income**	318.2	412.2	182.3	326.5	370.0
ROE (%)	18.4	20.1	7.6	12.2	12.6
P/E (x)	8.8	6.8	15.3	8.5	7.5
P/B (x)	1.5	1.2	1.1	1.0	0.9
DPS (HUF)	229.6	229.6	0.0	107.4	368.9
Dividend yield (%)	2.2	2.2	0.0	1.0	3.5

*before provisioning; **attributable to shareholders

Current Price	HUF 10,430
Target Price	HUF 11,039
Market Cap	HUF 2,785bn
Free Float	HUF 2,785bn
ADTV (3M)	HUF 14.4bn

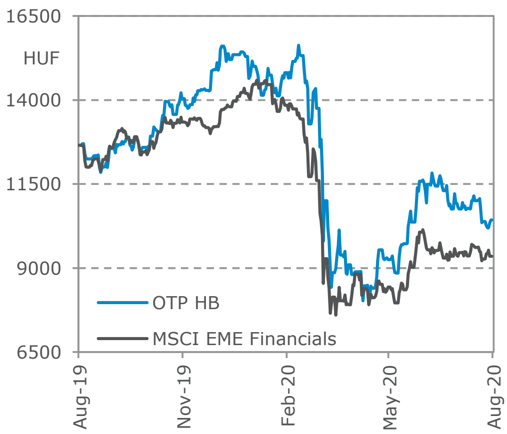
Ownership

MOL	8.57%
Kafijat Ltd.	7.22%
Opus Securities SA	5.18%
Groupama	5.12%
Others	73.91%

Business Profile

OTP Bank is a universal bank, operating on Central and East European markets. OTP Bank's largest operations are run in Hungary, Bulgaria and Russia. The Bank does not have a strategic investor. In recent years, the Bank has grown through numerous acquisitions in the region.

OTP vs. MSCI EME Fin



	Target Price		Rating	
	new	old	new	old
OTP Bank	11,039	14,681	hold	hold

	Current Price	Target Price	Upside
OTP Bank	10,430	11,039	+5.8%

Forecast Update	2020E	2021E
Total income	-2.1%	-5.1%
Pre-tax income	-43.9%	-26.0%
Net income	-57.1%	-24.9%

Analysts:

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

Monday, August 10, 2020 | update

Komercni Banka: buy (reiterated)

KOMB CP; BKOM.PR | Banks, Czech Republic

Enduring Effects of Low Interest Rates

We maintain a buy rating for Komercni Banka. The Czech economy is projected to shrink 8% this year as one of the hardest-hit by the coronavirus crisis in the EU. The Czech National Bank has cut interest rates by 200bp to 25bp since the beginning of the year as economists kept marking down their estimates (though keep in mind that between 2012 and 2017 the basic rate was 5 basis points). A low rate environment, compounded by significantly higher costs of risk, has prompted us to cut FY2020-21 earnings expectations for Komercni by 50%, and it leads us to believe that the Bank will not experience a noticeable improvement in profits before risk costs start to normalize in 2022. On our updated estimates, KOMB stock is currently trading at a 43% discount to the average P/B in the forecast period, and it is valued at a 10% discount to its own book value, indicating robust upside potential. Komercni is also an attractive alternative to Polish banks owing to higher expected 2022E ROE of 9% and consistent dividends offering implied yield of ca. 6%.

Cutting Earnings Forecasts

The Czech central bank has cut its key interest rate by 200bp to 0.25% this year in an attempt to mitigate the negative impacts of the coronavirus crisis, which is expected to cause the national economy to shrink by 8% this year – the worst negative momentum of CE3 countries. According to our calculations, from the point of view of Komercni this might mean a reduction in net interest income of 11% in 2020 and 19% in 2021, accompanied by an increase in risk costs from -9bp to 87bp this year and 55bp the year after. This in turns leads us to slash our net income expectations for 2020 and 2021 to about a half of the initial forecasts, and to lower the 2022 projection by 25%.

Komercni Guiding for 2020 Risk Costs of 70bp

Komercni's FY2020 outlook, updated to include the expected effects of the coronavirus crisis, assumes loan growth in the low single digits, alongside a high-single-digit decrease net interest income, stable operating expenses, and cost of risk expansion to 70bp. This is mostly consistent with our view for this year, except for a higher risk cost forecast of 87bp. Note that Komercni issued the updated guidance at a time when economists were still forecasting economic contraction of 6.5% for the Czech republic compared to today's 7.8%.

Second-Half Slowdown Factored Into our Models

Komercni's 2020 second-quarter results missed analysts' expectations after a sharp fall in net interest income combined with a surge in reserves which, on the upside, was not a result of a deterioration in the loan portfolio as recurring cost of risk in the quarter was maintained at a very low 13bp. Despite the second-quarter miss, Komercni fulfilled 58% of our full-year earnings forecast in the year to 30 June 2020, leaving space for a slowdown in profits in H2 2020.

(CZK m)	2018	2019	2020E	2021E	2022E
Net interest income	22,704	23,591	21,586	20,616	22,095
Noninterest income	9,499	8,982	8,356	8,400	8,521
Total costs	-14,635	-14,932	-14,815	-14,839	-15,019
Operating income*	17,568	17,641	15,127	14,178	15,597
Net income**	14,846	14,901	7,724	8,600	10,848
ROE (%)	15.1	14.5	7.1	7.5	9.2
P/E (x)	6.7	6.7	12.9	11.6	9.2
P/B (x)	1.0	0.9	0.9	0.9	0.8
DPS (CZK)	47.0	51.0	0.0	26.0	30.0
Dividend yield (%)	8.9	9.6	0.0	4.9	5.7

*before provisioning; **attributable to shareholders

Current Price	CZK 529.00
Target Price	CZK 618.97
Market Cap	CZK 99.90bn
Free Float	CZK 39.56bn
ADTV (3M)	CZK 206.4m

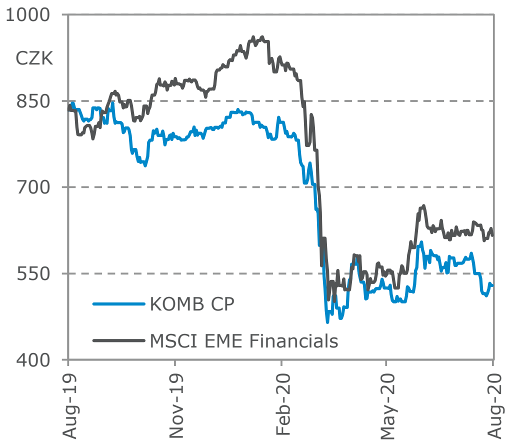
Ownership

Société Générale S.A.	60.4%
Others	39.6%

Business Profile

Komercni Banka is one of the largest banks in Czech Republic. The bank runs universal operations, serving both corporations and retail clients. Its loan portfolio is currently composed of mortgage loans (43%), consumer loans (6%), and corporate loans (51%). Komercni generates high returns on equity at ~15%.

KOMB vs. MSCI EME Fin



	Target Price		Rating	
	new	old	new	old
Komercni Banka	618.97	928.20	buy	buy

	Current Price	Target Price	Upside
Komercni Banka	529.00	618.97	+17.0%

Forecast Update	2020E	2021E
Total income	-11.4%	-18.2%
Pre-tax income	-47.2%	-44.2%
Net income	-47.9%	-44.8%

Analysts:

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

Monday, August 10, 2020 | update

Moneta Money Bank: buy (reiterated)

MONET CP; MONET.PR | Banks, Czech Republic

Future Looks Brighter With Wüstenrot

We maintain a buy recommendation for Moneta Money Bank ('Moneta'), but we lower our target price to CZK 79.68. Moneta has not been spared by COVID-19 and its fallout in the form of sharp interest rate cut in the Czech Republic, however the negative effects in its case will probably be mitigated by the April acquisition of the Czech business of Wüstenrot and the resulting 'badwill' boost to FY2020 results that will mitigate a likely risk cost rise to 1.99%. Looking ahead, low rates will continue to put a squeeze on Moneta's net interest margin for years to come through fixed interest temporarily charged on housing loans, the share of which increased from 28% to 40% of total portfolio with the acquisition of Wüstenrot. However from 2021 the NIM declines will be more than offset by fast-growing loan volumes driven by an expected economic recovery. As far synergies from the Wüstenrot merger, given estimated integration costs of CZK 400m total, against anticipated cost synergies of CZK 300m from 2022, we put the associated delta on the year's costs at as much as CZK 400m.

We have cut our FY2020 and 2021 net income expectations for Moneta by 46% and 36%, respectively, but in 2022 we are currently anticipating a rebound of 45% from the year-ago bottom-line result thanks to a thicker loan book, a gradual decrease in costs of risk, and lower operating expenses. Further, with ROE expected to be 7.9% in 2020, 8.5% in 2021, and 11.5% in 2022, in each case exceeding COE, we believe MONET deserves to be traded at a premium to its book value. Moneta recently said it would like to pay remaining 2019 dividends of CZK 3.35 per share next year, together with an 80% distribution from the net income for 2020. At today's share price level, this would imply 2021E dividend yield of 13%.

Slashing Forecasts

We had to revise our earnings expectations for Moneta to reflect the aftermath of the coronavirus crisis, most notably the reductions in interest rates which despite positive contributions from Wüstenrot indicate 8% lower NII than originally assumed in 2020 and mandate a 14% downward adjustment to 2021E NII, accompanied by upward revisions of 5% and 2% to the corresponding annual costs. Further, we have had to raise this year's provisioning estimate by 233% and increase 2021E risk reserves by 32%, representing respective risk costs of 199bp and 93bp, followed by a drop to 49bp led by the improving quality of the loan portfolio.

Guidance Confirms Expectations

Moneta's updated guidance for FY2020-2022 assumes revenues and costs broadly in line with our forecasts this year, and it anticipates slightly higher expenses in the next two years. The Bank expects cost of risk to be in the range of 185-200bp in 2020, and our estimate is currently closer to the higher end of this range.

(CZK m)	2018	2019	2020E	2021E	2022E
Net interest income	7,409	7,925	7,942	8,000	8,232
Noninterest income	2,753	2,594	3,866	2,888	2,950
Total costs	-4,491	-4,571	-4,943	-4,901	-4,895
Operating income*	5,310	5,500	6,404	5,472	5,751
Net income**	4,200	4,019	2,223	2,682	3,653
ROE (%)	16.5	16.2	7.9	8.5	11.5
P/E (x)	6.6	6.9	12.5	10.3	7.6
P/B (x)	1.1	1.1	0.9	0.9	0.8
DPS (CZK)	8.0	6.2	0.0	6.8	4.2
Dividend yield (%)	14.8	11.3	0.0	12.6	7.7

*before provisioning; **attributable to shareholders

Current Price	CZK 54.20
Target Price	CZK 79.68
Market Cap	CZK 27.69bn
Free Float	CZK 23.68bn
ADTV (3M)	CZK 213.4m

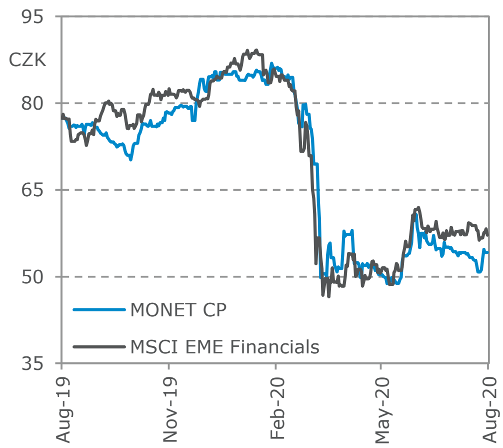
Ownership

Chase Nominees Limited	9.47%
J.P. Morgan Bank Luxembourg S.A.	5.03%
Others	85.50%

Business Profile

Moneta Money Bank is a universal bank focused on individual clients, small enterprises and SMEs. The Bank's portfolio is composed of mortgage loans (56%) and corporate loans (44%). Moneta Money Bank is characterized by high digitalization and innovation. Its rate of return on equity was 14-16% in recent years.

MONET vs. MSCI EME Fin



	Target Price		Rating	
	new	old	new	old
Moneta Money B	79.68	94.33	buy	buy

Company	Current Price	Target Price	Upside
Moneta Money B	54.20	79.68	+47.3%

Forecast Update	2020E	2021E
Total income	+3.9%	-10.4%
Pre-tax income	-49.1%	-35.7%
Net income	-46.1%	-35.7%

Analysts:

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

Monday, August 10, 2020 | update

Erste Group: buy (reiterated)

EBS AV; ERST.VI | Banks, Austria

FY2020 Crunch Fully Priced In

We maintain a buy rating for Erste Group ("Erste") but we lower the target price to EUR 26.00. Erste's FY2020 earnings outlook has been badly affected by the coronavirus pandemic through operations in the Czech Republic and Slovakia, expected to experience the worst economic declines this year of all CEE countries. We currently expect Erste's cost of risk in 2020 to be 79bp, a level consistent with the high end of the Bank's own target range of 65-80bp, and as a result our net income forecast for the year is 19% lower than the going consensus estimate. At the same time, we are confident Erste can recover from the coronavirus crisis faster than most other banks owing to unchanged interest rates in the euro area and the various forms of stimulus being put into motion in the EU. For example, the aid extended to the Czech Republic in 2021 could reach an equivalent of 11% of GDP and exceed allocations from the country's own budget. Based on this, we assume Erste can generate higher earnings in 2021 and 2022 than currently assumed by the market. Even though we recognize Erste's strong growth potential, we see a discount in the Bank's current value relative to the book value which creates huge upside risk and which makes Erste a top pick in the CEE line up.

Forecast Revisions

After rapid falls projected in 2020, the GDPs of the Czech Republic and Slovakia are expected to experience a fast-paced recovery from next year. It is worth noting that, at Erste, 55% of net interest income is provided by operations based in countries that have not cut interest rates this year. Keeping this in mind, we slashed our 2020 net income estimate for the Bank by 74% and reduced the 2021 forecast by a much less drastic 25%. The coronavirus crisis is not likely to have a significant impact on net interest income, and next year profits should start to improve with decreasing costs of risk.

No Major Surge in Cost of Risk

Erste is guiding for a cost of risk range of 65-80bp in 2020, and next year the Bank is expecting improvement in economic circumstances thanks to fiscal stimuli. Note that the 2020 CoR guidance is well below the 89-161bp range registered in the 2008-09 period. Our own forecast for the year is 79bp. Erste's guidance for fiscal 2020 also assumes a small decline in net interest income and fee income, combined with reduced operating costs.

High Provisioning Weighs on 2020 Q2 Profits

The 2020 Q2 net income of Erste Group showed a big miss relative to analysts' expectations after the Bank set aside additional risk reserves 14% above what had been forecast by the market. Nevertheless it is worth noting that these were mainly precautionary reserves for potential future risk as the NPL ratio for the quarter was actually improved. When it comes to our FY2020 outlook, it is looking conservative considering that in the year to 30 June Erste fulfilled 58% of our net income estimate for the full year.

(EUR m)	2018	2019	2020E	2021E	2022E
Net interest income	4,582.0	4,746.8	4,740.3	4,797.4	4,988.7
Noninterest income	2,144.3	2,338.9	2,012.2	2,140.8	2,216.7
Total costs	-4,181.1	-4,283.3	-4,176.4	-4,234.8	-4,350.1
Operating income*	2,435.7	2,368.9	2,264.0	2,437.2	2,598.1
Net income**	1,793.4	1,470.1	660.6	1,181.1	1,396.6
ROE (%)	12.7	9.8	4.1	7.1	8.0
P/E (x)	4.8	5.8	12.9	7.2	6.1
P/B (x)	0.6	0.5	0.5	0.5	0.5
DPS (EUR)	1.2	2.2	0.0	0.8	1.4
Dividend yield (%)	6.0	11.1	0.0	4.1	7.3

*before provisioning; **attributable to shareholders

Current Price	EUR 19.85
Target Price	EUR 26.00
Market Cap	EUR 8.53bn
Free Float	EUR 5.95bn
ADTV (3M)	EUR 47.84m

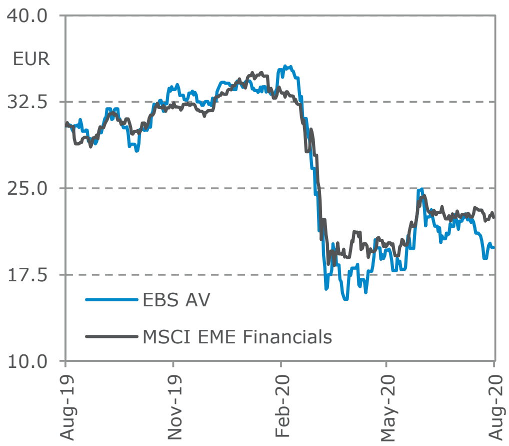
Ownership

Strategic Investors	20.4%
Caixa Bank	9.9%
Others	69.7%

Business Profile

Erste Group is a regional bank offering universal services in retail, corporate and investment banking. Through its branches, the bank operates in such countries as Austria, Czech Republic and Slovakia, Romania or Hungary. In 2013, the bank sold its Ukraine business.

EBS vs. MSCI EME Fin



	Target Price		Rating	
	new	old	new	old
Erste Group	26.00	36.61	buy	buy

	Current Price	Target Price	Upside
Erste Group	19.85	26.00	+31.0%

Forecast Update	2020E	2021E
Total income	-6.1%	-7.0%
Pre-tax income	-61.7%	-24.5%
Net income	-74.1%	-25.1%

Analysts:

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

Monday, August 10, 2020 | update

Raiffeisen Bank International: buy (upgraded)

RBI AV; RBIV.VI | Banks, Austria

Low valuation, Franc Risks Take Shape

We upgrade our view on Raiffeisen Bank International ('RBI') to buye, wit the target price lowered to EUR 17.67. After rate cuts in its key markets to mitigate economic contraction in the wake of the coronavirus crisis, RBI faces downward pressure on income on the one hand, and upward pressure on risk costs on the other hand, though the extent of these impacts may differ between countries. In most cases, the Bank will bear the brunt of the expected declines in profits this year through reduced interest income and lower loan volumes. When it comes to cost of risk, it will be determined by the different timings of loan payment moratoria established in each geographic market. In Poland, RBI will probably also have to set aside regular annual reserves of a projected EUR 50m due persistent legal risks associated with CHF-denominated housing loans. All in all, we decided to lower our 2020 and 2021 earnings forecasts for RBI by 46% and 44%, respectively. Upside risk in case of RBI stems from differences in interest rate levels in different markets and its low valuation despite a real prospect of dividend unfreezing from 2021.

Forecast Revisions

Like all banks, RBI's earnings prospects have been affected by the coronavirus pandemic, and after taking into account lower interest rates, and, in a smaller part, tighter loan volumes, we have reduced our expectations for net interest income by 10% in 2020 and 14% in 2021. We also raised provisioning expectations by 176% in FY2020E and 106% in FY2021E, arriving at respective risk costs of 94bp and 101bp. After all these changes, our net income estimate for the current year had to be cut by 46%, and the forecast for next year has dropped by 44%.

New Forecasts Consistent with Guidance

Our updated 2020 outlook fits within RBI's own guidance for the year , except for CoR, which we estimate at 93bp against the Bank's 75bp. RBI is guiding for 1.7% loan book growth this year, and it is targeting ROE of 5% – all expectations consistent with out outlook.

Francs and Other One-Offs

RBI's 2020 first-quarter results were heavily influenced by a variety of one-time events, from adjustments to goodwill and investments in associates (-EUR 55m) to write-offs on foreign-currency loan portfolios in Poland and Croatia (-EUR 16m) and charges related to moratoria on loan payments introduced in Hungary and Romania (-EUR 9m). In Q2, we expect to see further adjustments to equity investment (-EUR 49m) and increases in Polish and Romanian borrower dispute reserves (-EUR 27m). This would make for aggregate year-to-date one-time losses of EUR 157m, an amount dangerously close to the EUR 200m we had expected to see in the full FY2020 – though we have to point out that events like this are hard to predict with any degree of accuracy.

(EUR m)	2018	2019	2020E	2021E	2022E
Net interest income	3,362	3,412	3,294	3,288	3,491
Noninterest income	1,848	1,814	1,546	1,704	1,762
Total costs	-3,237	-2,876	-3,040	-3,078	-3,131
Operating income*	1,973	2,350	1,800	1,913	2,121
Net income**	1,270	1,432	662	684	1,021
ROE (%)	11.4	11.6	5.0	5.0	7.1
P/E (x)	3.6	3.5	7.6	7.3	4.9
P/B (x)	0.4	0.4	0.4	0.4	0.3
DPS	0.8	1.1	0.0	0.6	0.6
Dividend yield (%)	5.3	7.4	0.0	4.0	4.2

*before provisioning; **attributable to shareholders

Current Price	EUR 15.20
Target Price	EUR 17.67
Market Cap	EUR 5.01bn
Free Float	EUR 2.06bn
ADTV (3M)	EUR 23.1m

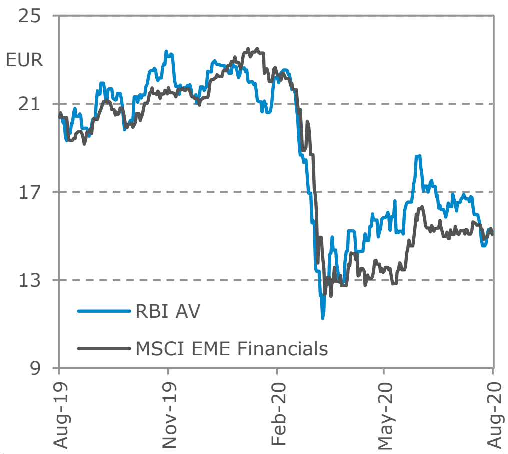
Ownership

Regional Raiffeisen banks	58.8%
Others	41.2%

Business Profile

Raiffeisen Bank International is one of the leading banks both in the region and on the local market. Apart from traditional banking, Raiffeisen provides services in the area of lease, asset management and M&A. Retail loans account for 37% of the portfolio, and corporate loans represent 51%. In 2018, Raiffeisen exited Poland but kept the local portfolio of CHF-denominated housing loans

RBI vs. MSCI EME Fin



	Target Price		Rating	
	new	old	new	old
RBI	17.67	23.05	buy	accumulate

	Current Price	Target Price	Upside
RBI	15.20	17.67	+16.2%

Forecast Update	2020E	2021E
Total income	-10.6%	-11.4%
Pre-tax income	-44.5%	-43.9%
Net income	-45.5%	-44.2%

Analysts:

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

List of abbreviations and ratios contained in the report:
EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Biuro maklerskie mBanku:
A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", https://www.gpw.pl/eacsp) prepares analytical reports for the following companies: Cognor Holding, Comarch, VRG. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ('WSE'), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at:
https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Comarch, VRG, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuers prior to its publication.

mBank S.A. had a brokerage agreements in place with OTP Bank and Raiffeisen Bank International in the last 12 months.
mBank S.A. may have received compensation for services provided to OTP Bank and Raiffeisen Bank International in the last 12 months.

The production of this recommendation was completed on August 10, 2020, 8:30 AM.
This recommendation was first disseminated on August 10, 2020, 8:30 AM.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at:
http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.
This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.
In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.
Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.
NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following investment recommendations for the Issuers in the 12 months prior to this publication:

OTP Bank

recommendation	hold	accumulate	buy	hold
issued on	2019-12-05	2019-11-06	2019-08-28	2019-08-02
target price (HUF)	14,681.00	14,681.00	14,681.00	13,046.00
price at date issued	14,870.00	13,860.00	12,000.00	12,080.00

Komercni Banka

recommendation	buy	buy	accumulate
issued on	2019-12-05	2019-08-28	2019-08-02
target price (CZK)	928.20	945.02	1,000.00
price at date issued	792.00	817.00	872.00

Moneta Money Bank

recommendation	buy
issued on	2019-08-28
target price (CZK)	94.33
price at date issued	75.95

Erste Group

recommendation	buy	accumulate	buy
issued on	2020-03-04	2019-12-05	2019-08-28
target price (EUR)	36.61	36.61	40.38
price at date issued	29.44	32.20	30.03

RBI

recommendation	accumulate	hold	accumulate
issued on	2019-12-05	2019-11-06	2019-08-28
target price (EUR)	23.05	23.05	23.05
price at date issued	21.24	22.83	20.44

mBank S.A.
Senatorska 18
00-950 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.kliszcz@mbank.pl
energy, power generation

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
banks, financials

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Sales, Foreign Markets

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl