

Tuesday, 30 July 2024 | update

Moneta Money Bank: buy (reiterated)

MONET CP; MONET.PR | Banks, Czech Republic

Positive reversal on NII

We raise our TP to CZK 120 with a reiterated buy recommendation.

Following 2Q'24 results, we are lifting our 2024/25E net profit expectations for Moneta Money Bank ("Moneta"). and we see increasing chances of an upgrade to the Bank's own guidance. Moneta delivered an upside surprise in 2Q'24 by reversing the trend of quarter-on-quarter declines in net interest income with balance sheet expansion and an increasing spread between interest charges on loans and deposits. On the other hand, the first rate cuts reflected negatively on interest income from treasury and money market operations. Nevertheless, we believe that, as rate cuts continue, the spread between loan and deposit pricing will widen further due to differences in repricing periods, which, combined with balance sheet expansion, should more than offset the negative impact of rate cuts on money market and bond related NII. Accordingly, we have raised our 2024-2026 annual NII expectations by 6.1%, 6.5%, and 2.7%, respectively.

We would like to emphasize Moneta's cost discipline as the bank keeps a tight lid on its cost base, which in 2Q'24 grew below the inflation rate. Additionally, note that Moneta's volume growth in 1H'24 beat the bank's own targets, serving as the basis for medium-term guidance. This leads us to expect upward revisions to the current guidance trajectory for loans and deposits (the Bank has already set the new target for gross loans in 2024 at CZK 280bn, which is above the current 2026 guidance). On the risks side is the C2025 Czech parliamentary election and the possible comeback of banking tax as 'low-hanging fruit' for politicians.

Moneta is trading at 1.85-1.72x book value on our estimates, which corresponds to around 16.6-16.8% ROE in the explicit forecast period.

Favorable Repricing Schedule

The CNB is in the process of cutting interest rates, but this does not necessarily have put downward pressure on margins. There is a major discrepancy between the repricing schedules of Moneta's loan portfolio and deposit base. Only 30% of all loans are set to be repriced within the next 12 months (56% in 24 months, 80% in 36 months), and hence be affected by the rate cuts.

On the other hand, 66% of the deposit base is set to be repriced in the next three months and 68% within the next year. Such a repricing schedule should be supportive for margins despite further CNB rate cuts. All in all, Moneta should be able to defend its margins in the medium term despite of lower interest revenues from treasuries and the money market.

Anticipating Upward Guidance Revision

Moneta's current 2024 eop guidance officially assumes CZK 266bn in performing gross loans, meanwhile, the volume already reached CZK 271bn as of end-June, prompting the Management to – for now verbally – raise the target to CZK 280bn. In our view, this implies upcoming upward revisions to the whole trajectory of loan as well as deposit volumes. As a result, the earnings guidance will likely also move up. At the beginning of the year, Moneta was guiding for a 2024 net profit of no less than CZK 5.2bn. The amount achieved in 1H came in at CZK 2.7bn, so the run rate is definitely above the minimal target, and, given 1H profits are seasonally weighed down by regulatory charges, the Management's verbal upward update of CZK 100-200m at the 2Q'24 conference may be too conservative.

(CZK m)	2022	2023	2024E	2025E	2026E
Net interest income	9,311	8,577	8,707	9,200	9,767
Noninterest income	2,805	3,570	3,864	3,926	3,970
Costs	-5,300	-5,370	-5,407	-5,452	-5,546
Operating income	6,522	6,417	6,894	7,380	7,868
Net profit	5,187	5,200	5,457	5,662	5,809
C/I (%)	46.2	47.2	45.2	43.8	42.7
ROE (%)	17.1	16.4	16.7	16.8	16.6
P/E (x)	10.5	10.5	10.0	9.6	9.4
P/B (x)	1.8	1.7	1.6	1.6	1.5
DPS (CZK)	7.0	8.0	9.0	8.5	8.9
Dividend yield (%)	6.6	7.5	8.4	8.0	8.3

current price*	CZK 106.60
target price	CZK 120.00
mCap	CZK 54.47bn
free float	CZK 38.16bn
ADTV (3M)	CZK 47.6m

*Price as of July 29, 2024, 5:30 PM

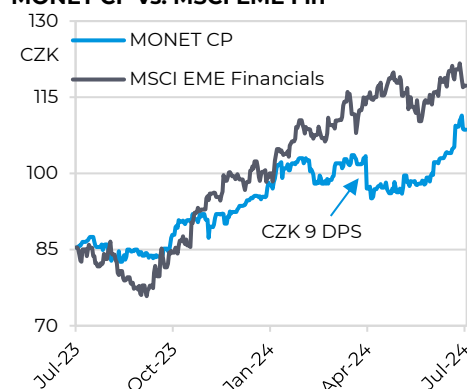
Shareholders

Tanemo a.s.	29.94%
Mythessa Holdings Limited	11.20%
Manecomte Limited	9.17%
Others	49.69%

About

Moneta Money Bank is a universal bank with a loan portfolio consisting of 67% retail loans and 33% corporate loans. In 2020, the Czech lender acquired the mortgage and savings bank Wüstenrot, growing its home loan book two fold. Digital channels are playing an increasingly important role in product distribution, although more complex products such as mortgages or pension insurance are still sold mainly through physical branches.

MONET CP vs. MSCI EME Fin



	Target Price		Recommendation	
	new	old	new	old
Moneta	120.00	110.00	buy	buy
Current Price		Target Price	Upside	
Moneta	106.60	120.00	+12.57%	
Forecast Revision		2024E	2025E	2026E
Total Income		+1.2%	+2.1%	+1.3%
Pre-Tax Profit		+4.9%	+6.5%	+2.7%
Net Profit		+6.1%	+6.5%	+2.7%

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A Favorable Repricing Schedule

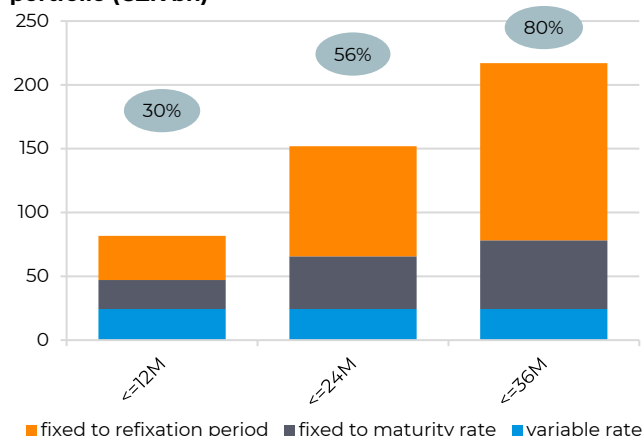
Thanks to the fact that most of Moneta's loan portfolio are fixed rate loans, or have rates fixed until the next reset date, the Bank will be able to capitalize for longer on the higher rates prior to the current cuts.

30% of the loan portfolio is scheduled to be repriced within the next 12 months, whereas for deposits the time to next fixation is shorter, with 66% of them set to be repriced within the next three months – a discrepancy that should help widen the pricing spread between loans and deposits in the short term.

On the other hand, the interest income that Moneta earns from money market operations and general debt investments is very sensitive to changes in interest rates, and it is likely that excess liquidity will be allocated at lower margin with each rate cut (despite deposit repricing). However, all told, we believe Moneta will be able to achieve marginal growth in net interest income thanks to increasing volumes and the favorable mismatch between repricing schedules.

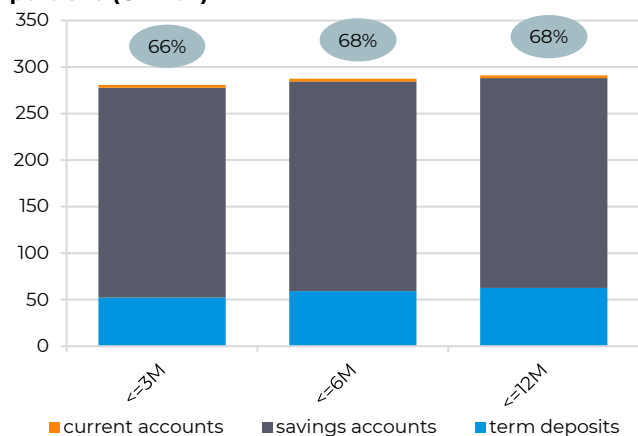
In the end, one should remember that Moneta is not a market leader, and that its deposit pricing policy depends mostly on the competitive landscape and opportunities for investing excess liquidity – we can imagine a scenario in which the effects of the deposit repricing schedule (vs. loans) are mitigated by generous deposit pricing on the market.

Schedule of cumulative repricing of Moneta's loan portfolio (CZK bn)*



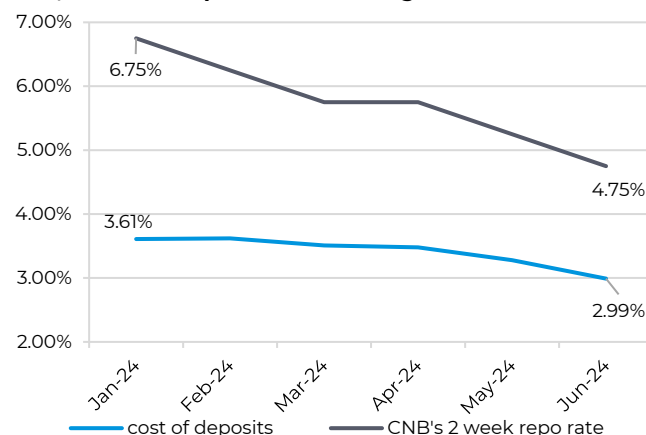
Source: Moneta Money Bank, *bubbles mean share of portfolio

Schedule of cumulative repricing of Moneta's deposits portfolio (CZK bn)*



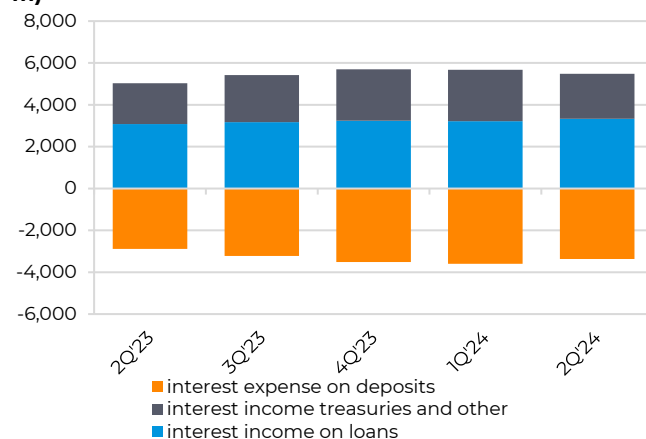
Source: Moneta Money Bank, *bubbles mean share of portfolio

Deposit costs are lagging behind changes in the repo rate, and so the spread is narrowing.



Source: Moneta Money Bank, CNB

In 2Q'24, the combined effects of repricing and volumes stopped the q/q downturn in net interest income (CZK m)



Source: Moneta Money Bank

Increasing Likelihood of Consensus and Guidance Upgrades

Following 2Q'24 earnings, we see a growing chance of upward revisions to Moneta's FY2024+ earnings guidance.

Looking at the ytd run rate (1Q'24+3x2Q'24), total operating income reached CZK 12.4bn to the end of June, and, assuming higher lending volumes, it should accelerate further in the coming quarter. We also see increasing chances of downward revisions to the cost guidance, leading to a higher overall operating income guidance.

The current run rate indicates that cost of risk this year may arrive at 16 bps, falling within the current guidance range of 10-30 bps. Overall, we believe that Moneta is currently aiming at around CZK 5.5bn net profit vs. the original guidance of CZK 5.2bn.

Moneta's FY2024 guidance vs YTD results run rate

(CZK bn)	1Q+2Qx3	Guidance	Likelihood of revision
Total operating income	12.4	>=12.4	+
Total operating expenses	5.4	<=5.8	-
Operating profit	6.9	>=6.6	+
Cost of risk (bps)	0.16	10-30	=
Effective tax rate	14%	c.14%	=
Net profit	5.5	>=5.2	+

Source: Moneta Money Bank, mBank

Compared to Moneta's, our earnings forecasts for the explicit forecast period point to more optimistic expectations for operating income and a more cautious approach as regards cost of risk, which we expect to end up around 20 bps in 2024 vs. the current run rate of 16 bps. Since cost of risk is highly unpredictable, it can surprise either side, but we prefer to take a more conservative approach. Note that the analysts' consensus is currently slightly even more conservative at 23 bps for 2024 CoR.

Moneta Money Bank's 2024E guidance vs mBank estimates and consensus

(CZK bn)	2024E	Guidance	Consensus
Total operating income	12.6	>=12.4	12.6
Total operating expenses	5.7	<=5.8	-
Operating profit	6.9	>=6.6	-
Cost of risk (bps)	0.20	0.10-0.30	0.23
Effective tax rate	14%	c.14%	-
Net profit	5.5	>=5.2	5.2

Source: Moneta Money Bank, Bloomberg, mBank

Our 2024 net profit forecast for Moneta is 4.9% above the current consensus, and the 2025 estimate exceeds the analysts' forecasts by 4.6%.

The gap to Moneta's own guidance is even wider at +5% and +7%, respectively.

That said, we once again emphasize our conservative CoR forecast, which points to the possibility of further upgrades following 3Q'24 results.

2024-2026 net profit expectations for Moneta Money Bank, mBank vs. guidance and consensus

(CZK bn)	2024E	2025E	2026E
mBank estimate	5.46	5.66	5.81
Guidance (no less than)	5.20	5.30	5.50
difference to mBank	4.9%	6.8%	5.6%
Consensus	5.20	5.41	5.76
difference to mBank	4.9%	4.6%	0.9%

Source: Moneta Money Bank, Bloomberg, mBank

Valuation

Dividend Discount Model

	(CZK m)	(%)
explicit forecast (2025-26)	7,822	14.1
adjustment for time value of money	951	1.7
value driver (2027-41)	34,769	62.5
fade (2042-61)	7,752	13.9
terminal value	4,363	7.8
fair value of equity	55,657	100.0
shares outstanding (millions)	511.0	
fair value per share (CZK)	108.9	
cost of equity (%)	9.5	
12M target price (CZK)	119.3	

Economic Profit Model

	(CZK m)	(%)
opening tangible NAV	32,203	57.2
explicit forecast (2024-26)	6,552	11.6
adjustment for time value of money	2,171	3.9
value driver (2027-41)	13,906	24.7
fade (2042-61)	1,510	2.7
fair value of equity	56,342	100.0
shares outstanding (millions)	511.0	
fair value per share (CZK)	110.3	
cost of equity (%)	9.5	
12M target price (CZK)	120.7	

Key Ratios

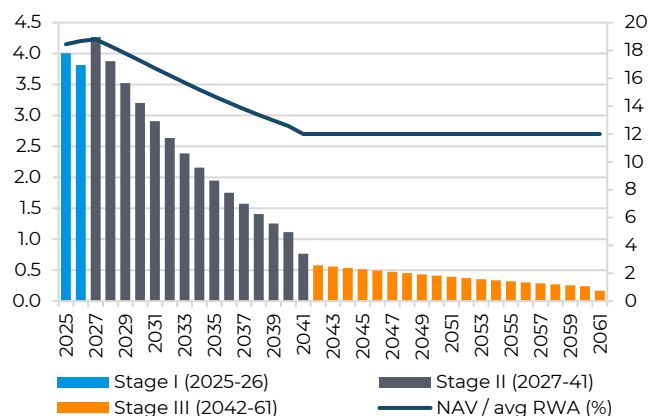
(%)	2024E	2025E	2026E	Avg.*
net interest income / average RWA	5.3	5.5	5.1	4.3
noninterest income / average RWA	1.6	1.6	2.1	1.7
costs / average RWA	-3.4	-3.3	-3.4	-2.9
costs / income	49.6	46.2	47.2	49.8
provisioning / avg. RWA	-0.4	-0.1	-0.2	-0.6
effective tax rate	-19.3	-19.4	-14.9	-17.0
other / RWA	-0.6	-0.7	-0.5	-0.4
net profit / average RWA	2.5	3.0	3.1	2.1
NAV / average RWA	16.7	17.3	18.3	15.3
tangible return on NAV	14.7	17.6	16.7	13.2
net profit growth	53.2	30.2	0.3	-2.2
avg. RWA (CZK bn)				
growth in average RWA	162	170	170	247

*2027-41E avg.

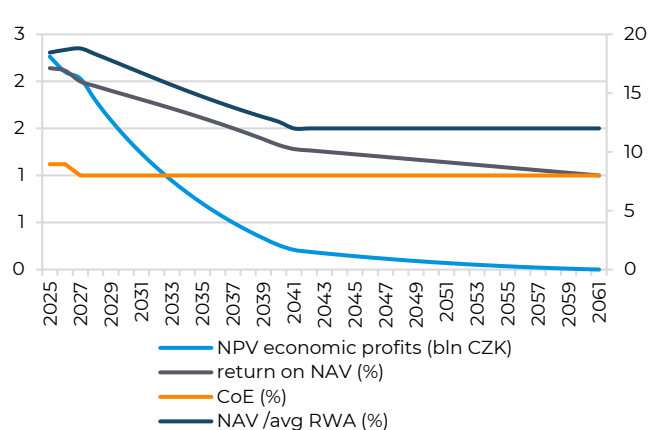
Valuation Summary

	(CZK)
dividend discount model	108.92
economic profit model	110.26
average fair value	109.59
12M target price	120.00

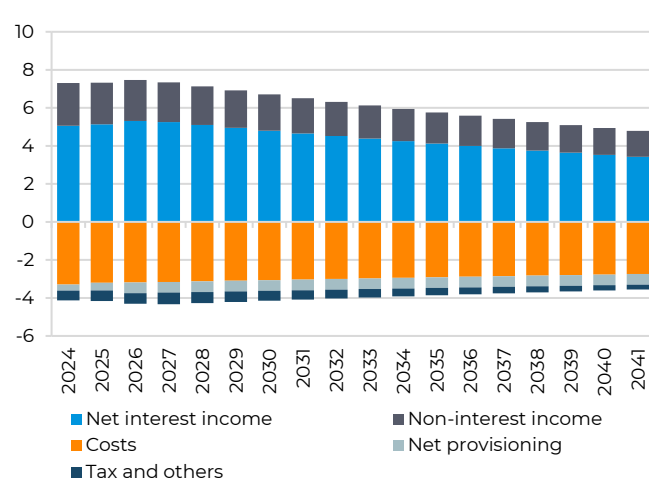
Dividend discount model



Economic Profit Chart



Costs/Income as a pct. of RWA



Income Statement (IFRS consolidated figures)

(CZK m)	2020	2021	2022	2023	2024E	2025E	2026E
Net interest income	8,282	8,609	9,311	8,577	8,707	9,200	9,767
F&C income	1,891	2,050	2,298	2,624	2,939	3,013	3,067
Trading income	674	428	361	892	865	848	831
Other income	1,251	81	146	54	59	65	72
Non-interest income	3,816	2,559	2,805	3,570	3,864	3,926	3,970
Total income	12,098	11,168	12,116	12,147	12,571	13,126	13,737
Operating expenses	-5,020	-5,276	-5,300	-5,370	-5,407	-5,452	-5,546
Other costs	-355	-52	-65	-53	-54	-56	-57
Total costs	-5,526	-5,538	-5,594	-5,730	-5,677	-5,746	-5,869
Operating income before provisioning	6,572	5,630	6,522	6,417	6,894	7,380	7,868
Other reserves	-3,562	-695	-90	-305	-548	-719	-1,033
Pre-tax income	3,010	4,935	6,432	6,112	6,346	6,661	6,835
Tax	-409	-951	-1,245	-912	-888	-999	-1,025
Minority interests	0	0	0	0	0	0	0
Net income	2,601	3,984	5,187	5,200	5,457	5,662	5,809

Balance Sheet (IFRS consolidated figures)

(CZK m)	2020	2021	2022	2023	2024E	2025E	2026E
Loans and advances to banks	30,654	26,806	50,353	80,503	104,134	113,395	123,582
Loans and borrowings	226,072	255,612	268,752	263,064	278,260	285,241	293,304
Debt securities	35,917	49,200	57,951	104,353	110,614	113,933	117,351
Fixed assets & intangible assets	5,653	5,815	5,697	5,732	6,848	7,192	7,495
Other assets	2,662	2,789	4,757	4,532	4,599	4,668	4,738
Total assets	300,958	340,222	387,510	458,184	504,456	524,428	546,470
Deposits from banks	1,977	12,580	5,953	5,423	5,726	6,069	5,448
Deposits	258,906	285,145	334,251	399,497	443,270	461,458	482,693
Securities issued	0	2,422	5,520	3,808	5,000	5,000	5,000
Other liabilities	8,344	5,910	6,008	9,649	9,716	9,785	9,855
Equity	27,050	29,481	31,091	32,203	33,064	34,360	35,640
Non-controlling interest	0	0	0	0	0	0	0
Total equity and liabilities	300,958	340,222	387,510	458,184	504,456	524,428	546,470

Key Ratios

(%)	2020	2021	2022	2023	2024E	2025E	2026E
YoY Growth							
loans	44.5	13.1	5.1	-2.1	5.8	2.5	2.8
deposits	42.6	10.1	17.2	19.5	11.0	4.1	4.6
equity	10.8	9.0	5.5	3.6	2.7	3.9	3.7
assets	37.4	13.0	13.9	18.2	10.1	4.0	4.2
net profit	-35.3	53.2	30.2	0.3	4.9	3.8	2.6
net interest income	4.5	3.9	8.2	-7.9	1.5	5.7	6.2
Balance-Sheet Ratios							
loans / deposits	87.3	89.6	80.4	65.8	62.8	61.8	60.8
deposits / assets	86.0	83.8	86.3	87.2	87.9	88.0	88.3
loans / assets	75.1	75.1	69.4	57.4	55.2	54.4	53.7
equity / assets (incl. minority inter.)	9.0	8.7	8.0	7.0	6.6	6.6	6.5
capital adequacy ratio	18.2	17.1	18.0	20.1	18.6	18.9	19.0
tier 1 ratio	18.2	17.1	18.0	20.1	18.6	18.9	19.0
Asset Quality Metrics							
NPL / loans	2.6	2.2	1.9	1.9	2.0	2.0	2.0
provisioning / loans	2.6	2.2	1.9	1.7	2.0	2.0	2.0
provisioning / NPL	100.0	100.0	100.0	91.7	100.0	100.0	100.0
net provisioning / average loans	1.8	0.3	0.0	0.1	0.2	0.3	0.4
Profitability Metrics							
net interest margin*	3.3	2.8	2.6	2.1	1.9	1.8	1.9
interest income / average assets	3.2	2.7	2.6	2.0	1.8	1.8	1.8
non-interest income / average assets	1.5	0.8	0.8	0.8	0.8	0.8	0.7
costs / average assets	2.1	1.7	1.5	1.4	1.2	1.1	1.1
costs / income	45.7	49.6	46.2	47.2	45.2	43.8	42.7
net provisioning / average assets	1.4	0.2	0.0	0.1	0.1	0.1	0.2
pre-tax profit / average assets	1.2	1.5	1.8	1.4	1.3	1.3	1.3
effective tax rate	13.6	19.3	19.4	14.9	14.0	15.0	15.0
ROA	1.0	1.2	1.4	1.2	1.1	1.1	1.1
ROE	10.1	14.1	17.1	16.4	16.7	16.8	16.6
trading multiples							
shares outstanding (eop, millions)	511.0	511.0	511.0	511.0	511.0	511.0	511.0
shares outstanding (avg., millions)	511.0	511.0	511.0	511.0	511.0	511.0	511.0
EPS (CZK)	5.1	7.8	10.2	10.2	10.7	11.1	11.4
BVPS (CZK)	52.9	57.7	60.8	63.0	64.7	67.2	69.7
P/E (x)	20.9	13.7	10.5	10.5	10.0	9.6	9.4
P/B (x)	2.0	1.8	1.8	1.7	1.6	1.6	1.5
DPS (CZK)	7.2	8.2	7.0	8.0	9.0	8.5	8.9
dividend yield (%)	6.7	7.6	6.6	7.5	8.4	8.0	8.3

*Interest income / average interest-earning assets

List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
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
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SELL – we expect that an investment will bear a loss

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The production of this recommendation was completed on July 30, 2024, 7:52 AM.
This recommendation was first disseminated on July 30, 2024, 8:30 AM.

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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 recommendations for Moneta Money Bank in the 12 months prior to this publication:

Moneta Money Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	hold
Rating date	2024-05-06	2023-12-01	2023-11-23
Target price (CZK)	110.00	100.00	99.00
Price on rating day	96.90	87.30	92.00

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