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

Rating: BUY
Target price: €13.80
(previously: €14.40)

Current share price: € 10.45
14.08.23 / XETRA / 14:05 am
Currency: EUR

Master data:
ISIN: DE0005570808
WKN: 557080
Ticker symbol: UBKG
Number of shares[3]: 35.44
Market cap[3]: 370.35
[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: 14.08.23 (3:25 pm)

Date (time) first publication: 16.08.23 (10:00 am)

Target Price valid until: 31.12.2024

Company profile

Industry: Financial services

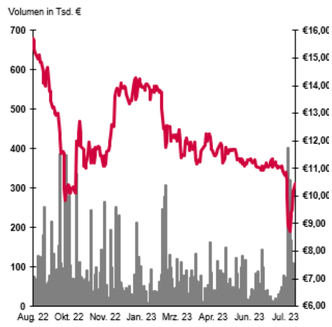
Focus: ecological investments, financing environmentally friendly projects

Employees: 351 (30.06.2023)

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 pro-jects. 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, environ-mental 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 2022	FY 2023e	FY 2024e	FY 2025e
Interest income	74.40	80.23	84.99	99.31
Interest result	58.79	47.17	50.52	62.90
Other income	27.48	3.28	14.50	15.00
Result before taxes	39.21	0.97	28.28	41.96
Result after taxes	30.55	0.66	19.23	28.53
Key figures in EUR				
EPS	0.86	0.02	0.54	0.80
Dividend per share	0.33	0.00	0.22	0.32
Balance sheet key figures in € million				
Customer deposits	3,176.40	3,342.52	3,482.28	3,702.90
Credit volume	3,139.03	3,209.03	3,279.03	3,429.03
Total capital	528.90	529.56	541.10	558.22
Return on investment (before taxes)	9.7%	0.2%	6.8%	9.7%
Cost-income ratio	58.0%	98.4%	62.5%	53.7%

Financial dates
20.09.2023: Baader Investment Conference

**last research from GBC:
Date: Publication / Target price in EUR / Rating
17.07.2023: RS / 14.40 / BUY
27.02.2023: RS / 14.65 / BUY
09.11.2022: RS / 16.00 / BUY
22.08.2022: RS / 16.30 / HOLD
** 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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H1 2023: Business further expanded, net interest income reduced in line with expectations; forecast adjusted as project sale does not take place; price target lowered to €13.80 (previously: €14.40); rating: BUY

in €m	1.HY 2020	1.HY 2021	1.HY 2022	1.HY 2023
Interest, financial and valuation result	26.03	34.16	29.69	25.13
Net commission and trading income	2.38	3.77	4.88	4.83
Personnel and administrative expenses	12.81	15.82	18.97	26.63
Pre-tax profit	21.29	21.66	14.01	3.11
Result for the period	14.52	14.40	9.07	1.49

	31.12.20	31.12.21	31.12.22	30.06.23
Business volume	5,393	6,451	6,602	6,805
Balance sheet total	4,944	5,928	5,981	6,023
Customer deposits	2,694	2,954	3,176	3,046
Environmental credits	3,503	3,543	3,703	3,889
Own funds, regulatory	408	487	529	530
Own funds ratio, regulatory	14.6%	16.1%	16.5%	16.1%
Common equity tier 1 ratio, regulatory	9.8%	11.7%	12.0%	11.7%

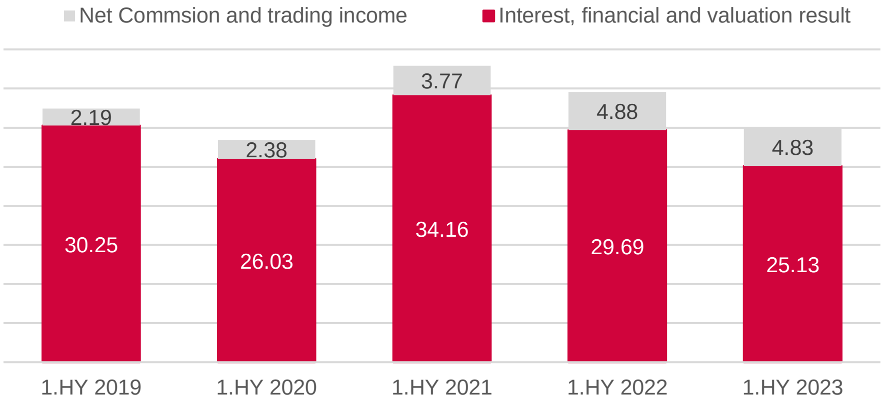
Sources: UmweltBank AG; GBC AG

Despite the current challenging market environment for the banking industry, UmweltBank AG again increased its business volume, i.e. total assets plus contingent liabilities and other commitments, by 3.1% to € 6,805 million (31.12.22: € 6,602 million) as of 30.06.2023. On the assets side, the increase in outstanding environmental loans to € 3,889 million (31.12.22: € 3,703 million) is likely to have contributed to this development. At € 397 million (previous year: € 325 million), the volume of new loans was 22.2 % higher than in the previous year.

However, this positive balance sheet development is contrasted by a decline in the earnings and profit figures. The decline in the interest, financial and valuation result to € 25.13 million (previous year: € 29.69 million) is striking. Although UmweltBank AG does not publish any further details on the development of earnings, it can be assumed that a decline in the interest result is responsible for this. The higher interest rate level continues to cause a stronger increase in interest expenses, as these react more flexibly to market changes due to the short-term nature of the deposit business. Furthermore, the expiry of special corona conditions is likely to have caused an additional increase in interest expenses. UmweltBank's management had already anticipated a decline in the interest margin.

The resulting decline in earnings was accompanied by a significant increase in operating costs. Personnel expenses climbed by 27.9% to € 12.27 million (previous year: € 9.60 million). On the one hand, this increase is due to the expansion of the workforce to 351 employees (previous year: 314 employees). On the other hand, the general increase in wage levels also contributed to this. The expansion of the workforce is to be understood as preparation for the planned expansion of business activities. In addition, the current change in the core banking system is leading to a higher commitment of personnel capacities.

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

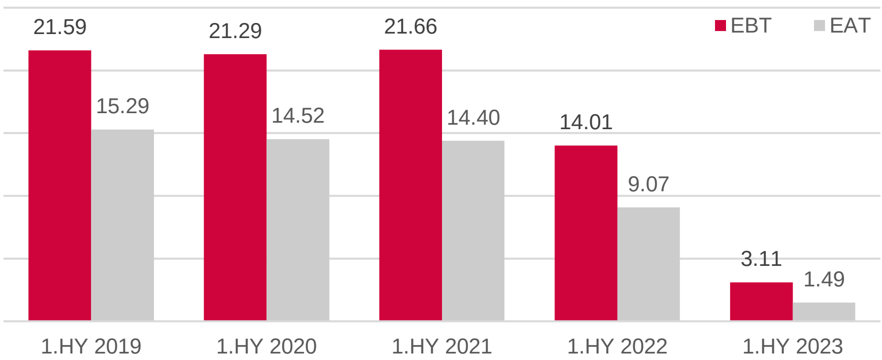


Sources: UmweltBank AG; GBC AG

The financial years 2023 and 2024 are regarded by UmweltBank AG as a transformation phase. This includes the conversion to a new core banking system, the reinforcement of staff, the construction of a new company headquarters and the fulfilment of regulatory requirements. The migration of the core banking system in particular is associated with high costs, which are estimated at around € 10 million for the current financial year 2023. In the first half of 2023, migration costs amounted to € 4.12 million (previous year: € 0.10 million). This contributed significantly to the increase in administrative expenses to €14.35 million (previous year: €9.37 million).

Together with the increase in personnel expenses, the cost-income ratio increased noticeably to 89.6 % (previous year: 59.5 %). Both the decline in income and the increase in expenses ultimately caused the pre-tax result to fall to € 3.11 million (previous year: € 14.01 million) and the result for the period to fall to € 1.49 million (previous year: € 3.11 million).

EBT and EAT (in € million)



Sources: UmweltBank AG; GBC AG

Forecast and model assumptions

in €m	FY 22	FY 23e (alt)	FY 23e (new)	FY 24e (old)	FY 24e (new)	FY 25e (old)	FY 25e (new)
Interest income	74.40	80.23	80.23	84.99	84.99	99.31	99.31
Interest expenses	15.61	30.42	33.06	31.74	34.48	34.68	36.41
Interest result	**58.79**	**49.81**	**47.17**	**53.25**	**50.52**	**64.63**	**62.90**
Commission income	7.49	9.50	9.50	11.00	11.00	13.50	13.50
Current income	27.48	20.50	3.28	14.50	14.50	15.00	15.00
Administrative expenses	41.45	50.44	50.44	44.57	44.57	44.79	44.79
EBT	**39.21**	**20.84**	**0.97**	**31.02**	**28.28**	**43.70**	**41.96**
EAT	**30.55**	**14.17**	**0.66**	**21.09**	**19.23**	**29.71**	**28.53**

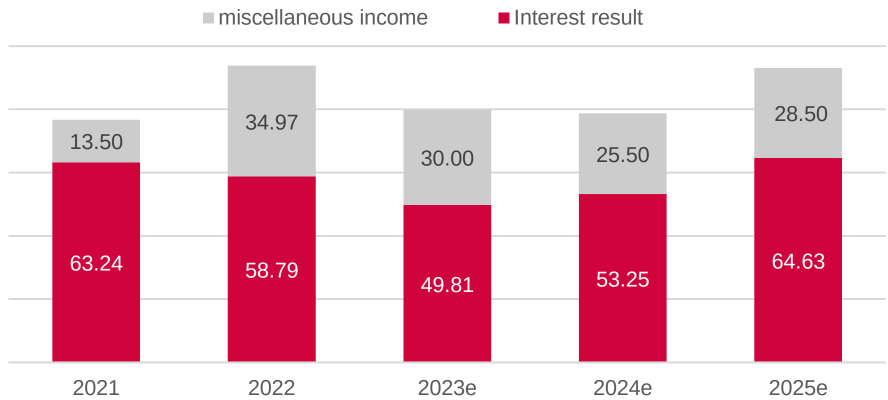
Sources: UmweltBank AG; GBC AG

Shortly before the publication of the 2023 half-year figures, UmweltBank AG lowered its annual forecast for the current 2023 financial year on 3 August 2013. Up to that point, the bank had expected a pre-tax result of approximately € 20 million, but only with the help of proceeds from the sale of investment projects. However, since the sale of projects planned for the second half of the year has been postponed from the current point of view, a pre-tax result of only about € 1 million is now expected.

According to the company, the discontinuation of the proceeds from the sale is mainly responsible for the guidance adjustment. However, the ECB's further increase in key interest rates to 4.25 % (as of 27 July 2023) is likely to further burden interest expenses and thus the interest result. Compared to the lending side, the deposit side has a much shorter duration and thus reacts more flexibly to interest rate adjustments. For this reason, the UmweltBank management expects the interest margin to continue to decline in 2023 and does not expect the trend to reverse until the 2025 financial year.

On 27 July 2023, the ECB announced that it would no longer pay interest on the minimum reserve deposits of credit institutions from 20 September 2023. Credit institutions must maintain a minimum balance of 1.0% of customer deposits, which will continue to earn interest at the interest rate of the deposit facility (currently: 3.75%). UmweltBank AG is only slightly affected by the discontinuation of this interest rate, which has only been in effect since September 2022. In the past financial year 2022, UmweltBank AG is likely to have received only about € 0.10 million in the context of the minimum reserve interest. In the current financial year 2023, interest income should increase due to the higher interest rate level, but according to our calculations it is not relevant at just over € 0.50 million.

Net interest income and other income (in € million)

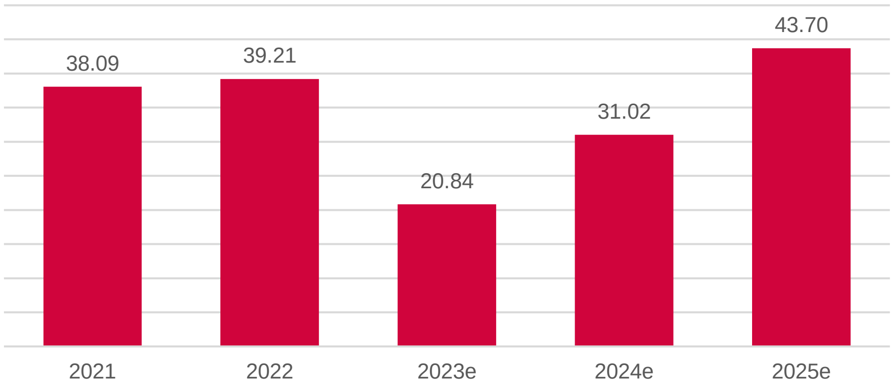


*Source: GBC AG; *incl. commission income*

Our forecasts are based on the new guidance and anticipate a significant decline in current income (income outside the interest and commission area) to € 3.28 million (previous estimate: € 20.50 million) for the current financial year. In addition, we have taken the renewed ECB interest rate increase as an opportunity to reduce the forecast for net interest income to € 47.17 million (previous estimate: € 49.81 million). Following this logic, we have also adjusted the net interest income estimates for the next two financial years slightly downwards.

The bottom line is that we expect EBT of € 0.97 million for 2023 (previous estimate: € 20.84 million). We had already taken the significant cost increase into account in the projections as part of our previous research study (see study dated 17 July 2023). As in the first six months, the cost picture of UmweltBank AG will be characterised by rising personnel expenses on the one hand and expenses in connection with the transformation process currently underway on the other. As the majority of the expenses for the migration to the new core banking system will be incurred in the current financial year, operating costs should decrease in the coming financial year. The estimated costs for the system migration in 2023 are around € 10 million. In 2024, these should only amount to around € 4 million. In addition to the expected increase in net interest income, the reduction in expenses should lead to a noticeable increase in earnings from the coming financial year onwards.

Forecast EBT* (in € million)



*Source: GBC AG; *before allocation to the fund for general banking risks*

After UmweltBank AG decided to pay out its 20th dividend in a row at this year's Annual General Meeting, no dividend is expected to be paid out at the upcoming Annual General Meeting. According to our forecasts, this is only a temporary shortfall. We expect that the significant increase in earnings in 2024 will enable the resumption of dividend payments after only a one-year break.

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 regarding the annual surpluses and resulting changes in equity for the estimation periods of the three financial years from 2023e to 2025e. 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.

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

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 2.00% (previously: 2.00%).**

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 reference index and averaged it in the regression analysis over a period of five years. On this basis, we determined a beta of 0.54 (previously: 0.54), which we also adjusted and smoothed in accordance with *Blume*'s work. Using the assumptions made, we calculate a cost of equity of 4.97% (previously: 4.97%) (beta multiplied by risk premium plus risk-free interest rate).

Valuation model and valuation result

in € m	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e	Final value
Equity	402.65	403.31	414.85	431.97	
Net profit for the year	30.55	0.66	19.23	28.53	
ROE (after taxes)		0.16%	4.70%	6.74%	10.90%
Cost of equity		4.97%	4.97%	4.97%	4.97%
Excess return		-4.81%	-0.27%	1.77%	5.93%
Book value factor		0.03	0.95	1.36	2.19
Residual income		-19.35	-1.08	7.34	532.53

According to our valuation model, UmweltBank AG should be able to achieve a sustainable return on equity (after taxes) of 10.90% in relation to the balance sheet equity. Assuming a cost of equity of 4.97%, a sustainable excess return of 5.93% or a book value factor of 2.19 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium over the book value of 2.19.

Present value of residual income 2023 - 2025	€ 5.63 million
Present value of residual income final value in € million	€ 483.30 million
Total present values in € million	**€ 488.93 million**
Shares outstanding in m	€ 35.44 million
Fair enterprise value per share in €	**€ 13.80 €**

The sum of the discounted residual income results in a value of € 488.93 million (previously: € 510.49 million). In view of an outstanding number of shares of 35.44 million, this results in a fair enterprise value per share of € 13.80 (previously: € 14.40). The reduction in the fair value is primarily due to the loss of income from the planned sale of the participation and thus to a significant reduction in earnings for the current financial year 2023. On the other hand, we have slightly reduced the interest result for 2024 and 2025. We continue to give the rating BUY.

ANNEX

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