

**Mid Cap**  
**Diversified Financial Services**  
 Equity – Germany

## Overweight (V)

Target price (EUR)	2.50
Share price (EUR)	1.91
Potential return (%)	30.9

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	-4.5	-6.8	-12.8
Relative <sup>A</sup> (%)	0.9	-4.5	-19.8

Index<sup>A</sup> DAX-100

RIC BLMG.DE  
 Bloomberg BWB GR

Market cap (USDm) 114.3  
 Market cap (EURm) 87.7

Free float (%) 33

Note: (V) = volatile (please see disclosure appendix)

# Baader Bank (BWB GR)

OW(V): Strategy works but low volume hurts

- ▶ **Baader's Q1 results should show small profit as volumes hurt but should also show that strategy is working**
- ▶ **We change our EPS forecasts to reflect prevailing weak trading activity, which hurts old core business**
- ▶ **We reduce our target price from EUR2.8 to EUR2.5 and reiterate our OW(V) rating**

**Baader Bank will release modest Q1 results** on 29 April showing a small quarterly net profit of EUR0.6m (down 26% q-o-q and 93% y-o-y respectively). This is driven by low volumes impacting the old market making business, while the newly built up investment banking business is still on track and in line with the business plan. After a strong start in January, trading volumes have faded in February and March

**We remain cautious however**, and reduce our forecasts to factor in the difficult market environment. Furthermore, Baader still needs some regulatory approval for the Helvea deal, which should have been closed end of March. But this is still pending and we have not included this deal into our model yet. There are no consensus forecasts available.

**Valuation:** We reduce our target price from EUR2.8 to EUR2.5 still based on our reduced 2014 forecasts. Our new target price implies a 31% potential return and we maintain our Overweight (V) rating.

**Catalysts and risks:** Any significant change in equity and bond trading volumes often has some effect on the stock price. Furthermore, quarterly results can often surprise as the stock is not followed by many analysts or investors. The main risks are a severe decline in trading activity and an unexpected change in interest rates, which could negatively impact the company's treasury operations. Furthermore, a failure of the bank's IT platform could lead to client concerns and damage its business model as this is one of its critical success factors (also for the success of Helvea deal). The low liquidity of Baader Bank's own shares is also a risk. Transparency has been reduced with the shift in reporting standard from IFRS to German GAAP (HGB). Lastly, the high degree of control by, as well dependence on, the management family (CEO Uto Baader and his son and fellow board member Nico Baader) remains an investment risk.

**24 April 2013**

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*Extel Survey 2013 runs from March 25<sup>th</sup> through to May 3<sup>rd</sup>  
 if you value our service and insight please vote for HSBC at  
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## Financials & valuation

### Financial statements

Year to	12/2011a	12/2012e	12/2013e	12/2014e
<b>P&amp;L summary (EURm)</b>				
Net interest income	6.9	6.5	6.8	7.6
Net fees/commissions	31.2	39.2	43.2	48.8
Trading profits	46.3	35.5	44.0	52.0
Other income	1.5	3.9	0.0	0.0
Total income	85.9	85.1	94.0	108.4
Operating expense	-90.6	-93.2	-96.6	-100.0
Bad debt charge	5.7	19.2	12.0	6.0
Other	0.0	0.0	0.0	0.0
HSBC PBT	1.0	11.1	9.4	14.4
Exceptionals	0.0	0.0	0.0	0.0
PBT	1.0	11.1	9.4	14.4
Taxation	-0.1	-2.0	-1.1	-1.7
Minorities + preferences	-0.2	-0.3	-0.4	-0.5
Attributable profit	0.7	8.8	7.9	12.2
HSBC attributable profit	0.7	8.8	7.9	12.2
<b>Balance sheet summary (EURm)</b>				
Ordinary equity	103.2	110.6	116.2	128.3
HSBC ordinary equity	103.2	110.6	116.2	128.3
Customer loans	21.1	21.0	26.0	31.0
Debt securities holdings	213.6	250.0	265.0	280.0
Customer deposits	316.6	320.0	340.0	360.0
Interest earning assets	391.7	320.4	336.0	366.0
Total assets	535.8	525.0	570.0	615.0

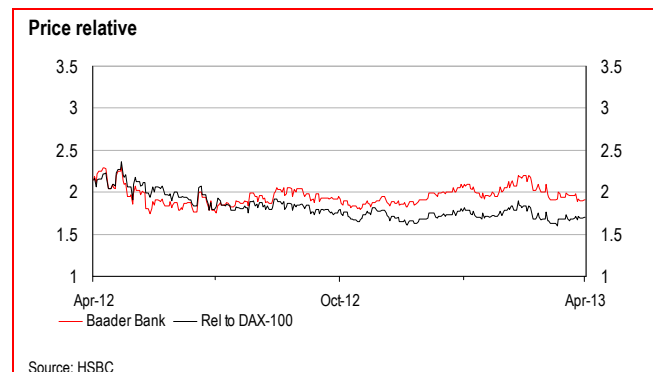
### Ratio, growth & per share analysis

Year to	12/2011a	12/2012e	12/2013e	12/2014e
<b>Year-on-year % change</b>				
Total income	-20.2	-0.9	10.5	15.3
Operating expense	2.3	2.9	3.6	3.5
Pre-provision profit	-124.9	71.2	-67.9	-423.1
EPS	-95.9	1224.7	-10.5	54.6
HSBC EPS	-95.9	1224.7	-10.5	54.6
DPS	-74.6	66.7	20.0	50.0
NAV (including goodwill)	-39.9	7.2	5.0	10.5
<b>Ratios (%)</b>				
Cost/income ratio	105.5	109.5	102.8	92.3
Bad debt charge	-20.6	-91.2	-51.1	-21.1
Customer loans/deposits	6.7	6.6	7.6	8.6
NPL/loan	0.0	0.0	0.0	0.0
NPL/RWA	0.0	0.0	0.0	0.0
Provision to risk assets/RWA	0.0	0.0	0.0	0.0
Net write-off/RWA	0.0	0.0	0.0	0.0
Coverage	0.0	0.0	0.0	0.0
ROE (including goodwill)	0.5	8.1	6.8	9.8
<b>Per share data (EUR)</b>				
EPS reported (fully diluted)	0.01	0.19	0.17	0.27
HSBC EPS (fully diluted)	0.01	0.19	0.17	0.27
DPS	0.03	0.05	0.06	0.09
NAV	1.33	1.56	1.68	1.94
NAV (including goodwill)	2.25	2.41	2.53	2.80

### Valuation data

Year to	12/2011a	12/2012e	12/2013e	12/2014e
PE*	132.0	10.0	11.1	7.2
Pre-provision multiple				10.4
P/NAV	1.4	1.2	1.1	1.0
Equity cash flow yield (%)	4.6	7.9	7.3	12.2
Dividend yield (%)	1.6	2.6	3.1	4.7

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 22 Apr 2013

## Results will show that strategy works but low volumes hurt

### Annual results - Baader

in EURm	New 13e	Old 13e	diff.	New 14e	Old 14e	diff.
Net interest income	6.8	7.6	-11%	7.6	8.4	-10%
Risk provisions	12.0	12.0	0%	6.0	6.0	0%
Net fees/commissions	43.2	42.8	1%	48.8	48.4	1%
Trading profits	44.0	46.0	-4%	52.0	56.0	-7%
Total income	106.0	108.4	-2%	114.4	118.8	-4%
Operating expenses (opex)	-96.6	-97.6	-1%	-100.0	-103.0	-3%
PBT	9.4	10.8	-13%	14.4	15.8	-9%
Net profit	7.9	9.1	-14%	12.2	13.4	-9%
EPS	0.17	0.20	-14%	0.27	0.29	-9%
DPS	0.06	0.06	0%	0.09	0.09	0%

Source: Company data, HSBC estimates

We lower our net interest income as management continues to de-risk the banking book. They have nearly no peripheral (sub) sovereign bond holdings and focus now on (German) corporate bonds, which offer lower coupons nowadays. Furthermore, the financing costs for the new office building have a minor impact as well. The estimates for net fee income have been increased as new investment banking and especially the equities business is gaining momentum. However, we are cutting our trading result forecasts as weak market volumes do hurt the market making business. Furthermore, the treasury business is also affected by the low rate environment. Last but not least, the management has started a cost control initiative and we reduce our opex forecasts slightly. The quarterly tax rate of 12% should be in line with FY tax rate.

### Quarterly results - Baader

in EURm	Q1 12a	Q4 12a	Q1 13e	QoQ	YoY
Net interest income	1.7	1.0	<b>1.4</b>	38%	-19%
Risk provisions	9.3	1.5	<b>4.0</b>	160%	-57%
Net fees/commissions	9.7	10.9	<b>10.5</b>	-4%	8%
Trading profits	15.2	7.1	<b>10.0</b>	41%	-34%
Operating expenses	-25.8	-23.4	<b>-25.1</b>	7%	-3%
Pre tax result	10.0	1.0	<b>0.8</b>	-21%	-92%
Net result	8.7	0.8	<b>0.6</b>	-26%	-93%

Source: Company data, HSBC estimates

## Valuation

We use an equity value model to compute our target price of EUR2.5 (versus EUR2.8 before), which is now based on our 2014 instead of the 2013 forecasts. We divide our ROE estimate of 10.0% (was 10.8%) by our unchanged cost of equity (COE) of 11.3%, which is calculated using the CAPM approach, including a risk-free rate of 3.0%, a 6.0% risk premium and a beta of 1.39. We multiply this factor by the estimated book value of EUR2.80 per share and add the 2012a dividend proposal of EUR0.05 to arrive at our rounded target price of EUR2.5. Under our research model, for stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate for eurozone stocks of 9.0%. Our 12-month target price of EUR2.5 implies a potential return of 30.9% which is above the Neutral band; we therefore reiterate our Overweight (V) rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

# Disclosure appendix

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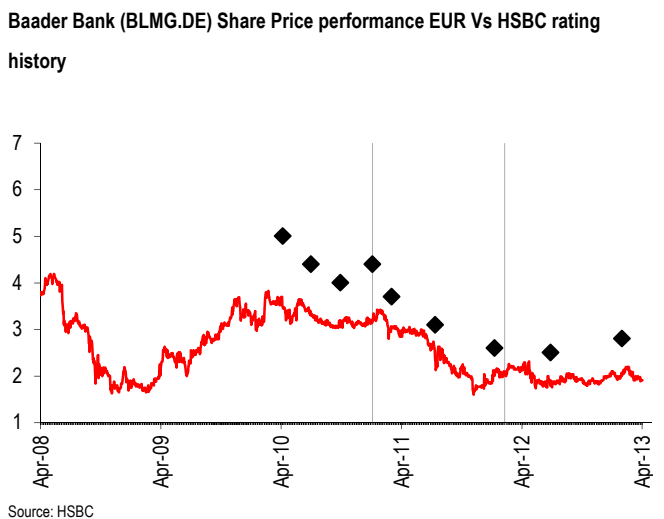
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## Share price and rating changes for long-term investment opportunities



### Recommendation & price target history

From	To	Date
Overweight (V)	Overweight	25 January 2011
Overweight	Overweight (V)	02 March 2012
Target Price	Value	Date
Price 1	5.00	28 April 2010
Price 2	4.40	22 July 2010
Price 3	4.00	20 October 2010
Price 4	4.40	25 January 2011
Price 5	3.70	24 March 2011
Price 6	3.10	03 August 2011
Price 7	2.60	31 January 2012
Price 8	2.50	19 July 2012
Price 9	2.80	20 February 2013

Source: HSBC

## HSBC & Analyst disclosures

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Company	Ticker	Recent price	Price Date	Disclosure
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Source: HSBC

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