

Mid Cap
Diversified Financial Services
 Equity – Germany

Overweight

Target price (EUR)	2.50
Share price (EUR)	2.01
Potential return (%)	24.4

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

Performance	1M	3M	12M
Absolute (%)	-1.9	2.6	0.5
Relative ^A (%)	1.7	1.2	-17.4

Index^A DAX-100

RIC BLMG.DE
 Bloomberg BWB GR

Market cap (USDm) 118.6
 Market cap (EURm) 92.3

Free float (%) 33

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

Baader Bank (BWB GR)

OW: Not much but not bad either

- ▶ **Baader's Q2 results should only show small profit as old core business continues to struggle and new units still need to gain momentum**
- ▶ **We reduce our EPS forecasts to factor in weaker trading income**
- ▶ **We reconfirm our TP of EUR2.5 and Overweight rating but remove volatility indicator**

Bader Bank will release weak Q2 results on 29 July 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 trading 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 but revenues have continue to grow to make a meaningful profit contribution. The pending Helvea acquisition should be finished in Q3 with Swiss regulator Finma making its decision hopefully this July but this business has improved its profitability according to CFO Brichmann.

We remain cautious for FY2013e-14e, and reduce our forecasts to factor in the difficult market environment and difficult market environment impacting old business units. We introduce our 2015e forecasts. A consensus is not available.

Valuation: We reconfirm our target price of EUR2.5 which is now based on our equal-weighted 2014 and 2015 estimates as cut in forecasts is compensated by shift in time horizon. Our target price implies a 24% potential return and we maintain our Overweight rating but remove volatility indicator.

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.

15 July 2013

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Financials & valuation

Financial statements

Year to	12/2012a	12/2013e	12/2014e	12/2015e
P&L summary (EURm)				
Net interest income	6.5	4.5	5.0	5.5
Net fees/commissions	39.2	43.2	48.8	54.0
Trading profits	35.5	40.0	47.0	54.0
Other income	3.9	0.8	0.9	1.0
Total income	85.1	88.5	101.7	114.5
Operating expense	-93.2	-92.5	-96.2	-99.9
Bad debt charge	19.2	12.0	6.0	3.0
Other	0.0	0.0	0.0	0.0
HSBC PBT	11.1	8.0	11.5	17.6
Exceptionals	0.0	0.0	0.0	0.0
PBT	11.1	8.0	11.5	17.6
Taxation	-2.0	-1.0	-1.4	-2.1
Minorities + preferences	-0.3	-0.4	-0.5	-0.6
Attributable profit	8.8	6.6	9.6	14.9
HSBC attributable profit	8.8	6.6	9.6	14.9

Balance sheet summary (EURm)

Ordinary equity	109.8	114.1	123.7	138.6
HSBC ordinary equity	109.8	114.1	123.7	138.6
Customer loans	34.9	34.0	36.0	38.0
Debt securities holdings	245.2	265.0	280.0	280.0
Customer deposits	297.1	360.0	370.0	380.0
Interest earning assets	330.3	364.9	392.5	392.0
Total assets	516.1	570.0	615.0	615.0

Capital (%)

RWA (EURm)	319.9	346.7	360.5	363.0
Core tier 1	0.0	0.0	0.0	0.0
Total tier 1	32.0	31.2	32.7	36.6
Total capital	32.0	31.2	32.7	36.6

Ratio, growth & per share analysis

Year to	12/2012a	12/2013e	12/2014e	12/2015e
Year-on-year % change				
Total income	-0.9	4.0	14.9	12.6
Operating expense	2.9	-0.8	4.0	3.8
Pre-provision profit	71.2	-50.6	-237.5	165.5
EPS	1224.7	-24.5	44.9	54.8
HSBC EPS	1224.7	-24.5	44.9	54.8
DPS	66.7	0.0	40.0	57.1
NAV (including goodwill)	6.4	4.0	8.4	12.0

Ratios (%)

Cost/income ratio	109.5	104.5	94.6	87.2
Bad debt charge	-68.5	-34.8	-17.1	-8.1
Customer loans/deposits	11.8	9.4	9.7	10.0
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)	8.1	5.8	8.0	11.2

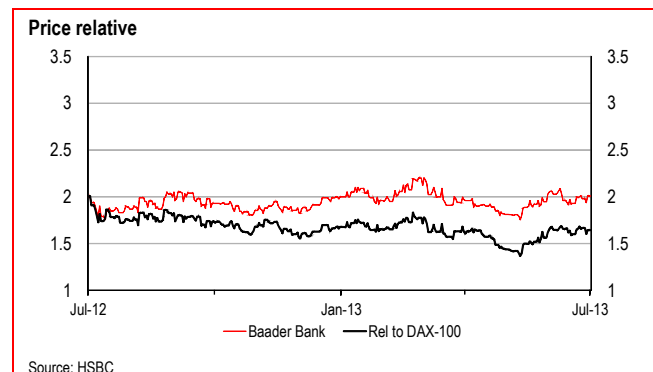
Per share data (EUR)

EPS reported (fully diluted)	0.19	0.14	0.21	0.32
HSBC EPS (fully diluted)	0.19	0.14	0.21	0.32
DPS	0.05	0.05	0.07	0.11
NAV	1.58	1.70	1.91	2.24
NAV (including goodwill)	2.39	2.49	2.70	3.02

Valuation data

Year to	12/2012a	12/2013e	12/2014e	12/2015e
PE*	10.5	13.9	9.6	6.2
Pre-provision multiple			16.8	6.3
P/NAV	1.3	1.2	1.1	0.9
Equity cash flow yield (%)	6.2	5.2	9.4	15.9
Dividend yield (%)	2.5	2.5	3.5	5.5

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



Note: price at close of 10 Jul 2013

Q2 results will be not much but not bad either

in EURm	Q2 12a	Q1 13a	Q2 13e	QoQ	YoY
Net interest income	2.3	1.1	1.1	4%	-52%
Risk provisions	1.7	3.8	2.0	-48%	15%
Net fees/commissions	10.3	10.2	10.6	3%	3%
Trading profits	3.7	10.0	8.0	-20%	114%
Operating expenses	-21.3	-24.6	-21.5	-13%	1%
Pre tax result	-3.2	0.7	0.4	-49%	-111%
Net result	-3.4	0.3	0.2	-24%	-106%

Source: company data, HSBC estimates

The net interest income continues to suffer from lower money market rates and preparation for implementation of net stable funding ratio (NSFR) rules. Looking at fee income, the second quarter should have shown some improvements and the estimates have been increased as new equities business (which still excludes Helvea) is gaining momentum and asset management unit CCP surpassed its high water mark. The outlook for fee income seems to be good as well as CFO Brichmann indicated that more transactions are in the pipeline. Furthermore, the cooperation with Swiss banks and Berne eXchange announced on 6 June should be positive for 2014e and 2015e.

However, we are cutting our trading result forecasts as especially the weak markets end of June should have hurt the market making as well as treasury result. Last but not least, the cost control initiative showed first benefits in Q1 and we reduce our opex forecasts again. The quarterly tax rate of 10% should be lower than Q1 with 38%. We still expect FY tax rate to be around 12%. Last but not least, we reduce our DPS forecasts to remain inline with the targeted pay out ratio of approximately 33%

in EURm	New 13e	Old 13e	diff.	New 14e	Old 14e	diff.
Net interest income	4.5	6.8	-34%	5.0	7.6	-34%
Risk provisions	12.0	12.0	0%	6.0	6.0	0%
Net fees/commissions	43.2	43.2	0%	48.8	48.8	0%
Trading profits	40.0	44.0	-9%	47.0	52.0	-10%
Total income	99.7	106.0	-6%	106.8	114.4	-7%
Operating expenses	-92.0	-96.6	-5%	-95.6	-100.0	-4%
PBT	8.0	9.4	-15%	11.5	14.4	-20%
Net profit	6.6	7.9	-16%	9.6	12.2	-21%
EPS	0.14	0.17	-16%	0.21	0.27	-21%
DPS	0.05	0.06	-17%	0.07	0.09	-22%

Source: company data, HSBC estimates

Valuation

We use an equity value model to compute our target price of EUR2.5, which is now based on our equal-weighted 2014 and 2015 estimates instead of our stand alone 2014 forecasts. We divide our ROE estimate of 9.7% (was 10.0%) 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 1.38. We multiply this factor by the estimated book value of EUR2.86 per share and add the 2013e dividend estimate of EUR0.05 to arrive at our rounded target price of EUR2.5.

Disclosure appendix

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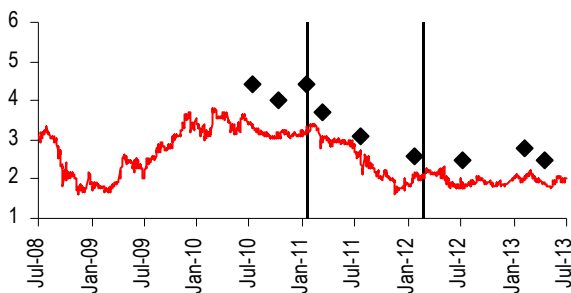
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Share price and rating changes for long-term investment opportunities

Baader Bank (BLMG.DE) Share Price performance EUR Vs HSBC rating history



Source: HSBC

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	4.40	22 July 2010
Price 2	4.00	20 October 2010
Price 3	4.40	25 January 2011
Price 4	3.70	24 March 2011
Price 5	3.10	03 August 2011
Price 6	2.60	31 January 2012
Price 7	2.50	19 July 2012
Price 8	2.80	20 February 2013
Price 9	2.50	24 April 2013

Source: HSBC

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BAADER BANK	BLMG.DE	2.01	11-Jul-2013	6, 11

Source: HSBC

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