

Komercijalna Banka

2 February 2010

Capital increase

Banks				Current price	RSD 30,529*	Sell			
Serbia				Fair value	RSD 21,851	Rating reiterated			
Performance over	1m	3m	12m	FY/e 31.12 (RSD m)	2008A	2009F	2010F	2011F	
Absolute	11%	-15%	18%	Net interest income	6,300.2	6,355.9	7,272.9	8,574.9	
Rel. to MSCI index	11%	-19%	-43%	Non-interest income	5,432.9	4,452.0	4,667.0	5,257.8	
12m Hi/Lo	RSD 39,000 / 16,300			Non-interest expense	7,392.7	8,111.9	8,411.6	8,938.8	
Reuters	KMBN.BEL			Operating profit	4,340.5	2,696.0	3,528.3	4,893.8	
Bloomberg	KMBN SG			Net income**	2,731.8	875.0	1,023.7	2,223.4	
Market Cap	€418.4m			Cost / income (%)	63.0	75.1	70.4	64.6	
Free float	33%			ROE (%)	12.5	3.6	3.3	5.7	
Next corporate event	4Q09 results (due in 1Q10)			P/E (x)	9.6	30.4	39.1	18.5	
				P/B (x)	1.1	1.1	1.1	1.0	

Source: KBC Securities

**Net attributable income, *priced at COB 1/2/2010

Komercijalna Banka has successfully completed a RSD 11.4bn (€ 120.0m) capital increase. We have revised upwards our revenue outlook to account for increased lending activity and market share gains. With this our forecast net attributable income has been lifted by 27.4% to RSD 1,023.7m (+17.0% y/y) for 2010 and by 40.1% to RSD 2,223.4m (+117.2% y/y) for 2011. On the back of the capital injection, we have lifted our estimated fair value for Komercijalna Banka by 14.3% to RSD 21,851 per share, which implies 28.4% downside. We maintain our Sell rating.

Sell rating maintained

- Issue of convertible preferred shares:** The bank has issued 479,819 preference shares at RSD 23,759 per share, convertible into common shares from January 2013 for a period of 4.5 years. The announcement makes no mention of dividend rights nor is the company making any additional information available at this stage. Thus, we have assumed no dividends will be paid in respect of the preferred shares, in line with earlier management guidance.
- Optimistic management targets:** Management guidance for improving earnings in the last quarter of the year appears overly optimistic: the bank expects a pre-tax profit of RSD 657m, up 103.7%q/q, versus our forecast for a RSD 258.7m loss. While further margin expansion is expected in 4Q09, supported by loan repricing and easing funding costs, currently low risk costs are expected to rise and weigh on earnings.
- Vulnerable to deteriorating asset quality:** A massive net revaluation and FX gain supported the level of pre-provisioning profit-to-average gross loans in 2008, but this is expected to retreat to 2.2% in 2009, leaving the bottom line more vulnerable. The cost of risk so far has been relatively low at 110bp of gross loans in 9M09, but we believe this is unsustainable and forecast an increase to 147bp (just +4bp y/y) for the full-year 2009.
- Optimistically valued:** After rising only 9.2% in US\$ terms and underperforming the MSCI EE index by 36.7% in 2009, Komercijalna Banka trades on a 2011F P/E of 18.5x, which represents a wide premium to emerging European banks on 9.9x. We believe the premium is unwarranted given the weak outlook for ROE, the bank's vulnerability to deteriorating asset quality and the relatively high cost of equity in Serbia.

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EBITDA = EBIT + amortization and depreciation EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

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