

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

Rating: BUY

Target price: €9.60
(previously: €13.80)

Current share price: € 7.58
25.03.24 / XETRA / 10:00 am
Currency: EUR

Master data:

ISIN: DE0005570808
WKN: 557080
Ticker symbol: UBKG
Number of shares³: 35.66
Market cap³: 270.30
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: 26.03.24 (1:25 pm)

Date (time) first publication: 26.03.24 (2:30 pm)

Target Price valid until: 31.12.2024

Company profile

Industry: financial services

Focus: ecological investments, financing environmentally friendly projects

Employees: 354 (31.12.2023)

Foundation: 1997

Company headquarters: Nuremberg

Board of directors: Goran Bašić, Dietmar von Blücher, 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 and finances green projects. In doing so, UmweltBank AG acts as a direct bank, without the classic branch business. Since its founding in 1997, it has supported over 25,000 credit projects. At the end of 2022, environmental 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 €m	FY 2022	FY 2023*	FY 2024e	FY 2025e	FY 2026e
Interest result	58.79	41.11	42.40	48.54	56.71
Financial result	24.83	7.17	8.50	12.50	13.75
Net commission and trading income	9.35	9.05	10.39	12.75	13.07
Earnings before taxes	39.21	1.12	-15.90	5.75	20.49
Earnings after taxes	30.55	0.76	-10.81	3.91	13.93

Key figures in €					
EPS	0.86	0.02	-0.30	0.11	0.39
Dividend per share	0.33	0.00	0.00	0.00	0.16

* according preliminary figures

Financial dates

29.04.2024: audited figures 2023

End of May 24: Annual report 2023

19.08.24: Half-year figures 2024

**last research from GBC:

Date: Publication / Target price in EUR / Rating

14.08.2023: RS / 13.80 / BUY

17.07.2023: RS / 14.40 / BUY

27.02.2023: RS / 14.65 / BUY

09.11.2022: RS / 16.00 / BUY

** 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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Transformation year 2023 in line with expectations; further investments in digitalisation and customer growth expected; return to profitability after another transformation year 2024; price target: € 9.60; rating: BUY

in € m	2020	2021	2022	2023*
Interest result	52.10	63.24	58.79	41.11
Financial result	3.38	2.96	24.83	7.17
Net commission and trading income	5.15	9.42	9.35	9.05
Earnings before taxes	37.85	38.09	39.21	1.12
Earnings after taxes	26.50	25.37	30.55	0.76

	31.12.2020	31.12.2021	31.12.2022	31.12.2023*
Balance sheet total	4,944	5,928	5,981	5,693
Customer deposits	2,694	2,954	3,176	2,854
Environmental loans	3,503	3,543	3,703	3,722
Equity (supervisory)	408	487	504	533
Equity-ratio (supervisory)	14.6%	16.1%	15.7%	15.9%

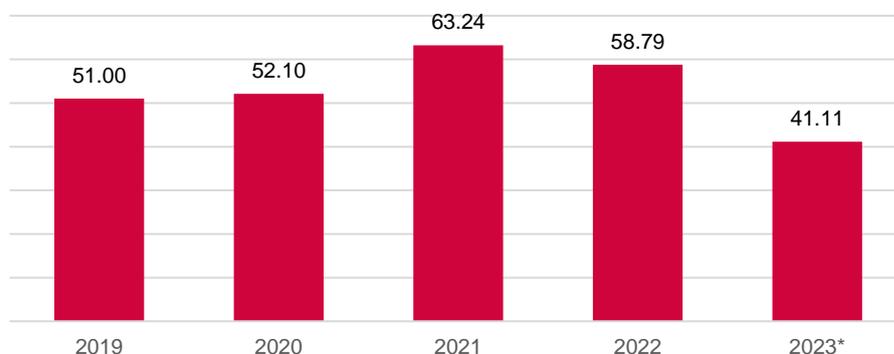
Sources: UmweltBank AG; GBC AG; *according preliminary figures

Earnings development 2023

UmweltBank AG published its preliminary figures for the past financial year 2023 on 18 March 2024. As expected, the past financial year was characterised by both a decline in earnings and an increase in total costs. On the income side, net interest result in particular declined to € 41.10 million (previous year: € 58.79 million). At the same time, the financial result fell significantly to € 7.17 million (previous year: € 24.83 million).

The main reason for the decline in net interest result, which we had anticipated in our previous forecasts, but had assumed a smaller decline, was once again likely the increase in interest expenses. The general rise in interest rates has led to greater adjustments to the conditions for customer deposits. These react more strongly to interest rate adjustments due to the lower duration. In addition, the increase in interest expenses is due to changes in the conditions for TLTRO funds, i.e. the low-interest refinancing funds provided by the ECB.

Interest result (in € m)



Sources: UmweltBank AG; GBC AG; *according preliminary figures

There was also a decline in gross new lending business for longer-term environmental loans to € 459 million (previous year: € 623 million). The loan portfolio remained almost stable compared to the previous year at € 3,722 million (previous year: € 3,703 million).

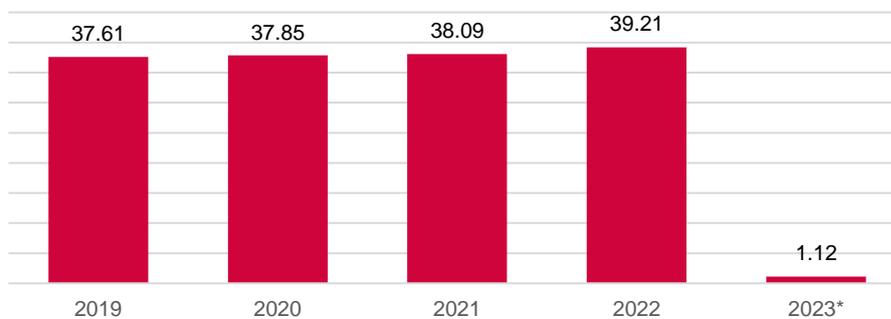
While new lending business in the area of renewable energies was expanded to a volume of around € 350 million (previous year: € 254 million), new lending business for property projects fell to around € 100 million (previous year: € 349 million) due to the difficult market environment.

Also worth mentioning is the decline or normalisation of the financial result to € 7.17 million (previous year: € 24.83 million). In the 2022 financial year, an investment in a wind farm company was sold, generating net proceeds of around € 20 million. Adjusted for this effect, the financial result increased due to the successful sale of investments and higher dividends. At € 9.05 million (previous year: € 9.35 million), the third income component, net commission and trading income, was roughly on a par with the previous year.

Earnings development in 2023

The declining earnings trend described above is offset by a significant increase in personnel and administrative expenses. Personnel expenses rose visibly by almost 30% to € 25.62 million (previous year: € 19.88 million). The main drivers of this development were new hires in areas relevant to regulatory requirements and the general rise in salary levels. As at the balance sheet date of 31 December 2023, UmweltBank AG had reached a new high in the number of employees with 354 (31 December 2022: 332). In addition, the successfully implemented change to the core banking system led to an increase in administrative expenses of around € 10 million to € 31.51 million (previous year: € 21.57 million), as announced.

EBT (in € m)



Sources: UmweltBank AG; GBC AG; *according preliminary figures

The preliminary earnings before taxes of € 1.12 million (previous year: € 39.21 million) resulting from the development described above are in line with the company's guidance published in August 2023, which had forecast earnings before taxes of around € 1 million. Based on this, we had forecast EBT of € 0.97 million in our most recently published research study.

Forecasts and model assumptions

in € m	FY 2023e*	FY 24e (old)	FY 24e (new)	FY 25e (old)	FY 25e (new)	FY 26e
Net interest income	41,11	50,02	42,40	62,90	48,54	56,71
Financial result	7,17	9,70	8,50	10,20	12,50	13,75
Net commission and trading income	9,05	14,39	10,39	16,75	12,75	13,07
Result before taxes	1,12	28,28	-15,90	41,96	5,75	20,49
Result after taxes and before reserves	0,73	19,23	-10,80	28,53	3,91	13,93

Sources: UmweltBank AG; GBC AG; *according preliminary figures

At the beginning of March 2024, UmweltBank's management informed the capital market about their strategic realignment. At the same time, the company announced a pre-tax result of between € -15 million and € -20 million as part of their initial guidance for the current 2024 financial year. At the investor and press conference held on 18 March 2024, the new CEO Dietmar von Blücher presented the background to this guidance and strategic realignment.

In principle, the current financial year 2024 will once again be regarded as a year of transformation in which further investments will be made into technology, organisational structure and private customer acquisition. This will result in a further increase in personnel expenses and administrative expenses. Although the special expenses associated with the migration of the banking system, which has already taken place, are expected to decline, subsequent effects and higher overall ongoing system costs are still to be expected. The company is also pressing ahead with digitalisation in the current financial year and will increase its investments in this area. At the end of these measures, an increase in efficiency and full utilisation of the potential of the new core banking system should be achieved. The new UmweltBank app will be launched in March 2024 and the website will be relaunched in the second quarter of 2024.

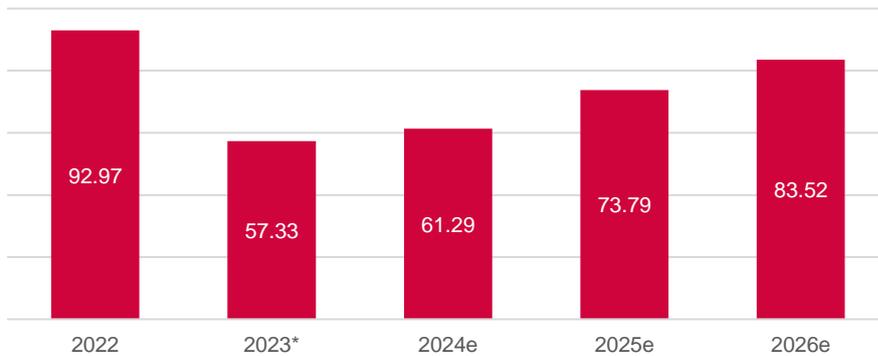
In principle, UmweltBank AG will increasingly focus on expanding its deposit business with private customers in the future. In addition to overnight and fixed-term deposits, private customers can make green investments in funds (UmweltBank funds), bonds or securities. Shortly after the migration of the core banking system, the acquisition of new customers (improved conditions, marketing) was intensified and the company can already report initial successes. In the months of January and February 2024, 6,000 new customers were acquired, increasing the number of customers to around 138 thousand (31/12/2023: 132 thousand) after three sideways financial years. The aim is to reach 500 thousand existing customers by the 2028 financial year, which seems quite ambitious.

The lending business is to be geared towards commercial customers in future. The focus will continue to be on the areas of renewable energies and sustainable property. Although, according to the company, there is high demand in this area, equity capitalisation is and was a limiting factor in the past financial year. According to the company, new business totalling around € 250 million can be financed with the current equity base. This calculation includes an expected capital surcharge of 0.5%. This is likely to be related to the ongoing audit by BaFin, for which a special representative has been appointed. Once the regulatory deficits have been dealt with, the expected capital surcharge should no longer apply. In addition, the company plans to completely wind down its investment business within the next three financial years. Possible gains on disposal would further strengthen equity and could be used for new business. Finally, there is also the possibility of a capital increase if market opportunities arise.

During the investor and press conference, UmweltBank AG announced its targets for 2028 for the first time. Overall, new lending business in the area of renewable energies and sustainable real estate is expected to increase to over € 1.1 billion annually in 2028 (2023:

€ 459 million). The customer base, which totalled 132,000 at the end of 2023, is expected to increase to around 500,000 by 2028.

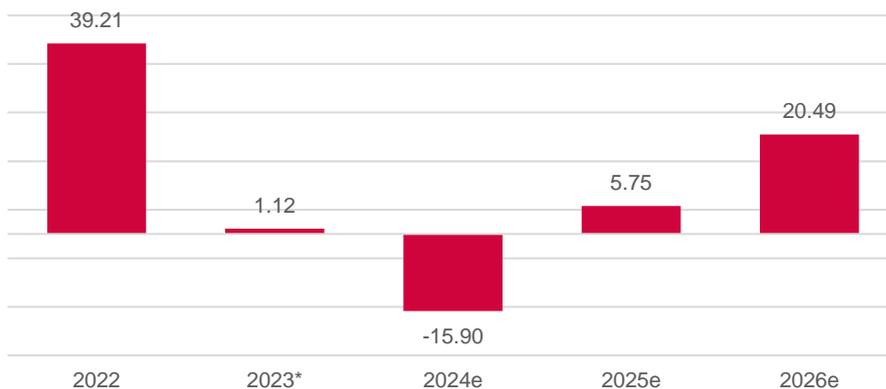
Forecast of total income (in € million)



Source: GBC AG; *according preliminary figures

Our earnings and profit estimates are based on the company's guidance, which was adjusted in March 2024. For the coming financial years, UmweltBank AG presented a graphic guidance for earnings before taxes as part of the investor presentation, which we are also following. For the current financial year, we expect a slight increase in net interest income, which is based on slight improvements in terms and conditions with an almost unchanged volume of outstanding environmental loans. In the following two financial years, 2025 and 2026, net interest income should gain momentum again. This is based on improved conditions on the lending side and the assumption that interest costs will stabilise at the level of customer deposits. We also anticipate a strong increase in customer deposits, which can be invested profitably as part of the treasury activities. The financial result, which includes a small amount of profitable sales of investments, should increase slightly according to our estimates. Net commission and trading income should also benefit from the rise in customer deposits and also increase slightly.

Forecast EBT before taxes and reserves (in € million)



Source: GBC AG; *according preliminary figures

In contrast, investments in digital processes and the expansion of customer deposits are likely to lead to significant cost increases, which we estimate will result in a negative EBT of € -15.90 million. We anticipate a return to profitability for the two subsequent estimation periods. Both the increase in total revenue that we expect and - following the completion of their digital transformation - the anticipated decline in total costs should contribute to this.

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 2024e to 2026e. 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.

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

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 2.50% (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 0.52 (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 5.35% (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	31.12.2026e	Endwert
Equity	402.65	403.41	392.60	396.51	404.87	
Net profit for the year	30.55	0.76	-10.81	3.91	13.93	
ROE (after taxes)		0.19%	-2.72%	0.99%	3.48%	10.77%
Cost of equity		5.35%	5.35%	5.35%	5.35%	5.35%
Excess return		-5.16%	-8.07%	-4.36%	-1.87%	5.42%
Book value factor		0.04	-0.51	0.19	0.65	2.01
Residual income		-20.78	-32.54	-17.11	-7.43	405.55

According to our valuation model, UmweltBank AG should be able to achieve a sustainable return on equity (after taxes) of 10.77 %. Assuming a cost of equity of 5.35%, a sustainable excess return of 5.42% or a book value factor of 2.01 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium of 2.01 over the carrying amount.

Present value of residual income 2024 - 2026	€ -22.93 million
Present value of residual income final value in € million	€ 365.41 million
Total present values in € million	€ 342.47 million
Shares outstanding in m	€ 35.66 million
Fair enterprise value per share in €	€ 9.60 €

The sum of the discounted residual earnings results in a value of € 342.47 million (previously: € 488.93 million). With 35.66 million shares outstanding, this results in a fair value per share of € 9.60 (previously: € 13.80).

The sharp reduction in the fair value is primarily due to the lower forecasts for the 2024 and 2025 financial years, which also form a low basis for our initial forecasts for the 2026 financial year. In addition, the increase in the WACC to 5.35% (previously: 4.97%) resulting from the increase in the risk-free interest rate also has a price-target-reducing effect. Following the sharp fall in the UmweltBank share price, the upside potential remains high despite the reduction in the price target and we continue to assign a BUY rating.

ANNEX

I.

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The respective recommendations/ classifications/ ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is $\geq + 10\%$.
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The analysts responsible for this analysis are:

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Marcel Goldmann, M.Sc., M.A., Financial Analyst

Other person involved in this study:

Jörg Grunwald, Executive Board

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