

UmweltBank

Earnings momentum remains constrained

UmweltBank's (UBK's) FY19 earnings (based on preliminary results) were broadly flat compared to the prior year and in line with our expectations, as higher earnings before admin expenses and taxes were largely offset by the increase in G&A costs (cost-income ratio of 39.2% vs 32.7% in FY18). High costs related to investments in IT infrastructure and the introduction of new products coupled with persistent market headwinds (low interest rates and weak wind capacity additions in Germany) suggest UBK's earnings recovery is likely to occur after FY20 (company FY20 PBT guidance is €36m). As a result, we have lowered our earnings forecasts and valuation by c 5–15%.

Year end	Net interest income (€m)	EPS* (€)	DPS (€)	P/BV* (x)	P/E* (x)	ROE* (%)	Yield (%)
12/18	51.2	0.90	0.33	1.5	13.9	11.4	2.6
12/19e**	51.3	0.88	0.34	1.4	14.2	10.3	2.7
12/20e	53.7	0.79	0.36	1.3	15.8	8.7	2.9
12/21e	56.3	0.82	0.38	1.3	15.2	8.6	3.0

Note: *Based on net profit before allocation to reserves for general banking risks and tangible book value including reserves for general banking risks. **Edison estimates based on preliminary numbers.

Stable pre-tax profit amid higher operating expenses

UBK's FY19 PBT was €37.6m (vs our estimate of €37.8m), with net interest, financial and net valuation income up 4.9% y-o-y to €54.4m. Net commission and fee income nearly doubled to €5.1m, among other things assisted by fees from corporate fixed income issuances. Meanwhile, UBK's cash G&A expense increased by 21.9% y-o-y to €21.6m in FY19. As a result of the share issue in July 2019, UBK's total capital adequacy ratio (TCR) improved to 14.5% at end-2019 versus 14.0% at end-2018, providing additional headroom for loan book expansion.

New lending volumes in line with last year

UBK's new lending was €543m in FY19, largely unchanged from FY18 (€542m). Although UBK has not provided any details, we note its activity was likely affected by the subdued new wind energy capacity additions in Germany (0.9GW vs 2.4GW in 2018). However, this may have been mitigated by lending provided for project repowering. We believe this weakness is likely to persist in the near term (see below). In contrast, solar additions remained robust with close to 4GW added in 2019 (compared to nearly 3GW in 2018). In the German residential sector, growth was relatively modest with building permits in 2019 (excl. December) up 1.3% y-o-y.

Valuation: Fair since recent share price rally

Our revised UBK valuation is €12.0 per share (down from €13.2 previously). This is broadly in line with the current share price as UBK's shares have appreciated c 31% since our [last publication](#) in September 2019. UBK's FY20e P/BV is 1.3x compared to peer average of 1.1x, while its FY20e return on equity (ROE) (based on our estimates) is slightly ahead of the peer average (based on Refinitiv consensus).

FY19 preliminary results

Banks

4 March 2020

Price **€12.5**
Market cap **€383m**

Total assets (€bn) at end-FY19	4.1
Shares in issue	30.6m
Free float	84.4%
Code	UBKX
Primary exchange	Munich
Secondary exchange	Xetra

Share price performance



%	1m	3m	12m
Abs	1.2	20.8	43.9
Rel (local)	10.2	30.9	39.3
52-week high/low	€14.25	€8.65	

Business description

UmweltBank is a specialised lender with total assets of €4.1bn. It provides financing for renewable energy projects (solar, wind, hydro and biomass), as well as loans for new construction or the renovation of sustainable residential, community and commercial real estate.

Next events

FY19 results	4 May 2020
AGM	25 June 2020
H120 results	August 2020

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[Edison profile page](#)

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FY19 preliminary results: Stable new lending volumes

UBK reported preliminary pre-tax profit of €37.6m in FY19, which is in line with our forecast (€37.8m) and marginally ahead of last year (€37.3m). Net income (before allocations to reserves) came in at €25.9m (vs our estimate at €26.3m), up 2.3% y-o-y. The bank's net interest, financial and net valuation income (including the impact of provisions for credit losses) was up 4.9% y-o-y to €54.4m, which we understand was partially assisted by continued loan book growth. Although the full figures have not yet been disclosed, we estimate the above was supported by other factors, including some write-ups on participations or shares in affiliated companies. At the same time, the bank recorded healthy net commissions and fee expenses of €5.1m (up 95% vs €2.6m), which we believe is associated with UBK's increased activity in corporate fixed-income securities issues.

However, this was largely offset by UBK's higher G&A expenses, which (excluding minor D&A) went up 21.9% y-o-y to €21.6m in FY19 (somewhat ahead our estimate of 17.4% y-o-y) amid continued team expansion and investments as part of UBK's strategy (described in our last [outlook note](#)). Consequently, UBK's cost income ratio (CIR) reached 39.2% compared to 32.7% in FY18.

UBK's new lending volume reached €543m (stable compared to €542m in FY18), which is slightly below our estimate of €557m. Meanwhile, UBK continued to attract new customer deposits, which have grown by a solid 8.5% y-o-y to €2.5bn (close to our forecast figure). Following the share issue in July 2019 (with gross proceeds of c€23.5m), the bank's TCR improved to 14.5% at end-2019 from 14.0% at end-2018 (CET1 ratio was up to 10.0% from 9.3%). UBK's total assets reached c€4.1bn at end-2019 (up 10.7% y-o-y).

Exhibit 1: UBK's preliminary FY19 results

€000s, unless otherwise stated	FY19	FY18	Change y-o-y	FY19e	Diff
Net interest, financial and net valuation income*	54,423	51,893	4.9%	55,019	(1.1%)
Net commissions and fee expense	5,084	2,605	95.2%	4,125	23.2%
G&A expenses (ex-D&A)	(21,642)	(17,758)	21.9%	(20,852)	3.8%
Personnel expenses	(11,210)	(9,221)	21.6%	(10,938)	2.5%
Other administrative expenses	(10,432)	(8,537)	22.2%	(9,914)	5.2%
thereof, banking tax and deposit insurance	(1,798)	(1,849)	(2.8%)	(1,631)	10.2%
Other operating income (expense)	(260)	571	n.m.	(483)	n.m.
Pre-tax profit	37,605	37,311	0.8%	37,809	(0.5%)
Income taxes	(11,683)	(11,975)	(2.4%)	(11,475)	1.8%
Effective tax rate	31.1%	32.1%	(103bp)	30.4%	72bp
Net income (before reserves allocation)	25,922	25,336	2.3%	26,334	(1.6%)
New lending volume (€m)	543	542	0.2%	557	-2.5%
Business volume (€m)	4,518	4,119	9.7%	4,326	4.4%
Customer deposits (€m)	2,529	2,330	8.5%	2,493	1.4%
Total assets (€m)	4,095	3,699	10.7%	3,905	4.9%
Equity (€m)	378	333	13.4%	376	0.5%
TCR	14.5%	14.0%	47bp	15.4%	(90bp)
CET1 ratio	10.0%	9.3%	69bp	10.8%	(81bp)
CIR	39.2%	32.7%	650bp	36.0%	324bp

Source: UmweltBank, Edison Investment Research. Note: *Including provisions for credit losses, net financial income (excl. net trading income) and the impact of net valuation changes

German wind and solar sector update

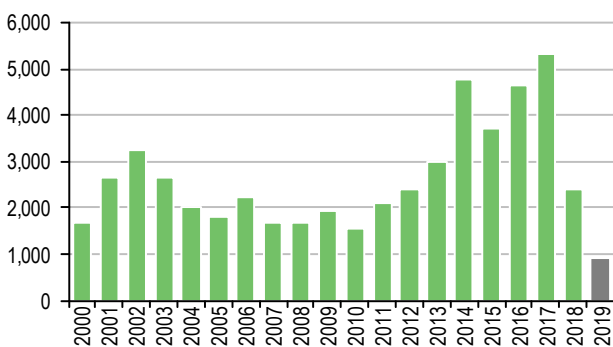
We have discussed the challenges in the German wind energy market extensively in [previous notes](#). The issues continue to impair new capacity additions, which equalled c 924MW in 2019 (down c 60% y-o-y), according to the German Federal Network Agency for Electricity. Meanwhile,

new additions in solar energy show persistent strength, with close to 4GW of new capacity in 2019 (vs 2.95GW in 2018, see Exhibits 2 and 3).

Roadblocks in the wind energy sector include extended regulatory requirements, lengthy project approval timelines and a deficit of approved regional plans, as well as resistance from local residents and environmentalists (shown by the numerous projects contested in court). Moreover, the German grand coalition consisting of the Union and Social Democratic Party of Germany (SPD) recently agreed to introduce a minimum distance of 1km from residential areas for new wind farms and the extension of existing projects (although the coalition is still in discussions on the size of areas this should apply to). Earlier estimates of the Federal Environment Agency suggested this would reduce land available for wind farms by 20–50% and limit potential capacity from 80GW to 40–60GW, jeopardising the governmental climate targets.

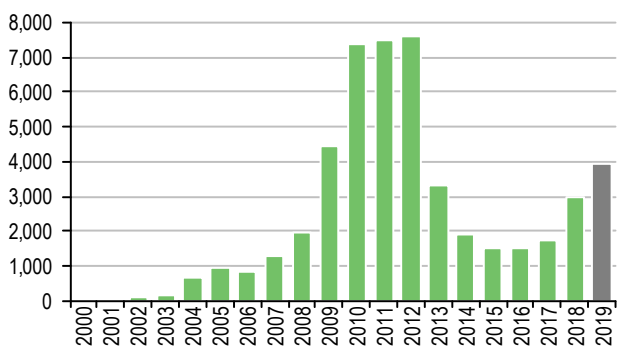
In contrast, SPD aims to introduce a financial incentive system for residents to raise their acceptance of new wind projects (the so-called Windbürgergeld). This may include direct payments to residents or participation of local communities in the revenue stream of wind farms. The SPD is also looking at potential limitations to the residents' ability to contest the wind project developments in court.

Exhibit 2: New gross onshore wind capacity in Germany (in MW)



Source: Bundesverband WindEnergie, Deutsche WindGuard, Bundesnetzagentur

Exhibit 3: New gross solar capacity in Germany (in MW)



Source: Bundesnetzagentur

Forecast revisions

Although UBK's preliminary results are broadly in line with our estimates, management recently released guidance for FY20 pre-tax profit at €36m, which implies a c 4% decline versus FY19 and is visibly below our earlier forecast (€39.3m). We understand the background to the weaker performance will be a combination of relatively stable earnings before administrative expenses and taxes (despite continued loan book growth) coupled with higher operating costs related to further team expansion and the new IT infrastructure. This suggests UBK's earnings inflection point will be pushed beyond FY20. Consequently, we reduce our FY20 and FY21 pre-tax profit forecasts to €35.7m and €37.3m, respectively (see Exhibit 4).

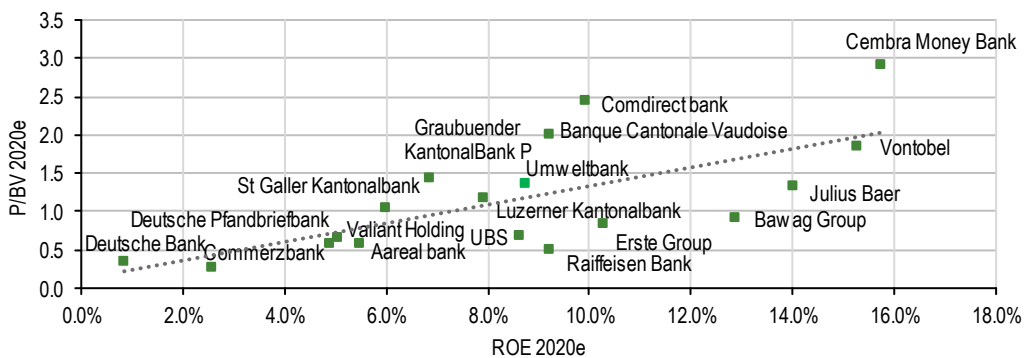
Exhibit 4: Forecast revisions

€000s unless otherwise stated	2019	2020e				2021e			
	prelims	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Net interest and financial income*	54,423	55,984	55,096	-1.6%	1.2%	60,793	57,605	-5.2%	4.6%
Net commissions and fee expense**	5,084	4,370	3,880	-11.2%	-23.7%	4,540	4,610	1.5%	18.8%
Pre-tax profit	37,605	39,319	35,722	-9.1%	-5.0%	43,399	37,282	-14.1%	4.4%
Net income	25,922	26,934	24,720	-8.2%	-4.6%	29,728	25,799	-13.2%	4.4%
CET1 ratio (%)	10.1	10.8	9.9	-90 bps	0 bps	10.9	10.2	-71 bps	26 bps
Tier-1 ratio (%)	11.3	11.8	10.8	-98 bps	-33 bps	11.8	11.1	-75 bps	23 bps
TCR (%)	14.5	15.0	13.8	-122 bps	-46 bps	14.8	14.0	-89 bps	18 bps
CIR (%)	39.2	34.7	39.4	468 bps	26 bps	33.5	40.1	660 bps	65 bps

Source: UmweltBank, Edison Investment Research; Note: *Including provisions for credit losses, net financial income (excl. net trading income) and the impact of net valuation changes. **Includes net trading income.

Our new forecasts imply an ROE for UBK in FY20e of 8.7%, which compares with an average ratio for listed banks from the DACH region at 8.5% (based on Refinitiv consensus). We note that UBK's FY20e ratio is below our current long-term sustainable ROE estimate of c 11.5% due to a depressed net interest margin (which we expect to bottom out in the near term) and higher operating expenses amid the launch of new products and investments in IT infrastructure. At the same time, UBK's FY20e P/BV is now 1.3x, which is ahead of peer average of 1.1x (see Exhibit 5). Our revised UBK valuation (based on the implied price to tangible book value model) stands at €12.0 per share (down from €13.2 previously). As the bank's shares have appreciated c 31% since our [last publication](#) in September 2019, our valuation implies no upside potential to the market price.

Exhibit 5: UmweltBank's P/BV and ROE 2020e comparison versus peers



Source: Refinitiv, Edison Investment Research. Note: Ratios for UmweltBank are based on net profit before reserves allocation and book value includes balance sheet value of reserves for general banking risks.

Exhibit 6: Financial summary (€000s)

Year ending December	FY15	FY16	FY17	FY18	FY19e	FY20e	FY21e	FY22e	FY23e
Income statement									
Net interest income	52,838	53,600	52,166	51,234	51,281	53,716	56,276	60,431	66,175
Net financial income	4,023	5,937	2,909	2,544	6,328	2,508	3,113	3,219	3,327
Net interest and financial income	56,861	59,537	55,075	53,778	57,609	56,224	59,389	63,650	69,502
Provisions (-)	443	(2,228)	(355)	(1,460)	(2,686)	(1,127)	(1,260)	(1,230)	(1,265)
Total administrative expenses	(13,163)	(15,563)	(16,466)	(18,137)	(22,025)	(23,254)	(24,933)	(26,378)	(27,186)
Earnings before administrative costs and taxes	61,340	61,570	56,739	55,447	59,630	58,976	62,215	66,641	72,484
PBT	48,177	46,007	40,273	37,310	37,605	35,722	37,282	40,263	45,297
Net profit after tax	34,087	32,155	27,661	25,335	25,922	24,720	25,799	27,862	31,346
Reported EPS (€)	0.56	0.58	0.60	0.60	0.58	0.55	0.55	0.57	0.64
Adjusted EPS (€)	1.23	1.16	0.99	0.90	0.88	0.79	0.82	0.87	0.97
DPS (€)	0.28	0.34	0.32	0.33	0.34	0.36	0.38	0.40	0.42
Balance Sheet									
Cash and balances at central banks	33,171	54,591	32,460	31,556	137,837	48,882	79,442	80,997	63,113
Claims on banks	321,602	149,281	122,622	113,100	118,755	237,511	239,886	431,795	345,436
Claims on customers	2,098,150	2,229,817	2,273,561	2,392,770	2,506,839	2,643,322	2,766,029	2,889,671	2,989,652
Bonds and other fixed-interest securities	288,437	747,214	1,023,677	1,125,709	1,294,566	1,424,022	1,424,022	1,281,620	1,409,782
Tangible assets, goodwill and intangible assets	759	1,174	1,202	1,487	1,487	1,487	1,487	1,487	1,487
Other assets	15,553	24,165	31,479	34,496	35,496	36,496	37,496	38,496	39,496
Total assets	2,757,672	3,206,242	3,485,001	3,699,119	4,094,979	4,391,721	4,548,362	4,724,066	4,848,966
Liabilities to banks	570,938	860,728	1,011,950	1,005,593	1,157,941	1,238,997	1,177,047	1,118,194	1,062,285
Liabilities to customers	1,938,174	2,055,684	2,157,005	2,330,019	2,529,236	2,731,575	2,930,980	3,144,941	3,302,188
Accruals and deferred expense	1,440	1,220	1,012	825	684	684	684	684	684
Deferred tax liabilities	0	231	148	127	127	127	127	127	127
Other liabilities	157,095	189,952	206,873	243,360	254,485	256,533	265,629	275,664	286,704
Total liabilities	2,667,647	3,107,816	3,376,987	3,579,925	3,942,472	4,227,915	4,374,466	4,539,611	4,651,988
Total shareholders' equity	90,025	98,426	108,013	119,194	152,507	163,806	173,896	184,456	196,978
BVPS (€)	3.3	3.6	3.9	4.2	4.9	5.2	5.5	5.7	6.0
TNAV per share (€)	6.0	6.9	7.6	8.2	8.8	9.3	9.8	10.3	10.8
Ratios									
NIM	2.06%	1.87%	1.62%	1.49%	1.38%	1.33%	1.32%	1.36%	1.44%
Costs/income	22.0%	26.9%	29.4%	32.7%	39.2%	39.4%	40.1%	39.6%	37.5%
ROE	22.2%	18.0%	13.7%	11.4%	10.3%	8.8%	8.6%	8.7%	9.2%
CET1 ratio	8.1%	8.5%	8.9%	9.3%	9.9%	9.9%	10.2%	10.5%	11.0%
Tier 1 ratio	8.7%	9.9%	10.4%	10.7%	11.2%	10.8%	11.1%	11.4%	11.9%
Capital adequacy ratio	10.6%	11.6%	12.4%	14.0%	14.2%	13.8%	14.0%	14.3%	14.7%
Payout ratio (%)	22.7%	29.3%	32.3%	36.8%	40.6%	45.6%	46.7%	46.2%	43.7%
Customer loans/total assets	76.1%	69.5%	65.2%	64.7%	61.2%	60.2%	60.8%	61.2%	61.7%
Loans/deposits	108.3%	108.5%	105.4%	102.7%	99.1%	96.8%	94.4%	91.9%	90.5%

Source: UmweltBank, Edison Investment Research

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