

## We prefer insurers as their investment case is less dependent on rising interest rates

*German Financials which comprise Banks, Insurance companies and other Financial Service companies are all waiting for higher interest rates. Although it looks probable that rates will go up next year we do not want to bet on it. Hence we prefer shares that can also do well in a prolonged low interest rate environment. Biggest risks for the sector are an Italexit and/or a hard Brexit. Our top picks for the sector are Allianz (Buy, TP EUR 220) and Hypoport (Buy, TP EUR 190).*

### Banks

German banks, like banks all over Europe, have suffered from the low interest rate environment in recent years. It looks probable that interest rates will finally move upwards in 2019 which would be clearly positive for the sector as it should directly lead to higher profits. Apart from this the market environment should remain positive as GDP growth is forecasted to remain positive (2019e: 1.6%) which should keep risk costs on a low level. Banks should continue to invest into digitalization which together with high regulatory costs should burden profitability. Valuation remains cheap with an average 2019e P/B of 0.4x for the four largest banks under coverage which is however justified by low profitability (2019e ROE: 4%).

### Insurers

The German insurers have been negatively impacted from the low interest rate environment in Europe as well, but not as strong as the banks as they could offset the negative impact e.g. by increasing prices in P/C and start offering new life insurance products which are less dependent on the overall interest rate environment. Higher yields would be clearly positive for the sector as well but the impact would be less pronounced than in the banking sector.

### Financial Service Companies

The Financial Service companies under coverage comprise a number of companies being active in different areas, i.e. there are only few common external factors which impact all companies. Higher rates should be c.p. positive for most of the players as well with comdirect standing out as the key beneficiary from higher rates.

### Top Picks

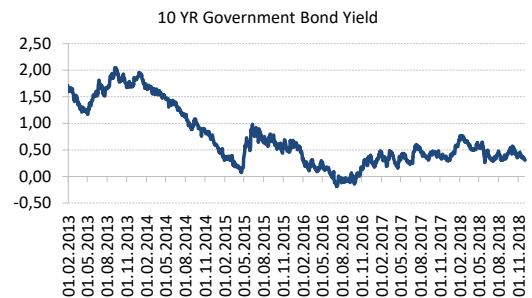
Our preferred insurers are Allianz (Buy, TP EUR 220) and Talanx (Buy, TP EUR 37). While we see Talanx's valuation discount as too high, we see Allianz attractively valued while offering solid earnings growth.

Amongst the banks, our preferred name is Deutsche Pfandbriefbank (Buy, TP: EUR 13.40), as it offers an attractive dividend yield while having a very good asset quality and strong capitalization.

Amongst the Financial Service companies we like comdirect (Buy, TP EUR 12.30) and Hypoport (Buy, TP EUR 190) most. While comdirect is the name which should benefit most among our coverage from higher rates we like Hypoport's growth story.

### Sector

### German Financials

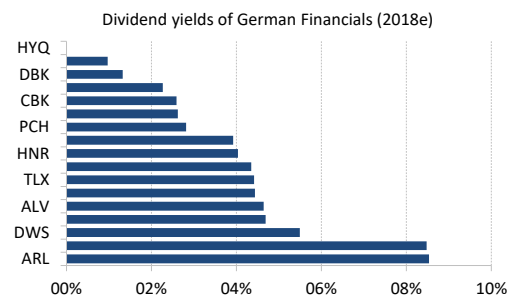


Source: Pareto Securities, Bloomberg

### Most preferred Financial Stocks

Company	Reco	TP	Upside	2019e PER
Allianz	Buy	220.00	17%	10.0x
Talanx	Buy	37.00	18%	8.6x
Dt Pfandbriefbank	Buy	13.40	30%	10.8x
comdirect	Buy	12.30	13%	23.5x
Hypoport	Buy	190.00	16%	34.3x

Source: Pareto Securities



Source: Pareto Securities

### Analysts

Dr Philipp Häßler, CFA

+49 69 58997 414, philipp.haessler@paretosec.com

*Small but beautiful: we prefer the smaller banks within our coverage*

### Banks should benefit most from higher rates

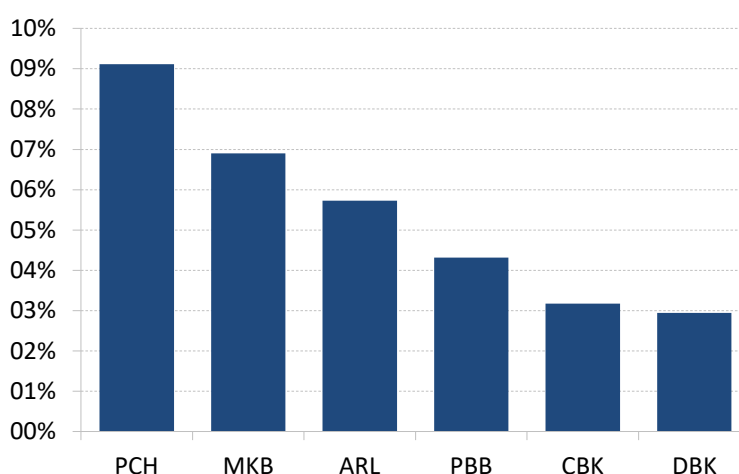
Our coverage universe of German banks is relatively broad, ranging from ProCredit Holding, which is active in EE/SEE as a SME bank, to Deutsche Bank, one of the leading global investment banks. Clearly, all banks would benefit from higher rates, the impact should be largest on Commerzbank. Other important issues are currently digitalization and regulation, which both require high investments from the banks.

On the regulatory side we see less uncertainty going forward as Basel IV has been finalized this year and we do not expect any additional significant changes. Generally we see the banks under coverage sufficiently capitalized with an average CT1 ratio of 15%, the best ones having CT1 ratios of 20% (Aareal Bank, Deutsche Pfandbriefbank) while Merkur Bank has a CT 1 ratio of 10%.

The German banking market which is characterized by the three pillar system of savings/public banks, mutual banks and private banks is unlikely to change in the mid-term. Hence, the level of competition should remain high and profitability for the banks particularly in retail banking should remain low. At the same time the pressure on the branch-based retail banks should remain high as online/mobile banks should continue to win market share. Therefore the comparably low profitability of Commerzbank and Deutsche Bank in its domestic retail market should remain a drag for the overall profitability.

Average profitability of the banks under coverage remains very low with an average 2018e ROE of only 5.4%. The low interest rate environment is one reason for the low profitability, still high one-off costs at some banks and the high competitiveness of the German retail banking market being other reasons.

#### Exhibit 1: ROE of German Banks under coverage (2019e)



Source: Banks, Pareto

*M&A should come into focus again in 2019*

M&A should stronger come into focus again in 2019 as the banks have done most of their homework and can thus start looking for external growth again. We do however not expect any large-scale cross-border M&A transactions to be announced next year as regulatory hurdles remain and technical complexities remain high. The big deal, a takeover of Commerzbank through Deutsche Bank, is unlikely to happen next year, but can definitely not be ruled out for 2020 and beyond. Smaller M&A activity is likely to continue next year.

Currently, we favour the smaller banks under coverage as the two large ones, Commerzbank and Deutsche Bank, remain more or less restructuring cases with very low profitability which is unlikely to increase significantly in the short term. Among the small banks we like Deutsche Pfandbriefbank most as it offers a regular dividend yield of more than 8%, while trading at only 0.5x 2019e P/B (ROE of 4%). Asset quality is very solid while capitalization is with a CT1 ratio of 20% high.

## Insurers: we prefer primary insurers

*Insurers in good shape: well capitalized and quite profitable*

Higher long-term yields would be clearly positive for the German insurers as well as they invest most of their assets into fixed-income assets and would thus benefit from higher rates. The positive effect would however be less pronounced than for the banks as part of their assets are invested in the US, where long-term yields have already increased, and part of the higher returns would have to be shared with policyholders and may have a negative impact on pricing in P/C reinsurance.

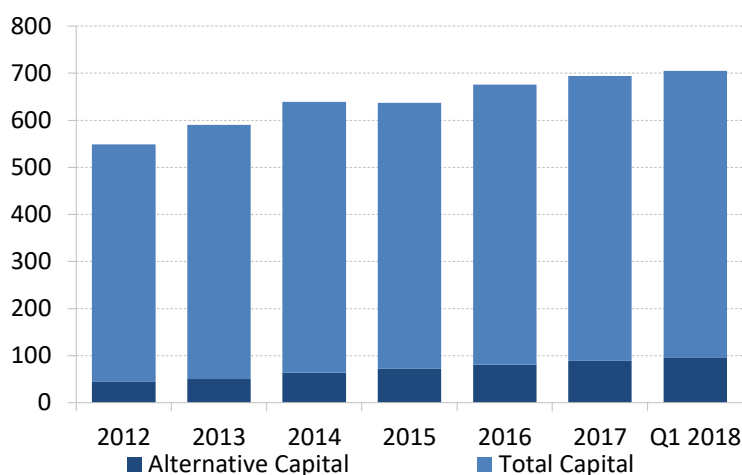
Generally the German insurers under coverage are in very good shape with strong capitalization and good profitability. While Solvency II ratios are well above 200%, some like Munich Re or Hannover Re have even Solvency II ratio above 250%, profitability is also solid with average ROE of 10%.

Key challenge for the industry is the digitalization which particularly impacts the primary insurers. While we do not see the primary insurers threatened by Insurtechs we clearly see the challenge for them to modernize their product offering, e.g. offer customers a multi-channel service or increase efficiency by automating processes. One key challenge for most of the insurers is to keep their large networks of tied agents while at the same time start offering more purely digital insurance policies.

For the reinsurance industry the future price development is of key importance. During the last years the industry has suffered from the inflows of alternative capital from hedge or pension funds which were chasing higher yields. This additional capital led to increasing price pressure as demand for reinsurance remained stable. We expect 2019 renewal price to stabilize at best, we see higher prices only for loss effected regions. Note that in January 2018 prices have increased slightly as nat cat losses in 2017 were on a high level due to the costliest hurricane season ever in the North Atlantic.

*P/C reinsurance markets should rather soften again in 2019e*

**Exhibit 2: Capital development in global reinsurance (USD bn)**



Source: Artemis, Pareto

The main reason why we prefer primary insurers at the moment is that we do not see any positive share price triggers for reinsurance companies at the moment.

Generally we prefer insurers at the moment as 1) they are less dependent on higher rates to achieve positive earnings growth and 2) all the insurers under coverage offer dividend yield of between 4% and 5%.

Our top picks are therefore Allianz which offers solid earnings growth while trading at still attractive multiples (2019e PER of 10.5x). Our second top pick in the sector is Talanx; we think that the insurer should finally be able to fix its Industrial Lines unit which should lead to disappearance of its large valuation discount. Currently its primary insurance activities are valued at only around 5x

2019e earnings. Both shares offer dividend yields of above 4% which is clearly attractive in the current low interest rate environment.

### Financial Service Companies: it's all about company specifics

*Hypoport and comdirect as our top picks*

The Financial Service companies under coverage (comdirect, DWS, Ferratum, Grenke, Hypoport, MLP, OVB) are relatively heterogeneous. Our coverage comprises one asset manager (DWS), one online bank/broker (comdirect), a leasing company focusing on small-ticket IT leasing (Grenke), a microlender who is more and more developing towards a consumer finance bank (Ferratum), an operator of an online marketplace for retail loans (Hypoport) and two networks of financial agents, once focusing on Germany (MLP) and the other one being present in Europe (OVB).

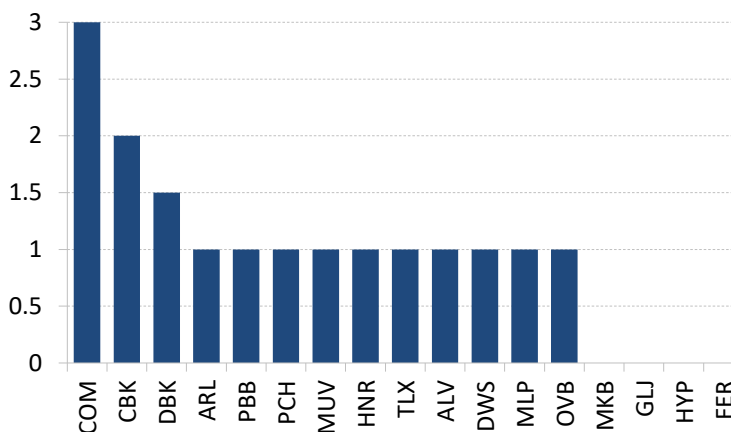
Because of the different business models of the companies under coverage it is difficult to identify one external factor that has a significant impact on all the companies. Clearly, higher rates should have a positive impact on the companies with the exception of comdirect, the impact should however be less pronounced.

Hypoport is our top pick as it offers strong earnings growth while being a pure German play, i.e. a possible spread widening in Italy and/or a hard Brexit would have no negative earnings impact. Valuation is high with a 2020e PER of 34x but justified by the strong expected earnings growth. Comdirect is our second top picks in the sector as it should benefit most from higher rates which are likely to become reality in 2019. But even without a rise in interest rates we see good earnings growth prospects for comdirect as it should benefit from its recent strong customer growth.

See below a qualitative assessment of the earnings impact of higher interest rates on the companies under coverage. Particularly for the insurance companies it is very difficult to estimate a concrete earnings impact of higher interest rates as so many different factors play a role. Therefore we provide only a simplified overview. It is however important to bear in mind that banks should in particular benefit from higher short-term rates while insurers should mainly benefit from higher long-term rates, not only in Germany/Europe but also in regions of the world.

Based upon our assessment comdirect should benefit most in terms of positive EPS impact from higher interest rates, followed by Commerzbank and Deutsche Bank.

**Exhibit 3: Earnings impact of higher interest rates (relative; 3 = large impact; 0 = no significant impact)**



Source: Pareto Securities

Source: Pareto

## Exhibit 4: Coverage Overview I

Name	PE (adj) 2018e	PE (adj) 2019e	Div. Yield 2018e	Div. Yield 2019e	P/BV 2018e	P/BV 2019e	ROE 2018e	ROE 2019e
<b>Banks</b>								
Deutsche Bank	14.2x	8.9x	1.4%	3.1%	0.3x	0.3x	1.9%	2.9%
Commerzbank	11.6x	9.8x	2.7%	4.0%	0.3x	0.3x	2.7%	3.2%
Aareal Bank	8.3x	11.1x	8.8%	7.0%	0.6x	0.6x	7.8%	5.7%
Deutsche Pfandbriefbank	8.7x	10.7x	8.9%	7.1%	0.5x	0.5x	5.5%	4.3%
Procredit Holding	11.2x	8.8x	2.9%	3.8%	0.8x	0.8x	7.8%	9.1%
Merkur Bank	12.8x	12.2x	3.9%	4.1%	0.9x	0.8x	6.8%	6.9%
<b>Insurers</b>								
Munich Re	12.0x	10.3x	4.5%	4.7%	1.0x	1.0x	8.5%	9.8%
Allianz	10.3x	9.8x	4.8%	4.9%	1.1x	1.1x	11.4%	11.1%
Hannover Re	14.0x	12.9x	4.1%	4.1%	1.7x	1.6x	12.1%	12.6%
Talanx Group	11.1x	8.5x	4.5%	4.9%	0.9x	0.8x	7.8%	9.8%
<b>Other Financials</b>								
DWS	11.5x	10.5x	5.6%	6.7%	0.7x	0.7x	6.6%	6.9%
Grenke	25.0x	22.5x	1.0%	1.1%	3.3x	3.0x	15.3%	14.0%
Comdirect	11.7x	22.9x	2.3%	1.8%	2.1x	2.0x	19.0%	8.9%
Hypoport AG	43.6x	33.9x	0.0%	0.0%	9.6x	7.5x	24.1%	24.8%
MLP	13.7x	12.6x	4.5%	4.5%	1.2x	1.1x	8.5%	9.0%
OVH Holding AG	24.1x	23.2x	4.7%	4.7%	2.6x	2.6x	10.7%	11.3%
Ferratum	10.3x	7.3x	2.9%	4.1%	1.7x	1.5x	17.5%	21.6%

Source: Pareto

## Exhibit 5: Coverage Overview II

Name	Recommendation	Target Price	Last Price	Up/Downside	Market Cap (EURm)	Analyst
<b>Banks</b>						
Deutsche Bank	Hold	8.40	8.06	4%	16,874	Dr Philipp Häßler, CFA
Commerzbank	Hold	8.00	7.52	6%	9,304	Dr Philipp Häßler, CFA
Aareal Bank	Buy	35.00	28.42	23%	1,710	Dr Philipp Häßler, CFA
Deutsche Pfandbriefbank	Buy	13.40	10.29	30%	1,366	Dr Philipp Häßler, CFA
Procredit Holding	Buy	14.20	10.30	38%	523	Dr Philipp Häßler, CFA
Merkur Bank	Buy	10.00	8.25	21%	47	Dr Philipp Häßler, CFA
<b>Insurers</b>						
Munich Re	Hold	205.00	195.35	5%	89,680	Dr Philipp Häßler, CFA
Allianz	Buy	220.00	188.38	17%	86,218	Dr Philipp Häßler, CFA
Hannover Re	Hold	120.00	124.00	-3%	56,746	Dr Philipp Häßler, CFA
Talanx Group	Buy	37.00	31.32	18%	14,455	Dr Philipp Häßler, CFA
<b>Other Financials</b>						
DWS	Buy	30.00	25.19	19%	4,982	Dr Philipp Häßler, CFA
Grenke	Hold	83.00	74.70	11%	3,449	Dr Philipp Häßler, CFA
Comdirect	Buy	12.30	10.84	13%	1,526	Dr Philipp Häßler, CFA
Hypoport AG	Buy	190.00	163.40	16%	1,009	Dr Philipp Häßler, CFA
MLP	Buy	7.50	4.41	70%	482	Dr Philipp Häßler, CFA
OVH Holding AG	Buy	20.00	16.00	25%	228	Dr Philipp Häßler, CFA
Ferratum	Buy	17.00	9.70	75%	202	Dr Philipp Häßler, CFA

Source: Pareto

## High dividend yield: Buy, TP EUR 35

*We initiate coverage of Aareal Bank shares with a Buy recommendation and a target price of EUR 35.00 as the shares offer an attractive dividend yield of close to 9%. The high CT1 ratio of 20% should help to secure a stable dividend in the next years. For 2018e we see the possibility of an extra dividend per share of up to EUR 3.33.*

### Investment case

We initiate coverage of Aareal Bank shares with a target price of EUR 35 as we like the high dividend yield (8.8%). The bank's strong capitalization (CT1 ratio of 20%) should secure a stable dividend development going forward.

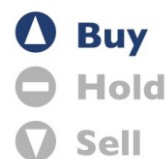
We expect the commercial real estate markets in Europe and the US to remain favorable, i.e. prices should decline significantly and investment volumes should remain on a high level. Nevertheless margin pressure should remain high.

Excluding a positive one-off (acquisition of Düsseldorfer Hyp which is expected to result in positive one-off of EUR 52m), pretax profit should decline by 1% yoy in 2019e because of higher costs which should more than offset the forecasted revenues increase.

Having excess capital of around EUR 200m (equinet estimate) Aareal Bank can either make additional acquisitions and/or pay an extra dividend next year. As the bank is normally acting very cautiously, we would not expect it to pay out the full excess capital in case it does not announce a large acquisition in the next months but rather keeps part of the excess equity for possible future deals. Nevertheless we see the potential of an extra dividend per share of up to EUR 3.33 to be paid out next year.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	2,141	2,258	1,701	1,701	1,701
NII	701	634	555	575	587
Other inc.	97	67	63	5	5
Op.costs	(547)	(511)	(463)	(490)	(470)
L.losses	(97)	(82)	(58)	(68)	(68)
Net profit	199	191	206	154	178
EPS	3.33	3.20	3.44	2.57	2.97
EPS adj	3.33	3.20	3.44	2.57	2.97
P/E	10.7	11.8	8.3	11.1	9.6
P/B	0.83	0.86	0.64	0.63	0.62
Yield (%)	5.6	6.6	8.8	7.0	7.7
ROE (%)	7.8	7.3	7.8	5.7	6.6

Source: Pareto



Target price (EUR)	35
Share price (EUR)	28

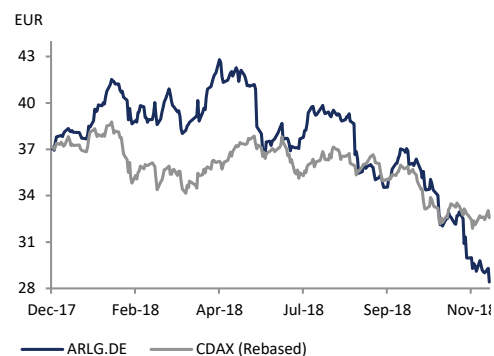
### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	ARLG.DE, ARL GY
Sector	Banks
Shares fully diluted (m)	59.9
Market cap (EURm)	1,701

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Aareal Bank is a commercial lender with a focus on Europe and the US*

## Company profile

Aareal Bank (ARL) is primarily a commercial real estate lender but also owns Aareon, a software and consultancy company for the housing industry. ARL has a loan portfolio of around EUR 25bn, Europe being the most important region for the bank. US is the most important single country with a 24% proportion of the total portfolio, followed by UK (16%), Germany (13%), Italy (11%) and France (9%). Aareal Bank finances mainly offices (30% of the portfolio), followed by hotel (28%) and retail (25%). NPL ratio stands at close to 4% on a relatively high level, due to a large proportion of Italian NPLs which make up 70% of total NPLs.

With a CT1 ratio of 20% ARL is strongly capitalized, excess capital amounts to c. EUR 200m which can be used for M&A and/or extra dividends/share buybacks. Currently new business margins in commercial real estate financing in Europe are under pressure which led Aareal Bank to expand into countries like the U.S. where the margins are on a more attractive level.

For 2019e we expect costs to increase by 6% yoy due to first time consolidation of Düsseldorfer Hypothekenbank and ongoing investments. This should be more than offset the expected increase in revenues (net interest income should increase by 4% yoy). Risk provisions should remain on a relatively low level as we remain the market environment to remain benign.

## Company profile

One possible share price trigger could be another M&A transaction. Given Aareal Bank's solid track record regarding M&A we would expect a positive share price reaction from a deal announcement as we would expect Aareal Bank to buy only at very attractive price and act very conservatively. Another trigger could be the announcement of a special dividend which is however unlikely to happen before February 2019.

**Next scheduled event:** Preliminary Q4 results on 27 February, 2019.

## Key risks to our investment case

An escalation of the Italian crisis including an Italexit which would result in large write-downs on Italian sovereign bonds at ARL is the key risk to our investment case. As ARL holds around EUR 1bn of Italian sovereign/regional government bonds, this would clearly be very negative for ARL. Additionally Italy is an important country of Aareal Bank in commercial real estate funding with a loan volume of close to EUR 3bn.

Another risk is a deterioration of commercial real estate markets in Europe and/or the US which would lead to lower demand for real estate funding and higher risk provisions at ARL.

## Valuation and recommendation

Our valuation is based upon a Gordon Growth Model, taking into account our 2019e earnings estimates and a Dividend Discount Model. We have assumed cost of equity of 7.0% for Aareal Bank as the bank is strongly capitalized with a CT1 ratio of 17%. Thus we derive a fair value of EUR 33.89 from the Gordon Growth Model and a fair value of EUR 36.12 from the Dividend Discount Model. Our target price of EUR 35.00 is derived from the average of the two fair values.

*Aareal Bank has a relatively high exposure to Italy*

Exhibit 6: Dividend Discount Model

EUR m	Phase I				Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
EBT	315	260	301	316	327	339	350	363	375	389	
CFR	55.4%	59.9%	56.0%	54.9%	54.9%	53.8%	52.7%	51.7%	50.6%	49.6%	
Tax	-91	-88	-105	-111	-114	-119	-123	-127	-131	-136	
Tax rate	29.0%	34.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
Minorities	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	
Net profit	206	154	178	187	195	202	210	218	226	235	
growth rate	7.5%	-25.3%	15.7%	5.5%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	
Total dividend	150	120	132	131	127	122	116	110	103	95	1,932
payout ratio	73%	78%	74%	70%	65%	60%	55%	50%	45%	40%	
Present Value FCF	155	116	119	111	108	97	86	76	66	57	1,170
PV Phase I	502										
PV Phase II	490										
PV Phase III	1,170										
Total Fair Value	2,162										
# shares	60										
Fair value per share	36.12										

Source: Pareto

Exhibit 7: Gordon Growth Model (2019e ROE: 5.7%)

	Growth (g)						
	0.0%	0.5%	1.0%	2.0%	2.0%	2.5%	3.0%
5.5%	47.12	47.35	47.64	48.41	48.46	49.08	49.95
6.0%	43.16	43.01	42.83	42.36	42.33	41.97	41.48
6.5%	39.81	39.39	38.90	37.65	37.57	36.65	35.47
7.0%	36.95	36.34	35.63	33.89	33.77	32.54	30.98
7.5%	34.47	33.73	32.87	30.80	30.68	29.25	27.50
8.0%	32.30	31.46	30.50	28.24	28.10	26.57	24.72
8.5%	30.39	29.48	28.46	26.07	25.92	24.33	22.45

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	781	701	634	555	575	587
Net fee and commission income	175	193	206	218	238	248
Other non-interest income	13	19	14	-	-	-
<b>Operating income</b>	<b>1,151</b>	<b>1,010</b>	<b>921</b>	<b>836</b>	<b>818</b>	<b>839</b>
Staff costs	(329)	(325)	(304)	(275)	(291)	(279)
Other expenses	(224)	(222)	(207)	(188)	(199)	(191)
Depr.	-	-	-	-	-	-
<b>Operating expenses</b>	<b>(553)</b>	<b>(547)</b>	<b>(511)</b>	<b>(463)</b>	<b>(490)</b>	<b>(470)</b>
<b>Operating profit before losses</b>	<b>598</b>	<b>463</b>	<b>410</b>	<b>373</b>	<b>328</b>	<b>369</b>
Net loan losses	(128)	(97)	(82)	(58)	(68)	(68)
<b>Pre-tax profit</b>	<b>470</b>	<b>366</b>	<b>328</b>	<b>315</b>	<b>260</b>	<b>301</b>
Tax expense	(96)	(132)	(115)	(91)	(88)	(105)
<b>Net profit</b>	<b>374</b>	<b>235</b>	<b>213</b>	<b>224</b>	<b>172</b>	<b>196</b>
Minority interests	(35)	(36)	(22)	(18)	(18)	(18)
<b>Net profit attributable</b>	<b>339</b>	<b>199</b>	<b>191</b>	<b>206</b>	<b>154</b>	<b>178</b>
<b>BALANCE SHEET (EURm)</b>						
Current assets	1,282	1,786	2,081	1,100	1,100	1,100
Gross loans	34,566	31,203	27,845	26,453	26,453	26,982
Individual provisions	(528)	(554)	(540)	(457)	(378)	(298)
Other assets and accruals	16,628	15,273	12,522	15,360	15,360	15,360
<b>Total assets</b>	<b>51,948</b>	<b>47,708</b>	<b>41,908</b>	<b>42,455</b>	<b>42,535</b>	<b>43,144</b>
Deposits from credit institutions	1,898	1,703	1,914	2,000	2,000	2,000
Deposits from the public	30,360	29,077	25,765	24,487	24,487	24,487
Certificates and bond loans	10,819	8,346	7,594	8,000	8,000	8,000
Other liabilities accruals and allocat.	4,658	4,329	2,448	3,771	3,818	4,378
Subordinated loan capital	1,711	1,666	1,565	1,565	1,565	1,565
Equity	2,502	2,587	2,622	2,678	2,682	2,740
<b>Total debt and equity</b>	<b>51,948</b>	<b>47,708</b>	<b>41,908</b>	<b>42,501</b>	<b>42,553</b>	<b>43,170</b>
Average total assets		49,828	44,808	42,182	42,495	42,839
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>						
Avg. no. of shares	60	60	60	60	60	60
End. no. of shares	60	60	60	60	60	60
Price	29.1	35.8	37.7	28.6	28.6	28.6
Market cap.	1,744	2,141	2,258	1,710	1,710	1,710
<b>EPS reported</b>	<b>5.66</b>	<b>3.33</b>	<b>3.20</b>	<b>3.44</b>	<b>2.57</b>	<b>2.97</b>
EPS adj.	5.66	3.33	3.20	3.44	2.57	2.97
<b>BVPS</b>	<b>41.8</b>	<b>43.2</b>	<b>43.8</b>	<b>44.7</b>	<b>44.8</b>	<b>45.8</b>
DPS	1.65	2.00	2.50	2.50	2.00	2.20
<b>P/E</b>	<b>5.1</b>	<b>10.7</b>	<b>11.8</b>	<b>8.3</b>	<b>11.1</b>	<b>9.6</b>
P/E adj.	5.1	10.7	11.8	8.3	11.1	9.6
<b>P/B</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
Dividend Yield	5.7%	5.6%	6.6%	8.8%	7.0%	7.7%
<b>KEY RATIOS</b>						
Net interest margin	1.54%	1.41%	1.41%	1.32%	1.35%	1.37%
Net interest margin (int.-bearing assets)	1.69%	1.57%	1.59%	1.48%	1.52%	1.53%
Cost/Income	48%	58%	55%	55%	60%	56%
Loan losses (bps annualised)	43	33	31	23	27	27
<b>ROE</b>		<b>7.8%</b>	<b>7.3%</b>	<b>7.8%</b>	<b>5.7%</b>	<b>6.6%</b>
ROA	0.7%	0.4%	0.4%	0.5%	0.4%	0.4%
RORWA	2.1%	1.3%	1.5%	1.8%	1.4%	1.6%

## Attractive valuation + high dividend yield = BUY, TP EUR 220

*We initiate coverage of Allianz shares with a Buy recommendation and a target price of EUR 220 as the shares are attractively valued with a 2019e PER of 10x while offering a dividend yield of close to 5%. We forecast an average EPS growth of 4% for the next 2 years (2018e-2020e CAGR) which compares to the insurer's 3YR growth target of at least 5%. Key earnings drivers should be further progress on the cost side in P/C and further AuM growth at Pimco.*

### Investment case

Allianz shares are attractively valued with a 2019e PER of 10x while offering a dividend yield of close to 5% and forecasted EPS growth of 4% (2018e-2020e CAGR).

Recently Allianz has hosted its annual capital markets day and presented its new financial targets. While sticking to its payout ratio target of 50%, it targets to grow EPS by at least 5% over the next three years. This does not sound very exciting at first glance but we would interpret it as a cautious target once again. Note that Allianz assumes stable interest rates for its insurance business which is a rather cautious assumption in our view. Note that Allianz has over-delivered on its previous EPS growth target (7% vs. 5% target).

We see good growth prospects for its key unit, P/C which should be able to benefit from a continued positive pricing trend, while further reducing costs. Allianz targets a C/R of 93% by 2021. Pimco, which has suffered huge outflows some years ago, is back on its growth path with quite high inflows, which we see as an impressive achievement given the challenging market environment in the US. We expect Pimco to be able to further grow assets under management and thus further increase revenues.

Capitalization is strong with a solvency II ratio of 230%, i.e. Allianz should have enough capital strength to keep its dividend at least stable in the next years. On top of this we expect Allianz to continue doing share buybacks.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	71,446	84,046	79,960	79,960	79,960
N. Prem. Earned	70,357	71,426	73,799	76,505	79,311
Operating profit	11,057	11,096	11,434	11,602	11,815
Net profit	6,962	6,823	7,730	7,990	8,249
Comb. Ratio (%)	95	96	95	95	95
EPS	15.2	15.3	17.9	18.8	19.4
P/E	10.3	12.5	10.5	10.0	9.7
P/B	1.1	1.3	1.1	1.1	1.0
ROE (%)	10.7	10.3	11.4	11.1	10.8
Div Yield (%)	4.8	4.2	4.7	4.8	5.0

Source: Pareto



Target price (EUR)	220
Share price (EUR)	188

### Forecast changes

%	2018e	2019e	2020e
EPS	-	-	-
EPS adj	-	-	-

Source: Pareto

Ticker	ALVG.DE, ALV GY
Sector	Insurance
Shares fully diluted (m)	467.8
Market cap (EURm)	88,127
Free float (%)	100

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Allianz is the largest European insurer with focus on P/C*

## Company profile

Allianz is among the largest European insurance group. It is active in P/C (46% of operating profit), L/H (c. 36%) and Asset Management (18%) on a global scale with Germany still being the most important country, followed by Italy and France.

In P/C Allianz offers property and casualty insurance policies to customers on a global scale. P/C comprises also specialty lines like credit insurance or Allianz World Wide Partners. In L/H Germany is by far the most important country for Allianz (c. 30% of value of new business of the unit), followed by the US (19%) and Italy (9%). Focus is clearly on the life business, during the last two years Allianz has successfully reduced its dependence on the "old" life insurance products with high guarantee rates. In Asset Management Allianz has 1,500 3<sup>rd</sup> party AuM, the lion share is managed by its US subsidiary Pimco, which is one of the leading fixed income investors in the world.

From a geographical point of view it is worth mentioning that Allianz is also active in fast growing regions which still have low insurance penetration ratios like Asia, Latin America and CEE.

Allianz is strongly capitalized with a solvency II ratio of around 230%. Allianz pays out 50% of earnings as dividend with the intention to keep the dividend at least stable. Recently, it has also started making buy-backs when it had excess capital that was not needed for M&A.

## Upcoming triggers and drivers

*Higher interest yields in Europe would be positive for Allianz*

A rise in interest yields in Europe would be clearly positive for Allianz. A large M&A deal could be a positive or negative trigger depending on the target and the valuation. We would welcome if Allianz continued to make smaller bolt-on acquisitions instead of one large deal. Positively, the CEO made clear at the last CMD that Allianz will not execute any large dilutive transactions. Generally we had the impression that Allianz is aware of investors' concerns about possible large transactions.

**Next scheduled reporting:** Q4 results on 15 February, 2019.

## Risks to our investment case

Key risk is another prolonged decline of interest yields, not only in Europe but also in the US as this would negatively impact Allianz's profitability. As Allianz generates however only around 20% of its operating profit with its L/H business it should be less hit than other insurers which focus more on L/H. Another risk is clearly a crash of equity markets which would lead to large write-downs at Allianz, although a large part would have to be borne by policyholders. Last but not an Italexit would be negative for Allianz as it has significant insurance operations in Italy.

## Valuation and recommendation

Our valuation is based upon a Peer Group valuation with European insurers and a Dividend Discount Model (DDM). While the Peer Group results in a fair value of EUR 220, the DDM results in a fair value of EUR 223. Our target price of EUR 220 is calculated from the average of the two fair values. We see the shares attractively valued with a 2019e PER of 10x and a dividend yield of close to 5%.

## Exhibit 8: Dividend Discount Model

EUR bn	Phase I				Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
EPS - previous year	17.8	18.6	19.2	19.4	19.9	20.4	20.8	21.3	21.7	22.1	
Growth rate	16.9%	4.6%	3.2%	0.9%	2.5%	2.4%	2.3%	2.1%	2.0%	1.9%	
Payout ratio	49%	49%	49%	49%	50%	50%	50%	50%	50%	50%	
Dividends	8.8	9.1	9.4	9.6	9.8	10.1	10.3	10.5	10.7	10.9	245.9
Growth rate	10.0%	3.4%	3.3%	2.1%	2.5%	2.4%	2.3%	2.1%	2.0%	1.9%	
Present Value Dividends	9.2	8.9	8.6	8.3	8.0	7.7	7.3	7.0	6.7	6.5	145.0
PV Phase I		35.0									
PV Phase II		43.2									
PV Phase III		145.0									
Fair value		223.3									
					Risk premium	5.00%		Beta			0.6
					Risk free rate	3.50%		Cost of Equity			6.5%
					Sensitivity			Growth rate Phase III			
							1.0%	1.5%	2.0%	2.5%	3.0%
						6.21%	207	222	239	262	291
						6.38%	201	215	231	252	278
					WACC	6.54%	196	208	223	242	266
						6.70%	191	202	216	233	255
						6.87%	186	196	209	225	245

Source: Pareto

## Exhibit 9: Peer Group Valuation

Company	Share Price (EUR)	MC (EUR m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Admiral Group plc	21.07	6,121	17.1x	15.6x	8.8x	8.3x	51.3%	53.3%	5.3%	6%	10%
Aegon N.V.	4.85	9,847	7.5x	6.7x	0.5x	0.5x	6.6%	7.1%	5.6%	-13%	-10%
ageas SA/NV	42.31	8,329	10.3x	9.8x	0.9x	0.8x	8.4%	8.5%	4.9%	-5%	0%
Allianz SE	188.38	79,702	10.6x	9.9x	1.2x	1.2x	11.8%	11.9%	4.2%	0%	-7%
Aviva plc	3.99	15,552	6.9x	6.5x	0.9x	0.9x	13.7%	14.2%	6.7%	-7%	-22%
AXA SA	21.24	50,950	8.3x	7.6x	0.8x	0.8x	9.9%	10.5%	5.9%	-7%	-19%
Baloise-Holding AG	147.00	6,896	12.4x	11.1x	1.1x	1.0x	8.7%	9.1%	3.8%	0%	-4%
CNP Assurances SA	20.04	13,753	10.3x	9.8x	0.8x	0.7x	7.4%	7.5%	4.1%	0%	5%
Assicurazioni Genera	14.85	23,230	9.5x	9.0x	0.9x	0.9x	10.0%	10.1%	5.7%	3%	-3%
Gjensidige Forsikrin	134.50	67,247	21.1x	15.3x	3.0x	2.9x	14.2%	18.8%	5.3%	2%	-12%
Hannover Ruck SE	124.00	14,952	14.5x	12.4x	1.7x	1.6x	11.8%	13.1%	4.0%	2%	12%
Helvetia Holding Ltd	611.00	6,045	12.5x	11.9x	1.1x	1.1x	9.0%	9.0%	3.8%	-4%	12%
Jardine Lloyd Thomps	18.88	4,135	27.6x	23.3x	10.6x	9.2x	38.3%	39.5%	1.8%	1%	42%
Legal & General Grou	2.43	14,460	8.0x	7.7x	1.7x	1.5x	20.7%	19.4%	6.3%	-7%	-9%
Mapfre SA	2.50	7,647	10.2x	8.9x	0.9x	0.9x	8.8%	9.7%	5.7%	-6%	-11%
Munich Reinsurance C	195.35	28,892	11.5x	10.6x	1.0x	1.0x	9.0%	9.5%	4.4%	1%	4%
NN Group	37.66	12,745	8.4x	9.0x	0.5x	0.5x	6.5%	5.8%	4.4%	-3%	-2%
Prudential plc	15.47	40,084	10.5x	9.7x	2.3x	2.1x	22.4%	21.3%	3.1%	-5%	-17%
RSA Insurance Group	5.41	5,551	13.7x	11.0x	1.5x	1.4x	10.9%	12.9%	3.6%	-2%	-11%
Sampo Oyj Class A	38.90	21,603	12.6x	13.6x	1.6x	1.6x	12.9%	11.8%	6.7%	-4%	-14%
Scor SE	42.56	7,955	14.2x	12.2x	1.3x	1.2x	9.1%	10.2%	3.9%	0%	23%
Storebrand ASA	67.48	31,539	11.4x	11.7x	1.0x	1.0x	8.7%	8.2%	3.7%	-6%	2%
Swiss Life Holding A	395.00	13,466	12.5x	11.6x	0.8x	0.8x	6.7%	7.1%	3.4%	2%	18%
Swiss Re AG	91.54	27,806	15.7x	10.1x	1.0x	0.9x	6.1%	9.1%	5.3%	1%	0%
Talanx AG	31.32	7,918	10.9x	8.6x	0.9x	0.8x	8.1%	9.7%	4.5%	-2%	-9%
Topdanmark A/S	298.00	26,820	18.7x	18.2x	4.5x	4.4x	23.8%	24.1%	6.4%	-7%	10%
Uniq	8.33	2,555	11.6x	11.1x	0.8x	0.8x	6.8%	7.0%	6.1%	-2%	-7%
Vienna Insurance Gro	22.50	2,880	10.2x	9.5x	0.6x	0.6x	5.6%	5.8%	4.0%	-6%	-13%
Zurich Insurance Gro	313.60	47,100	13.0x	11.1x	1.5x	1.4x	11.2%	12.7%	5.6%	-1%	4%
Average	Share Price		PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Allianz SE	188.38		10.6x	9.9x	1.2x	1.2x	11.8%	11.9%	4.2%	0%	-7%
FAIR VALUE BASED UPON 2019e PER:	213.30		-15.4%	-11.7%	-33.6%	-32.9%	-10.0%	-12.8%	-11.2%	-91.4%	730.4%
FAIR VALUE BASED UPON '19e REGRESSION ANALYSIS (P/B & ROE)	226.68										
AVERAGE											

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Gross Premiums Written	51,597	51,535	52,262	53,307	54,373	55,461
Net Premiums Earned <sup>2</sup>	70,645	70,357	71,426	73,799	76,505	79,311
Expenses for claims and benefits <sup>2</sup>	(52,162)	(53,721)	(51,708)	(53,111)	(54,832)	(56,613)
Acquisition and administrative expenses <sup>2</sup>	(25,826)	(25,320)	(25,648)	(25,675)	(26,492)	(27,211)
<b>Investment Result</b>	<b>24,257</b>	<b>25,231</b>	<b>23,925</b>	<b>22,187</b>	<b>21,851</b>	<b>21,676</b>
Other income/expenses <sup>2</sup>	(6,179)	(5,491)	(6,899)	(5,766)	(5,431)	(5,348)
<b>Total Operating Profit<sup>2</sup></b>	<b>10,735</b>	<b>11,057</b>	<b>11,096</b>	<b>11,434</b>	<b>11,602</b>	<b>11,815</b>
Non-operating Profit	(539)	(642)	(928)	(434)	(204)	(104)
<b>Pretax Profit</b>	<b>10,196</b>	<b>10,414</b>	<b>10,168</b>	<b>11,000</b>	<b>11,398</b>	<b>11,711</b>
Taxes	(3,209)	(3,085)	(2,941)	(2,970)	(3,077)	(3,162)
<i>Tax rate (%)</i>	<i>31</i>	<i>30</i>	<i>29</i>	<i>27</i>	<i>27</i>	<i>27</i>
Minorities	(371)	(367)	(404)	(300)	(330)	(300)
<b>Net Profit</b>	<b>6,616</b>	<b>6,962</b>	<b>6,823</b>	<b>7,730</b>	<b>7,990</b>	<b>8,249</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Goodwill	12,101	12,372	11,848	11,848	11,848	11,848
Invested Assets <sup>2</sup>	732,996	753,563	770,193	799,256	829,667	861,505
Other Assets <sup>2</sup>	103,845	117,874	119,259	114,281	116,485	118,758
<b>Total Assets</b>	<b>848,942</b>	<b>883,809</b>	<b>901,300</b>	<b>925,385</b>	<b>958,000</b>	<b>992,112</b>
<b>Shareholders' Equity</b>	<b>63,144</b>	<b>67,341</b>	<b>65,553</b>	<b>69,808</b>	<b>74,022</b>	<b>78,365</b>
Minorities <sup>2</sup>	2,955	3,052	3,049	3,500	3,500	3,500
Subordinated debt <sup>2</sup>	12,258	13,530	13,295	13,295	13,295	13,295
Senior Debt <sup>2</sup>	8,383	7,615	9,596	9,869	10,142	10,415
Provisions for insurance contracts <sup>2</sup>	558,225	577,833	586,979	599,452	612,195	625,217
Other Liabilities	203,977	214,439	222,828	229,461	244,846	261,320
<b>Total liabilities and equity</b>	<b>848,942</b>	<b>883,809</b>	<b>901,300</b>	<b>925,385</b>	<b>958,000</b>	<b>992,111</b>
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares m	455	457	447	432	424	424
<b>Price EUR</b>	<b>163.6</b>	<b>157.0</b>	<b>191.5</b>	<b>188.4</b>	<b>188.4</b>	<b>188.4</b>
Market cap. EURm	74,386	71,446	84,046	79,960	79,960	79,960
EPS reported EUR	14.5	15.2	15.3	17.9	18.8	19.4
EPS adj. EUR	14.5	15.2	15.3	17.9	18.8	19.4
BVPS	138.8	148.0	149.4	164.5	174.4	184.6
TBVPS	112.2	120.8	122.4	136.6	146.5	156.7
DPS	7.3	7.6	8.0	8.8	9.1	9.4
<b>P/E</b>	<b>11.2</b>	<b>10.3</b>	<b>12.5</b>	<b>10.5</b>	<b>10.0</b>	<b>9.7</b>
P/E (adj.)	11.2	10.3	12.5	10.5	10.0	9.7
P/BVPS	1.18	1.06	1.28	1.15	1.08	1.02
P/TBVPS	1.46	1.30	1.56	1.38	1.29	1.20
Dividend Yield	4.46%	4.84%	4.18%	4.67%	4.83%	4.99%
<b>KEY RATIOS (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net premiums earned growth yoy	3.5%	(0.4%)	1.5%	3.3%	3.7%	3.7%
Expense Ratio	28.4%	28.7%	28.7%	28.0%	27.8%	27.5%
Loss Ratio	67.2%	66.8%	67.5%	67.0%	67.0%	67.0%
Combined ratio	95.6%	95.5%	96.2%	95.0%	94.8%	94.5%
Solvency II Ratio	199.7%	217.6%	214.7%	230.0%	235.0%	240.0%
Financial Leverage Ratio	24.6%	23.9%	25.9%	24.9%	24.0%	23.2%
ROE		10.7%	10.3%	11.4%	11.1%	10.8%
ROI	3.9%	3.8%	3.7%	3.6%	3.4%	3.3%

## Good times ahead: Buy, TP EUR 12.30

*We initiate coverage of comdirect shares with a Buy recommendation and a target price of EUR 12.30 as we see attractive earnings growth for 2020e, driven by a continued strong customer growth. In case of higher rates comdirect would be our top pick as it should benefit most among the companies we cover.*

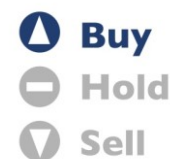
### Investment case

We see comdirect in pole position to benefit from higher rates and expect a positive impact from the high growth of brokerage accounts during the last 18 months. Higher rates should result in a higher net interest income as comdirect invests most of the customer deposits of EUR 25bn in fixed income securities with a relatively short duration of around three years, i.e. the impact of higher rates should become visible in the P&L relatively quickly. The recent strong increase in brokerage accounts should lead to a higher commission income c.p. as the additional customers should lead to higher overall trading volumes. While 2019 should be somewhat a transition year because of the ebase sale, we see strong earnings growth for 2020e with a 23% higher EPS yoy.

Currently, Commerzbank holds around 80% of the shares. In the short term we do not expect this to change but in the mid- to long-term we expect Commerzbank to integrate comdirect and thus make a takeover offer to the comdirect shareholders. We think however that it makes more sense for Commerzbank at the moment to have two separate banks, one focusing on online customers and the other one servicing its customers both through branches and online, as retail customers still want the two different options. Once comdirect's customer growth comes to an end and/or the online/offline customers overlap to a larger extent, we think it would make sense for CBK to acquire the remaining shares.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	1,356	1,613	1,526	1,526	1,526
NII	118	94	119	127	137
Other inc.	47	32	109	5	2
Op.costs	(261)	(285)	(290)	(279)	(284)
L.losses	1	1	(2)	(1)	(2)
Net profit	93	72	130	67	81
EPS	0.66	0.51	0.93	0.47	0.58
EPS adj	0.66	0.51	0.93	0.47	0.58
P/E	14.7	22.5	11.7	22.9	18.8
P/B	2.16	2.52	2.08	1.99	1.88
Yield (%)	2.6	2.2	2.3	1.8	2.0
ROE (%)	14.8	11.3	19.0	8.9	10.3

Source: Pareto



Target price (EUR)	12.3
Share price (EUR)	10.8

### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	CDBG.DE, COM GR
Sector	Banks
Shares fully diluted (m)	140.8
Market cap (EURm)	1,526

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.**

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Comdirect is the leading online broker in Germany*

## Company profile

Comdirect is one of the leading online banks in Germany with 2.5m customers, of which 1.3m have a brokerage account. Total assets under custody stand at around EUR 65bn and the bank executes close to 20m securities transaction p.a. for its retail customers.

Comdirect was founded in the 90s as a subsidiary of Commerzbank which still holds 80% of the shares. Having started as an online broker comdirect developed to an online bank when it started offering checking accounts and other classical banking products. Today comdirect is the leading online broker in Germany, operating under two different brands, Onvista and comdirect. Currently the bank suffers from the low interest rate environment which had a negative impact on the bank's net interest income as it can invest the customers' deposits (EUR 25bn) only at much lower yields than five years ago. Note that comdirect has only a very small loan portfolio of around EUR 0.5bn. Comdirect would be the key beneficiary among the German financials of a rise in short term interest rates as it would directly benefit from higher rates. A parallel shift of the yield curve by 100 bps would lead to a higher net interest income at comdirect in the magnitude of between EUR 20m and EUR 30m after 12 months.

Due to the recent strong deposit growth comdirect's leverage ratio has fallen to below 3%. As comdirect targets to reach a leverage ratio level of 3% we expect it to retain the book profit from the ebase sale and pay only a dividend per share of EUR 0.25 for 2018e (unchanged yoy).

## Upcoming triggers and drivers

*Higher short term rates would be THE positive trigger*

Key trigger would be the announcement of the ECB to move the negative deposit rates for banks back to 0%. A parallel shift of the yield curve by 100 bps has a short term positive net interest income of between EUR 20m and EUR 30m for comdirect. Another important earnings driver is increased volatility of equity markets which normally results in higher trading activity at comdirect.

**Next scheduled event:** Q4 results on 30 January, 2019.

## Key risks to our investment risk

Key risks include a prolonged low interest rate phase with another decline of long-term yields which would have a negative impact on comdirect's net interest income. Comdirect would suffer in particular from a further decline in interest rates as it does not have a significant loan book (EUR 400m), i.e. it has to invest its deposits in the capital market. A bear market including low equity market volatility with significantly lower trading volumes is the other key risk for our bull case.

## Valuation and recommendation

Our target price of EUR 12.30 is derived from a peer group valuation with German Financial Service companies and a Gordon Growth Model (GGM). While the GGM results in a fair value of EUR 9.55 the peer group valuation results in a FV of EUR 9.32. Closest peer is Fintech Group which is operating flatex, an online broker focusing on very active traders. The other companies are only partially comparable with comdirect as they pursue different business models. Note that we have included a takeover premium of 30% in our target price calculation. Even if we do not expect a takeover by Commerzbank in the short-term, this cannot be excluded and has to be taken into account for the target price calculation, in our view.

## Exhibit 10: Gordon Growth Model (2019e ROE: 8.7%)

	Growth (g)							
	0.0%	0.5%	1.0%	2.0%	2.0%	2.5%	3.0%	
COE	4.5%	10.88	11.57	12.46	15.49	15.32	17.85	22.13
	5.0%	9.78	10.27	10.88	12.83	12.73	14.21	16.46
	5.5%	8.89	9.23	9.66	10.94	10.88	11.80	13.10
	6.0%	8.14	8.39	8.68	9.55	9.50	10.09	10.88
	6.5%	7.51	7.68	7.89	8.46	8.44	8.81	9.30
	7.0%	6.97	7.09	7.22	7.60	7.58	7.82	8.13
	7.5%	6.50	6.58	6.66	6.90	6.89	7.03	7.21

Source: Pareto

## Exhibit 11: Peer Group Valuation

Company	Share Price (EUR)	MC (EUR m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e
FinTech Group AG	19.5	365	13.7x	11.1x	2.3x	1.9x	17.1%	17.4%	0.0%
Ferratum	9.7	209	10.7x	7.1x	1.7x	1.5x	16.4%	20.5%	2.2%
GRENKE AG	74.7	3,463	26.3x	21.9x	3.6x	3.1x	13.5%	14.2%	1.0%
Hypoport AG	163.4	972	43.5x	33.5x	7.2x	5.9x	16.5%	17.8%	0.0%
MLP SE	4.4	485	14.0x	14.1x	1.2x	1.2x	8.7%	8.8%	4.5%
	Share Price	MC	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e
Average			19.6x	17.5x	3.0x	2.7x	14.4%	15.7%	-4.5%
comdirect	10.84	1,531	11.7x	23.8x	2.1x	2.0x	19.0%	8.6%	2.3%
			60%	135%	70%	73%	132%	55%	-51%
Fair value derived from			PER 2019e	P/B & ROE Regression analysis			2019e		
			8.00				10.63		
Target Price			9.32						

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	137	118	94	119	127	137
Net fee and commission income	228	215	252	214	240	259
<b>Operating income</b>	<b>373</b>	<b>381</b>	<b>378</b>	<b>441</b>	<b>373</b>	<b>398</b>
Staff costs	(83)	(88)	(96)	(78)	(78)	(80)
Other expenses	(180)	(159)	(171)	(198)	(187)	(190)
Depr.	(17)	(14)	(18)	(14)	(14)	(14)
<b>Operating expenses</b>	<b>(280)</b>	<b>(261)</b>	<b>(285)</b>	<b>(290)</b>	<b>(279)</b>	<b>(284)</b>
<b>Operating profit before losses</b>	<b>94</b>	<b>120</b>	<b>93</b>	<b>151</b>	<b>94</b>	<b>114</b>
Net loan losses	(3)	1	1	(2)	(1)	(2)
<b>Pre-tax profit</b>	<b>91</b>	<b>121</b>	<b>95</b>	<b>150</b>	<b>93</b>	<b>113</b>
Tax expense	(26)	(28)	(23)	(19)	(26)	(32)
Discontinued businesses				12		
<b>Net profit</b>	<b>65</b>	<b>93</b>	<b>72</b>	<b>130</b>	<b>67</b>	<b>81</b>
Minority interests	-	-	-	-	-	-
<b>Net profit attributable</b>	<b>65</b>	<b>93</b>	<b>72</b>	<b>130</b>	<b>67</b>	<b>81</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Current assets	1,228	2,138	2,363	1,540	1,540	1,580
Gross loans	342	375	495	600	600	600
Other assets and accruals	15,199	16,760	20,174	23,691	25,711	27,711
<b>Total assets</b>	<b>16,769</b>	<b>19,273</b>	<b>23,032</b>	<b>25,831</b>	<b>27,851</b>	<b>29,891</b>
Deposits from credit institutions	6	16	9	15	15	15
Deposits from the public	16,045	18,519	22,274	25,000	27,000	29,000
Certificates and bond loans	-	-	-	-	-	-
Other liabilities accruals and allocat.	93	111	110	83	71	68
Subordinated loan capital	-	-	-	-	-	-
Equity	624	628	639	733	767	812
<b>Total debt and equity</b>	<b>16,769</b>	<b>19,273</b>	<b>23,032</b>	<b>25,831</b>	<b>27,853</b>	<b>29,895</b>
Average total assets		18,021	21,153	24,432	26,841	28,871
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares	141	141	141	141	141	141
End. no. of shares	141	141	141	141	141	141
Price	10.9	9.6	11.5	10.8	10.8	10.8
Market cap.	1,535	1,356	1,613	1,526	1,526	1,526
<b>EPS reported</b>	<b>0.46</b>	<b>0.66</b>	<b>0.51</b>	<b>0.93</b>	<b>0.47</b>	<b>0.58</b>
EPS adj.	0.46	0.66	0.51	0.93	0.47	0.58
<b>BVPS</b>	<b>4.4</b>	<b>4.5</b>	<b>4.5</b>	<b>5.2</b>	<b>5.4</b>	<b>5.8</b>
DPS	0.40	0.25	0.25	0.25	0.20	0.22
<b>P/E</b>	<b>23.6</b>	<b>14.7</b>	<b>22.5</b>	<b>11.7</b>	<b>22.9</b>	<b>18.8</b>
P/E adj.	23.6	14.7	22.5	11.7	22.9	18.8
<b>P/B</b>	<b>2.5</b>	<b>2.2</b>	<b>2.5</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>
Dividend Yield	3.7%	2.6%	2.2%	2.3%	1.8%	2.0%
<b>KEY RATIOS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest margin	0.86%	0.65%	0.45%	0.49%	0.47%	0.48%
Net interest margin (int.-bearing assets)	0.90%	0.72%	0.50%	0.53%	0.51%	0.50%
Cost/Income	76%	77%	80%	85%	75%	71%
Loan losses (bps annualised)	99	(30)	(36)	33	21	30
<b>ROE</b>		<b>14.8%</b>	<b>11.3%</b>	<b>19.0%</b>	<b>8.9%</b>	<b>10.3%</b>
ROA	0.4%	0.5%	0.3%	0.5%	0.2%	0.3%
RORWA	7.3%	9.9%	7.5%	12.8%	6.2%	7.2%

## Low valuation but for a reason: Hold, TP EUR 8.00

*We initiate coverage of Commerzbank shares with a Hold recommendation and a target price of EUR 8.00. Shares are very cheap with a 2019e P/B of 0.3x which is however justified in our view, given the low profitability (2019e ROE of 3%). Unless short term rates rise significantly we do not see any reason why Commerzbank's profitability should increase significantly. Commerzbank remains a takeover target but we do not expect an offer any time soon.*

### Investment case

We initiate coverage of Commerzbank shares with a Hold recommendation and a target price of EUR 8.00. Shares look cheap with a 2019e PER of 10x and a P/B of 0.3x which is in our view however justified by the bank's low profitability. We forecast a 2019e ROE of 3%. During the last five years CBK has successfully de-risked its balance sheet, mainly by reducing its ship exposure, and by increasing its capitalization. Unfortunately it has not yet managed to increase its profitability. For 2018e we forecast a ROE of 3% which is well below the European average of 8%. One important reason for the low profitability is the low interest rate environment which burdens the bank's profitability. In retail banking CBK continues to suffer, like most of the retail banks in Germany, from the high level of competition in Germany; the German banking market remains overbanked. We see CBK's strategy to aggressively grow its customer base by winning new customers via marketing campaigns generally positively. Unfortunately it takes some time until the new customers generate revenues. In corporate banking the market environment has become more challenging in recent quarters with increased competition and the continued low interest rate environment. In corporate banking we see the risk of higher risk provisions in case of a deteriorated macroeconomic environment.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	9,075	15,661	9,417	9,417	9,417
NII	5,077	4,201	4,411	4,499	4,589
Other inc.	790	692	250	50	-
Op.costs	(7,229)	(7,887)	(7,105)	(6,884)	(6,719)
L.losses	(900)	(781)	(450)	(450)	(500)
Net profit	906	156	802	953	1,283
EPS	0.72	0.12	0.64	0.76	1.02
EPS adj	0.72	0.12	0.64	0.76	1.02
P/E	10.0	-	11.7	9.9	7.3
P/B	0.32	0.54	0.32	0.31	0.30
Yield (%)	-	-	2.7	4.0	5.3
ROE (%)	3.1	0.5	2.7	3.2	4.2

Source: Pareto



Target price (EUR)	8.0
Share price (EUR)	7.5

### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	CBKG.DE, CBK GR
Sector	Banks
Shares fully diluted (m)	1,252.4
Market cap (EURm)	9,417
Free float (%)	56

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Commerzbank focuses on retail and corporate customers in Germany*

## Company profile

Commerzbank is a universal bank with focus on retail and corporate customers. Geographical focus is Germany, but Commerzbank is also active in other European countries, Poland playing an important role as mbank, Commerzbank's subsidiary, is among the TOP 5 in Poland.

In Germany Commerzbank is with around 13m retail customers among the leading private banks, even if its market share is not above 10%. The German market is dominated by the mutual and savings banks. Currently, Commerzbank is aggressively trying to win customers to generate additional revenues and to better utilize its existing branch network. It targets to win 2m new customers until 2020; after two years it is well on track to deliver on this target.

In SME banking Commerzbank is the leading bank in Germany; this market is coming under increased competitive pressure as more and more foreign bank try to enter this attractive segment. Commerzbank targets to win 10k new corporate clients until 2020; having reached 8.5k new customers after 9M 2018 it is also well on track.

In Investment Banking Commerzbank is not a big player, the bank's focus is on providing the products for its corporate banking customers.

Profitability remains very low at Commerzbank with a forecasted ROE of 3% for 2018e; if interest rates remain stable we do not expect profitability to increase significantly next year.

With a CT1 ratio of 13.2% is sufficiently capitalized, we do not expect any additional capital measures. For 2018e the bank intends to pay a dividend per share of EUR 0.20.

## Upcoming triggers and drivers

*Higher interest rates as key trigger*

Key positive share price trigger would be higher short term rates. According to CBK a parallel shift of the yield curve by 100 bps would result in additional net interest income of EUR 525m within 12 months. Apart from this we do not see any positive/negative triggers.

**Next scheduled reporting:** Q4 results on February 14, 2019.

## Key risks to our investment case

In case of higher short term rates our Neutral recommendation would probably be wrong as we would expect a significant positive share price reaction under such a scenario. Clearly, a takeover bid is another risk to our Hold recommendation; such a scenario is however unlikely in the short view from our point of view. Note that most of the international banks which were rumoured to be interested in buying Commerzbank have recently denied any interest. A takeover by Deutsche Bank cannot be ruled out but is unlikely in the short term in our view.

## Valuation and recommendation

Our valuation is based upon a Gordon Growth Model (2019e ROE of 3%, CoE of 7.5%). Thus we have derived a fair value of EUR 8.00 which we set as our target price. Note that we have not included a takeover premium although we clearly see CBK as a takeover target in the mid-to long-term. Either another European bank or Deutsche Bank may be interested in acquiring Commerzbank once the bank is back to more attractive profitability levels.

We initiate coverage of Commerzbank shares with a target price of EUR 8.00.

## Exhibit 12: Gordon Growth Model (2019e ROE: 3.20%)

	Growth (g)							
	0.0%	0.5%	1.0%	1.0%	2.0%	2.5%	3.0%	
COE	6.0%	12.75	11.71	10.46	10.41	7.05	4.62	1.39
	6.5%	11.77	10.74	9.52	9.47	6.27	4.05	1.19
	7.0%	10.94	9.92	8.73	8.68	5.65	3.60	1.04
	7.5%	10.21	9.21	8.06	8.01	5.14	3.24	0.93
	8.0%	9.58	8.60	7.49	7.44	4.72	2.95	0.84
	8.5%	9.02	8.07	6.99	6.95	4.35	2.71	0.76
	9.0%	8.52	7.60	6.56	6.52	4.05	2.50	0.70

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	6,161	5,607	5,779	5,077	4,201	4,411	4,499	4,589
Net fee and commission income	3,206	3,205	3,424	3,212	3,178	3,019	3,200	3,392
Other non-interest income	(96)	377	499	320	1,092	1,000	1,000	1,100
<b>Operating income</b>	<b>9,275</b>	<b>8,754</b>	<b>9,762</b>	<b>9,399</b>	<b>9,163</b>	<b>8,680</b>	<b>8,750</b>	<b>9,082</b>
Staff costs	(3,889)	(3,843)	(3,707)	(3,723)	(3,600)	(3,440)	(3,219)	(3,044)
Other expenses	(3,002)	(2,698)	(3,164)	(2,950)	(3,670)	(3,005)	(3,005)	(3,005)
Depr.	(399)	(446)	(400)	(556)	(617)	(660)	(660)	(670)
<b>Operating expenses</b>	<b>(7,290)</b>	<b>(6,987)</b>	<b>(7,271)</b>	<b>(7,229)</b>	<b>(7,887)</b>	<b>(7,105)</b>	<b>(6,884)</b>	<b>(6,719)</b>
<b>Operating profit before losses</b>	<b>1,985</b>	<b>1,767</b>	<b>2,491</b>	<b>2,170</b>	<b>1,276</b>	<b>1,575</b>	<b>1,866</b>	<b>2,363</b>
Net loan losses	(1,747)	(1,144)	(696)	(900)	(781)	(450)	(450)	(500)
<b>Pre-tax profit</b>	<b>238</b>	<b>623</b>	<b>1,795</b>	<b>1,270</b>	<b>495</b>	<b>1,125</b>	<b>1,416</b>	<b>1,863</b>
Tax expense	(66)	(253)	(618)	(261)	(245)	(225)	(354)	(466)
<b>Net profit</b>	<b>172</b>	<b>370</b>	<b>1,177</b>	<b>1,009</b>	<b>250</b>	<b>900</b>	<b>1,062</b>	<b>1,397</b>
Minority interests	(91)	(106)	(115)	(103)	(94)	(99)	(109)	(114)
<b>Net profit attributable</b>	<b>81</b>	<b>264</b>	<b>1,062</b>	<b>906</b>	<b>156</b>	<b>802</b>	<b>953</b>	<b>1,283</b>
<b>BALANCE SHEET (EURm)</b>								
Current assets	94,448	95,255	110,448	104,982	110,633	111,000	111,000	113,500
Gross loans	245,963	232,867	218,875	212,848	265,712	270,712	273,212	273,212
Individual provisions	-	-	-	-	-	-	-	-
Collective provisions	-	-	-	-	-	-	-	-
Other assets and accruals	209,250	229,487	203,318	162,620	76,148	79,100	79,100	79,100
<b>Total assets</b>	<b>549,661</b>	<b>557,609</b>	<b>532,641</b>	<b>480,450</b>	<b>452,493</b>	<b>460,812</b>	<b>463,312</b>	<b>465,812</b>
Deposits from credit institutions	77,694	99,443	83,154	66,948	56,360	50,000	50,000	50,000
Deposits from the public	276,486	248,977	257,615	250,920	284,900	299,673	302,173	304,673
Certificates and bond loans	64,670	48,813	40,605	38,494	14,940	15,000	15,000	15,000
Other liabilities accruals and allocat.	91,117	121,964	110,006	84,506	67,416	66,461	65,758	64,851
Subordinated loan capital	13,714	12,358	11,858	10,969	-	-	-	-
Equity	25,980	26,054	29,403	28,613	28,877	29,679	30,381	31,289
<b>Total debt and equity</b>	<b>549,661</b>	<b>557,609</b>	<b>532,641</b>	<b>480,450</b>	<b>452,493</b>	<b>460,812</b>	<b>463,312</b>	<b>465,812</b>
Average total assets		553,635	545,125	506,546	466,472	456,653	462,062	464,562
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>								
Avg. no. of shares	907	1,139	1,213	1,252	1,252	1,252	1,252	1,252
End. no. of shares	1,139	1,139	1,252	1,252	1,252	1,252	1,252	1,252
Price	11.7	11.0	9.6	7.2	12.5	7.4	7.4	7.4
Market cap.	13,332	12,501	11,988	9,075	15,661	9,304	9,304	9,304
<b>EPS reported</b>	<b>0.09</b>	<b>0.23</b>	<b>0.88</b>	<b>0.72</b>	<b>0.12</b>	<b>0.64</b>	<b>0.76</b>	<b>1.02</b>
EPS adj.	0.09	0.23	0.88	0.72	0.12	0.64	0.76	1.02
<b>BVPS</b>	<b>22.8</b>	<b>22.9</b>	<b>23.5</b>	<b>22.8</b>	<b>23.1</b>	<b>23.7</b>	<b>24.3</b>	<b>25.0</b>
DPS	-	-	0.20	-	-	0.20	0.30	0.40
<b>P/E</b>	<b>-</b>	<b>47.4</b>	<b>10.9</b>	<b>10.0</b>	<b>-</b>	<b>11.6</b>	<b>9.8</b>	<b>7.3</b>
P/E adj.	-	47.4	10.9	10.0	-	11.6	9.8	7.3
<b>P/B</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Dividend Yield	-	-	2.1%	-	-	2.7%	4.0%	5.4%
<b>KEY RATIOS</b>								
Net interest margin	1.04%	1.01%	1.06%	1.00%	0.90%	0.97%	0.99%	1.01%
Net interest margin (int.-bearing assets)	1.48%	2.78%	1.49%	2.97%	1.21%	2.75%	1.36%	2.86%
Cost/Income	73%	79%	73%	76%	77%	82%	79%	74%
Loan losses (bps annualised)	67	47	30	27	18	11	10	11
<b>ROE</b>		<b>1.0%</b>	<b>3.8%</b>	<b>3.1%</b>	<b>0.5%</b>	<b>2.7%</b>	<b>3.2%</b>	<b>4.2%</b>
ROA	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.2%
RORWA	0.0%	0.1%	0.4%	0.1%	0.1%	0.3%	0.3%	0.4%

## Revenues recovery should take more time: Hold, TP EUR 8.40

*We initiate coverage of Deutsche Bank shares with a Hold recommendation and a target price of EUR 8.40. Deutsche Bank shares are trading at low multiples (2019e P/B of 0.3x) which is however justified given the low profitability (2019e ROE of 3%) which is unlikely to improve significantly in the short term.*

### Investment case

Deutsche Bank shares look attractively valued with a 2019e P/B of 0.3x at first glance. Given the low profitability (2019e ROE of 3%) this is however justified in our view. Deutsche Bank's key issue remains the recent decline in revenues which is unlikely to reverse in the short term. Deutsche Bank seems to have made good progress on the cost side, the targeted adjusted cost level of EUR 23bn for 2018e seems to be well in reach. Given DBK's weak track record in meeting cost targets this would be clearly a good achievement. Revenues remain however DBK's key weak spot, revenues continue to decline mainly due to a loss in market share in investment banking, which still stands for around 50% of total revenues. We do not see a quick fix for this, i.e. a strong revenue recovery in the short term is unlikely, this should rather take more than just one or two years.

Other issues like the low capitalization and the legal risks should be solved, although legal risks are always difficult to assess from an outsider's view. CT1 ratio of 14.0% looks however sufficient not only on a stand-alone basis but also in comparison with other banks.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	21,553	33,257	16,885	16,885	16,885
NII	14,707	12,378	12,749	13,004	13,264
Other inc.	2,162	141	740	260	-
Op.costs	(27,702)	(24,226)	(23,163)	(22,637)	(22,222)
L.losses	(1,383)	(525)	(450)	(500)	(500)
Net profit	62	(580)	1,185	1,889	2,335
EPS	0.04	(0.29)	0.57	0.90	1.11
EPS adj	0.04	(0.29)	0.57	0.90	1.11
P/E	-	-	14.2	8.9	7.2
P/B	0.36	0.53	0.27	0.26	0.25
Yield (%)	1.2	0.7	1.4	3.1	6.2
ROE (%)	0.1		1.9	2.9	3.5

Source: Pareto



Target price (EUR)	8.4
Share price (EUR)	8.1

### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	DBKGN.DE, DBK GY
Sector	Banks
Shares fully diluted (m)	2,094.9
Market cap (EURm)	16,885
Free float (%)	56

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Deutsche Bank is a leading European investment bank*

## Company profile

Deutsche Bank is a leading European Investment Bank with a solid position in the German retail banking market. Following the financial crisis DBK has lost significant market share in investment banking as it had to de-risk its balance sheet due to its low capitalization. Although the de-risking process has slowed down in recent quarters, DBK's revenues have not yet recovered.

Deutsche Bank is particularly strong in fixed income sales & trading, a segment which has particularly suffered from tighter regulation post the financial crisis. In fixed income DBK is still among the leading global investment banks, while in corporate finance and equity sales & trading its strong market position is limited to Europe.

DBK's private and commercial bank has a solid market position in the German market with an estimated market share of below 10% in retail banking. Like all banks in Europe DBK is currently suffering from the low yield environment.

In Asset Management DBK's subsidiary DWS is with AuM of around EUR 700bn among the leading asset managers in Europe; DWS is particularly strong in equities and passive funds.

Profitability at Deutsche Bank remains very low with an expected ROE of 2% for 2018e. Driven by higher revenues (2% yoy) and lower costs (-4% yoy) we forecast ROE to increase by 1%-pt. yoy to 3% which would be still well below the European average.

With a CT1 ratio of 14.0% the bank is sufficiently capitalized, we do not expect another capital increase. We expect Deutsche Bank to pay a dividend per share of EUR 0.11 for 2018e.

## Upcoming triggers and drivers

Main trigger would be a rise in overall yields in Europe which would lead c.p. to higher net interest income at Deutsche Bank. According to Deutsche Bank a parallel shift in the yield curve by 100 bps would result in EUR 1.7bn higher revenues in the first year and EUR 2.0bn higher revenues in the second year post the parallel shift.

**Next scheduled reporting:** Preliminary Q4 results will be published on 2 February, 2019.

## Key risks to our investment case

On the positive side the key risk is clearly that DBK manages to increase revenues faster than expected today. This could be e.g. reached by a faster recovery of market shares in investment banking and/or by an increase in European yields.

On the negative side a strong increase in litigation provisions which would trigger another capital increase is clearly a major risk to our investment case. Note that Deutsche Bank has still litigation provisions of EUR 1.3bn on its balance sheet.

## Valuation and recommendation

Our target price is derived from a Gordon Growth Model on the basis of our 2020e estimates. As earnings should remain depressed in 2019e we think it is fair to take 2020 estimates. We forecast a 2020e ROE of 3.5% and a book value per share of EUR 31.88. Assuming a cost of equity of 8.0% which we think is justified given DBK's solid capitalization (CT1 ratio of 14.0%) we derive a target price of EUR 8.40.

Hence, we initiate coverage with a Hold recommendation and a target price of EUR 8.40.

*A parallel shift of the yield curve would be positive for DBK*

## Exhibit 13: Gordon Growth Model (2020e ROE: 3.5%)

	Growth (g)						
	0.0%	0.5%	1.0%	2.0%	2.0%	2.5%	3.0%
COE							
6.5%	17.52	16.31	14.88	11.24	11.06	8.42	5.02
7.0%	16.26	15.04	13.63	10.12	9.94	7.48	4.39
7.5%	15.16	13.96	12.57	9.20	9.03	6.72	3.89
8.0%	14.21	13.02	11.67	8.43	8.27	6.11	3.50
8.5%	13.37	12.21	10.89	7.78	7.63	5.59	3.18
9.0%	12.62	11.48	10.20	7.22	7.08	5.16	2.91
9.5%	11.96	10.84	9.60	6.74	6.61	4.79	2.69

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	14,834	14,272	15,881	14,707	12,378	12,749	13,004	13,264
Net fee and commission income	12,308	12,409	12,765	11,744	11,002	10,507	10,717	10,931
Other non-interest income	3,817	4,251	3,842	1,401	2,926	1,850	2,300	2,420
<b>Operating income</b>	<b>31,915</b>	<b>31,950</b>	<b>33,525</b>	<b>30,014</b>	<b>26,447</b>	<b>25,846</b>	<b>26,281</b>	<b>26,616</b>
Staff costs	(12,329)	(12,512)	(13,293)	(11,874)	(12,253)	(11,911)	(11,435)	(11,320)
Other expenses	(15,586)	(14,943)	(18,888)	(15,828)	(11,973)	(11,252)	(11,202)	(10,902)
<b>Operating expenses</b>	<b>(27,915)</b>	<b>(27,455)</b>	<b>(32,181)</b>	<b>(27,702)</b>	<b>(24,226)</b>	<b>(23,163)</b>	<b>(22,637)</b>	<b>(22,222)</b>
<b>Operating profit before losses</b>	<b>4,000</b>	<b>4,495</b>	<b>1,344</b>	<b>2,312</b>	<b>2,221</b>	<b>2,683</b>	<b>3,645</b>	<b>4,394</b>
Net loan losses	(2,065)	(1,134)	(956)	(1,383)	(525)	(450)	(500)	(500)
<b>Pre-tax profit</b>	<b>1,935</b>	<b>3,361</b>	<b>389</b>	<b>929</b>	<b>1,696</b>	<b>2,233</b>	<b>3,145</b>	<b>3,894</b>
Tax expense	(775)	(1,425)	(675)	(546)	(1,963)	(735)	(942)	(1,246)
<b>Net profit</b>	<b>1,160</b>	<b>1,936</b>	<b>(286)</b>	<b>383</b>	<b>(267)</b>	<b>1,498</b>	<b>2,202</b>	<b>2,648</b>
Minority interests	(15)	(28)	(249)	(321)	(313)	(313)	(313)	(313)
<b>Net profit attributable</b>	<b>1,144</b>	<b>1,908</b>	<b>(535)</b>	<b>62</b>	<b>(580)</b>	<b>1,185</b>	<b>1,889</b>	<b>2,335</b>
<b>BALANCE SHEET (EURm)</b>								
Current assets	143,372	127,203	165,795	229,338	261,623	263,000	263,000	263,000
Gross loans	376,582	405,612	427,749	408,909	401,699	409,733	417,928	426,286
Other assets and accruals	1,091,446	1,175,888	1,035,586	952,299	811,410	809,282	809,282	809,282
<b>Total assets</b>	<b>1,611,400</b>	<b>1,708,703</b>	<b>1,629,130</b>	<b>1,590,546</b>	<b>1,474,732</b>	<b>1,482,015</b>	<b>1,490,210</b>	<b>1,498,568</b>
Deposits from credit institutions	114,176	115,297	122,662	119,034	125,656	125,480	125,480	125,480
Deposits from the public	413,574	417,634	444,312	431,172	455,156	454,520	454,520	454,520
Certificates and bond loans	227,685	200,994	201,099	218,949	202,919	201,000	201,000	201,000
Other liabilities accruals and allocat.	801,246	906,427	798,379	761,558	627,827	637,497	644,233	650,780
Equity	54,719	68,351	62,678	59,833	63,174	63,518	64,977	66,788
<b>Total debt and equity</b>	<b>1,611,400</b>	<b>1,708,703</b>	<b>1,629,130</b>	<b>1,590,546</b>	<b>1,474,732</b>	<b>1,482,015</b>	<b>1,490,210</b>	<b>1,498,568</b>
Average total assets		1,660,052	1,668,917	1,609,838	1,532,639	1,478,373	1,486,112	1,494,389
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>								
Avg. no. of shares	1,025	1,269	1,388	1,400	1,968	2,095	2,095	2,095
End. no. of shares	1,019	1,379	1,388	1,400	2,095	2,095	2,095	2,095
Price	29.5	22.3	20.1	15.4	15.9	8.1	8.1	8.1
Market cap.	30,093	30,757	27,904	21,553	33,257	16,885	16,885	16,885
<b>EPS reported</b>	<b>1.12</b>	<b>1.50</b>	<b>(0.39)</b>	<b>0.04</b>	<b>(0.29)</b>	<b>0.57</b>	<b>0.90</b>	<b>1.11</b>
EPS adj.	1.12	1.50	(0.39)	0.04	(0.29)	0.57	0.90	1.11
<b>BVPS</b>	<b>53.7</b>	<b>49.6</b>	<b>45.2</b>	<b>42.7</b>	<b>30.2</b>	<b>30.3</b>	<b>31.0</b>	<b>31.9</b>
DPS	0.75	0.75	-	0.19	0.11	0.11	0.25	0.50
<b>P/E</b>	<b>26.4</b>	<b>14.8</b>	-	-	-	<b>14.2</b>	<b>8.9</b>	<b>7.2</b>
P/E adj.	26.4	14.8	-	-	-	14.2	8.9	7.2
<b>P/B</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Dividend Yield	2.5%	3.4%	-	1.2%	0.7%	1.4%	3.1%	6.2%
<b>KEY RATIOS</b>								
Net interest margin	0.82%	0.86%	0.95%	0.91%	0.81%	0.86%	0.88%	0.89%
Net interest margin (int.-bearing assets)	3.78%	3.60%	3.77%	3.48%	3.02%	3.14%	3.20%	3.27%
Cost/Income	89%	87%	115%	98%	93%	92%	87%	83%
Loan losses (bps annualised)	146	127	116	110	97	97	97	97
<b>ROE</b>		<b>3.1%</b>	-	<b>0.1%</b>	-	<b>1.9%</b>	<b>2.9%</b>	<b>3.5%</b>
ROA	0.0%	0.1%	(0.4%)	(0.1%)	(0.1%)	0.0%	0.1%	0.2%
RORWA	0.2%	0.4%	(1.8%)	(0.4%)	(0.3%)	0.2%	0.5%	0.6%

## Attractive dividend yield of more than 8%: Buy, TP EUR 13.40

*We initiate coverage of Deutsche Pfandbriefbank (PBB) shares with a Buy recommendation and a target price of EUR 13.40 as the shares offer an attractive dividend yield of almost 9%. Despite an expected earnings decline for 2019e we expect PBB to stick to its high pay-out ratio of 75% as it is very comfortably capitalized with a CT1 ratio of 20%.*

### Investment case

On the back of PBB's high dividend yield of more than 8% we recommend buying the shares with a target price of EUR 13.40. While earnings should decline in 2019 after having reached a high level in 2018, we expect PBB to stick to its payout ratio 75%. PBB is strongly capitalized with a CT1 ratio of 20%, even if taking into account negative effects from Basel IV. Hence, we expect PBB to stick to its shareholder friendly dividend policy.

PBB has benefited in recent years from a very benign commercial real estate market environment which led to a strong funding demand and low credit losses. Generally we expect the market environment to remain positive for the bank although the risks are increasing. The high liquidity in the market resulted however in strong margin pressure for the banks which is likely to persist. We forecast a profit decline by 20% yoy for 2019e due to higher costs, lower net interest income and higher risk provisions, the latter not resulting from a deteriorating asset quality but rather from a normalization of risk costs at PBB.

Given PBB's solid asset quality (50% of the loan portfolio stems from Germany) we do not expect risk costs to skyrocket, even if the market environment deteriorated.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	1,226	1,797	1,384	1,384	1,384
NII	404	407	442	424	420
Other inc.	88	9	(4)	(4)	(4)
Op.costs	(226)	(223)	(212)	(223)	(203)
L.losses	(1)	(10)	(20)	(25)	(25)
Net profit	169	169	158	128	145
EPS	1.26	1.26	1.17	0.95	1.08
EPS adj	1.26	1.26	1.17	0.95	1.08
P/E	7.3	10.6	8.8	10.8	9.5
P/B	0.44	0.63	0.47	0.46	0.44
Yield (%)	11.5	8.0	8.8	7.0	6.7
ROE (%)	6.1	6.0	5.5	4.3	4.7

Source: Pareto



Target price (EUR)	13.4
Share price (EUR)	10.3

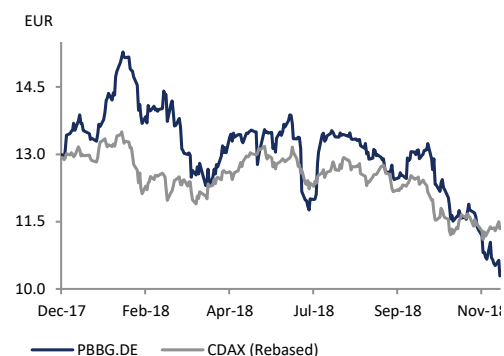
### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	PBBG.DE, PBB GR
Sector	Banks
Shares fully diluted (m)	134.5
Market cap (EURm)	1,384

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Focus on commercial real estate financing in Germany, France and Spain*

## Company profile

PBB provides commercial real estate and public sector funding to its customers, the latter being of minor importance for group profitability. The bank is strongly capitalized with a 20% CT1, has a strong asset quality (NPL ratio of 1%) and has a below sector average profitability (2019e ROE of 4%).

PBB has a total loan portfolio of EUR 46bn of which EUR 32bn is considered to be strategic. The other EUR 13bn consist mainly of public sector loans (33% of the portfolio is Austria, 28% Germany, 13% Italy, 7% Spain) and are in run-down modus. PBB's commercial real estate portfolio has a volume of EUR 26bn, Germany being the most important region (Germany 49% of the portfolio, UK 16%, France 12%, Sweden 6%, Poland 5%). Asset quality is very good with a NPL ratio of 1.4%. Recently PBB has started entering the US market. We see this strategic step positively as it should help PBB to bring overall margins up as new business margins in the US are normally above the Western European level despite a comparable risk profile.

With a CT1 ratio of 20% PBB is strongly capitalized even if taking into account likely negative effects from Basel IV/ECB TRIM which may cost between 5.5%-6.0%-pts. of CT1 ratio.

PBB intends to pay out 75% of its earnings as dividend to shareholders. For 2018e we forecast a dividend per share of EUR 0.90 which would be a decline by 16% yoy but nevertheless equivalent to a dividend yield of more than 8%.

## Upcoming triggers and drivers

With the publication of its Q4 results in March 2019 PBB will give some more concrete earnings guidance for 2019e which may turn out somewhat better than currently expected. A positive outcome of UK-3, i.e. no P&L hit for PBB, should lead to a positive share price reaction. We expect however a modest low to mid-double digit burden for PBB from UK-3.

**Next scheduled events:** Q4 results on 28 February, 2019.

## Key risks to our investment case

We see two key risks to our investment case:

1. An escalation of the Italian crisis including a Italexit which would result in large write-downs on Italian sovereign bonds. As PBB holds around EUR 2bn (EaD) of Italian sovereign/regional government bonds, this would clearly be very negative for PBB.
2. UK-3 with a maximum risk of around EUR 110m. PBB is still waiting for a decision by the expert on this synthetic securitization. As it has already built some provisions of around EUR 20m (equinet estimate) the maximum loss in a worst case scenario should be around EUR 110m for PBB.

## Valuation and recommendation

Our target price of EUR 13.40 is based upon the average fair values from a Gordon Growth Model, assuming cost of equity of 6.2%, and a dividend discount model. While the Gordon Growth Model results in a fair value of EUR 12.92, the dividend discount model results in a fair value of EUR 13.81, the average being EUR 13.40, our new target price. Note, that we assumed a normalization of the payout ratio to 50% from 2020 onwards for our dividend discount model.

Hence, we initiate coverage of the PBB shares with a Buy recommendation and a target price of EUR 13.40.

*Italexit as key risk to our investment case*

## Exhibit 14: Dividend Discount Model

EUR m	Phase I				Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
EBT	215	179	171	176	181	186	192	198	204	210	
CIR	41.0%	45.3%	46.7%	46.7%	46.2%	45.8%	45.3%	44.8%	44.4%	44.0%	
Tax	-43	-36	-34	-35	-35	-36	-37	-39	-40	-41	
Tax rate	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	
Minorities	0	-14	-14	-14	-14	-14	-14	-14	-14	-14	
growth rate	0.0%	nm	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net profit	172	130	123	127	132	136	141	145	150	155	
growth rate	-25.2%	-24.7%	-5.0%	3.0%	4.0%	3.3%	3.3%	3.3%	3.3%	3.3%	
Total dividend	121	97	92	89	86	82	78	73	76	78	1,941
payout ratio	70%	75%	75%	70%	65%	60%	55%	50%	50%	50%	
Present Value FCF	117.4	88.6	79.4	71.8	69.8	62.8	56.0	49.6	48.3	47.0	1,166
PV Phase I	357										
PV Phase II	333										
PV Phase III	1,166										
Total Fair Value	1,857										
# shares	134										
Fair value per share	13.81										
					Risk premium	5.0%		Beta		0.5	
					Risk free rate	3.5%		Cost of equity		6.2%	
					Sensitivity			Growth in phase III			
						1.0%	1.5%	2.0%	2.5%	3.0%	
					5.5%	13	15	16	18	20	
					5.8%	13	14	15	16	18	
					6.2%	12	13	14	15	17	
					6.5%	11	12	13	14	15	
					6.8%	11	11	12	13	14	

Source: Pareto

## Exhibit 15: Gordon Growth Model (2019e ROE: 4.3%)

	Growth (g)						
	0.0%	0.5%	1.0%	2.0%	2.0%	2.5%	3.0%
4.7%	21.03	20.87	20.68	20.10	20.06	19.53	18.69
5.2%	18.99	18.63	18.19	16.96	16.87	15.85	14.34
5.7%	17.31	16.82	16.23	14.67	14.56	13.33	11.64
6.2%	15.90	15.33	14.65	12.92	12.81	11.51	9.79
6.7%	14.70	14.09	13.36	11.55	11.43	10.12	8.45
7.2%	13.68	13.03	12.27	10.44	10.32	9.03	7.43
7.7%	12.78	12.12	11.35	9.52	9.41	8.15	6.63

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	426	404	407	442	424	420
Net fee and commission income	14	8	8	5	5	5
Other non-interest income	-	-	-	-	-	-
<b>Operating income</b>	<b>401</b>	<b>500</b>	<b>424</b>	<b>443</b>	<b>426</b>	<b>421</b>
Staff costs	(112)	(113)	(119)	(121)	(124)	(126)
Other expenses	(95)	(113)	(104)	(91)	(99)	(77)
<b>Operating expenses</b>	<b>(207)</b>	<b>(226)</b>	<b>(223)</b>	<b>(212)</b>	<b>(223)</b>	<b>(203)</b>
<b>Operating profit before losses</b>	<b>194</b>	<b>274</b>	<b>201</b>	<b>231</b>	<b>202</b>	<b>218</b>
Net loan losses	1	(1)	(10)	(20)	(25)	(25)
<b>Pre-tax profit</b>	<b>195</b>	<b>273</b>	<b>191</b>	<b>211</b>	<b>177</b>	<b>193</b>
Tax expense	35	(104)	(22)	(43)	(36)	(34)
Discontinued businesses	-	-	-	-	-	-
<b>Net profit</b>	<b>230</b>	<b>169</b>	<b>169</b>	<b>168</b>	<b>141</b>	<b>159</b>
Minority interests	-	-	-	(10)	(14)	(14)
<b>Net profit attributable</b>	<b>230</b>	<b>169</b>	<b>169</b>	<b>158</b>	<b>128</b>	<b>145</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Current assets	57	1,136	999	1,000	1,000	1,000
Gross loans	38,964	41,146	40,274	40,677	41,084	41,494
Individual provisions	(138)	(130)	(72)	(138)	(138)	(138)
Other assets and accruals	36,635	20,477	16,793	19,385	19,385	19,385
<b>Total assets</b>	<b>75,518</b>	<b>62,629</b>	<b>57,994</b>	<b>60,924</b>	<b>61,331</b>	<b>61,741</b>
Deposits from credit institutions	3,187	3,179	3,280	3,300	3,300	3,300
Deposits from the public	10,593	9,949	8,275	8,300	8,300	8,300
Certificates and bond loans	47,827	40,381	38,362	38,746	39,133	39,524
Other liabilities accruals and allocat.	9,901	5,435	4,217	6,385	6,318	6,200
Subordinated loan capital	1,279	886	1,002	1,279	1,279	1,279
Equity	2,731	2,799	2,858	2,914	3,001	3,138
<b>Total debt and equity</b>	<b>75,518</b>	<b>62,629</b>	<b>57,994</b>	<b>60,924</b>	<b>61,331</b>	<b>61,741</b>
Average total assets		69,074	60,312	59,459	61,127	61,536
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares	134	134	134	134	134	134
End. no. of shares	134	134	134	134	134	134
Price	11.2	9.1	13.4	10.2	10.2	10.2
Market cap.	1,506	1,226	1,797	1,366	1,366	1,366
<b>EPS reported</b>	<b>1.71</b>	<b>1.26</b>	<b>1.26</b>	<b>1.17</b>	<b>0.95</b>	<b>1.08</b>
EPS adj.	1.71	1.26	1.26	1.17	0.95	1.08
<b>BVPS</b>	<b>20.3</b>	<b>20.8</b>	<b>21.3</b>	<b>21.7</b>	<b>22.3</b>	<b>23.3</b>
DPS	0.43	1.05	1.07	0.90	0.72	0.69
<b>P/E</b>	<b>6.5</b>	<b>7.3</b>	<b>10.6</b>	<b>8.7</b>	<b>10.7</b>	<b>9.4</b>
P/E adj.	6.5	7.3	10.6	8.7	10.7	9.4
<b>P/B</b>	<b>0.6</b>	<b>0.4</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>
Dividend Yield	3.8%	11.5%	8.0%	8.9%	7.1%	6.8%
<b>KEY RATIOS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest margin	0.56%	1.29%	1.40%	1.45%	1.38%	1.36%
Net interest margin (int.-bearing assets)	1.25%	1.40%	1.50%	1.56%	1.49%	1.46%
Cost/Income	52%	39%	44%	41%	45%	47%
Loan losses (bps annualised)	(0)	0	2	5	6	6
<b>ROE</b>		<b>6.1%</b>	<b>6.0%</b>	<b>5.5%</b>	<b>4.3%</b>	<b>4.7%</b>
ROA	0.3%	0.6%	0.6%	0.5%	0.4%	0.4%
RORWA	1.6%	3.0%	2.5%	2.4%	1.9%	1.9%

## Well positioned in a growth market: Buy, TP EUR 30

*We initiate coverage on DWS shares with a Buy recommendation and a target price of EUR 30 as the company is operating in a growth market. Global AuM are forecasted to grow by 70% between 2016 and 2025e. We particularly like DWS's good market position in passive funds positively as this asset class should continue to grow stronger than the market.*

*2018 was a rather disappointing year for DWS because of the high outflows; we expect DWS to be able to report positive net flows in 2019e/2020e again. With a 2019e PER of 10.6x the shares are trading at attractive multiples given the dividend yield of close to 6% and the attractive earnings growth prospects.*

### Investment case

We initiate coverage of DWS shares with a Buy recommendation and a target price of EUR 30.00. The asset management market is a growth market with forecasted growth of assets under management (AuM) by 70% between 2016 and 2025e. DWS is well positioned to participate in this growth market as No. 1 in Retail Germany and importantly No. 2 in the European passive market. We forecast average net flows of 2.9% p.a. in the next two years, AuM should thus grow to EUR 732bn by 2020e.

Helped by a lower CIR, EPS CAGR is forecasted to amount to 12% in the next two years (2018e-2020e). Main earnings drivers should be higher Assets under Management and lower costs. Valuation is attractive with a 2019e PER of 11x and a dividend yield of almost 6% for 2018e. Note that DWS target a payout ratio of between 65% and 75% for the next years.

EURm	2016	2017	2018e	2019e	2020e
M.cap.			5,038	5,038	5,038
NII	36	36	-	-	-
Other inc.	14	36	42	42	42
Op.costs	(1,768)	(1,726)	(1,694)	(1,663)	(1,657)
L.losses	-	-	-	-	-
Net profit	452	633	432	475	540
EPS	2.26	3.17	2.16	2.37	2.70
EPS adj	2.26	3.17	2.16	2.37	2.70
P/E			11.7	10.6	9.3
P/B			0.74	0.72	0.70
Yield (%)			5.6	6.6	7.5
ROE (%)	7.1	9.9	6.6	6.9	7.6

Source: Pareto



Target price (EUR)	30
Share price (EUR)	25

### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	DWSG.DE, DWS GR
Sector	Banks
Shares fully diluted (m)	200.0
Market cap (EURm)	5,038
Free float (%)	56

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*DWS is with EUR 700bn of AuM among the leading asset managers in Europe*

## Company profile

DWS is a global asset manager with a strong focus on Germany, offering both active and passive asset management over various asset classes, the focus being on active management, fixed income being the dominant asset class. DWS is a subsidiary of Deutsche Bank (79% stake) and is therefore closely linked to DBK via a distribution and a master service agreement.

DWS is an asset manager with EUR 700bn assets under management (AuM) with a split of 46% retail and 54% institutional investors. Germany is the most important region for DWS with 42% of the AuM coming from Germany, Americas (28%) and EMEA ex Germany (25%) are the other important regions. DWS is mainly an active asset manager with 84% of its AuM being active mandates, which are dominated by fixed income (35% of total AuM) and equity (14%). Compared to other traditional asset managers has with 16% a relatively high proportion of 16%. Positively, DWS has with 10% of assets in Alternatives a relatively high proportion of assets in this rather high margin asset class.

In Germany DWS is the leading retail active fund manager with a market share of 25% and a leading player in the institutional fund business. DBK's branch network is an important distribution channel for DWS with 32% of its German AuM being linked to DBK's branch network (DBK has around 1,750 branches in Germany). DWS has a 10-year agreement with DBK as preferred provider or primary provider (depending on product type) of investment funds.

The IPO of DWS took place in March 2018. Deutsche Bank remains the asset manager's major shareholder with a stake of 78% post the IPO.

DWS targets a payout ratio of between 65% and 75%; we forecast 65% for 2018e which would be equivalent to a DPS of EUR 1.40.

## Upcoming triggers and drivers

In the short term a recovery of the equities markets would clearly be a positive driver for DWS. In the mid-term delivery on its CIR (<65%) and net flows (3% to 5% of AuM) targets would be positive share price drivers in our view. Apart from this an acquisition could be a share price trigger. Depending on the details of the deal (valuation, strategic fit) such an acquisition could be either seen positively or negatively by the market. Note that part of the rationale of the recent IPO was to make DWS strategically more flexible which comprises possible acquisitions.

**Next scheduled reporting:** Preliminary Q4 results on 1 February, 2019.

## Key risks to our investment case

Key risk to our investment case are large asset outflows which would result in a significant decline in revenues and due to DWS's relatively high fixed cost base would have a direct impact on profitability. Such outflows could result from various factors, like a market crash, an underperformance of DWS's funds and/or a loss of an important distribution partner. At the same time large inflows or asset appreciation via performance would have a significant positive earnings impact.

## Valuation and recommendation

Our valuation is based upon a peer group valuation with other European asset managers and a dividend discount model, which we see as an appropriate valuation method given DWS's targeted high payout ratio. Thus, we have derived a target price of EUR 30.00 for DWS shares. While our peer group analysis has resulted in a fair value of EUR 24.50, the dividend discount model has resulted in a fair value of EUR 36.12. Hence, we initiate coverage of DWS shares with a Buy recommendation and a target price of EUR 30.00.

*Recovery of the equity markets would be clearly positive for DWS*

	EUR m	Phase I				Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027		
<b>Revenues</b>	<b>2,296</b>	<b>2,324</b>	<b>2,407</b>	<b>2,463</b>	<b>2,499</b>	<b>2,537</b>	<b>2,575</b>	<b>2,614</b>	<b>2,653</b>	<b>2,693</b>		
grow th rate	-8.5%	1.2%	3.6%	2.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%		
CIR	73.8%	71.6%	68.8%	68.3%	68.1%	67.9%	67.6%	67.4%	67.2%	67.0%		
<b>EBT</b>	<b>601</b>	<b>661</b>	<b>751</b>	<b>782</b>	<b>798</b>	<b>816</b>	<b>833</b>	<b>851</b>	<b>869</b>	<b>887</b>		
grow th rate	9.9%	13.6%	4.1%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%		
<b>Tax</b>	<b>-168</b>	<b>-185</b>	<b>-210</b>	<b>-219</b>	<b>-224</b>	<b>-228</b>	<b>-233</b>	<b>-238</b>	<b>-243</b>	<b>-248</b>		
Tax rate	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%		
<b>Minorities</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>		
grow th rate	0.0%	0.0%	0.0%	0.0%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%		
<b>Net profit</b>	<b>432</b>	<b>475</b>	<b>540</b>	<b>562</b>	<b>574</b>	<b>586</b>	<b>599</b>	<b>612</b>	<b>625</b>	<b>638</b>		
grow th rate	-31.8%	9.9%	13.6%	4.1%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%		
<b>Total dividend</b>	<b>281</b>	<b>332</b>	<b>378</b>	<b>393</b>	<b>399</b>	<b>407</b>	<b>416</b>	<b>425</b>	<b>434</b>	<b>443</b>	<b>8,146</b>	
payout ratio	65%	70%	70%	70%	70%	70%	70%	70%	70%	70%		
<b>Present Value Div Sum</b>	<b>271</b>	<b>298</b>	<b>315</b>	<b>305</b>	<b>309</b>	<b>294</b>	<b>279</b>	<b>265</b>	<b>252</b>	<b>239</b>	<b>4,395</b>	
PV Phase I	1,190											
PV Phase II	1,639											
PV Phase III	4,395											
<b>Total Fair Value</b>	<b>7,224</b>											
# shares	200											
Fair value per share	36.12											
					Risk premium	5.0%	Beta	0.8				
					Risk free rate	3.5%	Cost of equity	7.5%				
Sensitivity							Growth in phase III					
						1.0%	1.5%	2.0%	2.5%	3.0%		
	6.8%	37	39	42	45	49						
	7.2%	35	36	39	41	45						
C. of eq.	7.5%	33	34	36	38	41						
	7.9%	31	32	34	36	38						
	8.3%	29	31	32	34	36						

Source: Pareto

Company	Share Price (EUR)	MC (l.c.m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	EV/EBIT 2018e	EV/EBIT 2019e	Yield '18e	1M Perf	12M Perf
Amundi	51.16	10,311	10.9x	10.5x	1.2x	1.2x	11.1%	11.1%	7.9x	7.4x	5.8%	-2.9%	-30.5%
Man Group	1.43	2,240	11.9x	9.5x	1.7x	1.7x	14.7%	17.7%	9.1x	7.0x	6.7%	-6.8%	-28.2%
Anima	3.68	1,397	8.4x	7.7x	1.3x	1.2x	15.0%	15.3%	8.3x	6.9x	5.2%	-2.8%	-33.2%
Schroders PLC	25.45	6,960	11.6x	11.4x	1.9x	1.8x	16.7%	15.6%	6.7x	6.1x	4.4%	-4.1%	-25.7%
Jupiter Fund Management plc	3.22	1,450	10.0x	11.1x	2.4x	2.3x	23.6%	20.8%	6.6x	7.2x	7.9%	-4.9%	-47.2%
GAM Holding AG	5.00	775	7.4x	9.3x	0.4x	0.4x	5.6%	4.4%	1.9x	2.7x	9.8%	-16.8%	-66.8%
Liontrust Asset Management PLC	6.34	320	13.6x	12.6x	5.5x	4.8x	40.7%	38.3%	9.7x	8.9x	3.8%	0.7%	23.1%
Average			PER 2018e 10.5x	PER 2019e 10.3x	P/B 2018e 2.1x	P/B 2019e 1.9x	ROE 2018e 18.2%	ROE 2019e 17.6%	EV/EBIT2018e 7.2x	EV/EBIT2019e 6.6x	Yield '18e 6.2%	1M Perf -5.4%	12M Perf -29.8%
DWS vs average	25.19	5,038	11.7x	10.6x	0.7x	0.7x	6.6%	6.9%	5.7x	5.0x	0.0%	-5.3%	
TARGET PRICE	24.47	(derived from 2019e PER)											
			10.7%	2.9%	-64.0%	-62.2%	-63.9%	-60.8%	-19.8%	-23.6%	-100.0%	-2.2%	nm

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	93	36	36	-	-	-
Net fee and commission income	2,511	2,353	2,391	2,208	2,236	2,319
Other non-interest income	(93)	12	46	46	46	46
<b>Operating income</b>	<b>2,576</b>	<b>2,415</b>	<b>2,509</b>	<b>2,296</b>	<b>2,324</b>	<b>2,407</b>
Staff costs	(860)	(713)	(772)	(736)	(739)	(754)
Other expenses	(1,083)	(1,056)	(954)	(959)	(924)	(903)
<b>Operating expenses</b>	<b>(1,943)</b>	<b>(1,768)</b>	<b>(1,726)</b>	<b>(1,694)</b>	<b>(1,663)</b>	<b>(1,657)</b>
<b>Operating profit before losses</b>	<b>633</b>	<b>647</b>	<b>783</b>	<b>601</b>	<b>661</b>	<b>751</b>
Net loan losses	-	-	-	-	-	-
<b>Pre-tax profit</b>	<b>633</b>	<b>647</b>	<b>783</b>	<b>601</b>	<b>661</b>	<b>751</b>
Tax expense	(175)	(195)	(149)	(168)	(185)	(210)
<b>Net profit</b>	<b>458</b>	<b>452</b>	<b>634</b>	<b>433</b>	<b>476</b>	<b>541</b>
Minority interests	0	-	(1)	(1)	(1)	(1)
<b>Net profit attributable</b>	<b>459</b>	<b>452</b>	<b>633</b>	<b>432</b>	<b>475</b>	<b>540</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Current assets	4,666	4,017	3,317	3,802	3,946	4,115
Gross loans	294	446	307	307	307	307
Other assets and accruals	11,769	10,901	7,603	7,603	7,652	7,703
<b>Total assets</b>	<b>16,729</b>	<b>15,363</b>	<b>11,226</b>	<b>11,711</b>	<b>11,905</b>	<b>12,125</b>
Deposits from credit institutions	-	6	3	3	3	3
Deposits from the public	-	-	-	-	-	-
Certificates and bond loans	-	-	-	-	-	-
Other liabilities accruals and allocat.	10,549	8,878	4,863	4,916	4,916	4,929
Subordinated loan capital	-	-	-	-	-	-
Equity	6,180	6,479	6,360	6,792	6,986	7,193
<b>Total debt and equity</b>	<b>16,729</b>	<b>15,363</b>	<b>11,226</b>	<b>11,711</b>	<b>11,905</b>	<b>12,125</b>
Average total assets		16,046	13,295	11,469	11,808	12,015
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares	200	200	200	200	200	200
End. no. of shares	200	200	200	200	200	200
Price				24.9	24.9	24.9
Market cap.				4,982	4,982	4,982
<b>EPS reported</b>	<b>2.29</b>	<b>2.26</b>	<b>3.17</b>	<b>2.16</b>	<b>2.37</b>	<b>2.70</b>
EPS adj.	2.29	2.26	3.17	2.16	2.37	2.70
<b>BVPS</b>	<b>30.9</b>	<b>32.4</b>	<b>31.8</b>	<b>34.0</b>	<b>34.9</b>	<b>36.0</b>
DPS	-	-	-	1.40	1.66	1.89
<b>P/E</b>				<b>11.5</b>	<b>10.5</b>	<b>9.2</b>
P/E adj.				11.5	10.5	9.2
<b>P/B</b>				<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
Dividend Yield				5.6%	6.7%	7.6%
<b>KEY RATIOS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Cost/Income	75%	73%	69%	74%	72%	69%
<b>ROE</b>		<b>7.1%</b>	<b>9.9%</b>	<b>6.6%</b>	<b>6.9%</b>	<b>7.6%</b>
<b>ROA</b>	2.7%	2.8%	4.8%	3.8%	4.0%	4.5%

## On its way to a consumer finance bank: Buy, TP EUR 17.00

*We initiate coverage of Ferratum shares with a Buy recommendation and a target price of EUR 17.00. With an expected annual EPS growth rate of 31% for the next two years, the shares are very attractively valued with a 2019e PER of 8x. Having reduced its dependence on microloans the company has significantly reduced its regulatory risk. We see the recently implemented organizational changes positively, as it should help the company to become more efficient going forward and focus on its key products. Key risk remains an economic slow-down in Europe as this would most likely have a negative revenues impact and lead to higher risk provisions.*

### Investment case

We initiate coverage of Ferratum shares with a Buy recommendation and a target price of EUR 17.00 as the shares are attractively valued with a 2019e PER of 6x while offering EPS growth of 31% for the next two years. Future revenue growth should mainly come from rolling out the non-microloans to new countries. Expansion into new countries should not be a major growth driver in the short term.

Ferratum has successfully reduced its dependence on microloans and is on its way to become a classical consumer finance bank. Hence, we think that the regulatory risk has declined significantly. While 2018 should have been a transition year with somewhat lower top line and bottom line growth we expect the bank to return to higher growth levels in 2019e. We see the strategic alignment which has been announced in 2018 positively as it should help the company to focus on its core products/countries and to realize scale effects to a larger extent in the future.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	370	663	202	202	202
Op.costs	(85)	(115)	(137)	(170)	(199)
L.losses	(48)	(76)	(88)	(107)	(125)
Net profit	13	20	20	28	34
EPS	0.60	0.92	0.90	1.28	1.55
EPS adj	0.60	0.92	0.90	1.28	1.55
P/E	28.5	33.0	10.3	7.3	6.0
P/B	4.21	6.30	1.70	1.46	1.25
Yield (%)	0.7	0.6	2.9	4.1	5.0
ROE (%)	15.7	20.8	17.5	21.6	22.5

Source: Pareto



Target price (EUR)	17.00
Share price (EUR)	9.70

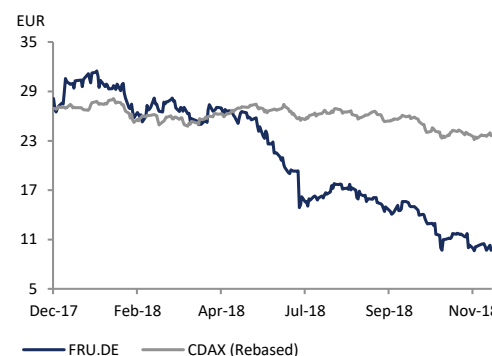
### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	FRU.DE, FRU.GY
Sector	Consumer Finance
Shares fully diluted (m)	21.7
Market cap (EURm)	211

### Performance



Source: Factset

### Analysts

Dr Philipp Häbeler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Microloans have lost in importance for Ferratum in recent years*

## Company profile

Having started as a microlender, Ferratum is currently developing towards a classical consumer finance bank. Today it is offering four different types of consumer loans and one loan type targeting SME customers. Additionally it offers a checking account and daily deposits. Ferratum is active in 25 countries, has almost 2m active and former customers and has last year achieved a ROE of more than 25%.

The microloan, which is offered in 17 countries, has contributed 17% to 9M revenues; revenue growth was negative at 4% yoy. The PlusLoan, which is offered in 10 countries, has shown a revenue growth by 9% yoy; it had a proportion of 25% of group revenues. Credit Limit has been the growth engine this year with a revenue growth by 26% yoy; this product which is also offered in 10 countries, has contributed 50% to group revenues. The SME loan, which stands for 8% of group revenues, is offered in 8 countries, revenue growth amounted to 73% yoy. Last but not least, the primeloan, which is more or less a normal consumer loan, is offered in two countries at the moment, revenue generation is not yet significant.

Asset quality looks terrible at first glance with a NPL ratio of 36% but has been stable over the last quarters and is more or less in line with peers. Coverage ratio amounted to 66%, risk costs as a % of revenues fluctuate between 28% and 36%.

The founder and CEO of Ferratum, Jorma Jokela, holds a 55% stake in the company.

## Upcoming triggers and drivers

Ferratum plans to hold its first capital markets day in Q1 2019 (no concrete date has been published). This could be an important share price trigger, assuming that Ferratum will publish a 2019 and a mid-term guidance at this occasion. An update of its mid- to long-term strategy could be interesting as well.

**Next scheduled reporting:** Preliminary Q4 results on 14 March, 2019.

## Risks to our investment case

In the past we saw regulatory risk as the key risk for Ferratum. As Ferratum has however significantly reduced its dependence on microloans, the regulatory risk should have declined as well. Key risk is a recession in Europe which should lead to lower revenues as Ferratum would most likely tighten its scoring and higher risk provisions, i.e. profitability at Ferratum would decline c.p.

## Valuation and recommendation

We have derived our target price of EUR 17.00 from a peer group valuation. We use two different peer groups, one consisting of other microlenders, and the other of European financial service companies. As Ferratum is developing towards a classic consumer lender /mobile bank we think it makes sense to compare it with other European online banks. Generating still a significant part of earnings with microloans we think it makes sense to take into account microlenders as well for valuation purposes. Our target price is derived from the average fair values derived from the two different peer groups (European Microlenders FV: EUR 9.30; European Financial Service Companies FV: EUR 24.50).

*Regulatory risks have declined in recent years.*

## Exhibit 18: Peer Group Valuation with European Financial Service companies

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
comdirect bank AG	10.84	1,531	14.6x	23.0x	2.2x	2.1x	14.9%	9.0%	2.3%	5%	-6%
FinTech Group AG	19.50	365	13.7x	11.1x	2.3x	1.9x	17.1%	17.4%	0.0%	-13%	-28%
GRENKE AG	74.70	3,463	26.3x	21.9x	3.6x	3.1x	13.5%	14.2%	0.9%	-5%	-11%
Fineco	9.58	5,829	24.2x	20.8x	6.9x	6.3x	28.4%	30.3%	3.0%	1%	na
Cembra	82.55	2,327	15.2x	14.5x	2.5x	2.3x	16.3%	16.2%	4.3%	-2%	-8%
			<b>PER 2018e</b>	<b>PER 2019e</b>	<b>P/B 2018e</b>	<b>P/B 2019e</b>	<b>ROE 2018e</b>	<b>ROE 2019e</b>	<b>Yield 2017e</b>	<b>1M Perf</b>	<b>12M Perf</b>
<b>Average</b>			18.8x	18.3x	3.5x	3.2x	18.0%	17.4%	2.1%	-3%	-13%
<b>Ferratum</b>	9.70	209	10.8x	7.6x	1.8x	1.5x	17.5%	21.6%	1.9%	-18.2%	-65%
Fair value derived from regression analysis (2019e P/B & ROE)											25.60
Fair value derived from 2019e PER											23.41
<b>AVERAGE</b>											<b>24.50</b>

Source: Pareto Securities, FactSet

## Exhibit 19: Peer Group Valuation with European Microlenders

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Provident Financial	6.07	1,524	12.2x	9.6x	2.0x	1.9x	16.1%	19.3%	0.0%	13%	5%
International Personal F	2.13	476	6.9x	6.8x					5.8%	12%	6%
Komplett Bank	13.46	2,310	7.1x	5.0x	1.5x	1.2x	20.8%	24.1%	0.0%	-6%	-29%
Norwegian Finans Hd	71.00	13,259	7.4x	6.7x	2.0x	1.7x	26.7%	25.6%	0.0%	-12%	-21%
Monobank	1.99	545	9.3x	6.3x	0.8x	0.8x	9.1%	12.0%	0.0%	-12%	-40%
Instabank	1.73	528	15.0x	7.5x	1.0x	0.9x	7.0%	12.6%	0.0%	-9%	-26%
Easybank	9.60	445	8.3x	5.5x					0.0%	-4%	-17%
TF Bank	78.00	1,677	9.7x	7.3x	2.5x	2.1x	26.3%	28.2%	2.9%	-2%	-13%
Collector	54.00	5,545	9.9x	8.1x	1.6x	1.3x	16.1%	16.6%	0.0%	-3%	-35%
			<b>PER 2018e</b>	<b>PER 2019e</b>	<b>P/B 2018e</b>	<b>P/B 2019e</b>	<b>ROE 2018e</b>	<b>ROE 2019e</b>	<b>Yield 2017e</b>	<b>1M Perf</b>	<b>12M Perf</b>
<b>Average</b>			9.5x	7.0x	1.6x	1.4x	17.4%	19.8%	1.0%	-2%	-19%
<b>Ferratum</b>	9.70	209	10.8x	7.6x	1.8x	1.5x	17.5%	21.6%	1.9%	-18.2%	-65%
Fair value derived from regression analysis (2019e P/B & ROE)											9.71
Fair value derived from 2019e PER											8.94
<b>AVERAGE</b>											<b>9.33</b>

Source: Pareto Securities, FactSet

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Net fee and commission income	58	71	111	154	222	263	322	378
Net gains on fin. at FV	(3)	(4)	(4)	(6)	(9)	(15)	(13)	(14)
<b>Operating income</b>	<b>55</b>	<b>67</b>	<b>107</b>	<b>148</b>	<b>214</b>	<b>248</b>	<b>309</b>	<b>364</b>
Staff costs	(9)	(12)	(17)	(25)	(35)	(44)	(52)	(60)
Other expenses	(20)	(27)	(42)	(59)	(77)	(88)	(111)	(130)
Depr.	(1)	(1)	(1)	(2)	(3)	(5)	(7)	(9)
<b>Operating expenses</b>	<b>(29)</b>	<b>(40)</b>	<b>(60)</b>	<b>(85)</b>	<b>(115)</b>	<b>(137)</b>	<b>(170)</b>	<b>(199)</b>
<b>Operating profit before losses</b>	<b>25</b>	<b>27</b>	<b>47</b>	<b>63</b>	<b>99</b>	<b>111</b>	<b>140</b>	<b>164</b>
Net loan losses	(22)	(20)	(35)	(48)	(76)	(88)	(107)	(125)
<b>Pre-tax profit</b>	<b>4</b>	<b>7</b>	<b>12</b>	<b>15</b>	<b>23</b>	<b>23</b>	<b>33</b>	<b>40</b>
Tax expense	(0)	(1)	(1)	(2)	(3)	(3)	(5)	(6)
Discontinued businesses	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>4</b>	<b>6</b>	<b>11</b>	<b>13</b>	<b>20</b>	<b>20</b>	<b>28</b>	<b>34</b>
Minority interests	-	-	-	-	-	-	-	-
<b>Net profit attributable</b>	<b>4</b>	<b>6</b>	<b>11</b>	<b>13</b>	<b>20</b>	<b>20</b>	<b>28</b>	<b>34</b>
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Current assets	18	8	17	73	132	100	29	13
Gross loans	45	62	107	184	257	339	424	466
Other assets and accruals	10	10	16	38	47	53	60	68
<b>Total assets</b>	<b>72</b>	<b>80</b>	<b>140</b>	<b>296</b>	<b>437</b>	<b>492</b>	<b>513</b>	<b>547</b>
Deposits from the public	-	-	3	101	174	160	160	170
Certificates and bond loans	46	49	49	91	134	189	189	189
Other liabilities accruals and allocat.	10	9	10	16	23	25	26	26
Subordinated loan capital	-	-	-	-	-	-	-	-
Equity	16	21	78	88	105	119	138	162
<b>Total debt and equity</b>	<b>72</b>	<b>80</b>	<b>140</b>	<b>296</b>	<b>437</b>	<b>492</b>	<b>513</b>	<b>547</b>
Average total assets		76	110	218	366	464	503	530
PER SHARE DATA & VALUATION (EUR)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Avg. no. of shares	11	19	21	22	22	22	22	22
End. no. of shares	11	19	22	22	22	22	22	22
Price			30.0	17.0	30.5	9.3	9.3	9.3
Market cap.			652	370	663	202	202	202
<b>EPS reported</b>	<b>0.32</b>	<b>0.30</b>	<b>0.51</b>	<b>0.60</b>	<b>0.92</b>	<b>0.90</b>	<b>1.28</b>	<b>1.55</b>
EPS adj.	0.32	0.30	0.51	0.60	0.92	0.90	1.28	1.55
<b>BVPS</b>	<b>1.4</b>	<b>1.1</b>	<b>3.6</b>	<b>4.0</b>	<b>4.8</b>	<b>5.5</b>	<b>6.4</b>	<b>7.5</b>
DPS	0.07	0.05	0.10	0.12	0.18	0.27	0.38	0.47
<b>P/E</b>			<b>59.2</b>	<b>28.5</b>	<b>33.0</b>	<b>10.3</b>	<b>7.3</b>	<b>6.0</b>
P/E adj.			59.2	28.5	33.0	10.3	7.3	6.0
<b>P/B</b>			<b>8.4</b>	<b>4.2</b>	<b>6.3</b>	<b>1.7</b>	<b>1.5</b>	<b>1.2</b>
Dividend Yield			0.3%	0.7%	0.6%	2.9%	4.1%	5.0%
KEY RATIOS	2013	2014	2015	2016	2017	2018e	2019e	2020e
Net interest margin (int.-bearing assets)	83.48%	133.40%	84.87%	124.79%	76.00%	65.17%	60.64%	61.15%
Cost/Income	54%	60%	56%	58%	54%	55%	55%	55%
Loan losses (bps annualised)	3098	2166	2652	2381	2593	2183	2019	2018
<b>ROE</b>		<b>30.3%</b>	<b>22.0%</b>	<b>15.7%</b>	<b>20.8%</b>	<b>17.5%</b>	<b>21.6%</b>	<b>22.5%</b>
ROA	6.0%	7.4%	9.9%	18.5%	9.2%	4.2%	5.5%	6.4%

## Fast growing leasing company, but fully valued

*Grenke is a great company which has grown strongly in the past 10 years and is likely to do so in the next 10 years. As the shares are however trading at rather high multiples (2019e PER: 23x) we initiate coverage of the shares with a Hold recommendation and a target price of EUR 83. We do not see any positive or negative share price trigger ahead.*

### Investment case

We initiate coverage of Grenke shares with a Hold recommendation and a target price of EUR 83 as we see the shares fairly valued with a 2019e PER of 23x while we see no share price triggers ahead. Valuation looks high at first glance but is justified in our view by the strong expected earnings growth rates (2018e-2020e EPS CAGR: 17%). Grenke has shown impressive earnings growth rates in recent years which was driven by international expansion, not only into new countries but by additional branch openings in existing countries. We forecast EPS growth of 14% for 2019e which should be driven by strong new business growth (18% yoy). Asset quality should remain solid, i.e. risk costs should remain stable. With a CIR of 45% Grenke is already a highly efficient company, i.e. we see only limited potential for a further improvement, in particular as the continued regional expansion should remain a cost driver. Generally we like the fact that Grenke's major shareholder Wolfgang Grenke, who has served as CEO for many years, is head of the supervisory board and thus makes sure that Grenke does not expand too aggressively into new countries but rather continues its cautious approach which has worked well in the past.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	2,200	3,506	3,461	3,461	3,461
NII	218	247	284	326	369
Other inc.	57	74	87	95	107
Op.costs	(143)	(177)	(206)	(225)	(246)
L.losses	(55)	(55)	(90)	(104)	(117)
Net profit	105	126	135	153	183
EPS	2.38	2.84	2.97	3.31	3.94
EPS adj	2.38	2.84	2.97	3.31	3.94
P/E	20.9	27.8	25.1	22.6	19.0
P/B	3.45	4.81	3.35	3.00	2.66
Yield (%)	1.2	0.9	1.0	1.1	1.3
ROE (%)	17.6	18.4	15.3	14.0	14.9

Source: Pareto



Target price (EUR)	83
Share price (EUR)	75

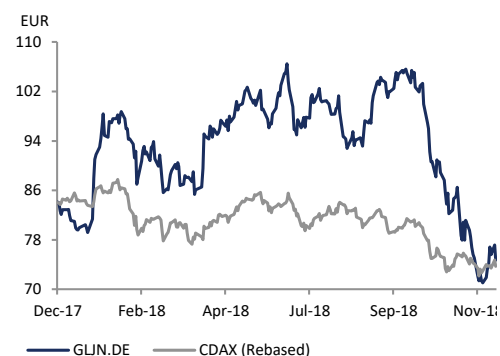
### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	GLJN.DE, GLJ GR
Sector	Banks
Shares fully diluted (m)	46.3
Market cap (EURm)	3,461

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Grenke is the leading small-ticket leasing company in Europe*

## Company profile

Grenke is a small ticket leasing company with a focus on IT products. It is active in 31 countries, the focus being on Europe but recently Grenke has started operations in countries like New Zealand or Brazil. Most important countries regarding revenue generation are Germany, France, Italy and UK. Grenke is a fast growing company, average new business growth during the last five years was well above 10%, in the first 9 months in 2018 growth stood even at 23% yoy. Grenke's success can be explained by its focus on an attractive niche segment, its highly efficient processes which enables it to achieve a low CIR of only 45% despite the large granularity of its business. This gave Grenke an important competitive advantage vs. its competitors, mainly banks and other leasing companies. Particularly banks are in many cases not able to compete with Grenke as they cannot offer the same prices because of more unfavourable higher cost structures. Furthermore Grenke has managed to build up a relatively large branch network which enables it to have close relationships with the dealers.

With an equity ratio of close to 20% Grenke is sufficiently capitalized following this year's capital increase. Major shareholder is the founder of the company, Wolfgang Grenke, with a 41% stake. Grenke does not pay significant dividends, for 2018e we forecast a DPS of EUR 0.75.

## Upcoming triggers and drivers

Next important even is the publication of Q4 new business results in early January (3.1.). We expect Grenke to publish good figures which may be a positive share price driver. The announcement to start operations in the USA could also be a positive share price as this market is huge; short term earnings impact should be nevertheless not significant as Grenke only expands very cautiously into new countries.

**Next scheduled reporting:** Q4 results on 7 February, 2019.

## Key Risks to our Investment Case

A stronger than expected net profit guidance for 2019 is the key upside risk for our Hold recommendation in our view. On the negative side a slow-down in new business growth is the key risk in our view. This could be either triggered by an economic slow-down in the most important countries, Grenke is operating in and/or by Grenke losing market share in some of the countries. The latter is unlikely in our view, as we think that Grenke is ahead of its competitors regarding efficiency and technology.

## Valuation and recommendation

Our valuation is based upon a Gordon Growth Model, taking 2019e ROE and book value per share into account. As Grenke is strongly capitalized with an equity ratio of 17%, we have used a relatively low cost of equity of 5.5%. We have not used a peer group valuation as there are no comparable companies listed in Germany. Other German financial service companies like Hypoport or comdirect pursue a different business model. Therefore it makes in our view no sense to use these companies for a peer group valuation.

We initiate coverage on Grenke shares with a target price of EUR 83.00.

*New business figures for Q4 will be reported on 4.1.2019*

## Exhibit 20: Gordon Growth Model (2019e ROE: 13.9%)

	Growth (g)						
	0.0%	0.5%	1.0%	2.0%	2.0%	2.5%	3.0%
4.0%	85.40	93.95	105.31	144.72	144.72	183.63	259.93
4.5%	76.00	82.32	90.43	116.23	116.23	138.62	175.54
5.0%	68.46	73.26	79.24	97.12	97.12	111.33	132.52
5.5%	62.28	65.99	70.51	83.40	83.40	93.02	106.43
6.0%	57.13	60.03	63.52	73.08	73.08	79.88	88.93
6.5%	52.76	55.06	57.79	65.03	65.03	70.00	76.37
7.0%	49.01	50.85	53.00	58.58	58.58	62.29	66.91

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	130	158	191	218	247	284	326	369
Net fee and commission income	36	42	51	59	71	84	95	110
<b>Operating income</b>	<b>214</b>	<b>251</b>	<b>297</b>	<b>334</b>	<b>391</b>	<b>454</b>	<b>516</b>	<b>585</b>
Staff costs	(52)	(55)	(63)	(71)	(86)	(102)	(113)	(124)
Other expenses	(43)	(49)	(57)	(63)	(76)	(86)	(93)	(102)
Depr.	(5)	(6)	(8)	(9)	(15)	(18)	(19)	(20)
<b>Operating expenses</b>	<b>(101)</b>	<b>(110)</b>	<b>(129)</b>	<b>(143)</b>	<b>(177)</b>	<b>(206)</b>	<b>(225)</b>	<b>(246)</b>
<b>Operating profit before losses</b>	<b>114</b>	<b>140</b>	<b>169</b>	<b>192</b>	<b>214</b>	<b>248</b>	<b>291</b>	<b>339</b>
Net loan losses	(50)	(54)	(59)	(55)	(55)	(90)	(104)	(117)
<b>Pre-tax profit</b>	<b>64</b>	<b>87</b>	<b>109</b>	<b>137</b>	<b>159</b>	<b>158</b>	<b>187</b>	<b>222</b>
Tax expense	(17)	(22)	(29)	(31)	(33)	(23)	(33)	(40)
Discontinued businesses	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>47</b>	<b>65</b>	<b>81</b>	<b>105</b>	<b>126</b>	<b>135</b>	<b>153</b>	<b>183</b>
Minority interests	-	-	-	-	-	-	-	-
<b>Net profit attributable</b>	<b>47</b>	<b>65</b>	<b>81</b>	<b>105</b>	<b>126</b>	<b>135</b>	<b>153</b>	<b>183</b>
<b>BALANCE SHEET (EURm)</b>								
Current assets	189	149	251	254	322	671	661	629
Gross loans	2,150	2,456	2,854	3,270	3,967	4,787	5,713	6,725
Other assets and accruals	299	320	370	448	553	606	666	732
<b>Total assets</b>	<b>2,638</b>	<b>2,925</b>	<b>3,475</b>	<b>3,971</b>	<b>4,842</b>	<b>6,063</b>	<b>7,040</b>	<b>8,086</b>
Deposits from credit institutions	-	-	-	-	-	-	-	-
Deposits from the public	256	300	349	417	519	623	735	853
Certificates and bond loans	1,585	1,786	2,090	2,578	3,083	3,699	4,365	5,063
Other liabilities accruals and allocat.	359	345	445	339	512	582	659	741
Subordinated loan capital	-	-	31	53	128	127	127	127
Equity	439	493	560	638	728	1,032	1,154	1,301
<b>Total debt and equity</b>	<b>2,638</b>	<b>2,925</b>	<b>3,475</b>	<b>4,024</b>	<b>4,970</b>	<b>6,063</b>	<b>7,040</b>	<b>8,086</b>
Average total assets		2,782	3,200	3,723	4,407	5,453	6,551	7,563
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>								
Avg. no. of shares	44	44	44	44	44	45	46	46
End. no. of shares	44	44	44	44	44	46	46	46
Price	22.7	29.7	61.5	49.7	79.2	74.5	74.5	74.5
Market cap.	990	1,308	2,714	2,200	3,506	3,449	3,449	3,449
<b>EPS reported</b>	<b>1.06</b>	<b>1.47</b>	<b>1.83</b>	<b>2.38</b>	<b>2.84</b>	<b>2.97</b>	<b>3.31</b>	<b>3.94</b>
EPS adj.	1.06	1.47	1.83	2.38	2.84	2.97	3.31	3.94
<b>BVPS</b>	<b>10.1</b>	<b>11.2</b>	<b>12.7</b>	<b>14.4</b>	<b>16.4</b>	<b>22.3</b>	<b>24.9</b>	<b>28.1</b>
DPS	1.00	1.10	0.50	0.58	0.70	0.75	0.85	0.95
<b>P/E</b>	<b>21.4</b>	<b>20.2</b>	<b>33.6</b>	<b>20.9</b>	<b>27.8</b>	<b>25.0</b>	<b>22.5</b>	<b>18.9</b>
P/E adj.	21.4	20.2	33.6	20.9	27.8	25.0	22.5	18.9
<b>P/B</b>	<b>2.3</b>	<b>2.7</b>	<b>4.8</b>	<b>3.4</b>	<b>4.8</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>
Dividend Yield	4.4%	3.7%	0.8%	1.2%	0.9%	1.0%	1.1%	1.3%
<b>KEY RATIOS</b>								
Net interest margin	6.48%	6.84%	7.20%	7.11%	6.82%	6.48%	6.21%	5.93%
Net interest margin (int.-bearing assets)	5.23%	5.66%	6.00%	5.87%	5.60%	5.26%	5.08%	4.96%
Cost/Income	46%	44%	43%	43%	44%	45%	43%	42%
Loan losses (bps annualised)	247	233	224	180	153	206	198	188
<b>ROE</b>		<b>13.9%</b>	<b>15.4%</b>	<b>17.6%</b>	<b>18.4%</b>	<b>15.3%</b>	<b>14.0%</b>	<b>14.9%</b>
ROA	1.9%	2.3%	2.5%	2.8%	2.8%	2.5%	2.4%	2.4%

## Fairly valued: Hold, TP EUR 120

*We initiate coverage of Hannover Re shares with a Hold recommendation and a target price of EUR 120 as we see the shares fairly valued at the moment with a 2019e PER of 13x. We expect the reinsurer to be able increase earnings by 8% yoy in 2019e as L/H should benefit from an abolition of negative one-offs which burdened results in 2018. While the P/C reinsurance market has benefited from slightly increasing prices in 2018, we are more sceptical for 2019; we expect a deterioration yoy, i.e. prices should be only stable at best.*

### Investment case

We initiate coverage of Hannover Re shares with a Hold recommendation and a target price of EUR 120 as we see the shares as fairly valued at the moment with a 2019e PER of 13x while we see no share price triggers ahead. In 2018 Hannover Re has been negatively impacted by one-offs in its L/H unit, while the P/C should have shown once again a good performance, benefiting from a normalized large loss level and a stabilized price development. Following a large level of nat cat losses in H2 2017 the international reinsurance market had stopped its negative pricing trend this year, in particular the loss effected regions. As 2018 has been characterized by a more normal nat cat level we do not expect a hardening of the P/C reinsurance market in 2019. Hence, an important share price driver for reinsurance shares is missing. Hannover Re shares are offering a dividend yield of around 4% which is attractive in the current low-yield environment but other insurance companies are offering higher yields. The expected positive earnings development for 2019e, which is mainly driven by an improved performance of the L/H unit, is clearly positive but widely expected and should thus be reflected in the current share price.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	12,397	12,651	14,954	14,954	14,954
N. Prem. Earned	14,418	15,632	15,983	16,252	16,532
Operating profit	1,689	1,365	1,569	1,684	1,786
Net profit	1,171	959	1,046	1,134	1,208
Comb. Ratio (%)	94	100	97	97	97
EPS	9.7	8.0	8.7	9.4	10.0
P/E	10.6	13.2	14.3	13.2	12.4
P/B	1.4	1.5	1.7	1.6	1.5
ROE (%)	13.7	10.9	12.1	12.6	12.6
Div Yield (%)	4.9	4.8	4.0	4.0	4.0

Source: Pareto



Target price (EUR)	120
Share price (EUR)	124

### Forecast changes

%	2018e	2019e	2020e
EPS	-	-	-
EPS adj	-	-	-

Source: Pareto

Ticker	HNRGN.DE, HNR1 GR
Sector	Insurance
Shares fully diluted (m)	467.8
Market cap (EURm)	58,009
Free float (%)	100

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Hannover Re is the 4<sup>th</sup> largest reinsurer in the world*

## Company profile

Hannover Re is the 4th largest reinsurer in the world, being active both in P/C and in L/H, the former contributing around 75% to group earnings. North America (34% of total premiums), UK (14%) and Germany (7%) are the most important countries for Hannover Re. Key competitive advantage of Hannover Re is its high cost efficiency which translates into high profitability; over the last years Hannover Re was one of the most profitable reinsurers in the world (measured by ROE) with a ROE of well above 10%.

In P/C Structured Reinsurance & ILS (24% of gross written premiums), Worldwide Treaty (17%), North America (16%) and Continental Europe (14%) are the most important lines of business.

In L/H Mortality (45% of GWPs), followed by Morbidity (24%) and Longevity (18%) are the most important business lines in term of premium generation. In 2018 the L/H was negatively impacted from one-offs related to its US mortality business (so-called recaptures) which may cost the reinsurer around EUR 370m in total. In 2019 the impact should be significantly lower.

Hannover Re is majority owned (50%) by Talanx AG. In recent years it has paid out 35-45% of net profit as regular dividend to shareholders plus an extra dividend of EUR 1.50 per share. We expect the reinsurer to stick to this policy as it is strongly capitalized with a solvency II ratio of around 250%. We forecast a 2018e dividend per share of EUR 5.00 which would be stable versus the previous year.

## Upcoming triggers and drivers

Currently we do not see any share price triggers ahead. Key trigger for reinsurance shares is clearly a softening or hardening of the P/C reinsurance market. This could either be triggered by large nat cat/man made losses which would reduce the current high level of alternative capital in the market. A further rise in interest rates in US would probably have a similar effect.

**Next scheduled reporting:** 2019 P/C renewals on 5 February, 2019.

## Key risks to our investment case

*A hardening of the P/C reinsurance market as key risk to our investment case*

Key risk to our investment case is a hardening of the reinsurance market driven by an accumulation of large losses and/or reversal of alternative capital flows into the market. While the former can happen any time but is not predictable, the latter could be triggered by a further increase in market yields which would make investments into the reinsurance market less attractive for hedge or pension funds.

## Valuation and recommendation

Our target price of EUR 120 is derived from the average fair values calculated from a peer group analysis (FV: EUR 119) and a dividend discount model (FV EUR 119). For the peer group we have taken into account other European insurers and our fair value is derived from a regression analysis taking into account PER and P/B & ROE for 2019e. For our DDM we have assumed pay-out ratios to hover around the 50% level; we assume a discount factor of 7.0% to take into account Hannover Re's strong solvency position.

## Exhibit 21: Dividend Discount Model

	Phase I				Phase II						Phase III		
EUR m	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027			
Net premiums	15,983	16,252	16,532	16,823	17,496	18,336	19,392	20,733	22,452	24,687			
Growth rate	2.2%	1.7%	1.7%	1.8%	4.0%	4.8%	5.8%	6.9%	8.3%	10.0%			
Investment Income	1,491	1,526	1,562	1,629	1,694	1,775	1,877	2,007	2,174	2,390			
Growth rate	-3.1%	2.4%	2.4%	4.2%	4.0%	4.8%	5.8%	6.9%	8.3%	10.0%			
Operating profit	1,569	1,684	1,786	1,852	1,938	2,021	2,127	2,262	2,438	2,667			
Growth rate	15.0%	7.3%	6.1%	3.7%	4.6%	4.3%	5.2%	6.4%	7.8%	9.4%			
Gross margin	9.0%	9.5%	9.9%	10.0%	10.1%	10.0%	10.0%	9.9%	9.9%	9.9%			
Pretax profit	1,499	1,614	1,716	1,782	1,858	1,941	2,047	2,182	2,358	2,587			
Growth rate	-7.3%	7.7%	6.3%	3.9%	4.3%	4.5%	5.4%	6.6%	8.0%	9.7%			
Pretax margin	8.6%	9.1%	9.5%	9.7%	9.7%	9.7%	9.6%	9.6%	9.6%	9.6%			
Tax	-360	-387	-412	-446	-465	-485	-512	-546	-589	-647			
Tax rate	24.0%	24.0%	24.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%			
EPS	8.7	9.4	10.0	10.4	10.9	11.4	12.0	12.8	13.8	15.1			
Growth rate	9.1%	8.4%	6.6%	4.1%	4.3%	4.5%	5.4%	6.6%	8.0%	9.7%			
Payout ratio	58%	53%	50%	48%	48%	48%	48%	48%	48%	48%			
Dividend	5.0	5.0	5.0	5.0	5.3	5.5	5.8	6.2	6.7	7.3	150.7		
Growth rate	0.0%	0.0%	0.0%	0.0%	5.3%	4.5%	5.4%	6.6%	8.0%	9.7%			
Present Value Div.	4.8	4.5	4.2	3.9	3.9	3.8	3.7	3.7	3.7	3.8	79.1		
PV Phase I	17.4												
PV Phase II	22.7				Risk premium		5.00%		Beta		0.6		
PV Phase III	79.1				Risk free rate		3.50%		Cost of Equity		7.0%		
Fair value	119.2				Sensitivity			Growth rate Phase III					
								1.0%	1.5%	2.0%	2.5%	3.0%	
								6.68%	111	118	127	137	151
								6.82%	108	115	123	133	145
					WACC			6.96%	105	112	119	128	140
								7.10%	103	109	116	124	135
								7.24%	100	106	113	121	131

Source: Pareto

## Exhibit 22: Peer Group Valuation

Company	Share Price (EUR)	MC (EUR m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Admiral Group plc	21.07	6,121	17.1x	15.6x	8.8x	8.3x	51.3%	53.3%	5.3%	6%	11%
Aegon N.V.	4.85	9,847	7.5x	6.7x	0.5x	0.5x	6.6%	7.1%	5.6%	-13%	-9%
ageas SA/NV	42.31	8,329	10.3x	9.8x	0.9x	0.8x	8.4%	8.5%	4.9%	-6%	0%
Allianz SE	188.38	79,702	10.6x	9.9x	1.2x	1.2x	11.8%	11.9%	4.2%	-1%	-8%
Aviva plc	3.99	15,552	6.9x	6.5x	0.9x	0.9x	13.7%	14.2%	6.7%	-7%	-21%
AXA SA	21.24	50,950	8.3x	7.6x	0.8x	0.8x	9.9%	10.5%	5.9%	-6%	-19%
Baloise-Holding AG	147.00	6,896	12.4x	11.1x	1.1x	1.0x	8.7%	9.1%	3.8%	0%	-4%
CNP Assurances SA	20.04	13,753	10.3x	9.8x	0.8x	0.7x	7.4%	7.5%	4.1%	-1%	5%
Assicurazioni Genera	14.85	23,230	9.5x	9.0x	0.9x	0.9x	10.0%	10.1%	5.7%	3%	-3%
Gjensidige Forsikrin	134.50	67,247	21.1x	15.3x	3.0x	2.9x	14.2%	18.8%	5.3%	2%	-11%
Hannover Ruck SE	124.00	14,952	14.5x	12.4x	1.7x	1.6x	11.8%	13.1%	4.0%	2%	12%
Helvetia Holding Ltd	611.00	6,045	12.5x	11.9x	1.1x	1.1x	9.0%	9.0%	3.8%	-3%	12%
Jardine Lloyd Thomps	18.88	4,135	27.6x	23.3x	10.6x	9.2x	38.3%	39.5%	1.8%	0%	41%
Legal & General Grou	2.43	14,460	8.0x	7.7x	1.7x	1.5x	20.7%	19.4%	6.3%	-6%	-9%
Mapfre SA	2.50	7,647	10.2x	8.9x	0.9x	0.9x	8.8%	9.7%	5.7%	-6%	-11%
Munich Reinsurance C	195.35	28,892	11.5x	10.6x	1.0x	1.0x	9.0%	9.5%	4.4%	1%	4%
NN Group	37.66	12,745	8.4x	9.0x	0.5x	0.5x	6.5%	5.8%	4.4%	-3%	-2%
Prudential plc	15.47	40,084	10.5x	9.7x	2.3x	2.1x	22.4%	21.3%	3.1%	-5%	-17%
RSA Insurance Group	5.41	5,551	13.7x	11.0x	1.5x	1.4x	10.9%	12.9%	3.6%	-2%	-11%
Sampo Oyj Class A	38.90	21,603	12.6x	13.6x	1.6x	1.6x	12.9%	11.8%	6.7%	-4%	-14%
Scor SE	42.56	7,955	14.2x	12.2x	1.3x	1.2x	9.1%	10.2%	3.9%	0%	23%
Storebrand ASA	67.48	31,539	11.4x	11.7x	1.0x	1.0x	8.7%	8.2%	3.7%	-6%	3%
Swiss Life Holding A	395.00	13,466	12.5x	11.6x	0.8x	0.8x	6.7%	7.1%	3.4%	2%	18%
Swiss Re AG	91.54	27,806	15.7x	10.1x	1.0x	0.9x	6.1%	9.1%	5.3%	1%	0%
Talanx AG	31.32	7,918	10.9x	8.6x	0.9x	0.8x	8.1%	9.7%	4.5%	-2%	-9%
Topdanmark A/S	298.00	26,820	18.7x	18.2x	4.5x	4.4x	23.8%	24.1%	6.4%	-7%	10%
Uniq	8.33	2,555	11.6x	11.1x	0.8x	0.8x	6.8%	7.0%	6.1%	-1%	-7%
Vienna Insurance Gro	22.50	2,880	10.2x	9.5x	0.6x	0.6x	5.6%	5.8%	4.0%	-6%	-13%
Zurich Insurance Gro	313.60	47,100	13.0x	11.1x	1.5x	1.4x	11.2%	12.7%	5.6%	-1%	4%
Average			12.5x	11.2x	1.9x	1.8x	13.1%	13.7%	4.8%	-2%	-1%
Hannover Ruck SE			14.5x	12.4x	1.7x	1.6x	11.8%	13.1%	4.0%	2%	12%
FAIR VALUE BASED UPON 2019e PER:			111.69	FAIR VALUE BASED UPON '19e REGRESSION ANALYSIS (P/B & ROE)	125.23	AVERAGE	118.46				

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Gross Premiums Written	13,963	14,362	17,069	16,354	17,791	18,039	18,292	18,549
Net Premiums Earned <sup>2</sup>	12,227	12,423	14,593	14,418	15,632	15,983	16,252	16,532
<b>Underwriting result</b>	<b>(82)</b>	<b>(24)</b>	<b>94</b>	<b>116</b>	<b>(254)</b>	<b>(32)</b>	<b>48</b>	<b>114</b>
<b>Investment Result</b>	<b>1,412</b>	<b>1,472</b>	<b>1,665</b>	<b>1,550</b>	<b>1,539</b>	<b>1,491</b>	<b>1,526</b>	<b>1,562</b>
Other income/expenses <sup>2</sup>	(100)	18	(4)	23	79	110	110	110
<b>Total Operating Profit<sup>2</sup></b>	<b>1,230</b>	<b>1,466</b>	<b>1,755</b>	<b>1,689</b>	<b>1,365</b>	<b>1,569</b>	<b>1,684</b>	<b>1,786</b>
of which Primary	-	-	-	-	-	-	-	-
of which Reinsurance	1,230	1,466	1,755	1,689	1,365	1,569	1,684	1,786
Non-operating Profit	(127)	(96)	(84)	(72)	(72)	(70)	(70)	(70)
<b>Pretax Profit</b>	<b>1,103</b>	<b>1,370</b>	<b>1,671</b>	<b>1,617</b>	<b>1,293</b>	<b>1,499</b>	<b>1,614</b>	<b>1,716</b>
Taxes	(163)	(306)	(456)	(391)	(248)	(360)	(387)	(429)
<i>Tax rate (%)</i>	<i>15</i>	<i>22</i>	<i>27</i>	<i>24</i>	<i>19</i>	<i>24</i>	<i>24</i>	<i>25</i>
Minorities	(44)	(79)	(64)	(55)	(86)	(93)	(93)	(79)
<b>Net Profit</b>	<b>896</b>	<b>985</b>	<b>1,151</b>	<b>1,171</b>	<b>959</b>	<b>1,046</b>	<b>1,134</b>	<b>1,208</b>
<b>BALANCE SHEET (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Goodwill	57	58	60	65	92	92	92	92
Invested Assets <sup>2</sup>	31,232	35,455	38,554	40,945	39,222	41,076	42,720	44,372
Other Assets <sup>2</sup>	22,626	24,944	24,601	22,519	21,883	22,248	23,123	24,227
<b>Total Assets</b>	<b>53,916</b>	<b>60,458</b>	<b>63,215</b>	<b>63,529</b>	<b>61,197</b>	<b>63,416</b>	<b>65,935</b>	<b>68,690</b>
<b>Shareholders' Equity</b>	<b>5,888</b>	<b>7,551</b>	<b>8,068</b>	<b>8,997</b>	<b>8,528</b>	<b>8,753</b>	<b>9,284</b>	<b>9,889</b>
Minorities <sup>2</sup>	642	702	709	743	758	758	758	758
Subordinated debt <sup>2</sup>	1,490	1,490	1,490	1,491	1,492	1,492	1,492	1,492
Senior Debt <sup>2</sup>	975	780	308	313	250	250	250	250
Provisions for insurance contracts <sup>2</sup>	32,298	35,869	38,763	38,419	37,356	38,373	39,423	40,509
Other Liabilities	12,622	14,065	13,876	13,565	12,812	13,790	14,728	15,792
<b>Total liabilities and equity</b>	<b>53,916</b>	<b>60,458</b>	<b>63,215</b>	<b>63,529</b>	<b>61,197</b>	<b>63,416</b>	<b>65,935</b>	<b>68,690</b>
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares m	121	121	121	121	121	121	121	121
<b>Price EUR</b>	<b>62.4</b>	<b>75.0</b>	<b>105.7</b>	<b>102.8</b>	<b>104.9</b>	<b>124.0</b>	<b>124.0</b>	<b>124.0</b>
Market cap. EURm	7,523	9,041	12,741	12,397	12,651	14,954	14,954	14,954
EPS reported EUR	7.4	8.2	9.5	9.7	8.0	8.7	9.4	10.0
EPS adj. EUR	7.4	8.2	9.5	9.7	8.0	8.7	9.4	10.0
BVPS	48.8	62.6	66.9	74.6	70.7	72.6	77.0	82.0
TBVPS	48.4	62.1	66.4	74.1	70.0	71.8	76.2	81.2
DPS	3.0	4.3	4.8	5.0	5.0	5.0	5.0	5.0
<b>P/E</b>	<b>8.4</b>	<b>9.2</b>	<b>11.1</b>	<b>10.6</b>	<b>13.2</b>	<b>14.3</b>	<b>13.2</b>	<b>12.4</b>
P/E (adj.)	8.4	9.2	11.1	10.6	13.2	14.3	13.2	12.4
P/BVPS	1.28	1.20	1.58	1.38	1.48	1.71	1.61	1.51
P/TBVPS	1.29	1.21	1.59	1.39	1.50	1.73	1.63	1.53
Dividend Yield	4.81%	5.67%	4.50%	4.86%	4.77%	4.03%	4.03%	4.03%
<b>KEY RATIOS (EUR)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net premiums earned growth yoy	(0.4%)	1.6%	17.5%	(1.2%)	8.4%	2.2%	1.7%	1.7%
Combined ratio	94.9%	94.7%	94.4%	93.7%	99.8%	97.0%	97.0%	96.5%
Solvency II Ratio				230.0%	240.0%	250.0%	260.0%	270.0%
Financial Leverage Ratio	29.5%	23.1%	18.2%	16.7%	17.0%	16.6%	15.8%	15.0%
ROE		14.7%	14.7%	13.7%	10.9%	12.1%	12.6%	12.6%
ROI	3.3%	3.2%	3.4%	3.0%	3.5%	2.7%	2.7%	2.7%

## Strong earnings growth ahead: Buy, TP EUR 190



*We initiate coverage of Hypoport shares with a Buy recommendation and a target price of EUR 190 as we forecast strong earnings growth for the next two years (2018e-2020e EPS CAGR of 26%). Driven by the real estate platform for institutional clients and the newly launched insurance platform revenues should grow at least double-digit in the next years. Importantly, Hypoport should be relatively immune against the current negative macroeconomic/political market environment.*

### Investment case

We initiate coverage of Hypoport shares with a Buy recommendation and a target price of EUR 190 as we see the company well positioned to benefit from two trends in the banking and insurance market. Europace, the online marketplace for real estate and consumer loans, should benefit from an increased demand from banks, mainly savings and mutual banks, as these players have to save costs to offset the negative impact from the low interest rate environment. Europace helps them to reduce costs as they do not have to make software investments themselves anymore but can rather rely on Europace. Smart Insuretech addresses the insurance market with the idea to build a market place for both the insurance companies and the distribution agents. Following a number of acquisitions Hypoport has now a product, which comprises product comparison, advice tools and processing of the policies and claims management; focus is now on winning customers.

Mainly driven by these two initiatives we forecast an EPS growth of 26% for the next two years (2018e-2020e CAGR).

EURm	2016	2017	2018e	2019e	2020e
Revenues	157	195	265	299	332
EBITDA	28	30	40	50	59
EBIT	23	23	30	39	47
EPS	3.02	3.10	3.70	4.77	5.78
EPS adj	3.02	3.10	3.70	4.77	5.78
DPS	-	-	-	-	-
EV/EBITDA	15.7	28.3	26.3	20.3	16.7
EV/EBIT	19.1	36.6	35.3	25.9	20.8
P/E adj	25.8	46.9	45.5	35.3	29.2
P/B	7.24	10.46	10.02	7.81	6.16
ROE (%)	31.1	25.2	24.1	24.8	23.6
Div yield (%)	-	-	-	-	-
Net debt	(18)	(11)	(3)	(32)	(68)

Source: Pareto

Target price (EUR)	190
Share price (EUR)	169

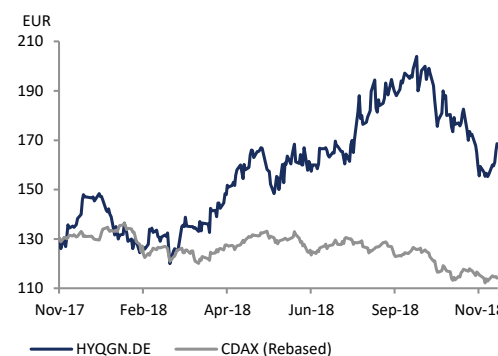
### Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	HYQGN.DE, HYQ GR
Sector	Diversified Financials
Shares fully diluted (m)	6.2
Market cap (EURm)	1,053
Net debt (EURm)	-3
Minority interests (EURm)	0
Enterprise value 18e (EURm)	1,051

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.**

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Europace and Smart Insuretech as the growth engines within the group*

## Company profile

Hypoport has four business units, the Credit Platform (via the brand Europace), Private Clients (via the brand Dr. Klein), the Real Estate Platform (via the brands Dr. Klein and FIO) and the Insurance Platform (via the brand Smart Insurtech). While the first three business units focus more or less on real estate loans and address either banks or retail/commercial customers, the Insurance Platform address the insurance market.

The Credit Platform enables banks to distribute loans of more than 500 banks to its customers. Importantly banks can also use Europace to solely process their own loan business. Key future revenues driver should be a growing market share among banks, as they can save costs and improve their customer service (incl. product offering) by using Europace.

In the Private Clients unit Dr. Klein is servicing retail customers through more than 500 IFAs, the focus being on mortgage loans.

Via the Real Estate Platform Dr. Klein is brokering real estate loans to institutional customers; additionally it offers real estate valuation and different software solutions.

Its newest business unit, the Insurance Platform, which has grown via various acquisitions during the last 18 months targets the insurance market. The idea is to build an online insurance market place for insurers and brokers which comprises product comparisons, advice tools and processing of the policies and claims management.

## Upcoming triggers and drivers

An important trigger would be in our view the announcement of one large customer signing up for Smart Insurtech, i.e. a customer using the complete online market place and not only separate software solutions. Further acquisitions could be another driver, although we do not expect Hypoport to make any large acquisitions in the short term.

**Next scheduled reporting:** Q4 results on 12 March, 2019.

## Risks to our investment case

Key risk to our investment case is a strong increase in long-term yields which would lead to a lower demand for real estate loans. Although such a dampened demand for real estate loans would be in our view only temporary (initially demand for real estate loans may even soar as customers would try take advantage of the still low mortgage rates) we would expect the sentiment for Hypoport shares to deteriorate under such a scenario. As Hypoport should however be able to further increase its market share under such a scenario as well and as Smart Insurtech should not be negatively impacted from higher rates we would see only limited negative earnings impact.

## Valuation and recommendation

Our valuation is based upon a DCF (WACC: 7.6%, Terminal value at 72% of total value, terminal growth: 2%). Thus we have derived a target price of EUR 190. Shares are trading at a premium to other German financial service companies which is however justified in our view as earnings growth rates are higher and we think that earnings stability should be higher.

*A strong rise in long term rates should be negative for the sentiment for the stock*

## Exhibit 23: DCF Model

Expectations in EUR m	Phase I					Phase II					Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Revenues	265	299	332	369	406	446	490	537	588	644	
growth rate	12.7%	13.0%	11.0%	11.0%	10.0%	9.9%	9.8%	9.7%	9.6%	9.5%	
EBIT	30	39	47	54	61	69	78	89	100	116	
EBIT Margin	11.2%	13.2%	14.3%	14.7%	15.0%	15.5%	16.0%	16.5%	17.0%	18.0%	
Tax	-6	-8	-10	-11	-13	-15	-17	-19	-22	-26	
Tax rate	21.0%	21.0%	21.0%	21.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	
Depreciation	10	11	12	12	13	15	16	18	19	21	
% of revenue	3.8%	3.6%	3.5%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	
Capex	-60	-12	-14	-14	-13	-14	-16	-17	-19	-21	
% of revenue	22.6%	4.0%	4.2%	3.8%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	
Change in Working Capital	11	-2	-2	-2	-2	-2	-3	-3	-3	-3	
% of revenue	-4.1%	0.7%	0.6%	0.5%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	
Free Cash Flow	-15	28	33	40	46	52	59	67	75	88	
growth rate	nm	nm	17.6%	18.3%	15.6%	13.7%	13.5%	13.2%	13.0%	12.1%	
Present Value CF	-16	28	31	34	36	39	41	43	45	48	
PV Phase I		77			Market Cap		874	Target equity ratio		80%	
PV Phase II		252			Risk premium		5.00%	Beta		1.0	
PV Phase III		881			Risk-free rate		3.50%	WACC		7.6%	
Enterprise value		1,210			Sensitivity		Growth in Phase III				
+ Cash		9			Analysis		1.0%	1.5%	2.0%	2.5%	3.0%
- Debt		30					6.85%	193	207	224	245
Equity Value		1,188					7.23%	180	192	206	223
Number of shares		6			WACC		7.61%	168	178	190	205
							7.99%	157	166	177	189
Value per share		190					8.37%	148	156	165	175
								175	185	195	204

Source: Pareto

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Revenues</b>	<b>101</b>	<b>112</b>	<b>139</b>	<b>157</b>	<b>195</b>	<b>265</b>	<b>299</b>	<b>332</b>
<b>EBITDA</b>	<b>8</b>	<b>13</b>	<b>25</b>	<b>28</b>	<b>30</b>	<b>40</b>	<b>50</b>	<b>59</b>
Depreciation & amortisation	(4)	(5)	(6)	(5)	(7)	(10)	(11)	(12)
<b>EBIT</b>	<b>4</b>	<b>8</b>	<b>19</b>	<b>23</b>	<b>23</b>	<b>30</b>	<b>39</b>	<b>47</b>
Net interest	0	0	0	0	1	0	0	0
Other financial items	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
<b>Profit before taxes</b>	<b>3</b>	<b>7</b>	<b>19</b>	<b>23</b>	<b>23</b>	<b>29</b>	<b>38</b>	<b>46</b>
Taxes	(0)	(1)	(3)	(5)	(5)	(6)	(8)	(10)
Minority interest	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>3</b>	<b>6</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>23</b>	<b>30</b>	<b>36</b>
EPS reported	0.49	0.97	2.63	3.02	3.10	3.70	4.77	5.78
<b>EPS adjusted</b>	<b>0.49</b>	<b>0.97</b>	<b>2.63</b>	<b>3.02</b>	<b>3.10</b>	<b>3.70</b>	<b>4.77</b>	<b>5.78</b>
DPS	-	-	-	-	-	-	-	-
<b>BALANCE SHEET (EURm)</b>								
<b>Tangible non current assets</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>4</b>
Other non-current assets	35	37	38	52	68	120	121	120
Other current assets	25	29	31	35	54	39	41	43
Cash & equivalents	12	12	25	22	14	9	38	74
<b>Total assets</b>	<b>74</b>	<b>80</b>	<b>96</b>	<b>112</b>	<b>141</b>	<b>171</b>	<b>203</b>	<b>241</b>
Total equity	33	39	53	64	83	105	135	171
Interest-bearing non-current debt	12	11	7	6	13	25	27	29
Interest-bearing current debt	5	5	4	4	3	5	5	5
Other Debt	25	26	32	37	42	36	36	36
<b>Total liabilities &amp; equity</b>	<b>74</b>	<b>80</b>	<b>96</b>	<b>112</b>	<b>141</b>	<b>171</b>	<b>203</b>	<b>241</b>
<b>CASH FLOW (EURm)</b>								
Cash earnings	5	11	24	26	24	28	40	48
Change in working capital	4	(2)	3	(8)	(16)	11	(2)	(2)
Cash flow from investments	(6)	(6)	(7)	(13)	(21)	(58)	(10)	(12)
Cash flow from financing	(1)	(1)	(7)	(7)	5	14	2	2
Net cash flow	2	1	13	(2)	(8)	(6)	30	36
<b>CAPITALIZATION &amp; VALUATION (EURm)</b>								
<b>Share price (EUR end)</b>	<b>9.7</b>	<b>12.2</b>	<b>80.5</b>	<b>77.8</b>	<b>145.4</b>	<b>168.6</b>	<b>168.6</b>	<b>168.6</b>
Number of shares end period	6	6	6	6	6	6	6	6
Net interest bearing debt	(7)	(7)	(20)	(18)	(11)	(3)	(32)	(68)
<b>Enterprise value</b>	<b>53</b>	<b>68</b>	<b>466</b>	<b>444</b>	<b>853</b>	<b>1,051</b>	<b>1,021</b>	<b>985</b>
EV/Sales	0.5	0.6	3.4	2.8	4.4	4.0	3.4	3.0
<b>EV/EBITDA</b>	<b>6.5</b>	<b>5.3</b>	<b>18.6</b>	<b>15.7</b>	<b>28.3</b>	<b>26.3</b>	<b>20.3</b>	<b>16.7</b>
EV/EBIT	13.5	8.5	24.2	19.1	36.6	35.3	25.9	20.8
P/E reported	19.9	12.6	30.6	25.8	46.9	45.5	35.3	29.2
<b>P/E adjusted</b>	<b>19.9</b>	<b>12.6</b>	<b>30.6</b>	<b>25.8</b>	<b>46.9</b>	<b>45.5</b>	<b>35.3</b>	<b>29.2</b>
P/B	1.8	1.9	9.3	7.2	10.5	10.0	7.8	6.2
<b>FINANCIAL ANALYSIS &amp; CREDIT METRICS</b>								
ROE adjusted (%)	18.2	16.5	34.7	31.0	25.1	24.0	24.7	23.5
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	8.1	11.3	18.0	18.1	15.5	15.1	16.8	17.8
EBIT margin (%)	3.9	7.1	13.9	14.8	12.0	11.2	13.2	14.3
NIBD/EBITDA	(0.82)	(0.57)	(0.81)	(0.63)	(0.38)	(0.07)	(0.64)	(1.15)
EBITDA/Net interest	-	-	-	-	-	-	-	-

## Small but beautiful: Buy, TP EUR 10.0

*We initiate coverage of Merkur Bank shares with a Buy recommendation and a target price of EUR 10.0 as we see the shares attractively valued with a 2019 P/B of 0.8x while offering a dividend yield of close to 4%. Merkur Bank's main business, financing of commercial residential real estate developments, is clearly not risk-free but we see the fact that the bank's CEO is a general liable partner of the bank very positively, because it aligns the interests of the CEO and the other shareholders. Additionally Merkur Bank has a long and good track record in this experience and focuses on one region which it knows best*

### Investment case]

We initiate coverage of Merkur Bank shares with a Buy recommendation and a target price of EUR 10.00 as the shares are attractively valued (2019e P/B of 0.8x, ROE 7%) while offering a dividend yield of close to 4%. Merkur Bank focuses on loans to residential real estate developers in Southern Germany, mainly Munich, and is thus in pole position to benefit from an expected continued high building activity in this region. Given the bank's long successful track record and the fact that its CEO is a personal liable partner of the bank, we see only a limited risk that the bank expands too aggressively into this rather volatile market segment. Positively, the bank has strengthened its other business units in recent years as well. We see in particular the bank's retail banking business positively as it should have a stabilizing effect on the bank's earnings development. With assets under custody of EUR 350m as of 30.9.2018 Merkur Bank has managed to almost double its AuC since 2014. Since its capital increase in 2016 Merkur Bank's capitalization is solid and should not limit anymore the bank's future portfolio growth

EURm	2016	2017	2018e	2019e	2020e
M.cap.	38	45	47	47	47
NII	23	23	25	25	25
Other inc.	1	1	1	1	1
Op.costs	(23)	(24)	(24)	(24)	(24)
L.losses	2	(0)	(1)	(1)	(1)
Net profit	3	3	4	4	4
EPS	0.61	0.60	0.64	0.68	0.72
EPS adj	0.61	0.60	0.64	0.68	0.72
P/E	10.9	13.0	12.8	12.2	11.4
P/B	0.75	0.84	0.86	0.83	0.80
Yield (%)	3.9	3.8	3.9	4.1	4.4
ROE (%)	6.8	6.6	6.8	6.9	7.1

Source: Pareto



Target price (EUR)	10.0
Share price (EUR)	8.3

### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	MBKG.DE, MBK GY
Sector	Banks
Shares fully diluted (m)	5.7
Market cap (EURm)	47

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MiFID 2 directive.**

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

## Company profile

*Focus is on funding of residential real estate developments in Munich*

Merkur Bank is a small Munich based bank which is offering retail banking solutions to customers who are looking for advisory services, financing to residential real estate developers, small to medium sized corporate customers and leasing companies.

Main earnings contributor is the financing of the residential real estate development business. Total loan book is around EUR 1bn, of which around 80% comes from the commercial real estate financing. In retail banking the bank has successfully increased its assets under custody in recent years and has today assets under custody of almost EUR 400m. The bank is offering its services in Bavaria, Saxony and Thuringia with a focus on Munich. The bank has only 4 branches.

The legal structure of the bank is a KGaA with the CEO, Dr. Marcus Lingel, holding more than 90% of the general partner's equity. Free float of the listed shares is around 65%.

The bank has a CT1 ratio of 10% and is, compared to other German banks, quite profitable with a ROE of around 7%. We expect the bank to reach a net profit of EUR 3.7m (+6% yoy), key earnings driver should have been lower provisions for the fund for general banking risks.

Merkur Bank distributes 50% of its earnings as dividend to shareholders. For 2018e we forecast a dividend per share of EUR 0.32 which would be equivalent to an increase by 7% yoy.

## Upcoming triggers and drivers

As Merkur Bank's earnings development is normally quite stable and not impacted by single events we do not see any specific share price triggers ahead. Q4 results should be good and we expect the bank to reach our earnings estimates.

**Next scheduled reporting:** Preliminary Q4 results are likely to be published in March 2019.

## Risks to our investment case

Main risk is clearly a slow-down of the residential new building activity in Germany, particularly in Munich, which may lead to higher risk provisions and/or lower net interest income due to a decline in the loan portfolio. Although Merkur Bank has a good track record in commercial real estate finance we would not expect the bank to be able to fully offset a revenue decline in its core business by further expanding in its three other business areas.

## Valuation and recommendation

Our valuation is based upon a Dividend Discount Model, a Gordon Growth Model and a Peer Group Analysis. For the Peer Group Analysis we have taken into account other banks which are active in Germany. From the weighted average of the three calculated fair values we have derived a target price of EUR 10.00. Given a share price upside of 20% we recommend buying the shares.

*A weakening of the residential market in Munich is the key risk for Merkur Bank*

## Exhibit 24: Dividend Discount Model

EUR m	Phase I				Phase II						Phase III
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
EBT	9.1	10.8	11.1	11.6	12.2	12.8	13.5	14.1	14.8	15.6	
CIR	64.5%	63.5%	63.2%	63.0%	62.1%	61.1%	60.2%	59.3%	58.4%	57.5%	
Tax	-3.6	-4.1	-4.4	-4.7	-4.9	-5.1	-5.4	-5.7	-5.9	-6.2	
Tax rate	40.0%	38.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	
Minorities/Others	-2.0	-3.1	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	
growth rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net profit	3.4	3.7	3.8	4.2	4.5	4.9	5.3	5.7	6.1	6.6	
growth rate	8.0%	6.4%	5.2%	8.6%	8.3%	8.1%	7.9%	7.7%	7.5%	7.3%	
Total dividend	1.6	1.8	1.9	2.1	2.3	2.4	2.6	2.8	3.1	3.3	48
payout ratio	46.3%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	
PV Phase I	7										
PV Phase II	10										
PV Phase III	23										
Total Fair Value	39										
# shares	6										
Fair value per share	6.93										
					Risk premium	4.0%	Beta	1.1			
					Risk free rate	4.5%	Cost of equity	9.0%			
					Sensitivity		Growth in phase III				
						1.0%	1.5%	2.0%	2.5%	3.0%	
					8.1%	7	8	8	8	9	
					8.5%	7	7	7	8	8	
					9.0%	6	7	7	7	8	
					9.4%	6	6	7	7	7	
					9.9%	6	6	6	6	7	

Source: Pareto

## Exhibit 25: Gordon Growth Model (2019e ROE: 9.0%)

	Growth (g)						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
7.5%	16.00	16.23	16.49	16.80	17.17	17.62	18.19
8.0%	14.93	15.06	15.21	15.39	15.60	15.85	16.16
8.5%	14.00	14.06	14.12	14.20	14.30	14.40	14.54
9.0%	13.17	13.18	13.18	13.19	13.19	13.20	13.21
9.5%	12.44	12.40	12.35	12.30	12.25	12.18	12.10
10.0%	11.78	11.71	11.63	11.53	11.43	11.31	11.17
10.5%	11.19	11.09	10.98	10.85	10.71	10.55	10.37

Source: Pareto

## Exhibit 26: Peer Group Valuation

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2018e	1M Perf	12M Perf
Aareal Bank AG	28.42	1,701	9.1x	9.7x	0.6x	0.6x	6.9%	6.4%	9.1%	-13%	-24%
comdirect	10.84	1,531	14.6x	23.0x	2.2x	2.1x	14.9%	9.0%	2.3%	6%	-5%
Commerzbank AG	7.52	9,416	10.4x	8.9x	0.3x	0.3x	3.2%	3.6%	2.7%	-14%	-40%
Deutsche Bank AG	8.06	16,643	24.0x	11.1x	0.3x	0.3x	1.1%	2.4%	1.6%	-13%	-50%
Deutsche Pfandbriefbank	10.29	1,384	8.8x	9.9x	0.5x	0.5x	5.2%	4.6%	8.7%	-13%	-22%
Umweltbank	8.42	238	8.5x	8.3x	2.3x	2.2x	26.2%	26.8%	16.6%	0%	-23%
Average			12.6x	11.8x	1.0x	1.0x	9.6%	8.8%	6.8%	-7.7%	-27%
MERKUR BANK	8.25	47	12.8x	12.8x	0.6x	0.6x	9.5%	9.5%	3.9%	-13%	-50%
vs average			2.0%	8.5%	-37.0%	-34.5%	-0.4%	8.2%	-43.0%		
FAIR VALUE BASED UPON 2017e PER:	7.60		FV BASED UPON REGRESSION ANALYSIS (P/B 2017e & ROE):					13.32	AVERAGE	10.46	

Source: Pareto, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	22	23	23	25	25	25
Net fee and commission income	10	10	12	11	11	11
<b>Operating income</b>	<b>33</b>	<b>35</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>37</b>
Staff costs	(13)	(13)	(13)	(14)	(14)	(14)
Other expenses	(9)	(9)	(10)	(10)	(10)	(10)
Depr.	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating expenses</b>	<b>(23)</b>	<b>(23)</b>	<b>(24)</b>	<b>(24)</b>	<b>(24)</b>	<b>(24)</b>
<b>Operating profit before losses</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>13</b>
Net loan losses	(2)	2	(0)	(1)	(1)	(1)
<b>Pre-tax profit</b>	<b>8</b>	<b>13</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>12</b>
Tax expense	(3)	(4)	(4)	(4)	(4)	(5)
<b>Net profit</b>	<b>4</b>	<b>9</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
Minority interests	(2)	(6)	(4)	(3)	(3)	(3)
<b>Net profit attributable</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Current assets	72	121	141	130	134	138
Gross loans	813	847	888	906	924	943
Other assets and accruals	87	65	64	80	80	80
<b>Total assets</b>	<b>973</b>	<b>1,033</b>	<b>1,094</b>	<b>1,116</b>	<b>1,138</b>	<b>1,161</b>
Deposits from credit institutions	84	74	62	63	63	63
Deposits from the public	800	846	905	924	943	962
Certificates and bond loans	-	-	-	-	-	-
Other liabilities accruals and allocat.	19	26	32	28	30	31
Subordinated loan capital	27	36	41	46	46	46
Equity	43	51	53	55	57	59
<b>Total debt and equity</b>	<b>973</b>	<b>1,033</b>	<b>1,094</b>	<b>1,116</b>	<b>1,138</b>	<b>1,161</b>
Average total assets		1,003	1,063	1,105	1,127	1,149
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares	5	5	6	6	6	6
End. no. of shares	5	6	6	6	6	6
Price	5.9	6.7	7.9	8.3	8.3	8.3
Market cap.	31	38	45	47	47	47
<b>EPS reported</b>	<b>0.51</b>	<b>0.61</b>	<b>0.60</b>	<b>0.64</b>	<b>0.68</b>	<b>0.72</b>
EPS adj.	0.51	0.61	0.60	0.64	0.68	0.72
<b>BVPS</b>	<b>8.4</b>	<b>8.9</b>	<b>9.3</b>	<b>9.6</b>	<b>10.0</b>	<b>10.3</b>
DPS	0.22	0.26	0.30	0.32	0.34	0.36
<b>P/E</b>	<b>11.6</b>	<b>10.9</b>	<b>13.0</b>	<b>12.8</b>	<b>12.2</b>	<b>11.4</b>
P/E adj.	11.6	10.9	13.0	12.8	12.2	11.4
<b>P/B</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
Dividend Yield	3.7%	3.9%	3.8%	3.9%	4.1%	4.4%
<b>KEY RATIOS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest margin	2.39%	2.30%	2.16%	2.22%	2.20%	2.20%
Net interest margin (int.-bearing assets)	2.63%	2.62%	2.53%	2.60%	2.56%	2.56%
Cost/Income	67%	64%	63%	63%	63%	63%
Loan losses (bps annualised)	0	(0)	0	0	0	0
<b>ROE</b>		<b>6.8%</b>	<b>6.6%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>7.1%</b>
ROA	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%
RORWA	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%

## Fairly valued at the moment: Hold, TP EUR 205.00



*We initiate coverage of Munich Re shares with a Hold recommendation and target price of EUR 205. We see the shares fairly valued with a 2019e PER of 11x while see no share price triggers ahead. This year was characterized by lower large losses compared to 2017 while overall P/C reinsurance prices had stabilized or even increased for loss affected regions. For 2018 we expect P/C reinsurance prices to remain stable at best, only loss effected regions should see higher prices.*

### Investment case

We initiate coverage of Munich Re shares with a Hold recommendation and a target price of EUR 205. On the one hand we see the shares fairly valued with a 2019e PER of 11x and on the other hand we do not see any share price triggers ahead.

P/C renewals in 2019 should be stable at best following a somewhat improved pricing environment in 2018. We expect only price increases for loss effected regions. The main problem of the sector, the overcapitalization of the industry, should persist, even if the increased long term yields in the US should have led to some reallocation of capital.

In primary insurance Munich Re's subsidiary Ergo is well on track to achieve its 2021 profit targets. We expect Ergo to make further progress in 2019 and increase earnings again.

As Munich Re is strongly capitalized we expect it to remain a reliable dividend stock. With a 2018e dividend yield around 4% the shares are certainly attractive for yield investors. We would however rather wait for lower share prices to buy the shares as a dividend investment.

Target price (EUR)	205
Share price (EUR)	195

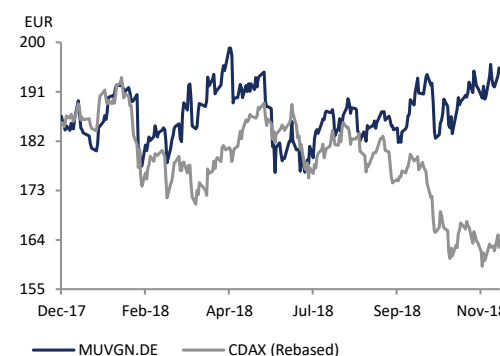
### Forecast changes

%	2018e	2019e	2020e
EPS	-	-	-
EPS adj	-	-	-

Source: Pareto

Ticker	MUVGN.DE, MUV2 GY
Sector	Insurance
Shares fully diluted (m)	467.8
Market cap (EURm)	91,387
Free float (%)	100

### Performance



Source: Factset

EURm	2016	2017	2018e	2019e	2020e
M.cap.	28,187	27,297	28,353	28,353	28,353
N. Prem. Earned	47,118	47,164	48,451	49,607	50,796
Operating profit	4,358	1,243	4,000	4,449	4,620
Net profit	2,914	378	2,358	2,711	2,844
Comb. Ratio (%)	96	114	97	96	95
EPS	18.2	2.5	15.9	18.7	19.6
P/E	9.9	73.7	12.3	10.5	10.0
P/B	0.9	1.0	1.0	1.0	1.0
ROE (%)	9.4	1.3	8.5	9.8	10.0
Div Yield (%)	4.8	4.8	4.4	4.6	4.8

Source: Pareto

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

## Company profile

*Munich Re is the largest reinsurer in the world*

Munich Re is the largest reinsurer in the world, being active both in P/C and L/H on a global scale. Additionally it is active in primary insurance through its subsidiary Ergo, which is mainly active in Europe but also in selected European countries. The earnings contribution of the primary insurance activities to the group is around 10%.

Within P/C Re North America is the most important region for Munich RE with 45% of the premium volume coming from this region, followed by Europe (35%), Asia (10%), Australia (5%) and Latin America (5%). 52% of the book is traditional business, i.e. casualty, nat cat XL and other property, followed by risk solutions (25%) and tailor-made solutions (23%). In L/H, which contributes c. 25% to the reinsurance earnings, 60% of the portfolio is mortality, followed by morbidity (30%) and longevity (10%). North America is with a share of 60% of the portfolio by far the most important region, followed by Europe (25%) and Asia (10%).

Ergo is active in P/C and L/H, the latter being of higher importance regarding profit contribution. In P/C Germany Munich Re has a relatively balanced portfolio, motor being of below importance for Ergo than for the market. Internationally Poland, Spain, Turkey and Greece have the largest premium contribution.

With a solvency II ratio of around 250% Munich Re is strongly capitalized. In the past it has normally paid out 50% of earnings with the target to keep dividend per share at least stable. Additionally it has executed almost each year a share buy-back of EUR 1bn during the last years. Between 2005 and 2017 it has returned c. EUR 25bn to shareholders. We expect Munich Re to continue its shareholder friendly dividend policy.

## Upcoming triggers and drivers

Currently we do not see any share price triggers ahead. Key trigger for reinsurance shares is clearly a softening or hardening of the P/C reinsurance market, a scenario we do not expect. A better than expected performance of Ergo should result in a positive share price reaction, but major surprises are unlikely in our view.

**Next scheduled reporting:** Preliminary Q4 results on 06 February, 2019.

## Risks to our investment case

Key risk to our investment case is a hardening of the reinsurance market driven by an accumulation of large losses and/or reversal of alternative capital flows into the market. While the former can happen any time but is not predictable, the latter could be triggered by a further increase in market yields which would make investments into the reinsurance market less attractive for hedge or pension funds.

## Valuation and recommendation

Our valuation is based upon a Peer Group valuation with European insurers and a Dividend Discount Model (DDM). While the Peer Group results in a fair value of EUR 194, the DDM results in a fair value of EUR 214. Our target price of EUR 205 is calculated from the average of the two fair values. We see the shares fairly valued with a 2019e PER of 11x and a dividend yield of around 5%.

*Hardening of the P/C reinsurance market as key risk to our investment case*

## Exhibit 27: Dividend Discount Model

EUR bn	Phase I				Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
EPS	15.9	18.7	19.6	20.2	20.9	21.4	21.8	22.1	22.4	22.6	
Growth rate	553.8%	17.3%	4.9%	3.4%	3.0%	2.4%	1.9%	1.5%	1.2%	1.0%	
Payout ratio	54.0%	48.2%	48.0%	48.4%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	
Dividends	8.6	9.0	9.4	9.8	10.2	10.5	10.7	10.8	11.0	11.1	251.8
Growth rate	0.0%	4.7%	4.4%	4.3%	4.3%	2.4%	1.9%	1.5%	1.2%	1.0%	
Present Value Div.	8.4	8.3	8.1	7.9	7.8	7.5	7.1	6.8	6.5	6.1	139.7
PV Phase I	32.7										
PV Phase II	41.8				Risk premium		5.02%		Beta		0.6
PV Phase III	139.7				Risk free rate		3.50%		Cost of Equity		6.5%
Fair value	214.2				Sensitivity		Growth rate Phase III				
							1.0%	1.5%	2.0%	2.5%	3.0%
					6.2%		199	213	231	253	282
					6.3%		193	206	222	242	268
					6.5%		188	200	214	233	256
					6.6%		182	193	207	224	245
					6.8%		177	188	200	215	235

Source: Pareto

## Exhibit 28: Peer Group Valuation

Company	Share Price (EUR)	MC (EUR m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Admiral Group plc	21.07	6,121	17.1x	15.6x	8.8x	8.3x	51.3%	53.3%	5.3%	6%	10%
Aegon N.V.	4.85	9,847	7.5x	6.7x	0.5x	0.5x	6.6%	7.1%	5.6%	-13%	-10%
ageas SA/NV	42.31	8,329	10.3x	9.8x	0.9x	0.8x	8.4%	8.5%	4.9%	-6%	0%
Allianz SE	188.38	79,702	10.6x	9.9x	1.2x	1.2x	11.8%	11.9%	4.2%	0%	-7%
Aviva plc	3.99	15,552	6.9x	6.5x	0.9x	0.9x	13.7%	14.2%	6.7%	-7%	-22%
AXA SA	21.24	50,950	8.3x	7.6x	0.8x	0.8x	9.9%	10.5%	5.9%	-7%	-19%
Baloise-Holding AG	147.00	6,896	12.4x	11.1x	1.1x	1.0x	8.7%	9.1%	3.8%	0%	-4%
CNP Assurances SA	20.04	13,753	10.3x	9.8x	0.8x	0.7x	7.4%	7.5%	4.1%	-1%	5%
Assicurazioni Genera	14.85	23,230	9.5x	9.0x	0.9x	0.9x	10.0%	10.1%	5.7%	3%	-3%
Gjensidige Forsikrin	134.50	67,247	21.1x	15.3x	3.0x	2.9x	14.2%	18.8%	5.3%	2%	-12%
Hannover Ruck SE	124.00	14,952	14.5x	12.4x	1.7x	1.6x	11.8%	13.1%	4.0%	2%	12%
Helvetia Holding Ltd	611.00	6,045	12.5x	11.9x	1.1x	1.1x	9.0%	9.0%	3.8%	-4%	12%
Jardine Lloyd Thomps	18.88	4,135	27.6x	23.3x	10.6x	9.2x	38.3%	39.5%	1.8%	1%	42%
Legal & General Grou	2.43	14,460	8.0x	7.7x	1.7x	1.5x	20.7%	19.4%	6.3%	-6%	-9%
Mapfre SA	2.50	7,647	10.2x	8.9x	0.9x	0.9x	8.8%	9.7%	5.7%	-6%	-11%
Munich Reinsurance C	195.35	28,892	11.5x	10.6x	1.0x	1.0x	9.0%	9.5%	4.4%	1%	4%
NN Group	37.66	12,745	8.4x	9.0x	0.5x	0.5x	6.5%	5.8%	4.4%	-3%	-2%
Prudential plc	15.47	40,084	10.5x	9.7x	2.3x	2.1x	22.4%	21.3%	3.1%	-5%	-17%
RSA Insurance Group	5.41	5,551	13.7x	11.0x	1.5x	1.4x	10.9%	12.9%	3.6%	-2%	-11%
Sampo Oyj Class A	38.90	21,603	12.6x	13.6x	1.6x	1.6x	12.9%	11.8%	6.7%	-4%	-13%
Scor SE	42.56	7,955	14.2x	12.2x	1.3x	1.2x	9.1%	10.2%	3.9%	0%	23%
Storebrand ASA	67.48	31,539	11.4x	11.7x	1.0x	1.0x	8.7%	8.2%	3.7%	-6%	2%
Swiss Life Holding A	395.00	13,466	12.5x	11.6x	0.8x	0.8x	6.7%	7.1%	3.4%	2%	18%
Swiss Re AG	91.54	27,806	15.7x	10.1x	1.0x	0.9x	6.1%	9.1%	5.3%	1%	0%
Talanx AG	31.32	7,918	10.9x	8.6x	0.9x	0.8x	8.1%	9.7%	4.5%	-2%	-9%
Topdanmark A/S	298.00	26,820	18.7x	18.2x	4.5x	4.4x	23.8%	24.1%	6.4%	-7%	10%
Uniq	8.33	2,555	11.6x	11.1x	0.8x	0.8x	6.8%	7.0%	6.1%	-2%	-7%
Vienna Insurance Gro	22.50	2,880	10.2x	9.5x	0.6x	0.6x	5.6%	5.8%	4.0%	-6%	-13%
Zurich Insurance Gro	313.60	47,100	13.0x	11.1x	1.5x	1.4x	11.2%	12.7%	5.6%	-1%	4%
Share Price			PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Average			12.5x	11.2x	1.9x	1.8x	13.1%	13.7%	4.8%	-2%	-1%
Munich Reinsurance C			11.5x	10.6x	1.0x	1.0x	9.0%	9.5%	4.4%	1%	4%
FAIR VALUE BASED UPON 2019e PER:			205.36	FAIR VALUE BASED UPON '19e REGRESSION ANALYSIS (P/B & ROE)	182.43	AVERAGE	193.89				
			-7.5%	-4.9%	-44.2%	-42.7%	-30.7%	-30.9%	-7.4%	-145.2%	-494.8%

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Gross Premiums Written	50,374	48,852	49,115	50,101	51,116	52,159
Net Premiums Earned <sup>2</sup>	48,308	47,118	47,164	48,451	49,607	50,796
Expenses for claims and benefits <sup>2</sup>	(38,731)	(38,498)	(41,645)	(39,471)	(40,164)	(40,982)
Acquisition and administrative expenses <sup>2</sup>	(12,367)	(12,295)	(12,186)	(12,538)	(12,836)	(13,052)
<b>Underwriting result</b>	<b>(2,790)</b>	<b>(3,675)</b>	<b>(6,667)</b>	<b>(3,558)</b>	<b>(3,392)</b>	<b>(3,238)</b>
<b>Investment Result</b>	<b>7,536</b>	<b>7,893</b>	<b>7,612</b>	<b>7,259</b>	<b>7,544</b>	<b>7,560</b>
Other income/expenses <sup>2</sup>	73	140	298	298	298	298
<b>Total Operating Profit<sup>2</sup></b>	<b>4,818</b>	<b>4,358</b>	<b>1,243</b>	<b>4,000</b>	<b>4,449</b>	<b>4,620</b>
of which Primary	678	928	949	1,001	1,129	1,184
of which Reinsurance	4,142	2,845	73	2,997	3,313	3,441
Non-operating Profit	(1,222)	(684)	(1,146)	(976)	(973)	(973)
<b>Pretax Profit</b>	<b>3,597</b>	<b>3,674</b>	<b>97</b>	<b>3,024</b>	<b>3,476</b>	<b>3,647</b>
Taxes	(476)	(760)	298	(666)	(766)	(803)
<i>Tax rate (%)</i>	<i>13</i>	<i>21</i>	<i>(307)</i>	<i>22</i>	<i>22</i>	<i>22</i>
Minorities	-	-	(17)	-	-	-
<b>Net Profit</b>	<b>3,121</b>	<b>2,914</b>	<b>378</b>	<b>2,358</b>	<b>2,711</b>	<b>2,844</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Goodwill	2,790	2,817	2,584	2,713	2,849	2,991
Invested Assets <sup>2</sup>	224,256	231,309	227,226	232,482	237,866	243,380
Other Assets <sup>2</sup>	49,474	33,679	35,912	36,000	37,771	39,172
<b>Total Assets</b>	<b>276,520</b>	<b>267,805</b>	<b>265,722</b>	<b>271,195</b>	<b>278,486</b>	<b>285,543</b>
<b>Shareholders' Equity</b>	<b>30,668</b>	<b>31,516</b>	<b>28,012</b>	<b>27,284</b>	<b>28,188</b>	<b>28,666</b>
Minorities <sup>2</sup>	298	269	186	186	186	186
Subordinated debt <sup>2</sup>	4,416	4,218	2,790	2,790	2,790	2,790
Senior Debt <sup>2</sup>	314	324	277	285	294	303
Provisions for insurance contracts <sup>2</sup>	168,328	169,470	172,921	178,109	183,452	188,955
Other Liabilities	72,496	62,008	61,536	62,541	63,576	64,643
<b>Total liabilities and equity</b>	<b>276,520</b>	<b>267,805</b>	<b>265,722</b>	<b>271,195</b>	<b>278,486</b>	<b>285,543</b>
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares m	167	160	154	148	145	145
<b>Price EUR</b>	<b>184.6</b>	<b>179.7</b>	<b>180.8</b>	<b>195.4</b>	<b>195.4</b>	<b>195.4</b>
Market cap. EURm	30,783	28,187	27,297	28,353	28,353	28,353
EPS reported EUR	18.7	18.2	2.5	15.9	18.7	19.6
EPS adj. EUR	18.7	18.2	2.5	15.9	18.7	19.6
BVPS	183.9	200.9	185.5	188.0	194.2	197.5
TBVPS	167.1	182.9	168.4	169.3	174.6	176.9
DPS	8.3	8.6	8.6	8.6	9.0	9.4
<b>P/E</b>	<b>9.9</b>	<b>9.9</b>	<b>73.7</b>	<b>12.3</b>	<b>10.5</b>	<b>10.0</b>
P/E (adj.)	9.9	9.9	73.7	12.3	10.5	10.0
P/BVPS	1.00	0.89	0.97	1.04	1.01	0.99
P/TBVPS	1.10	0.98	1.07	1.15	1.12	1.10
Dividend Yield	4.47%	4.79%	4.76%	4.40%	4.61%	4.81%
<b>KEY RATIOS (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net premiums earned growth yoy	2.0%	(2.5%)	0.1%	2.7%	2.4%	2.4%
Expense Ratio	32.6%	32.4%	33.5%	32.0%	32.0%	31.5%
Loss Ratio	57.0%	63.3%	80.5%	64.5%	63.5%	63.5%
Combined ratio	89.7%	95.8%	114.0%	96.5%	95.5%	95.0%
Solvency II Ratio	302.0%	266.7%	267.0%	270.6%	273.3%	276.0%
Financial Leverage Ratio	13.4%	12.6%	9.9%	10.1%	9.9%	9.7%
ROE		9.4%	1.3%	8.5%	9.8%	10.0%
ROI	3.2%	3.2%	3.3%	3.1%	3.2%	3.1%

## Improved earnings prospects not reflected in the current share price

*MLP has suffered from the difficult market environment for old-age provision products in recent years. Following various restructurings, new product offerings and selective acquisitions MLP is now in much better shape than five years ago. Additionally MLP is in pole position to benefit from an improved market environment for old-age provision products. Hence we see solid earnings growth ahead which is not reflected in the current share price. We initiate coverage of MLP shares with a Buy recommendation and a target price of EUR 7.50.*

### Investment case

We initiate coverage of MLP shares with a Buy recommendation and a target price of EUR 7.50 on the back of the company's attractive valuation (2019e PER 13x). While the shares offer a dividend yield of more than 4% we forecast average EPS growth of 9% for the next two years (2018e-2020e CAGR). During the last years MLP has suffered from the low interest rate environment which made old-age provision products unattractive. Through new product offerings like the real estate brokerage or the brokerage of real estate loans, MLP managed to at least partially offset the revenues decline in its core business, the brokerage of old-age provision products. Going forward we expect MLP as No.1 in the market to benefit from a growing demand for occupational old-age provision products which should be driven by some recent new legislation. Additionally Feri, its asset manager, should continue to grow its AuM, driven by net inflows and market performance. Last year MLP implemented a new group structure which will lead to a release of capital by around EUR 80m by 2021 which will be used for M&A and a higher dividend stability. Note, that MLP has a good M&A track record with Feri and Domcura, i.e. we are relatively confident that MLP will only pursue value accretive acquisitions.

EURm	2016	2017	2018e	2019e	2020e
Revenues	610	628	634	652	671
EBITDA	44	53	63	68	72
EBIT	20	38	48	52	56
EPS	0.13	0.25	0.32	0.35	0.38
EPS adj	0.13	0.25	0.32	0.35	0.38
DPS	0.09	0.20	0.20	0.20	0.22
EV/EBITDA	6.2	5.9	2.5	2.0	1.5
EV/EBIT	13.8	8.4	3.4	2.6	2.0
P/E adj	31.1	22.1	13.8	12.7	11.8
P/B	1.19	1.52	1.16	1.12	1.07
ROE (%)	3.8	7.0	8.5	9.0	9.3
Div yield (%)	2.2	3.6	4.5	4.5	5.0
Net debt	(185)	(301)	(325)	(348)	(376)

Source: Pareto



Target price (EUR)	7.5
Share price (EUR)	4.4

### Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	MLPG.DE, MLP GR
Sector	Diversified Financials
Shares fully diluted (m)	109.3
Market cap (EURm)	485
Net debt (EURm)	-325
Minority interests (EURm)	0
Enterprise value 18e (EURm)	161

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.**

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Distribution of financial products and Asset Management as key revenue contributors*

## Company profile

MLP is active in three different business areas which are however linked to each other. MLP is only active in Germany. Main focus lies on the distribution of financial service products, mainly old-age provision products, to retail customers. MLP distributes its products through a network of independent financial advisors. MLP's almost 2,000 advisors serve more than 500,000 family customers, the focus being on more affluent customers. MLP's products comprise different old-age provision products, including occupational pension products, health insurance, all kinds of P/C insurance, mortgage loans and the brokerage of real estate properties.

Its second business pillar is Feri, an asset manager for institutional and retail customers which covers a vast range of asset classes. MLP has in total more than EUR 35bn of AuM, by far the largest part coming from institutional investors. Last but not least MLP owns Domcura, an insurance underwriting agency for the P/C segment.

MLP is comfortably capitalized with an equity ratio of 19% (CT1 ratio of 20% as of 12 2017). MLP pays between 50 and 70% of its net profit as dividend to its shareholders. For 2018e we forecast a dividend per share of EUR 0.20.

## Upcoming triggers and drivers

MLP normally generates around 50% of its full-year EBIT in Q4, i.e. Q4 performance will be once again of key importance for MLP's full-year performance. We expect MLP to deliver good Q4 results in February. Another share price driver could be an attractive acquisition. Following an organizational restructuring MLP has increased its fire power and has stressed its intention of growing through acquisitions. We do however not expect MLP to make transformational deal but rather a number of bolt-on-acquisitions.

**Next scheduled reporting:** Q4 results on 28 February, 2019.

## Key risks to our investment case

We see two key risks to our investment case:

- 1) A prolonged phase of a depreciation of major asset classes (e.g. equities, real estate, private equity) which would have a negative impact on MLP's AuM and thus on its revenues.
- 2) A tighter regulation could lead to significantly lower revenues at MLP; this could e.g. include a cap on sales commissions for the distribution of life insurance products or further reducing incentives for private individuals to sign up a private health insurance.

## Valuation and recommendation

Our target price of EUR 7.50 is derived from the average of a peer group valuation with other German financial service companies and a DCF Model. While the peer group valuation results in a fair value of EUR 7.30 the peer group valuation results in a fair value of EUR 7.7. MLP shares are trading at a 2019e PER of 13x which compares with an average of 20x for German financial service companies. We see the valuation discount partly justified as most of the peers have higher future earnings growth rates.

*Tighter regulation and market crash as key risks to our investment case*

## Exhibit 29: DCF

€m	Phase I				Phase II				Phase III	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Sales</b>	634	652	671	690	707	724	740	756	772	786
%yoy	10%	2.7%	3.0%	2.8%	2.5%	2.4%	2.3%	2.1%	2.0%	19%
<b>EBIT</b>	48	52	56	58	59	59	59	59	59	59
EBIT margin	7.5%	8.0%	8.3%	8.5%	8.3%	8.1%	8.0%	7.8%	7.7%	7.5%
<b>Tax</b>	-12	-13	-14	-14	-15	-15	-15	-15	-15	-15
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
<b>Depreciation</b>	15	16	16	17	18	18	19	19	19	20
% of sales	2.4%	2.4%	2.4%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Capital expenditure</b>	-18	-18	-18	-18	-18	-18	-19	-19	-19	-20
% of sales	2.8%	2.8%	2.7%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Δ Working Capital</b>	3	3	3	4	9	9	10	10	10	10
% of sales	-0.5%	-0.5%	-0.5%	-0.5%	-1.3%	-1.3%	-1.3%	-1.3%	-1.3%	-1.3%
<b>Free Cash Flow</b>	37	41	44	46	53	54	54	54	54	54
%yoy		9.8%	8.5%	5.7%	14.5%	0.7%	0.6%	0.5%	0.4%	0.3%
<b>Present Value CF</b>	37	37	37	36	37	34	32	29	27	25
<b>Present value phase I</b>		146					656			
<b>Present value phase II</b>		184					4.00%			
<b>Present value phase III</b>		307					4.50%			
<b>Total present value</b>		637								
+ cash and liquid assets		200								
- interest bearing debt		0								
- Minorities		0								
<b>Equity value</b>		837								
<b>Number of shares (m)</b>		109								
<b>Fair value per share</b>		7.7								

Source: Pareto

## Exhibit 30: Peer Group Valuation

Company	Share Price (EUR)	MC (EUR m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e
comdirect bank AG	10.84	1,531	14.6x	23.0x	2.2x	2.1x	14.9%	9.0%	2.3%
Ferratum	9.70	209	10.7x	7.1x	1.7x	1.5x	16.4%	20.5%	2.0%
FinTech Group AG	19.50	365	13.7x	11.1x	2.3x	1.9x	17.1%	17.4%	0.0%
GRENKE AG	74.70	3,463	26.3x	21.9x	3.6x	3.1x	13.5%	14.2%	0.9%
Hypoport AG	163.40	972	43.5x	33.5x	7.2x	5.9x	16.5%	17.8%	0.0%
OVB Holding AG	16.00	228	23.1x	21.6x	2.6x	2.6x	11.1%	11.9%	4.7%
<b>Average</b>			22.0x	19.7x	3.3x	2.8x	14.9%	15.1%	1.7%
<b>MLP</b>	4.44	485	13.8x	12.7x	1.2x	1.1x	8.5%	9.0%	4.5%
vs average			-37.3%	-35.6%	-64.4%	-60.8%	-42.7%	-40.7%	172.8%
FV derived from PER (2019e multiples)			6.90						
FV derived from DCF			7.64						
<b>Target Price</b>			7.27						

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Revenues</b>	<b>501</b>	<b>531</b>	<b>557</b>	<b>610</b>	<b>628</b>	<b>634</b>	<b>652</b>	<b>671</b>
<b>EBITDA</b>	<b>44</b>	<b>46</b>	<b>46</b>	<b>44</b>	<b>53</b>	<b>63</b>	<b>68</b>	<b>72</b>
Depreciation & amortisation	(12)	(12)	(15)	(24)	(15)	(15)	(16)	(16)
<b>EBIT</b>	<b>32</b>	<b>31</b>	<b>31</b>	<b>20</b>	<b>38</b>	<b>48</b>	<b>52</b>	<b>56</b>
Net interest	1	1	1	1	0	1	1	1
Other financial items	(1)	(2)	(3)	(2)	(1)	(2)	(2)	(2)
<b>Profit before taxes</b>	<b>32</b>	<b>28</b>	<b>28</b>	<b>19</b>	<b>36</b>	<b>47</b>	<b>51</b>	<b>55</b>
Taxes	(8)	(9)	(8)	(4)	(9)	(12)	(13)	(14)
Minority interest	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>25</b>	<b>20</b>	<b>20</b>	<b>15</b>	<b>28</b>	<b>35</b>	<b>38</b>	<b>41</b>
EPS reported	0.23	0.18	0.18	0.13	0.25	0.32	0.35	0.38
<b>EPS adjusted</b>	<b>0.23</b>	<b>0.18</b>	<b>0.18</b>	<b>0.13</b>	<b>0.25</b>	<b>0.32</b>	<b>0.35</b>	<b>0.38</b>
DPS	0.16	0.17	0.12	0.09	0.20	0.20	0.20	0.22
<b>BALANCE SHEET (EURm)</b>								
<b>Tangible non current assets</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>63</b>	<b>62</b>	<b>63</b>	<b>64</b>	<b>65</b>
Other non-current assets	1,169	1,244	1,346	1,411	1,522	1,546	1,575	1,603
Other current assets	255	266	264	285	284	288	292	296
Cash & equivalents	46	49	78	185	301	325	348	376
<b>Total assets</b>	<b>1,537</b>	<b>1,625</b>	<b>1,753</b>	<b>1,944</b>	<b>2,170</b>	<b>2,222</b>	<b>2,279</b>	<b>2,340</b>
Total equity	374	377	386	384	405	418	435	454
Interest-bearing non-current debt	-	-	-	-	-	-	-	-
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	1,162	1,248	1,367	1,560	1,765	1,804	1,844	1,886
<b>Total liabilities &amp; equity</b>	<b>1,537</b>	<b>1,625</b>	<b>1,753</b>	<b>1,944</b>	<b>2,170</b>	<b>2,222</b>	<b>2,279</b>	<b>2,340</b>
<b>CASH FLOW (EURm)</b>								
Cash earnings	33	23	23	43	31	51	54	58
Change in working capital	-	-	23	(6)	11	6	6	6
Cash flow from investments	(32)	(4)	(18)	(41)	(3)	(14)	(18)	(18)
Cash flow from financing	(35)	(17)	(18)	(13)	(9)	(22)	(22)	(22)
Net cash flow	(34)	10	10	(17)	31	20	20	24
<b>CAPITALIZATION &amp; VALUATION (EURm)</b>								
<b>Share price (EUR end)</b>	<b>5.2</b>	<b>3.71</b>	<b>3.67</b>	<b>4.18</b>	<b>5.6</b>	<b>4.44</b>	<b>4.44</b>	<b>4.44</b>
Number of shares end period	108	108	109	109	109	109	109	109
Net interest bearing debt	(46)	(49)	(78)	(185)	(301)	(325)	(348)	(376)
<b>Enterprise value</b>	<b>516</b>	<b>351</b>	<b>324</b>	<b>272</b>	<b>314</b>	<b>161</b>	<b>137</b>	<b>110</b>
EV/Sales	1.0	0.7	0.6	0.4	0.5	0.3	0.2	0.2
<b>EV/EBITDA</b>	<b>11.8</b>	<b>7.7</b>	<b>7.1</b>	<b>6.2</b>	<b>5.9</b>	<b>2.5</b>	<b>2.0</b>	<b>1.5</b>
EV/EBIT	16.2	11.4	10.5	13.8	8.4	3.4	2.6	2.0
P/E reported	22.9	20.5	20.3	31.1	22.1	13.8	12.7	11.8
<b>P/E adjusted</b>	<b>22.9</b>	<b>20.5</b>	<b>20.3</b>	<b>31.1</b>	<b>22.1</b>	<b>13.8</b>	<b>12.7</b>	<b>11.8</b>
P/B	1.5	1.1	1.0	1.2	1.5	1.2	1.1	1.1
<b>FINANCIAL ANALYSIS &amp; CREDIT METRICS</b>								
ROE adjusted (%)	13.1	5.3	5.2	3.8	7.0	8.5	9.0	9.3
Dividend yield (%)	3.1	4.6	3.3	2.2	3.6	4.5	4.5	5.0
EBITDA margin (%)	8.7	8.6	8.2	7.2	8.4	10.0	10.4	10.8
EBIT margin (%)	6.4	5.8	5.5	3.2	6.0	7.5	8.0	8.3
NIBD/EBITDA	(1.06)	(1.07)	(1.69)	(4.23)	(5.69)	(5.13)	(5.13)	(5.20)
EBITDA/Net interest	-	-	-	-	-	-	-	-

## International network of financial agents as key competitive advantage

*OVB is in pole position to benefit from a growing demand for financial services in Europe as it has a large network of financial agents all-over Europe. We initiate coverage of OVB shares with a Buy recommendation and a target price of EUR 20.00 as the shares offer an attractive dividend yield with close to 5% for 2018e while earnings growth should remain somewhat sluggish in 2019e because of higher investments in the company's growth/digitalization strategy.*

### Investment case

We initiate coverage of OVB shares with a Buy recommendation and a target price of EUR 20.00 as we see double-digit earnings growth ahead while the shares offer a dividend yield of close to 5%. OVB has a strong market position in Europe as a financial service provider with a market presence in 14 countries. We see particularly the old age provision market as a growth market in most of the European countries OVB is active in, as the state old-age provision system is weakening more and more which increases the need for private old-age provisioning. Given its large network of consultants (around 4,700) OVB is in pole position to benefit from this trend. Regulation remains a risk factor but as OVB is active in so many countries it should be able to offset negative effects in individual countries. 2018 and 2019 should be transition years as OVB intends to invest among others into digitalization and modernization of the company. For 2019e and 2020e we see average EPS growth of 5% p.a. as achievable. OVB has a pay-out ratio of close to 100% as it has a comfortable equity position (equity ratio of >50%) and no significant high investment needs for its underlying business.

EURm	2016	2017	2018e	2019e	2020e
Revenues	228	231	236	240	245
EBITDA	20	20	18	18	19
EBIT	17	16	13	13	14
EPS	0.88	0.85	0.66	0.69	0.73
EPS adj	0.88	0.85	0.66	0.69	0.73
DPS	0.75	0.75	0.75	0.75	0.75
EV/EBITDA	6.8	11.0	7.4	7.0	6.6
EV/EBIT	8.3	13.8	10.0	9.5	8.8
P/E adj	18.4	25.9	24.1	23.2	21.8
P/B	2.63	3.55	2.61	2.63	2.64
ROE (%)	14.5	13.8	10.7	11.3	12.1
Div yield (%)	4.6	3.4	4.7	4.7	4.7
Net debt	(95)	(95)	(98)	(101)	(105)

Source: Pareto



Target price (EUR)	20
Share price (EUR)	16

### Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	O4BG.DE, O4B GR
Sector	Diversified Financials
Shares fully diluted (m)	14.3
Market cap (EURm)	228
Net debt (EURm)	-98
Minority interests (EURm)	1
Enterprise value 18e (EURm)	131

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.**

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*OVB with strong network of financial agents in Europe*

## Company profile

OVB is a broker of financial products to retail customers with the focus on unit-linked old-age provision products. OVB's 4,747 independent financial agents serve almost 3.5m customers in 14 different countries in Europe. OVB sells classical financial products ranging from mortgage loans via motor insurance policies to old-age provision products. The company receives fees from its product partners, e.g. from the P/C insurance or the asset manager, for selling their products through its network of independent agents. CEE which comprises among others countries like Poland and Czech Republic is the most important region for OVB, followed by Southern and Western Europe, which comprises e.g. countries like France, Austria, Spain and Italy. OVB is the only German broker of financial products with such a strong market position in CEE. Hence, we expect it to continue to benefit from growing insurance penetration in CEE in the next years.

OVB has its headquarters in Cologne and is a listed company since 2006. Today, it is owned by various insurance companies. Its free float is with 3% on a very low level.

Based upon its solid capitalization (equity ratio of almost 50%) we expect OVB to continue paying out almost 100% of its net profit as dividend to shareholders. For 2018e we forecast a dividend per share of EUR 0.75, unchanged yoy.

## Upcoming triggers and drivers

1) OVB has announced with the publication of its new strategy "OVB Evolution 2020" that it is looking at entering new countries. Starting business in a new country should be a positive trigger as this should lead c.p. to higher revenues and more importantly would underline OVB's intention to further grow its business via entering new countries.

2) 2018e & 2019e should be burdened by higher investment costs into digitalization; in 2020e costs should decline again which should lead c.p. to a more than proportionate increase in EBIT.

**Next scheduled reporting:** Q4 results on 23 March, 2019.

## Key risk to our investment case

Tougher regulation for the distribution of financial service products in a number of countries OVB is active in is the key risk to our investment case. While OVB has been always managed to offset negative regulatory changes in one country by stronger growth in other countries, this would be not possible anymore if regulation got tougher in a number of countries. This would have a negative revenue and earnings impact for the group.

## Valuation and recommendation

Our valuation is based upon a DCF model assuming a WACC of 8.5% and average EBIT growth of 6% p.a. between 2018e and 2027e. Thus, we have derived a target price of EUR 20.00. Given an upside of around 25% we initiate coverage of OVB shares with a Buy recommendation and a target price of EUR 20.00.

*Valuation is based upon a DCF Model; TP of EUR 20.00*

Exhibit 31: DCF

in Euro '000 Fiscal years	Phase I				Phase II						Terminal Value Phase
	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	
<b>Revenue</b>	<b>236</b>	<b>240</b>	<b>245</b>	<b>251</b>	<b>258</b>	<b>264</b>	<b>269</b>	<b>275</b>	<b>280</b>	<b>285</b>	
growth rate	2.0%	1.5%	2.4%	2.5%	2.5%	2.3%	2.2%	2.0%	1.9%	1.7%	
<b>EBIT</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>19</b>	<b>19</b>	
EBIT margin	5.6%	5.6%	5.7%	6.5%	7.0%	6.9%	6.9%	6.8%	6.7%	6.7%	
<b>Taxes</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>	<b>-5</b>	<b>-5</b>	<b>-5</b>	<b>-5</b>	<b>-5</b>	<b>-5</b>	
tax rate	28.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	
<b>Depreciation</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	
in % of revenue	1.9%	2.0%	2.0%	1.9%	1.5%	1.5%	1.4%	1.4%	1.4%	1.3%	
<b>Investments</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>	
in % of revenue	1.4%	1.4%	1.1%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	
<b>Delta Working Capital</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	
in % of revenue	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	
<b>Free Cash Flow</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>214</b>
growth rate	82.8%	5.1%	9.4%	9.2%	3.1%	0.4%	0.5%	0.4%	0.2%	0.1%	2.0%
<b>Present Value FCF</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>102</b>

PV Phase I	41	Market Cap.	249	Targ. equity ratio	60%			
PV Phase II	48	Risk premium	4.5%	Beta	1.4			
PV Phase III	102	Risk free rate	4.0%	WACC	8.5%			
Company value	191	Sensitivity	Growth in phase III					
+ Cash	95		1.0%	1.5%	2.0%	2.5%	3.0%	
- Debt	0							
Equity value	286		7.7%	20.6	21.2	22.0	22.9	24.0
Number of shares	14.3		8.1%	19.8	20.3	20.9	21.7	22.6
		WACC	8.5%	19.1	19.5	20.1	20.7	21.4
			9.0%	18.4	18.8	19.3	19.8	20.5
Value per share (in Euro)	20.1		9.4%	17.9	18.2	18.6	19.1	19.6

Source: Pareto

PROFIT & LOSS (fiscal year) (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	196	205	219	228	231	236	240	245
EBITDA	13	15	18	20	20	18	18	19
Depreciation & amortisation	(3)	(3)	(4)	(4)	(4)	(5)	(5)	(5)
EBIT	10	12	14	17	16	13	13	14
Net interest	1	1	1	1	0	0	0	1
Other financial items	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Profit before taxes	11	13	14	17	16	13	14	14
Taxes	(3)	(4)	(5)	(5)	(4)	(4)	(4)	(4)
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net profit	8	9	9	13	12	9	10	10
EPS reported	0.56	0.61	0.66	0.88	0.85	0.66	0.69	0.73
EPS adjusted	0.56	0.61	0.66	0.88	0.85	0.66	0.69	0.73
DPS	0.55	0.60	0.65	0.75	0.75	0.75	0.75	0.75
BALANCE SHEET (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	6	5	5	4	4	2	(0)	(2)
Other non-current assets	16	16	14	19	19	18	17	16
Other current assets	52	49	47	49	55	56	57	58
Cash & equivalents	73	82	94	95	95	98	101	105
Total assets	147	152	159	168	173	174	174	176
Total equity	83	84	85	88	89	88	87	87
Interest-bearing non-current debt	0	0	-	-	-	-	-	-
Interest-bearing current debt	27	30	31	33	43	44	45	46
Other Debt	36	38	43	46	41	42	42	43
Total liabilities & equity	147	152	159	168	173	174	174	176
CASH FLOW (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	9	16	19	19	15	14	14	15
Change in working capital	0	4	2	(1)	(2)	0	0	0
Cash flow from investments	2	(10)	(4)	13	(18)	(3)	(3)	(3)
Cash flow from financing	(8)	(8)	(9)	(9)	(11)	(11)	(11)	(11)
Net cash flow	3	2	8	21	(15)	0	1	1
CAPITALIZATION & VALUATION (EURm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	20.8	19.1	17.0	16.2	22.1	16.0	16.0	16.0
Number of shares end period	14	14	14	14	14	14	14	14
Net interest bearing debt	(73)	(82)	(94)	(95)	(95)	(98)	(101)	(105)
Enterprise value	223	190	149	136	220	131	128	124
EV/Sales	1.1	0.9	0.7	0.6	1.0	0.6	0.5	0.5
EV/EBITDA	17.1	12.4	8.4	6.8	11.0	7.4	7.0	6.6
EV/EBIT	21.9	15.5	10.6	8.3	13.8	10.0	9.5	8.8
P/E reported	37.0	31.2	25.8	18.4	25.9	24.1	23.2	21.8
P/E adjusted	37.0	31.2	25.8	18.4	25.9	24.1	23.2	21.8
P/B	3.6	3.3	2.9	2.6	3.5	2.6	2.6	2.6
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	19.3	10.5	11.1	14.5	13.7	10.7	11.2	12.0
Dividend yield (%)	2.6	3.1	3.8	4.6	3.4	4.7	4.7	4.7
EBITDA margin (%)	6.7	7.5	8.1	8.8	8.7	7.5	7.6	7.7
EBIT margin (%)	5.2	6.0	6.4	7.3	6.9	5.6	5.6	5.7
NIBD/EBITDA	(5.61)	(5.34)	(5.28)	(4.73)	(4.73)	(5.52)	(5.54)	(5.54)
EBITDA/Net interest	-	-	-	-	-	-	-	-

## Go East with ProCredit: Buy, TP EUR 14.20



*We initiate coverage of ProCredit shares with a Buy recommendation with target price of EUR 14.20. ProCredit is a Frankfurt based banking group with a strong market presence in Eastern and South Eastern Europe. Focusing on SME customers ProCredit is in pole position to benefit from the untapped growth potential in these underpenetrated banking markets. With a CT1 ratio of more than 14% and a forecasted 2019e ROE of 9% ProCredit is well capitalized and quite profitable. Key earnings driver in 2018e should be a higher commission income and lower costs due to last year's restructuring measure. With a 2019e P/B of 0.8x (ROE '19e: 9%) the shares are attractively valued in our view. We forecast average EPS growth of 20% for the next two year (EPS CAGR 2018e-2020e).*

### Investment case

We initiate coverage of ProCredit shares with a Buy recommendation and a target price of EUR 14.20 as we see the shares as undervalued with a 2019e P/B of 0.8x while offering attractive earnings growth.

We expect ProCredit to continue to benefit from a positive economic development in SEE/EE which should result in continued high demand for SME loans. 2017 and 2018 have been transition years for ProCredit as the bank has given up large parts of its small ticket SME business which had a negative impact on overall loan growth. This process should be over now. Hence, we expect ProCredit to achieve loan growth of 13% yoy in 2019e. Being comfortably capitalized with a CT1 ratio of above 14% the bank should be able to fund its balance sheet growth without external funds. A sale of its loss making South American banks, which is becoming more and more likely in our view, should be a positive share price driver.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	851	672	607	607	607
NII	231	205	191	205	223
Other inc.	4	3	1	-	-
Op.costs	(198)	(187)	(168)	(168)	(171)
L.losses	(19)	(5)	(2)	(2)	(9)
Net profit	59	46	54	69	78
EPS	1.16	0.86	0.92	1.17	1.33
EPS adj	1.16	0.86	0.92	1.17	1.33
P/E	13.7	14.5	11.2	8.8	7.7
P/B	1.32	1.03	0.83	0.77	0.72
Yield (%)	2.4	2.2	2.9	3.8	4.3
ROE (%)	9.6	7.1	7.8	9.1	9.7

Source: Pareto

Target price (EUR)	14.2
Share price (EUR)	10.3

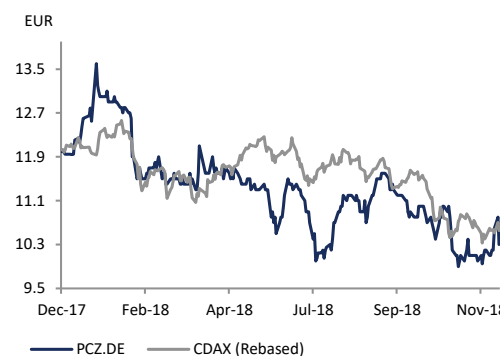
### Forecast changes

%	2018e	2019e	2020e
NII	-	-	-
Operating income	-	-	-
PBLL	-	-	-
EPS	-	-	-

Source: Pareto

Ticker	PCZ.DE, PCZ GR
Sector	Banks
Shares fully diluted (m)	50.8
Market cap (EURm)	523

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.**

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*ProCredit is active in 13 countries in EE/SEE; HQ is in Frankfurt*

## Company profile

ProCredit Group is a group of SME banks which are mainly active in Southern and Eastern Europe; apart from this core region ProCredit has also a market presence in South America and in Germany. The HQ is in Frankfurt, Germany and the group was founded in 2003 (in its current structure). ProCredit has focused in the past on very small corporate customers but has increasingly shifted its strategic focus to somewhat bigger small-to-medium-sized enterprises (SMEs) with a typical average loan ticket size of EUR 30,000 to EUR 3m. During 2018 it has improved its retail banking offering by building a state-of-the-art online banking offering. ProCredit is active in thirteen different countries. It operates around 50 branches and 71 service points, i.e. a relatively lean branch network.

PCH has, compared to other banks being active in this region, an above-average asset quality but is lagging behind profitability.

Main shareholders of the group are Zeiting Invest, KfW, Stichting DOEN through its investment entity DOEN Participaties B.V. and IFC which together hold more than 50% of the shares. PCH is thus controlled by a number of very highly reputable shareholders which stand for continuity and solidity.

Net profit should increase by 16% yoy to EUR 53.8m in 2018e; main drivers should have been lower costs. For 2019e we forecast net interest income to grow again (+7% yoy) which should lead to a net profit growth of 28% yoy to EUR 69m.

Following a 10% capital increase in 2018 ProCredit is comfortably capitalized with a CT 1 ratio of above 14%. It intends to pay out one third of its profit as dividend to shareholders. We forecast a dividend per share of EUR 0.30 (+11% yoy) for 2018e.

## Upcoming triggers and drivers

Currently, we do not see any drivers/triggers ahead. A sale of its two remaining banks in South America would be seen positive by investors in our view as these two banks are loss making and the strategic value of a being active in SEE/EE is only minor in our view. Such a sale is becoming more and more likely, in our view.

**Next scheduled reporting:** Q4 results will be most likely published in late March 2018.

## Key risks to our investment case

Key risk to our investment case is clearly a recession in SEE/EE. Being a classical SME bank ProCredit would be negatively impacted via higher risk provision and a reduced loan demand which would both negatively impact earnings.

## Valuation and recommendation

Our valuation is based upon a peer group valuation and a Gordon Growth Model. The peer group valuation takes into account other banks being active in SEE/EE. We have used two different peer groups, one consisting of peers being only active in SEE/EE, even if only in one or two countries and the other one consisting of larger banks being active in Western Europe and CEE. While we have derived a fair value of EUR 16.30 from the Gordon Growth Model we have calculated fair value of EUR 12.10 from the peer group valuation. Our target price of EUR 14.20 is derived from the average of the two calculated different fair values. Hence we initiate coverage with a Buy recommendation and a target price of EUR 14.20.

*A recession in SEE/EE as key risk to our investment case*

## Exhibit 32: Gordon Growth Model (2019e ROE: 9.1%)

	Growth (g)							
	0.0%	0.5%	1.0%	3.0%	2.0%	2.5%	3.0%	
COE	6.5%	18.67	19.12	19.64	23.26	21.05	22.02	23.26
	7.0%	17.34	17.65	18.01	20.35	18.95	19.57	20.35
	7.5%	16.18	16.38	16.62	18.09	17.22	17.61	18.09
	8.0%	15.17	15.29	15.43	16.28	15.79	16.01	16.28
	8.5%	14.28	14.34	14.41	14.80	14.57	14.68	14.80
	9.0%	13.48	13.49	13.50	13.57	13.53	13.55	13.57
	9.5%	12.77	12.74	12.71	12.53	12.63	12.58	12.53

Source: Pareto

## Exhibit 33: Peer Group Valuation with SEE/EE banks

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2018e	1M Perf	12M Perf
BRD Groupe Societe Ge	14.26	9,938	7.4x	9.1x	1.4x	1.4x	18.5%	15.0%	10.7%	6%	8%
Banca Transilvania SA	2.46	11,815	8.2x	8.4x	1.5x	1.4x	18.5%	16.4%	5.7%	4%	27%
TBC Bank Group	15.00	814	6.4x	5.5x	1.3x	1.1x	19.5%	19.4%	4.4%	-11%	-10%
BGEO Group	13.62	651	4.9x	4.2x	1.3x	1.1x	25.5%	25.6%	5.6%	-17%	-37%
Average	Share Price	MC (LC m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2018e	1M Perf	12M Perf
ProCredit Holding	10.30	607	11.2x	8.8x	0.8x	0.8x	7.8%	9.1%	2.9%	4%	na
vs average			65.8%	29.1%	-38.7%	-36.6%	-62.1%	-52.2%	-55.3%	-187.8%	na
Fair value based upon 2019e PER:		7.98	Fair Value based upon regression analysis (2019e ROE & P/B):					20.24	Average Fair Value		14.11

Source: Pareto Securities, FactSet

## Exhibit 34: Peer Group Valuation with Western European banks that are active in EE/SEE/CEE

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
KBC Groupe SA	63.06	26,223	10.3x	10.7x	1.5x	1.5x	14.9%	13.6%	5.8%	2%	-10%
Societe Generale S.A	32.17	24,090	6.9x	6.7x	0.5x	0.5x	7.2%	7.0%	7.1%	-5%	-26%
Erste Group Bank AG	34.41	14,075	10.0x	9.8x	1.1x	1.0x	10.9%	10.4%	4.0%	-3%	-5%
Raiffeisen Bank Inte	25.80	8,478	6.2x	7.2x	0.8x	0.7x	12.5%	10.0%	4.2%	3%	-14%
Intesa Sanpaolo S.p.	2.06	36,092	9.4x	8.7x	0.7x	0.7x	7.5%	8.0%	9.7%	3%	-27%
UniCredit S.p.A.	11.49	25,634	7.8x	6.1x	0.5x	0.4x	6.0%	7.3%	2.7%	-2%	-33%
Average	Share Price		PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
ProCredit Holding	10.3	607	11.2x	8.8x	0.8x	0.8x	7.8%	9.1%	2.9%	4%	na
vs average			32.7%	6.6%	-2.0%	-3.7%	-20.9%	-2.9%	-47.2%	-3193.7%	na
Fair value based upon 2018e PER:		9.66	Fair Value based upon regression analysis (2018e ROE & P/B):					10.64	Average Fair Value		10.15

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest income	261	231	205	191	205	223
Net fee and commission income	48	43	46	51	56	60
<b>Operating income</b>	<b>307</b>	<b>278</b>	<b>253</b>	<b>244</b>	<b>261</b>	<b>283</b>
Staff costs	(99)	(88)	(85)	(79)	(79)	(80)
Other expenses	(113)	(110)	(102)	(89)	(89)	(91)
<b>Operating expenses</b>	<b>(211)</b>	<b>(198)</b>	<b>(187)</b>	<b>(168)</b>	<b>(168)</b>	<b>(171)</b>
<b>Operating profit before losses</b>	<b>96</b>	<b>80</b>	<b>66</b>	<b>76</b>	<b>94</b>	<b>112</b>
Net loan losses	(42)	(19)	(5)	(2)	(2)	(9)
<b>Pre-tax profit</b>	<b>54</b>	<b>61</b>	<b>61</b>	<b>74</b>	<b>91</b>	<b>104</b>
Tax expense	(15)	(14)	(15)	(16)	(20)	(23)
Discontinued businesses	23	14	1	(2)	-	-
<b>Net profit</b>	<b>61</b>	<b>61</b>	<b>48</b>	<b>56</b>	<b>71</b>	<b>81</b>
Minority interests	(2)	(2)	(2)	(2)	(2)	(2)
<b>Net profit attributable</b>	<b>60</b>	<b>59</b>	<b>46</b>	<b>54</b>	<b>69</b>	<b>78</b>
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Current assets	834	937	1,077	1,070	1,104	1,159
Gross loans	4,105	3,629	3,910	4,457	5,037	5,540
Individual provisions	(177)	(151)	(129)	(129)	(131)	(138)
Other assets and accruals	1,247	1,252	641	739	749	749
<b>Total assets</b>	<b>6,009</b>	<b>5,668</b>	<b>5,499</b>	<b>6,137</b>	<b>6,760</b>	<b>7,312</b>
Deposits from credit institutions	394	318	359	360	345	330
Deposits from the public	3,793	3,475	3,571	4,118	4,698	5,201
Certificates and bond loans	205	144	183	180	180	180
Other liabilities accruals and allocat.	889	914	594	606	613	621
Subordinated loan capital	131	171	141	140	140	140
Equity	596	646	651	733	784	840
<b>Total debt and equity</b>	<b>6,009</b>	<b>5,668</b>	<b>5,499</b>	<b>6,137</b>	<b>6,760</b>	<b>7,312</b>
Average total assets		5,839	5,584	5,818	6,449	7,036
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares	51	51	54	58	59	59
End. no. of shares	51	54	54	59	59	59
Price		15.9	12.6	10.3	10.3	10.3
Market cap.		851	672	607	607	607
<b>EPS reported</b>	<b>1.17</b>	<b>1.16</b>	<b>0.86</b>	<b>0.92</b>	<b>1.17</b>	<b>1.33</b>
EPS adj.	1.17	1.16	0.86	0.92	1.17	1.33
<b>BVPS</b>	<b>11.7</b>	<b>12.1</b>	<b>12.2</b>	<b>12.4</b>	<b>13.3</b>	<b>14.3</b>
DPS	0.40	0.38	0.27	0.30	0.39	0.44
<b>P/E</b>		<b>13.7</b>	<b>14.5</b>	<b>11.2</b>	<b>8.8</b>	<b>7.7</b>
P/E adj.		13.7	14.5	11.2	8.8	7.7
<b>P/B</b>		<b>1.3</b>	<b>1.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
Dividend Yield		2.4%	2.2%	2.9%	3.8%	4.3%
<b>KEY RATIOS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net interest margin	4.35%	3.95%	3.67%	3.29%	6.06%	6.11%
Net interest margin (int.-bearing assets)	5.42%	5.24%	4.83%	4.13%	7.39%	7.38%
Cost/Income	69%	71%	74%	69%	64%	60%
Loan losses (bps annualised)	100	48	14	5	5	16
<b>ROE</b>		<b>9.6%</b>	<b>7.1%</b>	<b>7.8%</b>	<b>9.1%</b>	<b>9.7%</b>
ROA	1.0%	1.0%	0.8%	0.9%	2.0%	2.1%
RORWA	1.2%	1.2%	1.0%	1.2%	2.5%	2.6%

## Valuation discount not justified: Buy, TP EUR 37



*We initiate coverage of Talanx shares with a Buy recommendation and a target price of EUR 37.0 on the back of the attractive valuation. Talanx shares are trading with a 2019e PER of 9x significantly below the European average (2019e: 11x) which we think is not justified. In the past years Talanx's primary insurance activities have been a drag on earnings due to various problems, which offset the positive development of its reinsurance activities. Following implementation of different strategic initiatives the earnings development of the primary activities should be clearly positive and be the main reason for the expected positive earning development.*

### Investment case

We initiate coverage of Talanx shares with a Buy recommendation and a target price of EUR 37.0 as we see the valuation discount vs. other European insurers as too big. Talanx's primary insurance activities are currently valued with a 2019e of 9x, which is too low in our view. Yes, Talanx has surprised negatively this year with another profit warning of its Industrial Lines business, which had already undergone a restructuring in 2015. Its latest "20/20/20" initiative has however already made good progress and Talanx is ahead of plan in increasing prices in its problematic fire business. The retail primary operations in Germany are well on track to achieve its 2021 targets and the international retail operations continue to perform well. In reinsurance 2018 Talanx was negatively impacted from some one-offs in L/H which should however not reoccur in 2019. We forecast average EPS growth of 19% p.a. for 2019e and 2020e. Trading at a 2019e PER of 9x and offering a dividend yield of 4.5% (2018e) we see the shares attractively valued.

EURm	2016	2017	2018e	2019e	2020e
M.cap.	8,031	8,630	7,933	7,933	7,933
N. Prem. Earned	25,742	27,418	28,416	29,699	30,591
Operating profit	2,300	1,807	2,206	2,565	2,717
Net profit	907	672	705	926	992
Comb. Ratio (%)	96	96	95	95	95
EPS	3.6	2.7	2.8	3.7	3.9
P/E	8.9	12.8	11.2	8.6	8.0
P/B	0.9	1.0	0.9	0.8	0.8
ROE (%)	10.4	7.5	7.8	9.8	10.2
Div Yield (%)	4.2	4.1	4.5	4.8	5.3

Source: Pareto

Target price (EUR)	37
Share price (EUR)	31

### Forecast changes

%	2018e	2019e	2020e
EPS	-	-	-
EPS adj	-	-	-

Source: Pareto

Ticker	TLXGN.DE, TLX GR
Sector	Insurance
Shares fully diluted (m)	467.8
Market cap (EURm)	14,652
Free float (%)	100

### Performance



Source: Factset

### Analysts

Dr Philipp Häßler, CFA  
+49 69 58997 414, philipp.haessler@paretosec.com

*Talanx is active both in primary and reinsurance*

## Company profile

Talanx is a global insurance company, being active both in primary and reinsurance. In reinsurance it is active both in P/C and L/H through its subsidiary Hannover Re (50% stake), which is the 4th largest reinsurer in the world. Key competitive advantage of Hannover Re is its comparably low cost ratio and high profitability. Talanx's primary insurance activities comprise commercial insurance and retail operations mainly in Germany and selected international growth markets. Internationally, Poland, Brazil, Italy, Mexico, Chile and Turkey are the most important countries for Talanx.

In Germany, Talanx is active in both P/C and L/H, the former being of slightly higher importance. The German retail operations have suffered from a too high cost base in the past, which has been addressed by the introduction of a restructuring program. Talanx is today well on track to achieve its 2021 EBIT target of EUR 240m for Retail Germany (2017: EUR 137m).

In Industrial Lines Talanx has this year launched its 20/20/20 program which aims improve the C/R by 20%-pts. for 20% of the Industrial Lines Business (the Fire business) by 2020. As of end of October the insurer is ahead of planned having already achieved price increases by 14.3% (or more than 70% of the 20% target by 2020).

With a solvency II ratio of slightly above 200% Talanx is somewhat less comfortably capitalized than the other German insurers under coverage. Talanx targets a payout ratio of between 35% and 45%; for 2018e we forecast a dividend per share of UER 1.40.

## Upcoming triggers and drivers

Some positive news flow from Industrial Lines, i.e. that Talanx continues to be ahead of plan with the implementation of the 20/20/20 program would be a positive share price driver in our view. Another positive trigger would be a hardening of the P/C reinsurance market.

**Next scheduled event:** Q4 results on 18 March, 2019.

## Risks to our investment case

A decline in overall yields would be negative for all insurers, including Talanx. Apart from this more bad news from Industrial Lines would be clearly seen negatively by investors. A large nat cat event would be probably seen negatively only initially as investors would rather see the opportunity of a hardening of the market which would lead to higher profitability at the reinsurers in the mid-term.

## Valuation and recommendation

Our target price of EUR 37.0 is derived from the average fair values calculated from a peer group analysis (FV: EUR 39) and a dividend discount model (FV: EUR 35). For the peer group we have taken into account other European insurers and our fair value is derived from a regression analysis taking into account PER and P/B & ROE for 2019e. For our DDM we have assumed pay-out ratios to remain at 43% until 2023; we assume a discount factor to 7.50% to take into account Talanx's good solvency position.

*Industrial Lines has finally to deliver*

## Exhibit 35: Dividend Discount Model

EUR m	Phase I				Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Net premiums	28,416	29,699	30,591	31,525	32,470	33,435	34,418	35,420	36,441	37,480	
Growth rate	3.6%	4.5%	3.0%	3.1%	3.0%	3.0%	2.9%	2.9%	2.9%	2.9%	
Operating profit	2,206	2,565	2,717	2,912	2,922	3,039	3,160	3,284	3,413	3,545	
Growth rate	22.1%	16.2%	5.9%	7.2%	0.4%	4.0%	4.0%	3.9%	3.9%	3.9%	
Pretax profit	2,036	2,395	2,537	2,722	2,772	2,889	3,010	3,134	3,263	3,395	
Growth rate	22.8%	17.6%	5.9%	7.3%	1.9%	4.2%	4.2%	4.1%	4.1%	4.1%	
Pretax margin	7.2%	8.1%	8.3%	8.6%	8.0%	8.6%	8.7%	8.8%	9.0%	9.1%	
Tax	-519	-599	-634	-680	-693	-722	-752	-784	-816	-849	
Tax rate	25.5%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
EPS	2.8	3.7	3.9	4.3	4.4	4.6	4.8	5.0	5.2	5.4	
Growth rate	4.8%	31.3%	7.2%	11.0%	1.9%	4.2%	4.2%	4.1%	4.1%	4.1%	
Payout ratio	50.3%	41.0%	42.1%	42.6%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	
Dividend	1.4	1.5	1.7	1.9	1.9	2.0	2.1	2.2	2.2	2.3	43.6
Growth rate	0.0%	7.1%	10.0%	12.1%	2.9%	4.2%	4.2%	4.1%	4.1%	4.1%	
Present Value Div.	1.4	1.3	1.4	1.4	1.4	1.3	1.3	1.3	1.2	1.2	22.0
PV Phase I	5.5										
PV Phase II	7.6				Risk premium	5.00%		Beta		0.8	
PV Phase III	22.0				Risk free rate	3.50%		Cost of Equity		7.50%	
Fair value	35.10				Sensitivity		Growth rate Phase III				
							1.0%	1.5%	2.0%	2.5%	3.0%
					7.27%		33	34	37	39	42
					7.38%		32	34	36	38	41
					WACC 7.50%		32	33	35	37	40
					7.61%		31	33	34	37	39
					7.72%		30	32	34	36	38

Source: Pareto

## Exhibit 36: Peer Group Valuation

Company	Share Price (EUR)	MC (EUR m)	PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Admiral Group plc	21.07	6,121	17.1x	15.6x	8.8x	8.3x	51.3%	53.3%	5.3%	6%	11%
Aegon N.V.	4.85	9,847	7.5x	6.7x	0.5x	0.5x	6.6%	7.1%	5.6%	-13%	-10%
ageas SA/NV	42.31	8,329	10.3x	9.8x	0.9x	0.8x	8.4%	8.5%	4.9%	-5%	0%
Allianz SE	188.38	79,702	10.6x	9.9x	1.2x	1.2x	11.8%	11.9%	4.2%	0%	-7%
Aviva plc	3.99	15,552	6.9x	6.5x	0.9x	0.9x	13.7%	14.2%	6.7%	-7%	-22%
AXA SA	21.24	50,950	8.3x	7.6x	0.8x	0.8x	9.9%	10.5%	5.9%	-7%	-19%
Baloise-Holding AG	147.00	6,896	12.4x	11.1x	1.1x	1.0x	8.7%	9.1%	3.8%	0%	-4%
CNP Assurances SA	20.04	13,753	10.3x	9.8x	0.8x	0.7x	7.4%	7.5%	4.1%	-1%	5%
Assicurazioni Genera	14.85	23,230	9.5x	9.0x	0.9x	0.9x	10.0%	10.1%	5.7%	3%	-3%
Gjensidige Forsikrin	134.50	67,247	21.1x	15.3x	3.0x	2.9x	14.2%	18.8%	5.3%	2%	-12%
Hannover Ruck SE	124.00	14,952	14.5x	12.4x	1.7x	1.6x	11.8%	13.1%	4.0%	2%	12%
Helvetia Holding Ltd	611.00	6,045	12.5x	11.9x	1.1x	1.1x	9.0%	9.0%	3.8%	-3%	12%
Jardine Lloyd Thomps	18.88	4,135	27.6x	23.3x	10.6x	9.2x	38.3%	39.5%	1.8%	0%	41%
Legal & General Grou	2.43	14,460	8.0x	7.7x	1.7x	1.5x	20.7%	19.4%	6.3%	-6%	-9%
Mapfre SA	2.50	7,647	10.2x	8.9x	0.9x	0.9x	8.8%	9.7%	5.7%	-6%	-11%
Munich Reinsurance C	195.35	28,892	11.5x	10.6x	1.0x	1.0x	9.0%	9.5%	4.4%	1%	4%
NN Group	37.66	12,745	8.4x	9.0x	0.5x	0.5x	6.5%	5.8%	4.4%	-3%	-2%
Prudential plc	15.47	40,084	10.5x	9.7x	2.3x	2.1x	22.4%	21.3%	3.1%	-5%	-17%
RSA Insurance Group	5.41	5,551	13.7x	11.0x	1.5x	1.4x	10.9%	12.9%	3.6%	-2%	-11%
Sampo Oyj Class A	38.90	21,603	12.6x	13.6x	1.6x	1.6x	12.9%	11.8%	6.7%	-4%	-13%
Scor SE	42.56	7,955	14.2x	12.2x	1.3x	1.2x	9.1%	10.2%	3.9%	0%	23%
Storebrand ASA	67.48	31,539	11.4x	11.7x	1.0x	1.0x	8.7%	8.2%	3.7%	-6%	2%
Swiss Life Holding A	395.00	13,466	12.5x	11.6x	0.8x	0.8x	6.7%	7.1%	3.4%	2%	18%
Swiss Re AG	91.54	27,806	15.7x	10.1x	1.0x	0.9x	6.1%	9.1%	5.3%	1%	0%
Talanx AG	31.32	7,918	10.9x	8.6x	0.9x	0.8x	8.1%	9.7%	4.5%	-2%	-9%
Topdanmark A/S	298.00	26,820	18.7x	18.2x	4.5x	4.4x	23.8%	24.1%	6.4%	-7%	10%
Uniga	8.33	2,555	11.6x	11.1x	0.8x	0.8x	6.8%	7.0%	6.1%	-1%	-7%
Vienna Insurance Gro	22.50	2,880	10.2x	9.5x	0.6x	0.6x	5.6%	5.8%	4.0%	-6%	-13%
Zurich Insurance Gro	313.60	47,100	13.0x	11.1x	1.5x	1.4x	11.2%	12.7%	5.6%	-1%	4%
Average	Share Price		PER 2018e	PER 2019e	P/B 2018e	P/B 2019e	ROE 2018e	ROE 2019e	Yield 2017e	1M Perf	12M Perf
Talanx AG	31.32		10.9x	8.6x	0.9x	0.8x	8.1%	9.7%	4.5%	-2%	-9%
FAIR VALUE BASED UPON 2019e PER:	40.71		-12.8%	-23.1%	-52.9%	-52.4%	-38.0%	-29.0%	-6.5%	2.5%	1014.6%
FAIR VALUE BASED UPON '19e REGRESSION ANALYSIS (P/B & ROE)	37.09		AVERAGE							38.90	

Source: Pareto Securities, FactSet

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Gross Premiums Written	28,151	28,994	31,799	31,106	33,060	34,054	35,239	36,399
Net Premiums Earned <sup>2</sup>	23,113	23,844	25,937	25,742	27,418	28,416	29,699	30,591
Expenses for claims and benefits <sup>2</sup>	(19,215)	(20,024)	(21,446)	(21,197)	(23,268)	(23,271)	(23,686)	(24,287)
Acquisition and administrative expenses <sup>2</sup>	(5,351)	(5,621)	(5,823)	(5,979)	(6,688)	(6,969)	(7,165)	(7,349)
<b>Underwriting result</b>	<b>(1,453)</b>	<b>(1,801)</b>	<b>(1,332)</b>	<b>(1,434)</b>	<b>(2,538)</b>	<b>(1,824)</b>	<b>(1,152)</b>	<b>(1,045)</b>
<b>Investment Result</b>	<b>3,792</b>	<b>4,144</b>	<b>3,933</b>	<b>4,023</b>	<b>4,478</b>	<b>4,374</b>	<b>4,063</b>	<b>4,157</b>
Other income/expenses <sup>2</sup>	(555)	(451)	(264)	(289)	(133)	(344)	(346)	(396)
<b>Total Operating Profit<sup>2</sup></b>	<b>1,784</b>	<b>1,892</b>	<b>2,337</b>	<b>2,300</b>	<b>1,807</b>	<b>2,206</b>	<b>2,565</b>	<b>2,717</b>
of which Primary	493	275	428	598	486	400	613	698
of which Reinsurance	1,236	1,487	1,802	1,701	1,370	1,860	1,996	2,063
Non-operating Profit	(206)	(183)	(161)	(147)	(149)	(170)	(170)	(180)
<b>Pretax Profit</b>	<b>1,578</b>	<b>1,709</b>	<b>2,176</b>	<b>2,153</b>	<b>1,658</b>	<b>2,036</b>	<b>2,395</b>	<b>2,537</b>
Taxes	(296)	(341)	(612)	(585)	(388)	(606)	(684)	(724)
<i>Tax rate (%)</i>	<i>19</i>	<i>20</i>	<i>28</i>	<i>27</i>	<i>23</i>	<i>30</i>	<i>29</i>	<i>29</i>
Minorities	(520)	(599)	(675)	(661)	(598)	(725)	(785)	(820)
<b>Net Profit</b>	<b>762</b>	<b>769</b>	<b>889</b>	<b>907</b>	<b>672</b>	<b>705</b>	<b>926</b>	<b>992</b>
<b>BALANCE SHEET (EURm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Goodwill	1,105	1,090	1,037	1,039	1,058	1,058	1,058	1,058
Invested Assets <sup>2</sup>	86,310	96,410	100,777	107,174	107,881	108,426	106,559	105,718
Other Assets <sup>2</sup>	45,378	49,798	50,946	48,358	49,447	49,193	51,680	52,521
<b>Total Assets</b>	<b>132,793</b>	<b>147,298</b>	<b>152,760</b>	<b>156,571</b>	<b>158,386</b>	<b>158,677</b>	<b>159,297</b>	<b>159,297</b>
<b>Shareholders' Equity</b>	<b>7,127</b>	<b>7,998</b>	<b>8,282</b>	<b>9,078</b>	<b>8,835</b>	<b>9,186</b>	<b>9,732</b>	<b>9,732</b>
Minorities <sup>2</sup>	3,997	4,902	5,149	5,610	5,411	5,400	5,400	5,400
Subordinated debt <sup>2</sup>	3,107	2,661	1,943	1,983	2,737	2,737	2,737	2,737
Senior Debt <sup>2</sup>	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065
Provisions for insurance contracts <sup>2</sup>	100,042	110,535	116,936	121,012	123,030	124,400	124,400	124,400
Other Liabilities	17,455	20,137	19,385	17,823	17,308	15,889	15,963	15,963
<b>Total liabilities and equity</b>	<b>132,793</b>	<b>147,298</b>	<b>152,760</b>	<b>156,571</b>	<b>158,386</b>	<b>158,677</b>	<b>159,297</b>	<b>159,297</b>
<b>PER SHARE DATA &amp; VALUATION (EUR)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Avg. no. of shares m	252	253	253	253	253	253	253	253
<b>Price EUR</b>	<b>24.7</b>	<b>25.3</b>	<b>28.5</b>	<b>31.8</b>	<b>34.1</b>	<b>31.3</b>	<b>31.3</b>	<b>31.3</b>
Market cap. EURm	6,244	6,401	7,216	8,031	8,630	7,933	7,933	7,933
EPS reported EUR	3.0	3.0	3.5	3.6	2.7	2.8	3.7	3.9
EPS adj. EUR	3.0	3.0	3.5	3.6	2.7	2.8	3.7	3.9
BVPS	28.1	31.6	32.8	35.9	34.9	36.3	38.4	38.4
TBVPS	23.8	27.3	28.7	31.8	30.7	32.1	34.2	34.2
DPS	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.7
<b>P/E</b>	<b>8.2</b>	<b>8.3</b>	<b>8.1</b>	<b>8.9</b>	<b>12.8</b>	<b>11.2</b>	<b>8.6</b>	<b>8.0</b>
P/E (adj.)	8.2	8.3	8.1	8.9	12.8	11.2	8.6	8.0
P/BVPS	0.88	0.80	0.87	0.88	0.98	0.86	0.82	0.82
P/TBVPS	1.04	0.93	1.00	1.00	1.11	0.98	0.91	0.91
Dividend Yield	4.87%	4.95%	4.55%	4.25%	4.11%	4.47%	4.79%	5.27%
<b>KEY RATIOS (EUR)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Net premiums earned growth yoy	5.1%	3.2%	8.8%	(0.8%)	6.5%	3.6%	4.5%	3.0%
Combined ratio	96.9%	97.0%	96.5%	95.7%	95.5%	95.0%	95.0%	95.0%
Solvency II Ratio	-	-	171.0%	186.0%	190.0%	200.0%	204.0%	206.0%
Financial Leverage Ratio	36.9%	31.8%	26.6%	25.1%	30.1%	29.3%	28.1%	28.1%
ROE		10.2%	10.9%	10.4%	7.5%	7.8%	9.8%	10.2%
ROI	4.1%	3.8%	3.9%	3.6%	3.6%	3.6%	3.6%	3.6%

## NOTES

## NOTES

## Disclaimer and legal disclosures

### Origin of the publication or report

This publication or report originates from Pareto Securities AS ("Pareto Securities"), reg. no. 956 632 374 (Norway), Pareto Securities AB, reg. no. 556206-8956 (Sweden) or Pareto Securities Limited, reg. no. 3994976, (United Kingdom) (together the Group Companies or the "Pareto Securities Group") acting through their common unit Pareto Securities Research. The Group Companies are supervised by the Financial Supervisory Authority of their respective home countries.

### Content of the publication or report

This publication or report has been prepared solely by Pareto Securities Research.

Opinions or suggestions from Pareto Securities Research may deviate from recommendations or opinions presented by other departments or companies in the Pareto Securities Group. The reason may typically be the result of differing time horizons, methodologies, contexts or other factors.

### Sponsored research

Please note that if this report is labelled as "sponsored research" on the front page, Pareto Securities has entered into an agreement with the company about the preparation of research reports and receives compensation from the company for this service. Sponsored research is prepared by the Research Department of Pareto Securities without any instruction rights by the company. Sponsored research is however commissioned for and paid by the company and such material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MiFID II Directive.

### Basis and methods for assessment

Opinions and price targets are based on one or more methods of valuation, for instance cash flow analysis, use of multiples, behavioral technical analyses of underlying market movements in combination with considerations of the market situation and the time horizon. Key assumptions of forecasts, price targets and projections in research cited or reproduced appear in the research material from the named sources. The date of publication appears from the research material cited or reproduced. Opinions and estimates may be updated in subsequent versions of the publication or report, provided that the relevant company/issuer is treated anew in such later versions of the publication or report.

Pareto Securities Research may provide credit research with more specific price targets based on different valuation methods, including the analysis of key credit ratios and other factors describing the securities creditworthiness, peer group analysis of securities with similar creditworthiness and different DCF-valuations. All descriptions of loan agreement structures and loan agreement features are obtained from sources which Pareto Securities Research believes to be reliable, but Pareto Securities Research does not represent or warrant their accuracy. Be aware that investors should go through the specific complete loan agreement before investing in any bonds and not base an investment decision based solely on information contained in this publication or report.

Pareto Securities Research has no fixed schedule for updating publications or reports.

Unless otherwise stated on the first page, the publication or report has not been reviewed by the issuer before dissemination. In instances where all or part of a report is presented to the issuer prior to publication, the purpose is to ensure that facts are correct.

### Validity of the publication or report

All opinions and estimates in this publication or report are, regardless of source, given in good faith and may only be valid as of the stated date of this publication or report and are subject to change without notice.

### No individual investment or tax advice

The publication or report is intended only to provide general and preliminary information to investors and shall not be construed as the basis for any investment decision. This publication or report has been prepared by Pareto Securities Research as general information for private use of investors to whom the publication or report has been distributed, but it is not intended as a personal recommendation of particular financial instruments or strategies and thus it does not provide individually tailored investment advice, and does not take into account the individual investor's particular financial situation, existing holdings or liabilities, investment knowledge and experience, investment objective and horizon or risk profile and preferences. The investor must particularly ensure the suitability of an investment as regards his/her financial and fiscal situation and investment objectives. The investor bears the risk of losses in connection with an investment.

Before acting on any information in this publication or report, we recommend consulting your financial advisor.

The information contained in this publication or report does not constitute advice on the tax consequences of making any particular investment decision. Each investor shall make his/her own appraisal of the tax and other financial merits of his/her investment.

### Sources

This publication or report may be based on or contain information, such as opinions, recommendations, estimates, price targets and valuations which emanate from Pareto Securities Research' analysts or representatives, publicly available information, information from other units or companies in the Group Companies, or other named sources.

To the extent this publication or report is based on or contains information emanating from other sources ("Other Sources") than Pareto Securities Research ("External Information"), Pareto Securities Research has deemed the Other Sources to be reliable but neither the companies in the Pareto Securities Group, others associated or affiliated with said companies nor any other person, guarantee the accuracy, adequacy or completeness of the External Information.

### Ratings

Equity ratings:	"Buy"	Pareto Securities Research expects this financial instrument's total return to exceed 10% over the next 12 months
	"Hold"	Pareto Securities Research expects this financial instrument's total return to be between -10% and 10% over the next 12 months
	"Sell"	Pareto Securities Research expects this financial instrument's total return to be negative by more than 10% over the next 12 months

### Analysts Certification

The research analyst(s) whose name(s) appear on research reports prepared by Pareto Securities Research certify that: (i) all of the views expressed in the research report accurately reflect their personal views about the subject security or issuer, and (ii) no part of the research analysts' compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analysts in research reports that are prepared by Pareto Securities Research.

The research analysts whose names appear on research reports prepared by Pareto Securities Research received compensation that is based upon various factors including Pareto Securities' total revenues, a portion of which are generated by Pareto Securities' investment banking activities.

### Limitation of liability

Pareto Securities Group or other associated and affiliated companies assume no liability as regards to any investment, divestment or retention decision taken by the investor on the basis of this publication or report. In no event will entities of the Pareto Securities Group or other associated and affiliated companies be liable for direct, indirect or incidental, special or consequential damages resulting from the

**Risk information**

The risk of investing in certain financial instruments, including those mentioned in this document, is generally high, as their market value is exposed to a lot of different factors such as the operational and financial conditions of the relevant company, growth prospects, change in interest rates, the economic and political environment, foreign exchange rates, shifts in market sentiments etc. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. Past performance is not a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. When investing in individual shares, the investor may lose all or part of the investments.

**Conflicts of interest**

Companies in the Pareto Securities Group, affiliates or staff of companies in the Pareto Securities Group, may perform services for, solidify business from, make a market in, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

In addition Pareto Securities Group, or affiliates, may from time to time have a broking, advisory or other relationship with a company which is the subject of or referred to in the relevant Research, including acting as that company's official or sponsoring broker and providing investment banking or other financial services. It is the policy of Pareto to seek to act as corporate adviser or broker to some of the companies which are covered by Pareto Securities Research. Accordingly companies covered in any Research may be the subject of marketing initiatives by the Investment Banking Department.

To limit possible conflicts of interest and counter the abuse of inside knowledge, the analysts of Pareto Securities Research are subject to internal rules on sound ethical conduct, the management of inside information, handling of unpublished research material, contact with other units of the Group Companies and personal account dealing. The internal rules have been prepared in accordance with applicable legislation and relevant industry standards. The object of the internal rules is for example to ensure that no analyst will abuse or cause others to abuse confidential information. It is the policy of Pareto Securities Research that no link exists between revenues from capital markets activities and individual analyst remuneration. The Group Companies are members of national stockbrokers' associations in each of the countries in which the Group Companies have their head offices. Internal rules have been developed in accordance with recommendations issued by the stockbrokers associations. This material has been prepared following the Pareto Securities Conflict of Interest Policy.

The guidelines in the policy include rules and measures aimed at achieving a sufficient degree of independence between various departments, business areas and sub-business areas within the Pareto Securities Group in order to, as far as possible, avoid conflicts of interest from arising between such departments, business areas and sub-business areas as well as their customers. One purpose of such measures is to restrict the flow of information between certain business areas and sub-business areas within the Pareto Securities Group, where conflicts of interest may arise and to safeguard the impartialness of the employees. For example, the Investment Banking departments and certain other departments included in the Pareto Securities Group are surrounded by arrangements, so-called Chinese Walls, to restrict the flows of sensitive information from such departments. The internal guidelines also include, without limitation, rules aimed at securing the impartialness of, e.g., analysts working in the Pareto Securities Research departments, restrictions with regard to the remuneration paid to such analysts, requirements with respect to the independence of analysts from other departments within the Pareto Securities Group rules concerning contacts with covered companies and rules concerning personal account trading carried out by analysts.

**Distribution restriction**

The securities referred to in this publication or report may not be eligible for sale in some jurisdictions and persons into whose possession this document comes should inform themselves about and observe any such restrictions. This publication or report is not intended for and must not be distributed to private customers in the US, or retail clients in the United Kingdom, as defined by the Financial Conduct Authority (FCA).

This research is only intended for and may only be distributed to institutional investors in the United States and U.S. entities seeking more information about any of the issuers or securities discussed in this report should contact Pareto Securities Inc. at 150 East 52nd Street, New York, NY 10022, Tel. 212 829 4200.

Pareto Securities Inc. is a broker-dealer registered with the U.S. Securities and Exchange Commission and is a member of FINRA & SIPC. U.S. To the extent required by applicable U.S. laws and regulations, Pareto Securities Inc. accepts responsibility for the contents of this publication. Investment products provided by or through Pareto Securities Inc. or Pareto Securities Research are not FDIC insured, may lose value and are not guaranteed by Pareto Securities Inc. or Pareto Securities Research. Investing in non-U.S. securities may entail certain risks. This document does not constitute or form part of any offer for sale or subscription, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. The securities of non-U.S. issuers may not be registered with or subject to SEC reporting and other requirements. The information available about non-U.S. companies may be limited, and non-U.S. companies are generally not subject to the same uniform auditing and reporting standards as U.S. companies. Market rules, conventions and practices may differ from U.S. markets, adding to transaction costs or causing delays in the purchase or sale of securities. Securities of some non-U.S. companies may not be as liquid as securities of comparable U.S. companies. Fluctuations in the values of national currencies, as well as the potential for governmental restrictions on currency movements, can significantly erode principal and investment returns.

Pareto Securities Research may have material conflicts of interest related to the production or distribution of this research report which, with regard to Pareto Securities Research, are disclosed herein.

**Distribution in Singapore**

Pareto Securities Pte Ltd holds a Capital Markets Services License is an exempt financial adviser under Financial Advisers Act, Chapter 110 ("FAA") of Singapore and a subsidiary of Pareto Securities AS.

This report is directed solely to persons who qualify as "accredited investors", "expert investors" and "institutional investors" as defined in section 4A(1) Securities and Futures Act, Chapter 289 ("SFA") of Singapore. This report is intended for general circulation amongst such investors and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in this report, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product. Please contact Pareto Securities Pte Ltd, 16 Collyer Quay, # 27-02 Income at Raffles, Singapore 049318, at +65 6408 9800 in matters arising from, or in connection with this report.

**Additional provisions on Recommendations distributed in the Canada**

Canadian recipients of this research report are advised that this research report is not, and under no circumstances is it to be construed as an offer to sell or a solicitation of or an offer to buy any securities that may be described herein. This research report is not, and under no circumstances is it to be construed as, a prospectus, offering memorandum, advertisement or a public offering in Canada of such securities. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this research report or the merits of any securities described or discussed herein and any representation to the contrary is an offence. Any securities described or discussed within this research report may only be distributed in Canada in accordance with applicable provincial and territorial securities laws. Any offer or sale in Canada of the securities described or discussed herein will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada nor should it be construed as being tailored to the needs of the recipient. Canadian recipients are advised that Pareto Securities AS, its affiliates and its authorized agents are not responsible for, nor do they accept, any liability whatsoever for any direct or consequential loss arising from any use of this research report or the information contained herein.

**Distribution in United Kingdom**

This publication is produced in accordance with COBS 12.3 as Non-Independent Research and approved under part IV article 19 of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO") by Pareto Securities Limited for communication in the United Kingdom only to investment professionals as that term is defined in article 19(5) of the FPO. This publication is issued for the benefit of persons who qualify as eligible counterparties or professional clients and should be made available only to such persons and is exempt from the restriction on financial promotion in s21 of the Financial Services and Markets Act 2000 in reliance on provision in the FPO.

**Copyright**

This publication or report may not be mechanically duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws. Any infringement of Pareto Securities Research's copyright can be pursued legally whereby the infringer will be held liable for any and all losses and expenses incurred by the infringement.

## Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Vest	4,506,060	7.63%

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1 % or more of the equity securities of:

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1SMN	1,879,292	1.45%
NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,179,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,549,440	2.46%	Sparebanken Vest	4,506,060	7.63%
SpareBank 1Nord-Norge	1,129,459	1.12%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Golden Ocean Group	0	1,824	Prosafe	0	5,984
Aker	0	514	Grieg Seafood	0	770	Protector Forsikring	0	14,285
Aker BP	0	860	Helgeland Sparebank	0	1,700	REC Silicon	0	159,908
Aker Solutions	0	2,085	Høegh LNG	0	8,703	SailMar	0	130
AKVA Group	0	1,500	Ice Group AS	0	55,500	Sandnes Sparebank	0	18,032
Archer	0	73,520	Jæren Sparebank	0	500	Scatec Solar	0	35,635
Atea	0	450	Komplett Bank	0	99,357	Seadrill	0	6,615
Austevoll Seafood	0	5,780	Kongsberg Gruppen	0	4,010	Selvaag Bolig	0	10,000
Avance Gas	0	34,201	Lerøy Seafood	0	33,795	SpareBank 1BV	0	10,000
Axactor	0	21,647	Marine Harvest	0	1,864	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	44,509	Monobank	0	1,355,000	SpareBank 1SMN	0	16,590
Borr Drilling	0	4,415	NEXT Biometrics	0	1,730	SpareBank 1SR-Bank	0	39,187
BWLPG	0	5,569	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	2,891
DNB	0	35,822	Norsk Hydro	0	112,501	Sparebanken Møre	0	6,550
DNO	0	24,392	Northern Drilling	0	2,099	Sparebanken Sør	0	43,280
DOF	0	138,498	Norwegian Air Shuttle	0	3,172	Sparebanken Øst	0	3,000
Entra	0	14,362	Norwegian Property	0	150,000	Storebrand	0	5,005
Equinor	0	10,266	Ocean Yield	0	31,967	Subsea 7	0	7,351
Europpris	0	14,510	Odjell Drilling	0	8,731	Telenor	0	2,272
Faroe Petroleum	9,600	9,600	Orkla	0	23,746	TGS-NOPEC	0	2,000
Flex LNG	0	13,352	Panoro Energy	0	5,670	XXL	0	7,270
Frontline	0	13,943	Pareto Bank	0	963,509	Yara International	0	19,079
Gjensidige Forsikring	0	8,547	Petroleum Geo-Services	0	57,884	Zenterio	0	78,865

This overview is updated monthly (last updated 21.11.2018).

\*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

## Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Africa Energy	Floatel	Okea AS
Akva Group	Fortum	Pandion Energy
Arnarlix	Genel Energy	Pareto Bank
Atlantic Sapphire AS	Gfinity Plc	Petro Matad Limited
Avida Holding AB	Gulf Keystone Petroleum	Petrolat LLC
Bank Norwegian	Hertha BSC GmbH	Pioneer Public Properties Finland Oy
Borealis Finance	Hunter Group	Point Resources AS
Borr Drilling Limited	Idavang A/S	Quant AB
Brado AB	Instabank	Sakthi Global Auto Holdings
Camanchaca	Komplett Bank	Sand Hill Petroleum
DNO ASA	McDermott International	SAS
DOF ASA	MMA Offshore	Scatec Solar
Echo Energy	Monobank ASA	Scorpio Tankers
Eco Atlantic Oil and Gas	Nemaska Lithium	Shamara
Eidesvik Offshore	Northern Drilling	Siccar Point Energy
Eland Oil & Gas	Northmill Group AB	SL Bidco
Embarcadero Maritime II LLC	Norwegian Air Shuttle	SpareBank 1 Buskerud-Vestfold
Faroe Petroleum	Ocean Yield	Sparebanken Vest
FFS Bidco	Odfjell	Union Maritime Limited
Filo Mining Corp	Odfjell Drilling	Zwipe AS
Flex LNG		

*This overview is updated monthly (this overview is for the period 31.10.2017 – 31.10.2018).*

## Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

### Distribution of recommendations

Recommendation	% distribution
Buy	76%
Hold	20%
Sell	4%

### Distribution of recommendations (transactions\*)

Recommendation	% distribution
Buy	100%
Hold	0%
Sell	0%

\* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 21.11.2018).

## Appendix D

This section applies to research reports prepared by Pareto Securities AB.

### Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

### Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Aspire	Green Landscaping Holding	Powercell	Sedana Medical
Cibus Nordic Real Estate	Lehto Group	Magnolia Bostad	Shamara Petroleum
Climeon	Organoclick	Scibase	Vostok New Ventures

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Oil	Cavotec	Isofol Medical	Shamara Petroleum
BlackPearl Resources Inc	Cibus Nordic Real Estate	Saltängen Property Invest	Tethys Oil
Byggmästare Anders J Ahlström	Delarka Holding	SciBase Holding	Vostok Emerging Finance
Byggpartner i Dalarna	International Petroleum Corporation	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None  
This overview is updated monthly (last updated 14.09.2018).

## Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

### Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Freenet	MLP *	Siemens Healthineers AG
Aixtron *	Gesco *	MOBOTIX AG	SMT Scharf AG *
Baywa	GFT Technologies *	MTU Aero Engines	Surteco Group *
Biotest *	Gigaset *	OVH Holding AG	Syzygy AG *
Brenntag	Heidelberg Pharma *	Procredit Holding *	TAKKT AG
CORESTATE Capital Holding S.A.	Hypoport AG	PSI SOFTWARE AG *	Vapiano
Daldrup & Soehne *	Intershop Communications AG	PWO *	va-Q-tec *
Demire	Logwin *	RIB Software *	Viscom *
Epigenomics AG *	Manz AG *	S&T AG *	windeln.de
Euromicron AG *	MAX Automation SE *	Schaltbau Holding AG	
Eyemaxx Real Estate	Merkur Bank	SCOUT24	

\* The designated sponsor services include a contractually agreed provision of research services.

## Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

### Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Hypoport AG	OHB SE	Vapiano
Baywa	Intershop Communications AG	OVH Holding AG	
BB Biotech	Merkur Bank	Schaltbau Holding AG	
Eyemaxx Real Estate	MOBOTIX AG	Siegfried Holding AG	

This overview is updated monthly (last updated 05.12.2018).