

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

Rating: BUY

Target price: € 9.63
(previously: € 9.60)

current price: € 5.84
06.08.24 / XETRA - closing
Currency: EUR

Key data:

ISIN: DE0005570808
WKN: 557080
Stock exchange symbol:
UBKG
Number of shares³: 35.66
Marketcap³: 208.25
in million / in million EUR
Free float: 85 %

Transparency level:
Regulated unofficial market
Market segment:m:access
Accounting: HGB

Financial year: 31.12.

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* Catalogue of possible conflicts of interest on page 9

Date (time) Completion:
07.08.24 (2:16 pm)

Date (time) first transmission:
12.08.24 (9:30 am)

Validity of the price target: until
max. 31.12.2025

Company profile

Industry: financial services

Focus: ecological investments, financing
environmentally friendly projects

Employees: 347 (30/06/2024)

Foundation: 1997

Company headquarters: Nuremberg

Board of Directors: Goran Bašić, Dietmar von Blücher,
Heike Schmitz

UmweltBank AG stands for banking transactions with ecological and social responsibility. It offers investors transparent ecological investments and supports private individuals and commercial customers throughout Germany by financing environmentally friendly projects. By exclusively offering a green product range, UmweltBank AG consistently implements its ecological orientation. In addition to the traditional savings account, the company also offers green fund products and finances green projects. UmweltBank AG operates as a direct bank without the traditional branch business. Over 25,000 loan projects have been supported since the bank was founded in 1997. At the end of 2023, environmental loans (including open commitments) totalled EUR 3.7 billion. The vast majority of the loan volume consists of solar energy financing, residential property and wind power projects.



Income statement in € million	FY 2022	FY 2023	FY 2024e	FY 2025e	FY 2026e
Interest result	58.79	41.11	42.40	48.54	56.71
Financial result	24.83	-2.64	18.50	12.50	13.75
Net commission and trading income	9.35	9.05	3.39	12.75	13.07
Earnings before taxes	39.21	-5.60	-7.46	5.75	20.49
Earnings after taxes	30.55	0.73	-5.08	3.91	13.93

Key figures in EUR					
EPS	0.86	0.02	-0.14	0.11	0.39
Dividend per share	0.33	0.00	0.00	0.00	0.16

Key balance sheet figures in € million					
Total capital	528.90	524.00	518.92	522.84	531.20
Return on capital (before taxes)	5.9%	0.1%	-1.0%	0.8%	2.6%
Cost-income ratio	58.0%	111.2%	111.5%	92.3%	75.7%

Financial dates

22.08.2024: Hamburg Investor Days
10.10.2024: Annual General Meeting

**Latest research from GBC:

Date: Publication / Target price in EUR / Rating
26/06/2024: RS / 9.60 / BUY
26/03/2024: RS / 9.60 / BUY
14.08.2023: RS / 13.80 / BUY
17.07.2023: RS / 14.40 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany

Note in accordance with MiFID II regulation for "minor non-monetary benefit" research: This research fulfils the requirements for classification as a "minor non-monetary benefit". Further information on this can be found in the disclosure under "I. Research under MiFID II"

1st HY 2024: Negative valuation effect brought forward to 2023, forecast adjusted, target price: €9.63, rating: BUY

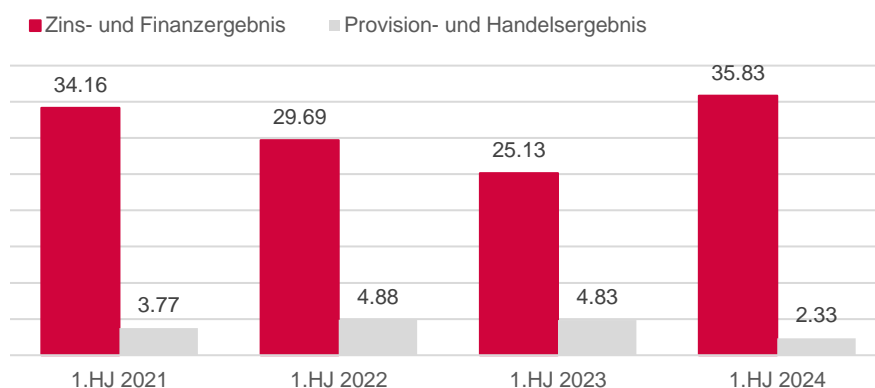
in € million	1.HY 2021	1.HY 2022	1.HY 2023	1.HY 2024
Interest, financial and valuation result	34.16	29.69	25.13	35.83
Net commission and trading income	3.77	4.88	4.83	2.33
Personnel and administrative expenses	15.82	18.97	26.63	29.37
Pre-tax profit	21.66	14.01	3.11	8.53
Result for the period	14.40	9.07	1.49	5.62

	31.12.21	31.12.22	31.12.23	30.06.24
Business volume	6.451	6.602	6.119	6.175
Balance sheet total	5.928	5.981	5.688	5.879
Customer deposits	2.954	3.176	2.854	3.444
Environmental loans	3.543	3.703	3.722	3.555
Own funds, regulatory	427	504	524	523
Own funds ratio, regulatory	14.0%	15.7%	15.6%	16.7%

Sources: UmweltBank AG; GBC AG

UmweltBank AG's total income rose significantly in the first six months to € 38.16 million (previous year: € 31.20 million). In particular, the jump in the financial result to € 17.95 million (previous year: € 1.19 million) contributed to this visible increase. This is related to the planned implementation of the corporate strategy, which envisages the sale of the investment portfolio within the next three financial years also in order to release equity and regulatory capital. In the first six months of 2024, a total of four wind farm investments and two property investments were sold, thereby significantly increasing the financial result. When the Q1 figures were published, Umweltbank AG had still reported a loss on disposal of around € 10 million. However, as part of an audit by the auditor, the carrying amount of the securities sold as at 31 December 2023 was subsequently changed, meaning that the valuation loss was carried forward in full to the 2023 financial year.

Development of total income on a half-year basis (in € million)



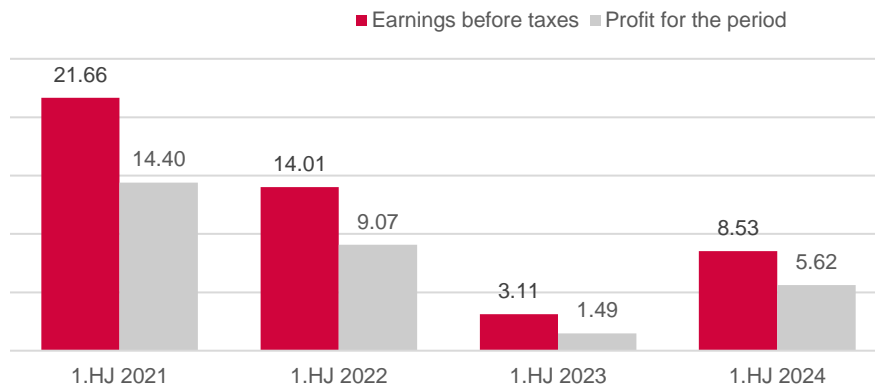
Sources: UmweltBank AG; GBC AG

At € 17.88 million (previous year: € 25.17 million), net interest income was below the previous year's figure, as expected. Although the company recorded high demand for loans in the renewable energies sector and in the property business, the volume of new loans was still low at € 49 million (previous year: € 397 million). The total loan volume, and therefore a key basis for interest income, fell to € 3.55 billion (31/12/2013: € 3.72 billion) due to repayments and redemptions. In addition, the new investment of treasury portfolios at improved conditions and the interest margin from the investment of customer deposits are not yet reflected in the interest income for the first half of the year.

UmweltBank AG's focus on the accelerated expansion of the deposit business is already bearing fruit. In the first six months of 2024, the number of customers rose by around 13,000 to 145,000, with customer deposits increasing accordingly to EUR 3.44 billion (31/12/2013: EUR 2.85 billion). Product and process optimisations such as the introduction of the UmweltBank app and the implementation of digital new customer processes supported growth in the private customer business. Interest income can be generated through the investment of customer deposits (ECB, bonds), which represents an important building block for the future development of net interest income.

The significant increase in total income is also reflected in the significant increase in earnings before taxes to € 8.53 million (previous year: € 3.11 million) and the profit for the period to € 5.62 million (previous year: € 1.49 million). The increase in income more than compensated for the rise in personnel and administrative expenses to € 29.37 million (previous year: € 26.63 million). The higher expenses reflect an increase in salary levels as well as higher expenses in the areas of IT and marketing. The completion of the migration of the core banking system (Q2 2024) and the transformation of the organisational structure should eliminate significant cost drivers in the future.

EBT and profit for the period (in € million)



Source: UmweltBank AG; GBC AG

The strong increase in earnings and the release of funds from the sale of investments and treasury activities were offset by only a slight expansion of the loan portfolio, which led to a visible increase in the total capital ratio (own funds and capital buffer) to 16.7% (31/12/2013: 15.6%). The regulatory capital requirement of 15.55% was thus clearly exceeded. Once the deficits identified have been dealt with, we assume that the own funds requirement will be reduced in the near future, which would also free up funds to expand the lending business.

Forecast and modelling assumptions

in € million	FY 2023*	FY 24e (old)	FY 24e (new)	FY 2025e	FY 2026e
Interest result	41.11	42.40	42.40	48.54	56.71
Net commission and trading income	9.05	10.39	3.39	12.75	13.07
Financial result	-2.64	8.50	18.50	12.50	13.75
Total expenditure	57.83	77.99	72.55	68.84	63.84
EBT ²	-5.60	-15.90	-7.46	5.75	20.49
EAT ²	0.73	-10.81	-5.08	3.91	13.93

Sources: UmweltBank AG; GBC AG; *adjusted figures

The management of UmweltBank AG has confirmed the previously communicated guidance with the publication of the half-year figures for 2024. However, the guidance was raised by the valuation effect of around € 10 million. As the loss from the sale of the securities will not be recognised in the current financial year as previously expected, but retroactively in the 2023 financial year, the figures for the 2023 financial year have been adjusted and the pre-tax guidance has been raised to between € -5 million and € -10 million (previously: € -15 million to € -20 million).

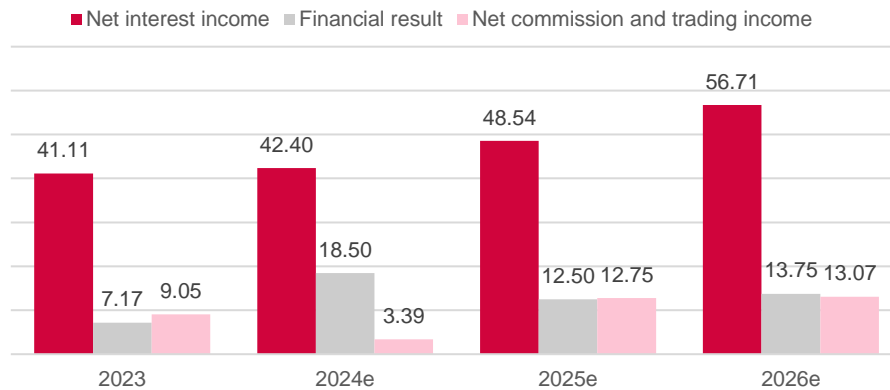
According to the company's planning, total income in the range of € 60 million and € 65 million will be offset by total expenses of around € 70 million at the end of the 2024 financial year. Based on the figures achieved in the first six months, total income of € 38.16 million and total expenses of € 29.68 million, this assumption is reasonable.

Total income in the second half of 2024 should be characterised in particular by an increase in net interest income, which should be slightly above the previous year's figure by the end of the year. On the one hand, the increase in new lending business, which should rise significantly to € 250 million by the end of the 2024 financial year, should contribute to this. However, the reinvestment of funds released from the sale of treasury portfolios is likely to be of key importance. In view of the general rise in interest rates, these should be invested at better conditions. In addition, the investment of customer funds should also contribute to the increase in net interest income.

The financial result already benefited from the sale of six investments in the first half of 2024. The plan for the next three financial years is to wind down the investment business, which will lead in particular to an inflow of liquidity that will strengthen equity and can be used for new business. For the second half of the year, we are conservatively assuming only minor earnings contributions from further possible sales of investments. Nevertheless, we are increasing our forecast for the financial result to € 18.50 million (previously: € 8.50 million). We had previously recognised the negative valuation effect of € 10.0 million from the sale of securities included in the 2023 financial year in the 2024 financial year.

Overall, we expect total income of € 65.09 million (previously: € 62.09 million), in line with the company's guidance. In the coming financial years, the turnaround in net interest income should intensify and lead to a visible increase in total income. The main drivers for this should be an expansion of the lending business, an improvement in the interest margin and an increase in customer deposits. Our forecast of total income breaks down as follows:

Breakdown of total income (in € million)

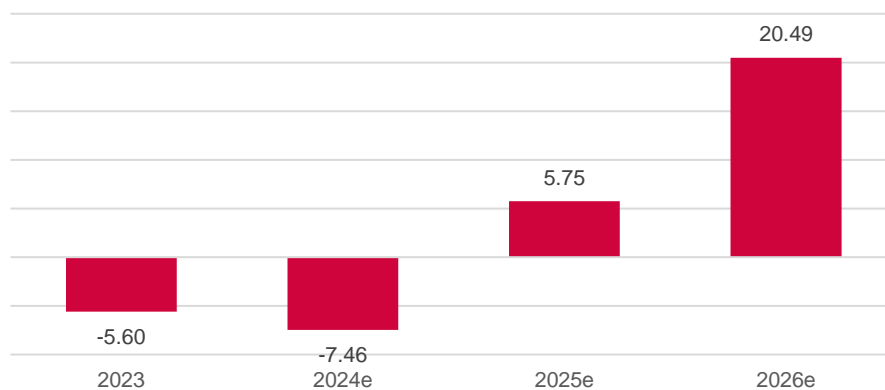


Source: GBC AG

As previously forecast, the current financial year 2024 will initially be characterised by an increase in total expenses before these decline in the following financial years. After that, costs are only expected to develop at a disproportionately low rate. On the one hand, the costs for the now completed migration of the core banking system will no longer apply in the coming financial years. These are expected to amount to € 4 million in the first half of 2024. In addition, UmweltBank AG will make further investments in efficient and digital processes in 2024 and report higher marketing expenses to acquire private customers. Following completion of the investments and the transformation currently underway (digitalisation, efficiency enhancement, organisational structure), the cost-income ratio is expected to fall in the coming financial years. UmweltBank AG is aiming for a cost-income ratio of less than 60 % by 2028. For the 2026 financial year, our last forecast period, we expect a cost-income ratio of 75.7 %.

In line with the guidance, we expect EBT of € -7.46 million for the current 2024 financial year (previously: € -15.90 million). EBT should be positive again from 2025:

Forecast EBT before reserves (in € million)



Source: GBC AG

Valuation

We used a residual income model for the valuation of UmweltBank AG, whereby the difference between the return on equity and the cost of equity is used to determine the return on surplus for the estimation periods. We have formulated specific expectations regarding the annual surpluses and the resulting changes in equity for the estimation periods of the three financial years 2024e to 2026e. The expected return on equity can be derived from this. The residual income for the financial year can be derived from the surplus return generated in a period. The expected residual income is then discounted to the valuation date using the cost of equity. To determine the terminal value, we apply a premium to the current carrying amount.

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

EK = equity	ROE = return on equity
P = premium on book value	r = cost of equity capital
T = estimation period	T= last estimation period

Determination of the cost of capital

The relevant discount rate for use in the residual income model is the cost of equity. To determine the cost of equity, the market risk premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Business Valuations and Business Administration (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth out short-term market fluctuations, the average yields of the previous three months are used and the result is rounded to 0.25 basis points. **The risk-free interest rate currently used is 2.50 % (previously: 2.50 %).**

We use the historical market risk premium of 5.50 % as a reasonable expectation of a market risk premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

We calculated the beta on the basis of the historical share price data of UmweltBank AG (monthly share price performance over the past four years). We used the STOXX® Europe 600 Banks share price index as a benchmark and averaged it over a period of five years in the regression analysis. On this basis, we calculated a beta of 0.52 (previously: 0.52), which we also adjusted and smoothed in accordance with *Blume's* work. Using the assumptions made, we calculated a cost of equity of 5.35% (previously: 5.35%) (beta multiplied by risk premium plus risk-free interest rate).

in € million	31.12.2022	31.12.2023	31.12.2024e	31.12.2025e	31.12.2026e	Final value
Equity	402.65	391.00	385.92	389.84	398.20	
Net profit for the year	30.55	0.73	-5.08	3.91	13.93	
ROE (after taxes)		0.18%	-1.31%	1.01%	3.54%	10.86%
Cost of equity		5.35%	5.35%	5.35%	5.35%	5.35%
Excess return		-5.17%	-6.66%	-4.34%	-1.81%	5.51%
Book value factor		0.03	-0.24	0.19	0.66	2.03
Residual income		-20.80	-26.02	-16.75	-7.07	405.79

According to our valuation model, UmweltBank AG should be able to achieve a sustainable return on equity (after tax) of 10.86% in relation to the equity shown in the balance sheet. Assuming a cost of equity of 5.35%, a sustainable excess return of 5.51% or a book value factor of 2.03 should be generated in the terminal value. To determine the terminal value, we have therefore recognised a premium over the carrying amount of 2.03.

Present value of residual income 2024 - 2026	-€ 22.27 million
Present value of residual income Final value in € million	365.62 million €
Total present value in € million	343.35 million €
Outstanding shares in € million	35.66 million €
Fair enterprise value per share in €	9.63 €

The sum of the discounted residual earnings results in a value of € 343.35 million (previously: € 342.18 million). With 35.66 million shares outstanding, this results in a fair enterprise value per share of € 9.63 (previously: € 9.60), which corresponds to a marginal increase in the target price. Based on the current share we continue to assign a BUY rating.

APPENDIX

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2. the research report shall be made available simultaneously to all investment service providers interested in it.

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

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

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

Other person involved in this study:

Jörg Grunwald, Executive Board

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