

# Equity Update Baader Bank: Business growth enriched by revenues diversification

**Recommendation:**  **Buy**

**Target price: €4.50**

12 - months horizon

**Current share price: €3.69**

\* price as of 28/03/2023, 11:59 CEST

Sector: Financials

We raise the stock to BUY on the expected positive impulses from the cooperation start with Smartbroker, revenue diversification and the share price weakness amid tumbling universal banks' stocks. We recall that elevated market volatility could be a tailwind for market makers.



## 2022 showed new reality in trading income but surprising boost from other sources

Baader Bank ended the turbulent year with a tiny positive preliminary pre-tax profit of EUR 0.2 mn for Q4 22 and, with a FY 22 amount of EUR 12.2 mn (inflated by the strong Q1 22). The primary factor behind the 79% yoy decline was the gradual slow-down in trading activity since Q2 22, translating into a sharp drop of trading income (-39% yoy), its main revenue source. At the same time, such an adverse trend was partially offset by other segments, especially interest income and wind park (non-core) operations in Croatia. The rate hikes triggered soaring interest income in Q4 22, additionally supported by the volume growth and we expect the momentum to continue into 2023 using Q4 22 as proxy for the upcoming quarters. Sales from the wind park almost doubled yoy in FY 22, driven by outstanding H2 due to high energy demand and skyrocketing prices. While we expect FY 23 to stay elevated we do not reckon that the extraordinary level of FY 22 can be reached. Furthermore, the introduction of intraday loans as well as direct debit payments are noteworthy, which have enriched the product offer opening room to leverage the anticipated expansion of the client base in 2023.

- For FY 23 we assume the trend in revenue diversification to carry forward although at a somewhat lower pace compared to 2022. This is based on (1) continuous moderation of trading activity, which is expected to result in a lower trading result (-7% yoy), (2) the anticipation of a substantial increase in interest income triggered by key rate hikes and Baader Bank's increasing engagement in short-term Lombard lending and intraday loans. We expect a slight decrease in staff costs (lower variable remuneration), whereas administrative costs might still be pressured by elevated inflation and further investments in infrastructure (expansion of customer base). Hence, we take a rather conservative view with sideways CIR development until 2025e with staff costs mirroring trading income evolution. Overall, we have raised our pre-tax profit estimates to EUR 15.5 mn for FY 23e (from EUR 9.7 mn previously) and look forward to the 2023 guidance on March 31.
- We raise our 12m TP from EUR 4.0 to EUR 4.5 and upgrade the stock from HOLD to BUY.

## Equity Update: Baader Bank

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**Jovan SIKIMIC**

*Analyst Editor*

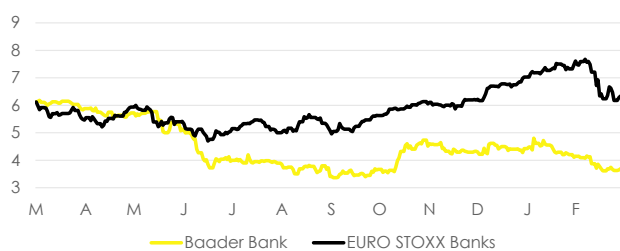
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## Key financial data

### BUY

|   |         |
|---|---------|
| Price 28.3.2023                         | 3.7     |
| Price target                            | 4.5     |
| Market cap.<br>(tot. shares, in EUR mn) | 180.1   |
| Free float                              | 29%     |
| Free float in EUR mn                    | 53.0    |
| Avg. daily turnover<br>(12 m) in EUR mn | 0.02    |
| Bloomberg                               | BWB GY  |
| Reuters                                 | BLMG.DE |



| Income statement (EUR mn)         | 12/2020 | 12/2021 | 12/2022p | 12/2023e | 12/2024e | 12/2025e |
|-----------------------------------|---------|---------|----------|----------|----------|----------|
| Net interest income               | -3      | -2      | 7        | 27       | 31       | 33       |
| Net fee & commission              | 31      | 13      | 13       | 12       | 12       | 13       |
| Net trading result                | 168     | 185     | 112      | 105      | 113      | 120      |
| Total operating income            | 197     | 196     | 133      | 144      | 157      | 166      |
| Losses on loans and advances      | 0       | 0       | 0        | 0        | 0        | 0        |
| Administrative expenses           | -140    | -140    | -141     | -145     | -153     | -160     |
| Earnings from ordinary activities | 56      | 57      | 12       | 16       | 18       | 18       |
| Net profit before minorities      | 47      | 47      | 9        | 13       | 14       | 15       |
| Net profit after minorities       | 47      | 47      | 9        | 13       | 14       | 15       |
| Adjusted net profit               | 47      | 47      | 9        | 13       | 14       | 15       |
| <b>Balance sheet (EUR mn)</b>     |         |         |          |          |          |          |
| Cash & central bank               | 489     | 1,372   | 1,746    | 1,922    | 2,112    | 2,321    |
| Loans & advances to customers     | 47      | 99      | 109      | 120      | 132      | 145      |
| Securities                        | 92      | 100     | 247      | 263      | 284      | 307      |
| Goodwill                          | 9       | 12      | 13       | 14       | 15       | 17       |
| Customer deposits                 | 594     | 1,498   | 2,052    | 2,257    | 2,482    | 2,731    |
| Debt securities issued            | 0       | 0       | 0        | 0        | 0        | 0        |
| Subordinated capital              | 0       | 0       | 0        | 0        | 0        | 0        |
| Shareholders' equity              | 120     | 164     | 164      | 172      | 183      | 193      |
| Minority interests                | 1       | 1       | 1        | 1        | 1        | 1        |
| Total assets & liabilities        | 889     | 1,820   | 2,376    | 2,605    | 2,859    | 3,137    |
| Market capitalisation             | 207     | 303     | 206      | 180      | 180      | 180      |
| <b>Profitability (%)</b>          |         |         |          |          |          |          |
| Return on assets                  | 6.2%    | 3.5%    | 0.4%     | 0.5%     | 0.5%     | 0.5%     |
| Return on equity adjusted         | 48.0%   | 32.9%   | 5.4%     | 7.5%     | 8.0%     | 7.9%     |
| <b>Ratios (x)</b>                 |         |         |          |          |          |          |
| Loan growth                       | 22.9%   | 110.0%  | 10.0%    | 10.0%    | 10.0%    | 10.0%    |
| Deposit growth                    | 33.7%   | 152.3%  | 37.0%    | 10.0%    | 10.0%    | 10.0%    |
| Loans/deposits                    | 8.0%    | 6.6%    | 5.3%     | 5.3%     | 5.3%     | 5.3%     |
| Tier 1 ratio                      | 14.6%   | 24.5%   | 22.1%    | 22.1%    | 22.0%    | 21.9%    |
| Equity/total assets               | 13.6%   | 9.0%    | 7.0%     | 6.7%     | 6.4%     | 6.2%     |
| NII growth                        | 229.3%  | -38.3%  | -549.0%  | 275.0%   | 15.0%    | 5.0%     |
| Net F&C growth                    | -3.5%   | -58.4%  | 0.8%     | -6.9%    | 1.8%     | 2.2%     |
| NIM on total assets               | -0.3%   | -0.1%   | 0.3%     | 1.1%     | 1.2%     | 1.1%     |
| Cost income ratio                 | 71.1%   | 71.1%   | 106.3%   | 100.3%   | 97.7%    | 96.3%    |
| NPL/customer loans                | 0.0%    | 0.0%    | 0.0%     | 0.0%     | 0.0%     | 0.0%     |
| LLP /customer loans               | 0.00%   | 0.00%   | 0.00%    | 0.00%    | 0.00%    | 0.00%    |
| <b>Per share data (EUR)</b>       |         |         |          |          |          |          |
| EPS reported                      | 1.01    | 1.00    | 0.18     | 0.26     | 0.29     | 0.31     |
| Earnings per share (adj.)         | 1.01    | 1.00    | 0.18     | 0.26     | 0.29     | 0.31     |
| Book value per share              | 2.61    | 3.50    | 3.36     | 3.53     | 3.75     | 3.96     |
| Dividend per share                | 0.25    | 0.35    | 0.05     | 0.08     | 0.09     | 0.09     |
| Payout ratio                      | 24.7%   | 35.0%   | 26.5%    | 30.0%    | 30.0%    | 30.0%    |
| <b>Valuation (x)</b>              |         |         |          |          |          |          |
| PE reported                       | 4.4     | 6.5     | 23.4     | 14.3     | 12.7     | 12.1     |
| Adjusted PE ratio                 | 4.4     | 6.5     | 23.4     | 14.3     | 12.7     | 12.1     |
| Dividend yield                    | 6%      | 5%      | 1%       | 2%       | 2%       | 2%       |
| Price book value                  | 1.7     | 1.9     | 1.3      | 1.0      | 1.0      | 0.9      |
| Price/tangible book value         | 1.9     | 2.0     | 1.4      | 1.1      | 1.1      | 1.0      |

Source: Baader Bank, RBI/Raiffeisen Research estimates

## Cooperation start with Smartbroker to boost the client base

A significant deal between Baader Bank and Smartbroker is expected to be finalised in H2 23. Smartbroker offers an online brokerage business which will be revamped in the course of 2023 through the launch of "Smartbroker 2.0", with Baader Bank handling securities account management, transaction processing and related back-end functions. As a result of this cooperation, Baader Bank's securities account volume will be significantly enlarged by around 267k customer accounts (32% of its own base) and a total volume of EUR 9.2 bn (59% of its own base). Nevertheless, moderate client outflows until the cooperation is up and running cannot be ruled out. Smartbroker's customers on average made 18 transactions per account in 2022 (after 29 in 2021), also reflecting declining general activity in the sector. However, as the focus in H2 23 will still be on finalising the integration and launching the product, Smartbroker expects the online brokerage business to show its full potential starting in 2024. Therefore, while regarding 2023 as a transitional year, we have considered the full cooperation to start bearing fruits starting from 2024e.

### Changes in mid-term estimates

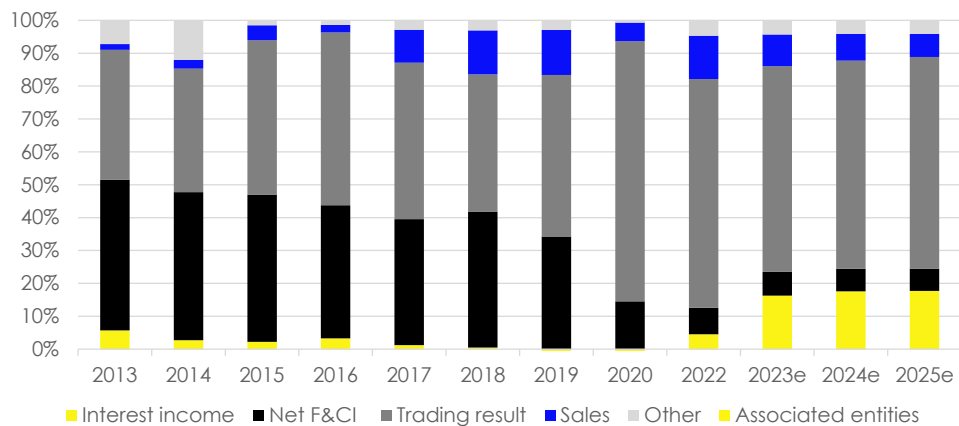
| in EUR mn                                      | 2022p         | 2023e         | 2024e         | 2025e         | 2023e         | 2024e         |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
|  |               | new           | new           | new           | old           | old           |
| Interest income                                | 7.3           | 27.4          | 31.5          | 33.1          | 1.8           | 2.3           |
| Net F&CI                                       | 13.0          | 12.1          | 12.3          | 12.6          | 15.2          | 25.1          |
| Trading result                                 | 112.2         | 104.9         | 113.3         | 120.1         | 142.9         | 152.9         |
| Sales  | 21.3          | 16.2          | 14.6          | 13.1          | 14.0          | 15.2          |
| Other  | 7.4           | 7.3           | 7.4           | 7.6           | 4.8           | 4.3           |
| <b>Revenues</b>                                | <b>161.3</b>  | <b>167.8</b>  | <b>179.1</b>  | <b>186.5</b>  | <b>178.7</b>  | <b>199.9</b>  |
| Staff costs                                    | -65.0         | -63.7         | -66.9         | -70.2         | -77.9         | -81.0         |
| Administrative costs                           | -64.5         | -69.0         | -73.8         | -76.1         | -67.0         | -72.3         |
| Depreciation / risk costs                      | -11.3         | -12.1         | -12.7         | -13.3         | -14.9         | -15.6         |
| <b>Expenses</b>                                | <b>-140.8</b> | <b>-144.8</b> | <b>-153.4</b> | <b>-159.6</b> | <b>-159.8</b> | <b>-169.0</b> |
| Allocation to "Fund for general banking risks" | -8.3          | -7.5          | -8.1          | -8.5          | -9.3          | -10.0         |
| <b>Pre-Tax Profit</b>                          | <b>12.2</b>   | <b>15.5</b>   | <b>17.6</b>   | <b>18.4</b>   | <b>9.7</b>    | <b>20.9</b>   |
| EPS (in EUR)                                   | 0.21          | 0.27          | 0.30          | 0.32          | 0.17          | 0.36          |
| DPS (in EUR)                                   | 0.05          | 0.08          | 0.09          | 0.10          | 0.05          | 0.11          |
| Cost / Income                                  | 80%           | 79%           | 79%           | 78%           | 81%           | 77%           |
| Staff costs / trading result                   | 58%           | 61%           | 59%           | 58%           | 54%           | 53%           |
| ROE  | 7%            | 7%            | 8%            | 8%            | 5%            | 10%           |

Source: company data, RBI/Raiffeisen Research estimates

### Fine-tuning our mid-term earnings outlook until 2025

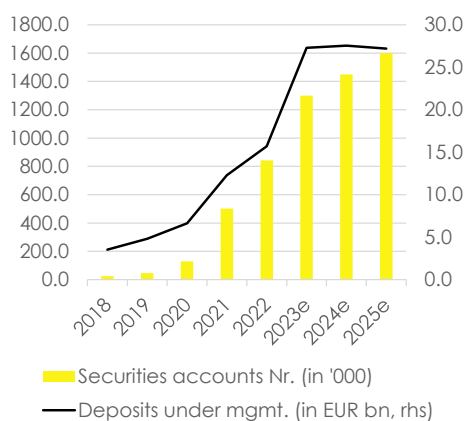
Our baseline scenario for 2024e-2025e assumes a cumulative +46% growth in customer accounts until 2025e excl. Smartbroker (vs. more than a five-fold increase during the period 2020-2022) and declining trading activity (measured per EUR 1 bn in account volume) from ~ EUR 8 mn in 2020 (EUR 20 mn in 2021) to EUR 4.4 mn until the end of 2025e. Both factors combined result in a smooth upward trend for trading income for 2024 and 2025 at +8% yoy and +6% yoy, respectively. We like the diversification path of revenues as Baader Bank's trading income has been heavily exposed to external trading related factors. For the same period, we anticipate a further, though moderating, increase in interest income (15% and 5%, respectively) as well as still elevated wind park sales compared to pre-2022 levels. Given no change in the PFOF regulation our estimates for the NCI line are based on the same principle using the fee expenses formula linked to trading activity and should allow just for a flattish development until 2025e.

**Revenue split over time**



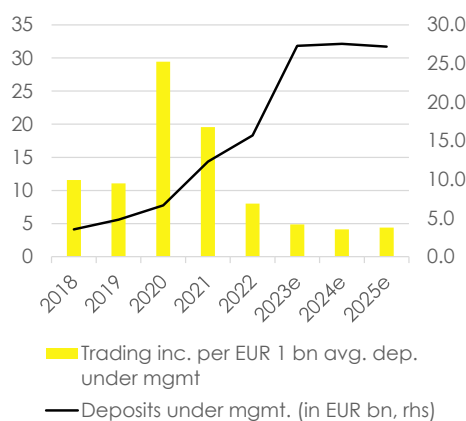
Source: company data, RBI/Raiffeisen Research estimates

**Business volume outlook**



Source: company data, RBI/Raiffeisen Research estimates

**Trading income per volume**

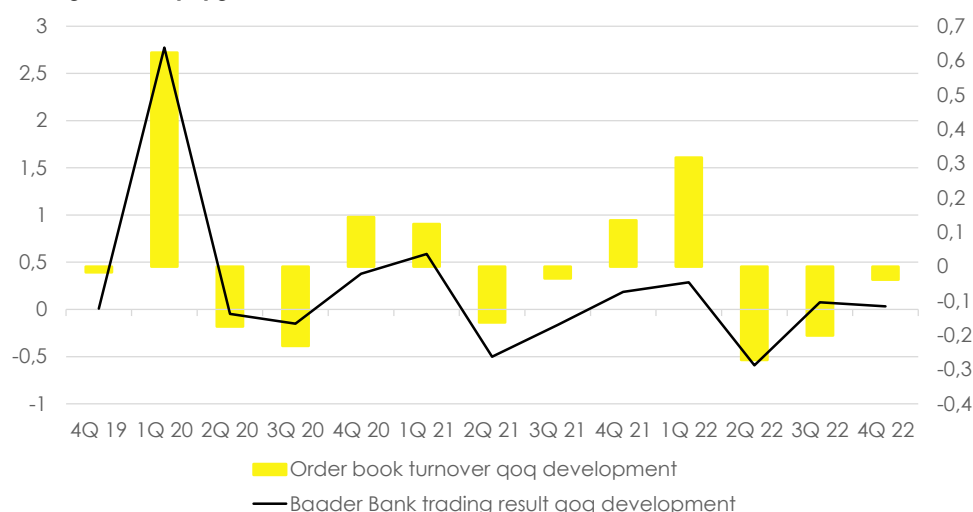


Source: company data, RBI/Raiffeisen Research estimates

Since Baader Bank's trading result largely depends on the market development, we think that the order book statistics are a good indicator for Baader Bank's performance. After a relatively weak H2 22, order book turnover saw an increase in the first two months of 2023 (Q1 historically represents the best quarter on the trading activity side). However, comparing the activity in January and February 2023 to their reference periods in the extraordinarily strong last three years, the amount is substantially lower (Jan/Feb 23 average down 29% yoy on Xetra). Looking forward, a boost to market volatility and, consequently, to Baader Bank's trading result could result from the emerging "banking crisis" in March and the associated fluctuations in the equity market, especially in the banking sector. In addition, the crypto market benefited from these events – it represents a segment with which Baader Bank has been involved more closely since 2022; however, the effects on overall market volatility are still to be seen.

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### Trading income qoq growth vs. order book



Source: Deutsche Börse, company data

### Earnings trends confirmed at peers as well

Baader Bank's main peer is the US-based Virtu Financial, which also posted comparable earnings metrics. Trading income saw a yoy decline of 23% yoy in 2022, whereas F&CI declined by 14% while interest income more than doubled yoy to USD 159 mn, which is a sign that this diversification of revenue streams has been already omnipresent in the sector. Dutch-based Flowtraders managed to present a strong trading performance in FY22 (+20% yoy) on the back of a diversified product range, while German peer Lang & Schwarz, for its part, witnessed a significant decline in the trading result in FY 22 (-61% yoy).

### Valuation

Baader Bank has proposed to pay a dividend of EUR 0.05 per share for 2022, with expected payment to be made during Q3 23 (dividend for 2021: EUR 0.35). Baader Bank will publish its FY 22 audited figures on March 31 and will present the new guidance for FY 23. The proposed dividend yields a meagre 1.4%, below the peer group average.

### Dividend Discount Gordon Growth model

| in EUR              | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | TV    |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| BVPS                | 3.6   | 3.8   | 4.0   | 4.3   | 4.6   | 5.0   | 5.5   | 5.5   |
| EPS growth*         | 44.8% | 13.0% | 4.6%  | 27.6% | 22.6% | 16.1% | 14.8% | 4.0%  |
| ROE adj.            | 7.4%  | 8.0%  | 7.9%  | 9.4%  | 10.7% | 11.5% | 12.1% | 12.5% |
| EPS                 | 0.26  | 0.29  | 0.31  | 0.39  | 0.48  | 0.55  | 0.64  | 0.0   |
| DPS                 | 0.08  | 0.09  | 0.10  | 0.12  | 0.15  | 0.17  | 0.20  | 0.0   |
| LT risk free rate   | 2.10% | 2.00% | 2.00% | 2.00% | 2.05% | 2.10% | 2.05% | 2.10% |
| Equity risk premium | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Company beta        | 1.3   | 1.3   | 1.3   | 1.3   | 1.3   | 1.3   | 1.3   | 1.3   |
| Cost of equity      | 9.6%  | 9.5%  | 9.5%  | 9.5%  | 9.6%  | 9.6%  | 9.6%  | 9.6%  |
| Target P/B          |       |       |       |       |       |       |       | 1.5   |
| Terminal value      |       |       |       |       |       |       |       | 8.3   |
| DPS                 | 0.08  | 0.09  | 0.10  | 0.12  | 0.15  | 0.17  | 0.20  | 0     |
| Discounted DPS/TV   | 0.08  | 0.09  | 0.08  | 0.09  | 0.10  | 0.11  | 0.12  | 4.39  |
| 12m TP              | 5.12  |       |       |       |       |       |       |       |

Source: RBI/Raiffeisen Research estimates

While the somewhat better mid-term earnings outlook has led to an increase of the 12m TP in our DDGG model, an additional boost came from a higher peer group-based valuation. Using the same valuation methodology based on a DDGG model (70% weighting) and the peer group multipliers (30%) we raise our target price to EUR 4.5 and upgrade our recommendation to BUY from HOLD.

## Peer group valuation and DDGG

| Valuation model     | weight      | TP         |
|---------------------|-------------|------------|
| DDGG                | 70%         | 5.1        |
| Dividend yield      | 10%         | 1.8        |
| PER                 | 10%         | 2.5        |
| ROE - BV Regression | 10%         | 4.9        |
| <b>Target price</b> | <b>100%</b> | <b>4.5</b> |

Source: RBI/Raiffeisen Research estimates, Bloomberg

## Peer group overview

| Company                  | P/E         |             |             | Div. yield  |             |             | P/B        |            |            | ROE        |            |            |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|------------|
|                          | 2023e       | 2024e       | 2025e       | 2023e       | 2024e       | 2025e       | 2023e      | 2024e      | 2025e      | 2023e      | 2024e      | 2025e      |
| Virtu                    | 7.7         | 6.7         | 6.2         | 5.5%        | 5.5%        | 5.5%        | 1.4        | 1.3        | 1.1        | 22%        | 23%        | 24%        |
| Cowen Inc                | 11.9        | 8.9         | 5.5         | 1.3%        | 1.2%        | 1.2%        | 0.9        |            |            | 12%        |            |            |
| Jefferies Fin. Group     | 10.1        | 6.8         | 5.9         | 4.3%        | 4.8%        | 5.4%        | 0.7        | 0.6        |            | 8%         | 11%        |            |
| Tradeweb Markets Inc     | 34.5        | 32.0        | 29.1        | 0.5%        | 0.5%        | 0.6%        | 3.1        | 3.0        | 2.8        | 9%         | 10%        | 10%        |
| Flow Traders             | 9.7         | 7.9         | 8.1         | 5.8%        | 7.6%        | 6.5%        | 1.8        | 1.6        | 1.5        | 17%        | 20%        | 20%        |
| ABC Arbitrage            | 12.2        | 10.9        | 9.8         | 6.9%        | 7.7%        | 8.7%        | 2.2        | 2.1        | 1.8        | 18%        | 19%        | 21%        |
| Swissquote Group Holding | 11.4        | 10.2        | 9.1         | 1.9%        | 2.2%        | 2.8%        | 2.9        | 2.3        | 2.0        | 26%        | 25%        | 27%        |
| FlatexDegiro             | 9.8         | 7.5         | 5.9         | 0.0%        | 0.0%        | 0.0%        | 1.2        | 1.1        | 0.9        | 13%        | 14%        | 13%        |
| <b>Median</b>            | <b>10.7</b> | <b>8.4</b>  | <b>7.2</b>  | <b>4.3%</b> | <b>4.8%</b> | <b>5.4%</b> | <b>1.6</b> | <b>1.5</b> | <b>1.3</b> | <b>15%</b> | <b>17%</b> | <b>17%</b> |
| <b>Baader Bank</b>       | <b>14.1</b> | <b>12.5</b> | <b>12.0</b> | <b>2.2%</b> | <b>2.5%</b> | <b>2.5%</b> | <b>1.0</b> | <b>1.0</b> | <b>0.9</b> | <b>8%</b>  | <b>9%</b>  | <b>11%</b> |

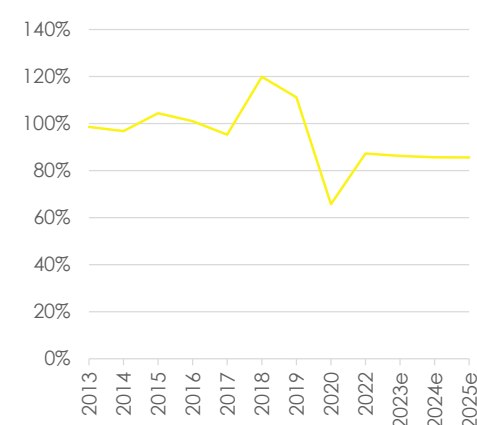
Source: company data, Bloomberg

## ROE over time



Source: company data, RBI/Raiffeisen Research estimates

## CIR over time



Source: company data, RBI/Raiffeisen Research estimates

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Baader Bank

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### Baader Bank Rating History as of 03/27/2023



### BAWAG Group Rating History as of 03/27/2023



### Erste Group Rating History as of 03/27/2023





#### History of long term recommendations

| Symbol  | Date       | Recommendation | Company     |
|---------|------------|----------------|-------------|
| BLMG.DE | 29.03.2023 | Buy            | Baader Bank |
| BLMG.DE | 19.10.2022 | Hold           | Baader Bank |
| BLMG.DE | 28.09.2022 | Buy            | Baader Bank |

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council ("special services") have been provided in the past 12 months (column B).

|                           | Column A  | Column B  |
|---------------------------|---|---|
| Investment recommendation | Basis: All recommendations for all financial instruments (last 12 months) | Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months |
| Buy recommendations       | 58.7%   | 57.3%   |
| Hold recommendations      | 26.3%   | 24.0%   |
| Sell recommendations      | 15.1%   | 18.7%   |

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council ("special services") have been provided in the past 12 months (column B).

|                           | Column A  | Column B  |
|---------------------------|---|---|
| Investment recommendation | Basis: All recommendations for all financial instruments (last 12 months) | Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months |
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| Hold recommendations      | 26.3%   | 24.0%   |
| Sell recommendations      | 15.1%   | 18.7%   |

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