

Komercijalna Banka ad Skopje

Hold

Downgraded from Buy

Price: MKD 8,405

Price target: MKD 8,469

(From MKD 7,953)

Solid performance leads to downgrade

On the back of the stock's 28% return since our initiation in September 2020 and as it has exceeded our former PT, we have now downgraded the stock to HOLD, but increased our 12-month price target (PT) to MKD 8,469/share, with potential upside of c.0.8%. We have cut our loan growth forecast for 2021E to 2.8%, in order to be in line with management's budget, which assumes rather cautious loan underwriting this year. This has resulted in the lowering of our NII forecast and a slight decline in the NIMs, as we still expect deposit growth to remain robust. The largest change vs. our previous forecasts is on the COR line, where we expect the bank to reach the mid-cycle levels earlier than we predicted previously. All this results in higher ROEs than we expected in our initiation and an increase in our PT.

We have updated our estimates, reflecting management's 2021E budget.

One of the two largest changes in our estimates since our initiation last year is a cut in our loan growth forecast. Management is guiding for a cautious c.2.8% net loan growth in 2021E and we have reflected this in our estimates. This has led, however, to a large decline in our net loans estimates for our entire forecast period, and cuts in our 2021E and 2022E NII estimates of 5% and 10%, respectively. This, coupled with an increase of operating expenses vs. our previous forecast, has led to an increase in the cost-to-income (C/I) ratio, which should still fall below 40% by 2023E, from the 41% we now expect for 2021E.

Gradually dropping COR drives up ROEs over our forecast period. While we were a little too optimistic in our operating costs estimates previously, our former COR forecasts now seem slightly too conservative; therefore, we have cut them by c.20bps, to 1.7% and 1.6% in 2021E and 2022E, respectively. In our view, the mid-cycle levels, which we see at c.140bps currently, could be reached by 2023E. The improving provisioning charges should, consequently, lead to better ROEs than estimated previously, which we now see at 12.9% in 2021E, 13.1% in 2022E and as much as 14.1% by 2023E.

ROEs at sector levels, despite a conservative balance sheet structure.

We continue to highlight Komercijalna's ability to generate solid ROEs, comparable to its peers, despite the very conservative structure of its balance sheet. At c.47%, its loans-to-deposits (L/D) ratios are below the sector's average of 78%.

A return of more than 28% since our initiation leads to a HOLD recommendation and a MKD 8,469/share PT.

On our numbers, Komercijalna trades currently at 1.3x P/BVs, a premium of c.24-35% vs. its peers, for both 2021E and 2022E. While the premium may seem rather excessive, we see it as justified, mostly on the back of the conservative balance sheet structure. On P/E, the bank trades at 10.5x and 9.9x for 2021E and 2022E, respectively, on our estimates, at an average premium of c.19%. We see any further upside in the share price as unlikely at this stage. Our PT lands just above the current market price; thus, we recommend to HOLD Komercijalna's shares for now.

Expected events

2Q21 results	W/C 26 July
3Q21 results	W/C 10 October

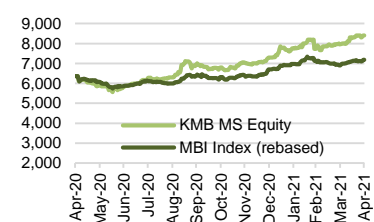
Key data

Market Cap	USD 374m
Free float	87.14%
3M ADTV	USD 0.1m
Shares outstanding (m)	2.28
Major Shareholder	Adora Engineering (12.86%)
Bloomberg Code	KMB MS
MBI Index	5,040.0

Price performance

52-w range	MKD 5,556-8,405
52-w performance	32.2%
Relative performance	19.3%

Komercijalna Banka 12M share price performance



Year	NII (MKD m)	Net profit (MKD m)	EPS (MKD)	P/E (x)	BVPS (MKD)	P/BV (x)	ROE (%)	DPS (MKD)	Dividend yield
2018	2,472	1,806	793	4.1	5,473	0.6	15.3%	420	12.9%
2019	2,405	1,827	802	6.4	5,846	0.9	14.4%	550	10.7%
2020	2,421	1,939	851	9.9	6,142	1.4	14.5%	600	7.1%
2021E	2,532	1,829	802	10.5	6,344	1.3	12.9%	602	7.2%
2022E	2,604	1,931	847	9.9	6,589	1.3	13.1%	635	7.6%
2023E	2,787	2,176	955	8.8	6,909	1.2	14.1%	716	8.5%

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Closing Prices as of 30 April 2021

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Updated estimates

Changes in our estimates

(MKD m)	2021E			2022E			2023E
	New	Old	Change	New	Old	Change	New
Net interest income	2,532	2,667	-5%	2,604	2,878	-10%	2,787
Net fee and commission income	1,022	1,082	-6%	1,094	1,176	-7%	1,172
Net operating income	4,804	4,714	2%	4,959	5,051	-2%	5,233
Total operating expenses	-1,969	-1,871	5%	-2,022	-1,890	7%	-2,078
Profit before provisions	2,835	2,843	0%	2,937	3,161	-7%	3,155
Net impairment losses	-878	-1,127	-22%	-867	-1,117	-22%	-812
Results after provisions	1,957	1,716	14%	2,070	2,044	1%	2,342
Share of profit of associates	68	61	11%	68	61	11%	68
Result before tax	2,024	1,777	14%	2,138	2,105	2%	2,410
Current income tax	-196	-172	14%	-207	-204	1%	-234
Net result for the period	1,829	1,606	14%	1,931	1,900	2%	2,176
Net attributable result	1,813	1,593	14%	1,915	1,888	1%	2,160
Loans and advances to customers	52,365	59,584	-12%	56,017	65,295	-14%	60,039
Total assets	138,596	135,716	2%	145,090	142,670	2%	152,060
Due to other customers	122,105	117,994	3%	128,008	123,717	3%	134,214
Total equity	14,458	15,027	-4%	15,018	16,205	-7%	15,745
NIM	1.9%	2.0%	-0.1pts	1.8%	2.1%	-0.2pts	1.9%
C/I	41.0%	39.7%	1.3pts	40.8%	37.4%	3.4pts	39.7%
COR	-1.7%	-1.9%	0.2pts	-1.6%	-1.8%	0.2pts	-1.4%
ROE	12.9%	11.0%	1.8pts	13.1%	12.2%	0.9pts	14.1%

Source: WOOD Research

Valuation

We set our new price target (PT) for Komercijalna Banka ad Skopje at MKD 8,469/share, offering upside of c.0.8% to the closing price on 30 April 2021. We arrive at our PT using a combination of our excess return valuation model, giving us a PT of MKD 8,600/share, and our three-stage DDM, which yields a PT of MKD 8,681/share. The fundamental methods are assigned an equal weight of 40%. We also add a multiples valuation method to the mix, with a weight of 20%, yielding MKD 7,784/share.

Valuation summary

Method	Weight	PT
Excess return valuation	40%	8,600
3-stage DDM	40%	8,681
Peer multiples	20%	7,784
Weighted average PT		8,469
Current price		8,405
Potential upside		0.8%

Source: WOOD Research

To estimate Komercijalna Banka's cost of equity, we use a risk free rate of 5.5% for North Macedonia, a market risk premium of 6.0% and a beta of 1.2x. All this yields a COE of 12.7%. We use a lower beta for Komercijalna than for NLB Banka, due mostly to its conservative balance sheet, which should result in lower volatility in the company's shares, we assume.

Cost of equity estimate

	rate
Risk free rate	5.5%
Market risk premium	6.0%
Market return	11.5%
1Y monthly beta	1.20
Cost of equity	12.7%

Source: WOOD Research

Excess return valuation model

To calculate the fair value of Komercijalna Banka's shares, we sum up the present value of excess returns per share until 2028E, the present value of the excess return in the terminal period beyond 2028E and the current capital invested in the bank. The fair value of an individual share then lands at MKD 7,631/share, giving us a 12M PT of MKD 8,600/share.

Excess return valuation model for Komercijalna Banka

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	+
Net profit (MKD m)	1,939	1,829	1,931	2,176	2,393	2,581	2,740	2,873	2,983	3,072
growth yoy		-5.7%	5.6%	12.7%	10.0%	7.8%	6.2%	4.9%	3.8%	3.0%
Dividend distribution (MKD m)	1,253	1,367	1,371	1,448	1,632	1,795	1,936	2,067	2,317	2,406
growth yoy		9.1%	0.3%	5.6%	12.7%	10.0%	7.8%	6.8%	12.1%	3.8%
Shareholders' equity (MKD m)	13,997	14,458	15,018	15,745	16,506	17,293	18,097	18,903	19,569	20,235
growth yoy		3.3%	3.9%	4.8%	4.8%	4.8%	4.7%	4.5%	3.5%	3.4%
Cost of equity (MKD m)	1,778	1,807	1,872	1,953	2,048	2,146	2,247	2,350	2,443	2,528
growth yoy		1.6%	3.6%	4.4%	4.8%	4.8%	4.7%	4.6%	4.0%	3.5%
Excess return (MKD m)	161	22	59	222	345	435	493	524	540	5,614
ROE		12.9%	13.1%	14.1%	14.8%	15.3%	15.5%	15.5%	15.5%	15.4%
Payout ratio		70.5%	75.0%	75.0%	75.0%	75.0%	75.0%	75.4%	80.7%	80.7%
Time adjustment for the valuation date		0.67	1.67	2.67	3.67	4.67	5.67	6.67	7.67	8.67
Discount factor		92%	82%	73%	64%	57%	51%	45%	40%	35%
Discounted excess return per share		9	21	71	98	109	110	103	95	874
Current book value per share										6,142
Number of shares (m)	2.28									
Fair value	7,631									
Price target	8,600									
Upside	2.32%									
Valuation date	30/04/2021									
Fiscal year end	31/12/2021									
Time adjustment	0.67									

Source: WOOD Research

The sensitivity of our excess return model for Komercijalna Banka to the cost of equity and long-term growth rate estimates is presented below.

Excess return model sensitivity analysis

		Long term growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	9.7%	11,285	11,639	12,044	12,493	13,023	13,636	14,402
	10.7%	10,022	10,269	10,551	10,856	11,213	11,615	12,114
	11.7%	9,009	9,184	9,385	9,597	9,847	10,122	10,463
	12.7%	8,177	8,303	8,448	8,600	8,778	8,972	9,215
	13.7%	7,482	7,572	7,679	7,788	7,918	8,058	8,236
	14.7%	6,892	6,956	7,035	7,114	7,211	7,313	7,447
	15.7%	6,384	6,429	6,487	6,545	6,617	6,693	6,797

Source: WOOD Research

Three-stage dividend discount model

In our dividend discount model, we assume a 71% payout ratio from the 2020 earnings, in line with the dividend proposed by management. Our payout ratio estimate then increases to 75%, which continues until 2026E. Then, in the second stage of our model, the payouts could increase gradually, to 81%, which is the sustainable level of payouts in the long term, on our calculations.

To calculate our PT, we sum up the present value of the dividend cash flow received by investors in the first stage of our model (2021-23E), the present value of the dividends in the second stage (2024-28E) and the book value of equity in the terminal value multiplied by the implied P/BV of 1.3x. We then arrive at a fair value MKD 7,703/share, or a 12M PT of MKD 8,681/share.

Three-stage dividend discount model for Komercijalna Banka

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	+
Net profit (MKD m)	1,939	1,829	1,931	2,176	2,393	2,581	2,740	2,873	2,983	3,072
growth yoy		-5.7%	5.6%	12.7%	10.0%	7.8%	6.2%	4.9%	3.8%	3.0%
EPS (MKD)	851	802	847	955	1,050	1,132	1,202	1,261	1,309	1,348
growth yoy		-5.7%	5.6%	12.7%	10.0%	7.8%	6.2%	4.9%	3.8%	3.0%
Shareholders' equity (MKD m)	13,997	14,458	15,018	15,745	16,506	17,293	18,097	18,903	19,569	20,235
growth yoy		3.3%	3.9%	4.8%	4.8%	4.8%	4.7%	4.5%	3.5%	3.4%
BVPS (MKD)	6,142	6,344	6,589	6,909	7,243	7,588	7,941	8,294	8,586	8,879
growth yoy		3.3%	3.9%	4.8%	4.8%	4.8%	4.7%	4.5%	3.5%	3.4%
DPS paid (MKD)	550	600	602	635	716	787	849	907	1,017	1,056
growth yoy		9.1%	0.3%	5.6%	12.7%	10.0%	7.8%	6.8%	12.1%	3.8%
ROE		12.9%	13.1%	14.1%	14.8%	15.3%	15.5%	15.5%	15.5%	15.4%
Payout ratio		70.5%	75.0%	75.0%	75.0%	75.0%	75.0%	75.4%	80.7%	80.7%
Time adjustment for the valuation date		0.67	1.67	2.67	3.67	4.67	5.67	6.67	7.67	8.67
Discount factor		92%	82%	73%	64%	57%	51%	45%	40%	35%
Discounted DPS		554	493	462	462	451	431	408	406	
Terminal value per share estimate										11,383
Discounted terminal value per share										4,037
Implied P/BV (x)		1.3								
Fair value		7,703								
Price target		8,681								
Upside		3.29%								
Valuation date		30/04/2021								
Fiscal year end		31/12/2021								
Time adjustment		0.67								

Source: WOOD Research

Below, we present the sensitivity analysis of our dividend discount model to the cost of equity estimate and the long-term growth rate, which we assume at 3%.

Three-stage dividend discount model sensitivity analysis

		Long term growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	9.7%	12,432	12,483	12,534	12,585	12,636	12,687	12,738
	10.7%	10,811	10,852	10,894	10,935	10,977	11,018	11,060
	11.7%	9,572	9,606	9,640	9,674	9,709	9,743	9,777
	12.7%	8,595	8,624	8,653	8,681	8,710	8,739	8,767
	13.7%	7,807	7,832	7,856	7,880	7,904	7,929	7,953
	14.7%	7,159	7,180	7,200	7,221	7,242	7,263	7,283
	15.7%	6,617	6,635	6,652	6,670	6,688	6,706	6,724

Source: WOOD Research

Multiples valuation

Below, we present a summary table with our peer multiples valuation model. We use the bank's frontier peers' P/BV and P/E multiples for both 2021E and 2022E, with an equal weight of 25% for each and apply a 15% premium, at which we believe the bank could trade due to its conservative balance sheet and its ability to still report competitive ROEs. Komercijalna Banka's weighted average value then lands at MKD 17,740m, giving us a PT of MKD 7,784/share.

Peer multiples valuation method: summary

	Frontier multiple	WOOD	Weight	PT
Premium	15%			
2021E P/BV	1.2	14,458	25%	17,728
2022E P/BV	1.1	15,018	25%	16,372
2021E P/E	10.6	1,813	25%	19,226
2022E P/E	9.2	1,915	25%	17,634
Weighted average				17,740
Number of shares				2.28
PT				7,784
Last price				8,405
Upside				-7.4%

Source: WOOD Research

Financials

Income statement

(MKD m)	2018	2019	2020	2021E	2022E	2023E
Interest income	2,993	2,916	2,817	2,879	2,964	3,163
Interest expense	-522	-512	-396	-347	-360	-376
Net interest income	2,472	2,405	2,421	2,532	2,604	2,787
Fee and commission income	1,282	1,439	1,403	1,477	1,559	1,650
Fee and commission expense	-359	-440	-446	-455	-465	-478
Net fee and commission income	923	999	957	1,022	1,094	1,172
FX gains net	140	118	165	165	165	165
Net trading income	6	15	5	4	4	5
Net income from other financial assets at FV through P&L	7	7	5	5	5	5
Other income	1,418	803	1,812	1,076	1,087	1,099
Net operating income	4,965	4,347	5,365	4,804	4,959	5,233
Personnel expenses	-987	-989	-1,036	-1,032	-1,042	-1,051
Depreciation and amortisations expense	-167	-164	-175	-177	-180	-184
Other operating expenses	-1,060	-656	-753	-760	-800	-843
Total operating expenses	-2,213	-1,809	-1,963	-1,969	-2,022	-2,078
Profit before provisions and impairments of fin assets	2,752	2,539	3,401	2,835	2,937	3,155
Net impairment losses on financial assets	-794	-589	-1,370	-878	-867	-812
Results after provisions	1,958	1,950	2,032	1,957	2,070	2,342
Share of profit of associates accounted for using the equity method	64	61	68	68	68	68
Result before tax	2,022	2,011	2,099	2,024	2,138	2,410
(Expenses)/income with current profit tax	-216	-184	-160	-196	-207	-234
Net result for the period	1,806	1,827	1,939	1,829	1,931	2,176
Net result attributable to shareholders	1,795	1,814	1,923	1,813	1,915	2,160
Minorities	11	13	16	16	16	16

Source: WOOD Research, Komercijalna Banka ad Skopje

Balance sheet

(MKD m)	2018	2019	2020	2021E	2022E	2023E
Cash and cash equivalents	48,796	48,733	49,688	53,995	54,887	55,689
Financial assets held for trading	40	215	67	69	73	79
Financial assets available for sale	332	339	344	344	344	344
Investment securities	12,310	13,127	25,079	25,774	27,571	29,551
Due from banks	2,516	4,693	1,021	1,049	1,123	1,203
Loans and advances to customers	46,407	50,791	50,954	52,365	56,017	60,039
Investments in associates	274	290	324	333	356	382
Property and equipment	2,808	2,756	2,769	2,656	2,709	2,763
Intangible assets	39	56	72	72	72	72
Other assets	872	2,030	2,283	1,939	1,939	1,939
Total assets	114,394	123,032	132,601	138,596	145,090	152,060
Due to Banks	351	449	186	195	205	214
Due to Other Customers	99,037	107,112	116,492	122,105	128,008	134,214
Borrowings	929	837	576	488	512	537
Other liabilities	1,604	1,311	1,349	1,349	1,349	1,349
Total liabilities	101,920	109,709	118,603	124,137	130,073	136,314
Share capital	2,279	2,279	2,279	2,279	2,279	2,279
Retained earnings (Accumulated deficit)	1,820	2,177	2,294	2,755	3,314	4,042
Other equity	8,346	8,834	9,385	9,385	9,385	9,385
Non-controlling interest	29	33	40	40	40	40
Total shareholders' equity	12,474	13,323	13,997	14,458	15,018	15,745
Total liabilities and shareholders' equity	114,394	123,032	132,601	138,596	145,090	152,060

Source: WOOD Research, Komercijalna Banka ad Skopje

DuPont analysis

(%)	2018	2019	2020	2021E	2022E	2023E
Net interest income	2.3%	2.0%	1.9%	1.9%	1.8%	1.9%
Net fee and commission income	0.8%	0.8%	0.7%	0.8%	0.8%	0.8%
Other operating income	1.4%	0.8%	1.6%	0.9%	0.9%	0.9%
Net operating income	4.5%	3.7%	4.2%	3.5%	3.5%	3.5%
Personnel expenses	-0.9%	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%
Depreciation and amortisations expense	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Other operating and administrative expenses	-1.0%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
Total operating expenses	-2.0%	-1.5%	-1.5%	-1.5%	-1.4%	-1.4%
Profit before provisions and impairments	2.5%	2.1%	2.7%	2.1%	2.1%	2.1%
Impairment of financial assets	-0.7%	-0.5%	-1.1%	-0.6%	-0.6%	-0.5%
Results after provisions	1.8%	1.6%	1.6%	1.4%	1.5%	1.6%
Share of profit of associates accounted for using the equity method	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Results before tax	1.8%	1.7%	1.6%	1.5%	1.5%	1.6%
(Expenses)/income with current profit tax	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.2%
Net result for the period	1.6%	1.5%	1.5%	1.3%	1.4%	1.5%
Net result attributable to shareholders	1.6%	1.5%	1.5%	1.3%	1.4%	1.5%

Source: WOOD Research, Komercijalna Banka ad Skopje

KPIs

Growth rates (%)	2018	2019	2020	2021E	2022E	2023E
Loans and advances to customers	2.3%	9.4%	0.3%	2.8%	7.0%	7.2%
Deposits	8.6%	8.2%	8.8%	4.8%	4.8%	4.8%
Equity	12.7%	6.8%	5.1%	3.3%	3.9%	4.8%
Assets	9.1%	7.6%	7.8%	4.5%	4.7%	4.8%
Net income	113.7%	1.1%	6.1%	-5.7%	5.6%	12.7%
Net interest income	-19.5%	-2.7%	0.7%	4.6%	2.9%	7.0%
Balance sheet ratios (%)						
Net loans to deposits	46.9%	47.4%	43.7%	42.9%	43.8%	44.7%
Deposits to assets	86.6%	87.1%	87.9%	88.1%	88.2%	88.3%
Net loans to assets	40.6%	41.3%	38.4%	37.8%	38.6%	39.5%
Equity to assets	10.9%	10.8%	10.6%	10.4%	10.4%	10.4%
Capital adequacy ratio	16.9%	16.6%	17.4%	17.6%	17.2%	17.0%
Tier 1 capital ratio	16.9%	16.6%	17.4%	17.6%	17.2%	17.0%
Profitability (%)						
Net interest margin	2.4%	2.1%	2.0%	1.9%	1.9%	1.9%
NII to average assets	2.3%	2.1%	1.9%	1.9%	1.8%	1.9%
NII to average assets adj. for provisions [WOOD calculation]	1.5%	1.5%	0.8%	1.2%	1.2%	1.3%
Costs to average assets	-2.0%	-1.5%	-1.5%	-1.5%	-1.4%	-1.4%
Cost to income	44.6%	41.6%	36.6%	41.0%	40.8%	39.7%
Cost of Risk	-1.7%	-1.2%	-2.6%	-1.7%	-1.6%	-1.4%
Pre-tax income to average assets	1.8%	1.7%	1.6%	1.5%	1.5%	1.6%
Effective tax rate	-10.7%	-9.1%	-7.6%	-10.0%	-10.0%	-10.0%
ROA	1.7%	1.6%	1.5%	1.3%	1.4%	1.5%
ROE	15.3%	14.4%	14.5%	12.9%	13.1%	14.1%
ROTE	15.3%	14.5%	14.6%	12.9%	13.2%	14.2%
Per share data (x*)						
Number of shares outstanding (m)	2	2	2	2	2	2
Average price per share (MKD)	3,249	5,164	8,405	8,405	8,405	8,405
EPS (MKD)	793	802	851	802	847	955
BVPS (RON)	5,473	5,846	6,142	6,344	6,589	6,909
Tangible BVPS (RON)	5,456	5,821	6,110	6,313	6,558	6,877
P/E	4.1x	6.4x	9.9x	10.5x	9.9x	8.8x
P/BV	0.6x	0.9x	1.4x	1.3x	1.3x	1.2x
P/Tangible BV	0.6x	0.9x	1.4x	1.3x	1.3x	1.2x
DPS (RON)	420	550	600	602	635	716
Dividend yield (%)	12.9%	10.7%	7.1%	7.2%	7.6%	8.5%

Source: WOOD Research, Komercijalna Banka ad Skopje

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