

NLB Banka ad Skopje

Sell

Downgraded from Hold

Price: MKD 28,500
Price target: MKD 24,158
(from MKD 21,034)

Good story, unattractive price

We have had NLB Banka ad Skopje as a Hold since our initiation last year. In the past 12 months, however, the stock has returned 62.3% and we downgrade NLB Banka to SELL in this report, in view of the large increase in the valuation multiples, on our estimates, to 1.6x P/BVs for both 2021 and 2022E. Despite the bank's growth profile and strong ROEs, north of 14%, on average, over our forecast period, we see them as too excessive, as the premia vs. the peer median now lands at 21-37%. On P/E, the premia are a touch lower: 24-31% for 2021-22E. We have also fine-tuned our 2021E estimates, to reflect the 9M21 performance, and increased our 2021E net income estimate by 11%. At the same time, we have reduced (1-3%) our 2022-23E estimates slightly. This is reflected in our price target (PT), which we have increased to MKD 24,158/share (from MKD 21,034/share), which implies downside of c.15%, hence our SELL recommendation.

Current market multiples put a cap on further upside. In our view, the current level of market multiples, as well as the premia vs. the peer medians, limit the stock's further upside potential. The 1.6x P/BVs (21-37% premiums) for 2021-22E, on our numbers, seem excessive. NLB Banka has a solid growth and profitability profile, with ROEs especially strong this year, but we believe these do not justify such a high premium. The premium on our PT falls between 3-16%, which we deem more easily justifiable than the current levels. Therefore, despite liking NLB Banka's story, we have decided to downgrade our rating to SELL, even so.

We have aligned our 2022E estimates with the bank's 9M21 performance. Following the bank's 3Q21 report, we have also updated our 2021-23E estimates. We have increased our 2021E net income estimate by 11%, while cutting our 2022E and 2023E estimates by 1-3%. The large increase in our 2021E net income is a result of the strong other operating income the bank has reported this year so far. We now see all the ROEs in 2021-23E as higher than we forecast previously, due mostly to the dividend from the 2019 and 2020 profits, announced recently.

COR to drive profitability over our forecast period. Despite the changes in our forecast, we expect COR to play a key role in the bank's profitability over the next couple of years. We pencil in a COR of 1.1% for 2021E, 0.9% for 2022E and 0.7% for 2023E. The gradual decline could support profitability and keep ROEs high at c.14.9% in 2023E, on our numbers.

We employ three valuation methods, giving us a PT of MKD 24,158/share. We use a combination of our excess return valuation model (PT MKD 23,695/share) and our three-stage dividend discount model (PT MKD 25,557/share), giving both methods an equal weight of 40%. We assign the remaining 20% to a peer multiple valuation method, giving us a PT of MKD 22,285/share.

Risks: political risks; COVID-19 and the related macroeconomic risks; the unemployment rate and young talent migration; the rate of the Euronisation of the local economy; and the low trading turnover of shares.

Expected events

4Q21 results	Jan/Feb 2022 (TBC)
FY21 report	April 2022 (TBC)
1Q22 results	May 2022 (TBC)
2Q22 results	July 2022 (TBC)
3Q22 results	November 2022 (TBC)

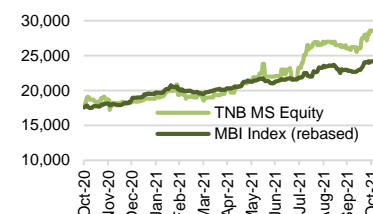
Key data

Market Cap	USD 457m
Free float	13%
3M ADTV	USD 58,244
Shares outstanding (m)	0.85
Major Shareholder	NLB Group (87%)
Bloomberg Code	TNB MS Equity
MBI Index	6,010.9

Price performance

52-w range	MKD 17,200-28,589
52-w performance	62.3%
Relative performance	24.5%

NLB Banka 12M share price performance



Year	NI (MKD m)	Net Profit (MKD m)	EPS (MKD)	P/E (x)	BVPS (MKD)	P/BV (x)	ROE (%)	DPS paid (MKD)	Dividend yield
2019	3,018	2,024	2,369	6.3	15,077	1.0	16.1%	1,738	11.6%
2020	2,969	1,185	1,388	20.5	16,561	1.7	8.8%	0	0.0%
2021E	3,040	2,082	2,438	11.7	17,329	1.6	14.4%	1,787	6.3%
2022E	3,198	2,082	2,438	11.7	18,178	1.6	13.7%	1,706	6.0%
2023E	3,386	2,383	2,791	10.2	19,379	1.5	14.9%	1,707	6.0%

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Closing Prices as of 02 November 2021

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Changes in our estimates reflect the 3Q21 results

Following the 3Q21 results report, we have made some changes in our model. We have increased our 2021E net income estimate by 11%, to MKD 2,082m, due mostly to better-than-expected other operating income reported ytd in 2021. No other large changes have been made to our 2021 forecasts.

In the later part of our forecast period, 2022-23E, we have tweaked our estimates only marginally, cutting our net income forecasts by 1-3%. On the other hand, our ROE estimates are higher than previously, by as much as 0.9-2.0bps, largely on the back of the dividend payment from the 2019 and 2020 profits, which was not incorporated in our forecasts previously.

The changes in our estimates are largely the result of the fine-tuning our model to reflect the 3Q21 trends

	2021E			2022E			2023E		
	New	Old	Change	New	Old	Change	New	Old	Change
Net interest income	3,040	3,122	-3%	3,198	3,242	-1%	3,386	3,480	-3%
Net fee and commission income	996	992	0%	1,060	1,050	1%	1,112	1,099	1%
Net operating income	4,771	4,564	5%	4,734	4,748	0%	5,006	5,072	-1%
Total operating expenses	-1,849	-1,861	-1%	-1,897	-1,915	-1%	-1,946	-1,971	-1%
Profit before provisions	2,922	2,703	8%	2,838	2,833	0%	3,060	3,101	-1%
Net impairment losses on financial assets	-670	-670	0%	-585	-523	12%	-483	-491	-2%
Result before tax	2,251	2,033	11%	2,252	2,311	-3%	2,578	2,611	-1%
Income tax expense	-170	-153	11%	-170	-174	-3%	-194	-197	-1%
Net result for the period	2,082	1,880	11%	2,082	2,136	-3%	2,383	2,414	-1%
Loans and advances to customers	62,971	62,971	0%	67,110	67,675	-1%	70,754	72,486	-2%
Total assets	106,263	106,196	0%	113,983	114,003	0%	122,562	122,457	0%
Deposits from customers	86,800	85,445	2%	93,705	92,242	2%	101,167	99,590	2%
Total equity	14,800	16,124	-8%	15,525	17,045	-9%	16,551	18,063	-8%
NIM	3.0%	3.1%	-0.1pts	2.9%	2.9%	0.0pts	2.9%	2.9%	-0.1pts
C/I	36.6%	38.4%	-1.7pts	37.8%	38.0%	-0.1pts	36.7%	36.6%	0.1pts
COR	-1.1%	-1.1%	0.0pts	-0.9%	-0.8%	-0.1pts	-0.7%	-0.7%	0.0pts
ROE	14.4%	12.4%	2.0pts	13.7%	12.9%	0.9pts	14.9%	13.8%	1.1pts

Source: WOOD Research

Valuation

We set our price target (PT) for NLB Banka ad Skopje at MKD 24,158/share, with potential downside of 15%. We arrive at our PT by using a combination (with weights of 40%/40% and 20%) of our excess return valuation model, giving us a PT of MKD 23,695/share, and our three-stage DDM, which yields a PT of MKD 25,557/share. The difference between the two methods is 8%. We also add a valuation based on the peer multiples to the mix, with a PT of MKD 22,285/share.

Valuation summary

Method	weight	PT
Excess return valuation	40%	23,695
3-stage DDM	40%	25,557
Peer multiples	20%	22,285
Weighted average PT		24,158
Current price*		28,500
Potential upside		-15.2%

Source: WOOD Research; *price data from Bloomberg

Cost of equity estimate

To estimate NLB 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 1.3x. All this yields a COE of 13.3%.

Cost of equity estimate

Risk free rate	5.5%
Market risk premium	6.0%
Market return	11.5%
1Y monthly beta	1.30
Cost of equity	13.3%

Source: WOOD Research

Excess return valuation

Excess return valuation model

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	+
Net profit (MKD m)	1,185	2,082	2,082	2,383	2,648	2,875	3,064	3,220	3,345	3,445
growth yoy		75.6%	0.0%	14.4%	11.1%	8.6%	6.6%	5.1%	3.9%	3.0%
Dividend distribution (MKD m)	0	1,526	1,457	1,458	1,668	1,854	2,013	2,320	2,617	2,719
growth yoy	n/a	n/a	-4.5%	0.0%	14.4%	11.1%	8.6%	15.3%	12.8%	3.9%
Shareholders' equity (MKD m)	14,145	14,800	15,525	16,551	17,531	18,552	19,604	20,503	21,231	21,958
growth yoy		4.6%	4.9%	6.6%	5.9%	5.8%	5.7%	4.6%	3.6%	3.4%
Cost of equity (MKD m)	1,881	1,925	2,017	2,133	2,266	2,400	2,537	2,667	2,775	2,872
growth yoy		2.3%	4.8%	5.8%	6.3%	5.9%	5.7%	5.1%	4.1%	3.5%
Excess return (MKD m)	-696	157	66	250	382	476	527	552	570	5,567
ROE		14.4%	13.7%	14.9%	15.5%	15.9%	16.1%	16.1%	16.0%	16.0%
Payout ratio		128.8%	70.0%	70.0%	70.0%	70.0%	70.0%	75.7%	81.3%	81.3%
Time adjustment for the valuation date		0.16	1.16	2.16	3.16	4.16	5.16	6.16	7.16	8.16
Discount factor		98%	86%	76%	67%	59%	52%	46%	41%	36%
Discounted excess return per share		180	67	224	301	331	324	300	273	2,352
Current book value per share										16,561
Number of shares (m)	0.85									
Fair value	20,913									
Price target	23,695									
Upside	-16.9%									
Valuation date	02-11-2021									
Fiscal year end	31-12-2021									
Time adjustment	0.16									

Source: WOOD Research

To calculate the fair value of NLB 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 20,913, giving us a 12M PT of MKD 23,695/share.

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

Excess return valuation model sensitivity to COE and LT growth rate

		Long term growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	10.3%	31,114	32,086	33,103	34,245	35,559	37,039	38,831
	11.3%	27,695	28,395	29,107	29,899	30,799	31,790	32,979
	12.3%	24,895	25,406	25,913	26,473	27,107	27,789	28,610
	13.3%	22,554	22,931	23,294	23,695	24,150	24,630	25,213
	14.3%	20,562	20,841	21,101	21,390	21,720	22,062	22,486
	15.3%	18,840	19,046	19,231	19,439	19,681	19,927	20,240
	16.3%	17,331	17,482	17,612	17,761	17,939	18,116	18,350

Source: WOOD Research

Dividend discount model

To calculate our price target, 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 the equity in the terminal value multiplied by the implied P/BV of 1.3x. Putting two and two together, we arrive at a fair value of MKD 22,557/share, or a 12M PT of MKD 25,557/share.

Three stage dividend discount model

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	+
Net profit (MKD m)	1,185	2,082	2,082	2,383	2,648	2,875	3,064	3,220	3,345	3,445
growth yoy		75.6%	0.0%	14.4%	11.1%	8.6%	6.6%	5.1%	3.9%	3.0%
EPS (MKD)	1,388	2,438	2,438	2,791	3,101	3,366	3,588	3,770	3,917	4,034
growth yoy		75.6%	0.0%	14.4%	11.1%	8.6%	6.6%	5.1%	3.9%	3.0%
Shareholders' equity (MKD m)	14,145	14,800	15,525	16,551	17,531	18,552	19,604	20,503	21,231	21,958
growth yoy		4.6%	4.9%	6.6%	5.9%	5.8%	5.7%	4.6%	3.6%	3.4%
BVPS (MKD)	16,561	17,329	18,178	19,379	20,527	21,722	22,954	24,007	24,859	25,710
growth yoy		4.6%	4.9%	6.6%	5.9%	5.8%	5.7%	4.6%	3.6%	3.4%
DPS paid (MKD)	0	1,787	1,706	1,707	1,953	2,171	2,356	2,717	3,064	3,184
growth yoy	n/a	n/a	-4.5%	0.0%	14.4%	11.1%	8.6%	15.3%	12.8%	3.9%
ROE		14.4%	13.7%	14.9%	15.5%	15.9%	16.1%	16.1%	16.0%	16.0%
Payout ratio		128.8%	70.0%	70.0%	70.0%	70.0%	70.0%	75.7%	81.3%	81.3%
Time adjustment for the valuation date		0.16	1.16	2.16	3.16	4.16	5.16	6.16	7.16	8.16
Discount factor		98%	86%	76%	67%	59%	52%	46%	41%	36%
Discounted DPS		1,751	1,476	1,303	1,316	1,291	1,237	1,259	1,253	
Terminal value per share estimate										32,338
Discounted terminal value per share										11,671
Implied P/BV (x)		1.3								
Fair value		22,557								
Price target		25,557								
Upside		-10.3%								
Valuation date		02-11-2021								
Fiscal year end		31-12-2021								
Time adjustment		0.16								

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 valuation model sensitivity to COE and LT growth rate

		Long term growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Cost of equity	10.3%	35,381	35,523	35,664	35,806	35,947	36,089	36,231
	11.3%	31,185	31,301	31,418	31,535	31,652	31,769	31,885
	12.3%	27,918	28,016	28,114	28,211	28,309	28,407	28,505
	13.3%	25,309	25,391	25,474	25,557	25,640	25,723	25,806
	14.3%	23,180	23,251	23,322	23,392	23,463	23,534	23,605
	15.3%	21,413	21,474	21,536	21,597	21,658	21,719	21,781
	16.3%	19,926	19,979	20,032	20,086	20,139	20,192	20,245

Source: WOOD Research

Peer comparison and multiples valuation

As NLB Banka trades at a high P/BV multiple, coupled with a large premium vs. its peers, we believe our decision to downgrade the bank to SELL, for now, is justified. On forward-looking multiples, the bank trades at 1.6x and 1.5x our 2021E and 2022E book value estimates, respectively.

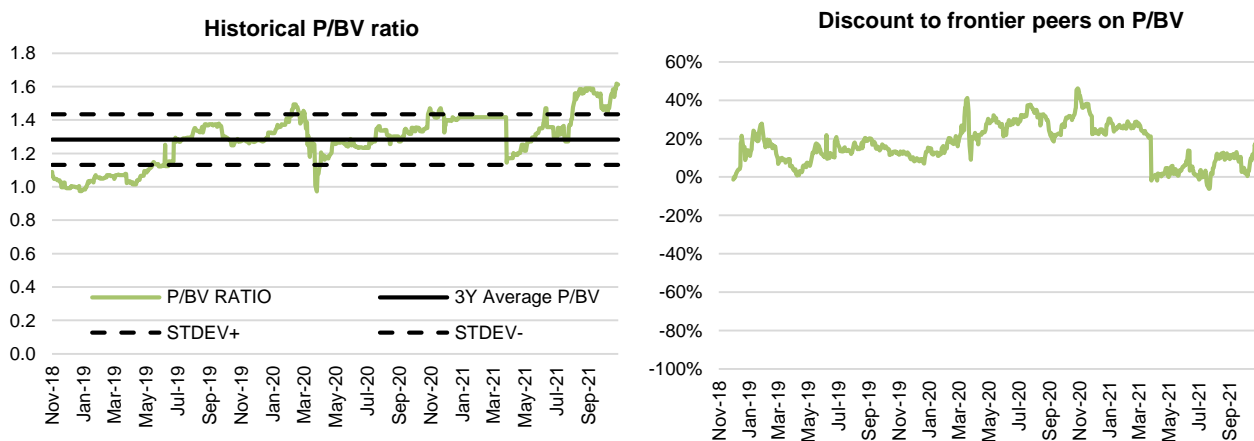
Peer multiples valuation model

	Frontier multiple	WOOD	weight	MKD
2021E P/BV	1.4	14,800	25%	20,055
2022E P/BV	1.1	15,525	25%	17,766
2021E P/E	9.5	2,082	25%	19,699
2022E P/E	8.9	2,082	25%	18,610
Weighted average (m)				19,032
Number of shares				0.85
PT (per share)				22,285
Last price*				28,500
Upside				-21.8%

Source: WOOD Research; *price data from Bloomberg

Our SELL recommendation is supported further by the multiples at which the bank trades currently vs. their historical averages. We note that, due to the lack of a Bloomberg consensus, we decided to use historical data for the two charts below. While these numbers may not be as indicative as forward-looking numbers, we believe they can give us some insight on the trends.

Trailing P/BV ratio of NLB Banka ad Skopje, together with its discount vs. its peers



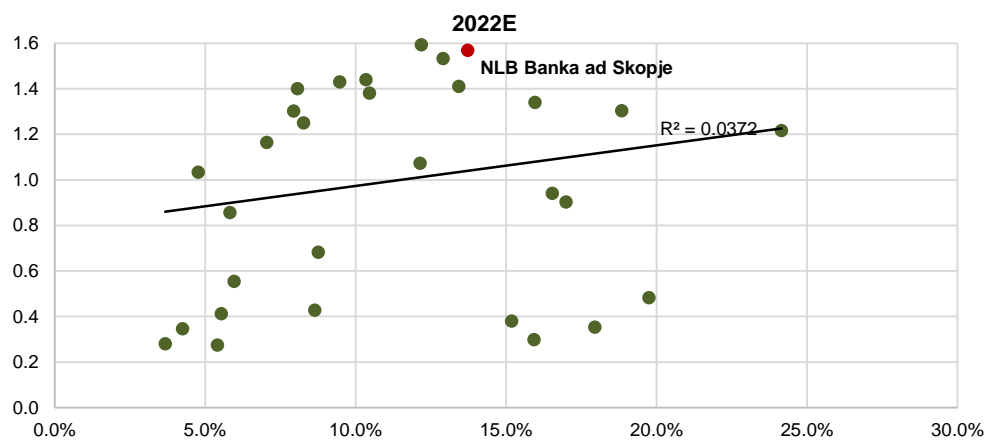
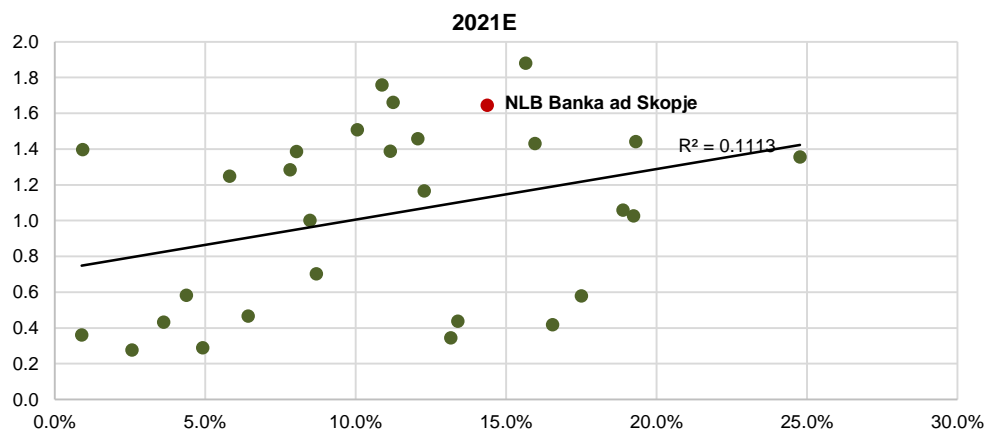
Source: WOOD Research, Bloomberg

Current market valuation of NLB Banka's peers under WOOD's coverage

Bank	Price Icl	Mkt Cap USD m	P/E			P/BV			ROE			Div. Yield		
			2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
North Macedonia														
Komercijalna Banka	10,992.6	471	15.3	13.3	11.6	1.7	1.6	1.5	11.3%	12.2%	13.4%	5.5%	4.9%	5.6%
NLB Banka	28,500.0	457	11.7	11.7	10.2	1.6	1.6	1.5	14.4%	13.7%	14.9%	6.3%	6.0%	6.0%
Austria														
Erste Bank	38.1	18,942	17.9	12.7	n.a.	1.1	1.0	n.a.	6.1%	8.3%	n.a.	2.5%	3.5%	n.a.
RBI	25.8	9,827	14.0	9.9	8.0	0.7	0.7	0.6	5.0%	6.8%	8.0%	3.4%	3.5%	4.4%
Addiko Bank	15.1	341	23.0	13.0	8.9	0.4	0.4	0.3	1.5%	2.7%	3.9%	15.8%	2.6%	4.6%
Cyprus														
Bank of Cyprus	1.0	516	10.6	7.5	3.5	0.3	0.3	0.3	2.6%	3.7%	7.7%	0.0%	0.0%	0.0%
Hellenic Bank	0.8	396	6.0	5.2	4.6	0.3	0.3	0.3	4.9%	5.4%	5.8%	0.0%	0.0%	0.3%
Czech Republic														
Komercni	865.5	7,448	17.6	13.7	12.6	1.4	1.4	1.4	8.0%	10.3%	11.4%	10.0%	7.3%	5.2%
Moneta	87.8	2,032	15.7	11.8	10.2	1.5	1.5	1.5	10.1%	12.9%	14.7%	9.5%	6.8%	7.9%
Georgia														
TBC Bank	1,554.0	5,034	5.9	5.7	n.a.	1.0	0.9	n.a.	19.2%	17.0%	n.a.	4.2%	4.4%	n.a.
Bank of Georgia	1,544.0	4,436	6.1	6.0	n.a.	1.1	0.9	n.a.	18.9%	16.5%	n.a.	4.1%	4.1%	n.a.
Greece														
Eurobank	0.9	4,105	11.2	9.5	7.0	0.6	0.6	0.5	4.4%	6.0%	7.7%	0.0%	0.0%	1.5%
National Bank	2.7	2,960	7.5	5.2	4.8	0.5	0.4	0.4	6.4%	8.6%	8.6%	0.0%	0.0%	1.6%
Alpha Bank	1.1	3,035	10.0	7.6	5.2	0.4	0.4	0.4	3.6%	5.5%	7.6%	0.0%	0.0%	1.5%
Bank Piraeus	1.5	2,133	33.8	8.3	4.6	0.4	0.3	0.3	0.9%	4.3%	7.2%	0.0%	0.0%	0.0%
Hungary														
OTP	18,600.0	16,784	12.5	10.6	9.5	1.9	1.6	1.4	15.7%	16.5%	15.9%	3.4%	1.3%	1.5%
Kazakhstan														
Halyk Savings Bank	18.2	5,336	5.8	5.3	4.8	1.4	1.2	1.1	24.8%	24.2%	24.1%	10.4%	11.3%	11.8%
Lithuania														
Siauliu Bankas	0.8	537	10.0	9.2	8.5	1.2	1.1	1.0	12.3%	12.1%	12.1%	3.5%	3.8%	4.1%
Poland														
PKO BP	49.5	15,552	13.1	13.2	11.3	1.4	1.4	1.3	11.2%	10.5%	12.0%	7.2%	7.2%	4.2%
Santander Bank	373.6	9,592	n.m.	17.0	13.3	1.4	1.3	1.3	0.9%	7.9%	9.7%	0.7%	5.9%	7.5%
Pekao	130.4	8,599	16.8	15.3	11.9	1.3	1.2	1.2	7.8%	8.3%	10.3%	4.5%	4.9%	6.3%
ING BSK	280.5	9,169	17.0	17.8	15.2	1.8	1.7	1.6	10.9%	9.8%	10.9%	4.9%	1.7%	2.0%
mBank	556.0	5,920	n.m.	18.1	14.7	1.5	1.4	1.4	n.m.	8.1%	9.4%	0.0%	5.5%	6.8%
Handlowy	62.0	2,035	12.2	21.3	14.3	1.0	1.0	1.0	8.5%	4.8%	7.2%	7.8%	4.5%	6.7%
Millennium	9.4	2,879	n.m.	15.8	12.3	1.6	1.4	1.3	n.m.	9.5%	10.9%	0.0%	0.0%	4.0%
Alior Bank	66.5	2,180	n.m.	17.1	13.3	1.2	1.2	1.1	5.8%	7.0%	8.4%	0.0%	0.0%	0.0%
Romania														
Banca Transilvania	2.5	3,750	9.5	8.7	8.1	1.4	1.3	1.3	16.0%	16.0%	16.1%	6.9%	7.5%	8.1%
BRD-GSG	18.2	2,963	11.4	10.7	10.3	1.5	1.4	1.4	12.1%	13.4%	13.7%	7.0%	7.5%	7.8%
Patria Bank	0.1	72	n.m.	15.1	10.1	n.m.	0.9	0.8	2.8%	5.8%	8.2%	0.0%	0.0%	0.0%
Russia														
Sberbank	371.2	109,966	7.8	7.3	6.4	1.4	1.3	1.2	19.3%	18.8%	19.2%	5.3%	6.4%	6.9%
TCS Group	109.7	21,665	26.0	23.5	n.a.	8.8	6.7	n.a.	40.4%	32.3%	n.a.	0.2%	0.6%	n.a.
Slovenia														
NLB	73.6	1,704	8.4	7.9	5.9	0.7	0.7	0.6	8.7%	8.8%	11.2%	8.4%	8.9%	11.8%
Turkey														
Garanti Bank	10.2	4,344	3.6	2.7	2.2	0.6	0.5	0.4	17.5%	19.7%	19.7%	2.8%	3.8%	9.0%
Akbank	6.1	3,212	3.5	2.7	2.3	0.4	0.4	0.3	13.4%	15.2%	15.5%	2.9%	3.7%	8.8%
Isbank	5.8	2,781	2.8	2.0	1.6	0.3	0.3	0.3	13.2%	15.9%	17.2%	3.6%	5.0%	12.5%
Yapi Kredi	2.8	2,439	2.8	2.1	1.9	0.4	0.4	0.3	16.5%	18.0%	17.5%	3.6%	4.7%	5.4%
NLB Banka est.	28,500.0	457	11.7	11.7	10.2	1.6	1.6	1.5	14.4%	13.7%	14.9%	6.3%	6.0%	6.0%
NLB Banka PT	24,157.6	388	9.9	9.9	8.7	1.4	1.3	1.2	14.4%	13.7%	14.9%	7.4%	7.1%	7.1%
Mean [region]			11.2	10.2	8.7	1.2	1.1	1.0	10.5%	10.1%	11.1%	3.6%	4.0%	5.3%
Mean [frontier]			9.5	8.9	9.3	1.4	1.1	1.2	13.3%	13.6%	13.5%	5.9%	5.4%	6.9%
Premium/(discount)			24%	31%	10%	21%	37%	25%	1.1pts	0.2pts	1.3pts	0.4pts	0.5pts	-0.9pts

Source: WOOD Research, price data from Bloomberg

P/BV (y-axis) vs. ROE (x-axis) scatter plot: peer comparison



Source: WOOD Research, price data from Bloomberg

Risks

- ✓ **Political risks.** The country changed its name to North Macedonia recently, to be able to join NATO and apply to join the European Union. While Mr. Zaev, who was the Prime Minister during the name change, is usually seen as a statesman abroad, his decision to change the country's name, due to a long-standing dispute with neighbouring Greece, angered some of his voters, which resulted in snap elections, after which he assumed the PM office again. During his tenure, the quality of democracy improved somewhat, according to the ratings by Freedom House, but it still scores only 66/100 points and is considered to be a "Partly Free" country.
- ✓ **COVID-19.** North Macedonia has not been spared from the COVID-19 pandemic and the cases have been quite high, relatively, recently. Currently, only c.37% of the total population is fully vaccinated. Should the pandemic speed up and the government be forced to introduce new measures and lockdowns, the economy could be hit severely, which would have a negative effect on our estimates both this year and for the remainder of our forecast period.
- ✓ **High unemployment rate and other economic factors.** High unemployment remains a large problem in North Macedonia, especially amongst the younger generation, which faces an unemployment rate of c.37.8%, according to the State Statistical Office of North Macedonia. A large number of North Macedonians are thus moving abroad, seeking jobs, which has negative effects on the local economy. The overall unemployment rate declined to 15.9% in 2020, from 26.1% in 2015. If the outflux of the local population increases, the economic potential of the country will fall, which could affect our long-term estimates and assumptions negatively. With the crisis triggered by the COVID-19 pandemic, the odds of this may have increased slightly.
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- ✓ **Trading turnover (relatively) low.** In USD terms, NLB Banka's 3M ADTV remains below c.USD 100,000. This increases the overall risk of the investment, should a higher stake be acquired. On the other hand, we note that the free float of the company's shares is quite large.

Financials

Income statement

(MKD m)	2018	2019	2020	2021E	2022E	2023E
Interest income	3,558	3,533	3,381	3,478	3,661	3,878
Interest expense	-546	-515	-412	-438	-464	-492
Net interest income	3,013	3,018	2,969	3,040	3,198	3,386
Fee and commission income	1,496	1,639	1,652	1,777	1,901	2,011
Fee and commission expense	-620	-718	-726	-781	-841	-900
Net fee and commission income	876	921	926	996	1,060	1,112
FX gains net	27	21	43	30	30	30
Net trading income	136	147	152	286	292	324
Other income	595	184	161	735	477	509
Net operating income	4,483	4,123	4,057	4,771	4,734	5,006
Personnel expenses	-799	-847	-844	-872	-901	-931
General and administrative expenses	-548	-558	-531	-542	-553	-564
Depreciation and amortisations expense	-197	-231	-260	-267	-275	-283
Other operating expenses	-162	-187	-179	-169	-169	-169
Total operating expenses	-1,706	-1,824	-1,813	-1,849	-1,897	-1,946
Profit before provisions and impairments of fin assets	2,777	2,300	2,243	2,922	2,838	3,060
Net impairment losses on financial assets	-411	-78	-962	-670	-585	-483
Results after provisions	2,366	2,221	1,282	2,251	2,252	2,578
Share of profit of associates accounted for using the equity method	0	0	0	0	0	0
Result before tax	2,366	2,221	1,282	2,251	2,252	2,578
(Expenses)/income with current profit tax	-237	-198	-97	-170	-170	-194
Net result for the period	2,129	2,024	1,185	2,082	2,082	2,383

Source: WOOD Research, NLB Banka ad Skopje

Balance sheet

(MKD m)	2018	2019	2020	2021E	2022E	2023E
Cash, cash balances at central bank	11,780	11,866	13,321	13,971	15,749	19,088
Financial assets measured at FV through OCI	4,229	6,169	5,365	8,186	8,724	9,198
Debt securities	7,853	8,716	12,586	13,454	14,339	15,117
Loans and advances to banks	2,864	2,853	3,067	3,149	3,356	3,538
Loans and advances to customers	52,895	56,206	58,906	62,971	67,110	70,754
Other financial assets	1,191	1,282	1,527	1,632	1,740	1,834
Investment securities available for sale	0	0	0	0	0	0
Foreclosed collateral	110	284	265	265	265	265
Investment property	103	103	103	103	103	103
PPE and right of use assets	1,926	2,054	2,111	2,174	2,240	2,307
Intangible assets	143	207	278	278	278	278
Current income tax assets	0	18	31	31	31	31
Other assets	79	53	48	48	48	48
Total assets	83,173	89,811	97,609	106,263	113,983	122,562
Deposits from banks	500	619	371	371	371	371
Deposits from customers	66,298	72,203	79,337	86,800	93,705	101,167
Other borrowed funds	979	644	422	375	311	235
Subordinated debt	1,840	1,841	1,848	1,848	1,848	1,848
Other financial liabilities	735	1,067	1,013	1,562	1,687	1,821
Provisions	306	369	345	378	408	440
Current income tax liabilities	13	0	0	0	0	0
Deferred income tax liabilities	135	136	79	79	79	79
Other liabilities	56	54	49	49	49	49
Total liabilities	70,863	76,934	83,464	91,463	98,458	106,011
Share capital	854	854	854	854	854	854
Share premium	2,274	2,274	2,274	2,274	2,274	2,274
Revaluation reserves	2	30	112	112	112	112
Retained earnings	4,336	4,419	5,604	6,160	6,785	7,711
Other reserves	4,844	5,300	5,300	5,400	5,500	5,600
Total equity	12,310	12,877	14,145	14,800	15,525	16,551
Total liabilities and equity	83,173	89,811	97,609	106,263	113,983	122,562

Source: WOOD Research, NLB Banka ad Skopje

DuPont analysis

	2018	2019	2020	2021E	2022E	2023E
Net interest income	3.8%	3.5%	3.2%	3.0%	2.9%	2.9%
Net fee and commission income	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%
Other operating income	0.7%	0.2%	0.2%	0.7%	0.4%	0.4%
Net operating income	5.6%	4.8%	4.3%	4.7%	4.3%	4.2%
Personnel expenses	-1.0%	-1.0%	-0.9%	-0.9%	-0.8%	-0.8%
General and administrative expenses	-0.7%	-0.6%	-0.6%	-0.5%	-0.5%	-0.5%
Depreciation and amortisations expense	-0.2%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%
Other operating expenses	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%
Total operating expenses	-2.1%	-2.1%	-1.9%	-1.8%	-1.7%	-1.6%
Profit before provisions and impairments	3.5%	2.7%	2.4%	2.9%	2.6%	2.6%
Impairment of financial assets	-0.5%	-0.1%	-1.0%	-0.7%	-0.5%	-0.4%
Results after provisions	3.0%	2.6%	1.4%	2.2%	2.0%	2.2%
Share of profit of associates accounted for using the equity method	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Results before tax	3.0%	2.6%	1.4%	2.2%	2.0%	2.2%
(Expenses)/income with current profit tax	-0.3%	-0.2%	-0.1%	-0.2%	-0.2%	-0.2%
Net result for the period	2.7%	2.3%	1.3%	2.0%	1.9%	2.0%

Source: WOOD Research, NLB Banka ad Skopje

KPIs

	2018	2019	2020	2021E	2022E	2023E
Growth rates (%)						
Loans and advances to customers	8.4%	6.3%	4.8%	6.9%	6.6%	5.4%
Deposits	7.8%	8.9%	9.9%	9.4%	8.0%	8.0%
Equity	27.5%	4.6%	9.8%	4.6%	4.9%	6.6%
Assets	9.6%	8.0%	8.7%	8.9%	7.3%	7.5%
Net result for the period	-4.7%	-5.0%	-41.4%	75.6%	0.0%	14.4%
Net interest income	0.0%	0.2%	-1.6%	2.4%	5.2%	5.9%
Balance sheet ratios (%)						
Net loans to deposits	79.8%	77.8%	74.2%	72.5%	71.6%	69.9%
Deposits to assets	79.7%	80.4%	81.3%	81.7%	82.2%	82.5%
Net loans to assets	63.6%	62.6%	60.3%	59.3%	58.9%	57.7%
Equity to assets	14.8%	14.3%	14.5%	13.9%	13.6%	13.5%
Capital adequacy ratio	16.7%	16.4%	15.7%	15.3%	15.2%	15.3%
Tier 1 capital ratio	13.8%	13.8%	13.3%	13.1%	13.1%	13.4%
Loan quality (%)						
NPL ratio	4.3%	4.3%	4.2%	-	-	-
NPL coverage	76.3%	67.7%	n.a.	-	-	-
Coverage of C, D, E loans	126.1%	136.8%	136.9%	-	-	-
Profitability (%)						
Net interest margin	4.6%	4.2%	3.8%	3.6%	3.5%	3.5%
NII to average assets	3.8%	3.5%	3.2%	3.0%	2.9%	2.9%
NII to average assets adj. for provisions [WOOD calculation]	3.3%	3.4%	2.1%	2.3%	2.4%	2.5%
Costs to average assets	-2.1%	-2.1%	-1.9%	-1.8%	-1.7%	-1.6%
Cost to income	39.0%	41.0%	42.3%	36.6%	37.8%	36.7%
COR	-0.8%	-0.1%	-1.7%	-1.1%	-0.9%	-0.7%
Pre-tax income to average assets	3.0%	2.6%	1.4%	2.2%	2.0%	2.2%
Effective tax rate	-10.0%	-8.9%	-7.5%	-7.5%	-7.5%	-7.5%
ROA	2.7%	2.3%	1.3%	2.0%	1.9%	2.0%
ROE	19.4%	16.1%	8.8%	14.4%	13.7%	14.9%
ROTE	19.6%	16.3%	8.9%	14.7%	14.0%	15.1%
Per share data (x*)						
Number of shares outstanding (m)	0.85	0.85	0.85	0.85	0.85	0.85
Average price per share (MKD)	12,162	14,928	28,040	28,040	28,040	28,040
EPS (MKD)	2,493	2,369	1,388	2,438	2,438	2,791
BVPS (MKD)	14,413	15,077	16,561	17,329	18,178	19,379
Tangible BVPS (MKD)	14,246	14,835	16,236	17,003	17,853	19,053
P/E	4.9	6.3x	20.2x	11.5x	11.5x	10.0x
P/BV	0.8	1.0x	1.7x	1.6x	1.5x	1.4x
P/Tangible BV	0.9	1.0x	1.7x	1.6x	1.6x	1.5x
DPS paid (MKD)	622	1,738	0	1,787	1,706	1,707
Dividend yield (%)	5.1%	11.6%	0.0%	6.4%	6.1%	6.1%

Source: WOOD Research, NLB Banka ad Skopje

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This investment research was completed on 04/11/2021 at 18:15 CET and disseminated on 05/11/2021 at 07:35 CET.

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Date	Rating	Date	PT
10/12/2020	HOLD – initiation of coverage	10/12/2020	MKD 20,807
		04/05/2021	MKD 21,034
05/11/2021	SELL	05/11/2021	MKD 24,158

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Banca Transilvania	5
Bank of Cyprus	4
Benefit Systems S.A.	1, 2, 3
BRD	5
Bucharest Stock Exchange	5
Santander Bank Polska	5
CCC	5
CD Projekt	5
Ceska zbrojovka Group	1, 2, 3
CEZ	5
CME	5
Dino	5
DO&CO	5
Electrica	5
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PGNiG	5
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PKN Orlen	5
PKO BP	4, 5
PZU	4, 5
Romgaz	5
Santander Bank Polska	5
Shoper	1, 2, 3
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