

Komercijalna Banka ad Skopje

Buy

Initiation of coverage

Price: MKD 6,565

Price target: MKD 7,953

A sizeable growth story in the Balkans

We initiate coverage of Komercijalna Banka ad Skopje with a BUY recommendation and a price target (PT) of MKD 7,953/share, offering upside of c.21.2%. The bank is a leader in the local, nearly oligopolistic, market, and we appreciate its best-in-class C/I ratios, the conservative structure of its balance sheet and its sound capital levels. On the negative side, we highlight the bank's FX exposure and that its financial reporting is under the local GAAP. We still see upside for the current share price levels, especially on the back of the balance sheet liquidity, which is a lot higher than the market average and could offer enough ammunition for NIM and top-line growth, even in times of falling rates. The bank trades at 1.0x and 0.9x on our 2021E and 2022E P/BVs, respectively.

Liquid balance sheet could support the top line, as well as the NIMs. While the market average L/D ratio is just below 80%, the bank's ratio is around 50% currently. In our view, this gives it the much needed ammunition to fight the market environment of falling rates, which could support the top line and, especially, the NIMs, which we see remaining above 2% in our forecast period. In 2020E, we believe that the NIMs could show a slight pick-up, mostly on the back of sizable loan growth. Similarly, such a conservative balance sheet structure should prove to be resistant during the current economic crisis. As of 1H20, loans accounted for c.44% of total assets, while cash took up 36%.

Top-notch C/I ratios likely to continue going forward. The bank's profitability is likely to be supported by its best-in-class cost efficiency. The ratio bottomed out in 2017, at 35%, but grew to 42% in 2019, only to drop again, to 36%, in 1H20. While we see a certain pick-up in the ratio going forward, it should not reach higher than 39.7%. Such efficiency results in ROEs above what we see for most of its peers in our coverage universe, despite the economic crisis and the conservative balance sheet structure.

The bank is likely to remain well-capitalised, even with the expected growth rates and payouts. The bank is a dividend story and has offered a yield north of 10% in its past two payments. Even though we expect dividends to decline due to the current crisis, payouts should not fall below 45%, on our numbers. At the same time, we note that we have taken a rather conservative approach towards our dividend estimates, and there may be upside.

Komercijalna is a market leader in North Macedonia. The local banking industry is skewed heavily towards the largest banks in the country. The three-largest banks, in terms of assets, hold a market share of c.57%. The top-five banks hold a market share of 75%. In the terms of assets, Komercijalna Banka has a 22% market share and is the largest bank.

FX exposure remains, but as a result of the economy's structure. While the net FX exposure is relatively small, in gross terms, both the liabilities and asset sides of the balance sheet are exposed heavily to the EUR, and we note it remains a risk, despite the economy's slow shift towards the local currency.

Valuation-wise, the bank trades at record levels, but we still see room for growth. The bank now trades at 1.0x and 0.9x on our 2021E and 2022E book values. While these are at its historically highest levels, we believe there is still upside for the share price, even after the stellar performance of the past couple of years, mostly on the back of the bank's growth prospects, its sound capital levels, decent dividend potential, and higher ROEs vs. the peers in our coverage universe.

Expected events

3Q20 results 26 October (TBC)

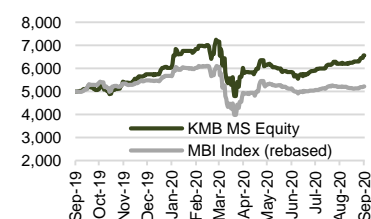
Key data

Market Cap	USD 286m
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	4,276.7

Price performance

52-w range	MKD 4,800-7,244
52-w performance	31.53%
Relative performance	26.95%

Komercijalna Banka 12M share price performance



Year	NII (MKD m)	Net Profit (MKD m)	EPS (MKD)	PE (x)	BVPS (RON)	P/BV (x)	ROE (%)	DPS (RON)	Dividend yield
2017	3,070	845	371	5.9	4,859	0.5	7.9%	180	8.2%
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%
2020E	2,556	1,456	639	10.3	6,176	1.1	10.6%	288	4.4%
2021E	2,667	1,606	704	9.3	6,593	1.0	11.0%	317	4.8%
2022E	2,878	1,900	834	7.9	7,110	0.9	12.2%	375	5.7%

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Closing Prices as of 08 September 2020

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Company snapshot – BUY, PT MKD 7,953

Komerzialna Banka ad Skopje		BUY		COMPANY DESCRIPTION		
Bloomberg ticker	KMB MS	8,000				
Closing price (MKD)	6,565					
Price target (MKD)	7,953					
Upside to PT	21.2%					
Shares outstanding (m)	2.28					
MCap (MKD m)	14,962					
Free float	87%					
3M ADTV (USD ths)	1.9					
52 Week Range (MKD)	4,800-7,244					
<p>The bank was established in 1955, with its headquarters based in Skopje, North Macedonia. Beginning as a communal bank (Komunalna Banka), the house specialised in mortgages and business loans. In 1971, the top three local banks integrated under the name of Stopanska Banka. In 1990, the banks were transformed significantly, into the first joint stock company in the country, carrying the name of Komerzialna Banka. In 2009, KB Publikum Invest was established and Komerzialna holds a 64.29% stake in the company currently. Other shareholders include Ljubljana Publikum Holding LLC, Pom-INVEST DD Maribor and Foreks S.R.L. Today, the company operates in many areas, including retail banking services, commercial banking, savings and deposits, and investments.</p>						
FINANCIALS (MKD m)						
	2017	2018	2019	2020E	2021E	2022E
Net interest income	3,070	2,472	2,405	2,556	2,667	2,878
Net fee and commission income	862	923	999	998	1,082	1,176
Other operating income	1,215	1,571	943	1,435	965	996
Net operating income	5,147	4,965	4,347	4,990	4,714	5,051
Total operating expenses	-1,810	-2,213	-1,809	-1,883	-1,871	-1,890
Profit before provisions, impairment	3,337	2,752	2,539	3,107	2,843	3,161
Impairment of financial assets	-2,452	-794	-589	-1,556	-1,127	-1,117
Results after provisions	885	1,958	1,950	1,551	1,716	2,044
Associates	55	64	61	61	61	61
Income tax	-95	-216	-184	-155	-172	-204
Net result for the period	845	1,806	1,827	1,456	1,606	1,900
Cash and cash equivalents	37,209	48,796	48,733	53,201	52,963	52,376
Financial assets	11,220	12,682	13,681	15,290	16,680	18,246
Due from banks	5,834	2,516	4,693	2,726	2,979	3,265
Loans and advances to customers	45,366	46,407	50,791	54,518	59,584	65,295
Other assets	2,333	1,146	2,320	942	966	992
Intangible assets	40	39	56	56	56	56
Property, plant and equipment	2,866	2,808	2,756	2,540	2,490	2,440
Total assets	104,869	114,394	123,032	129,274	135,716	142,670
Deposits from banks	449	351	449	472	495	519
Deposits from customers	91,229	99,037	107,112	112,552	117,994	123,717
Other liabilities	881	1,604	1,311	1,611	1,611	1,611
Borrowings	1,238	929	837	563	590	619
Total liabilities	93,797	101,920	109,709	115,197	120,689	126,465
Retained earnings	845	1,820	2,177	2,380	3,330	4,508
Other equity	10,228	10,654	11,146	11,697	11,697	11,697
Total shareholders' equity	11,073	12,474	13,323	14,077	15,027	16,205
Total liabilities and equity	104,870	114,394	123,032	129,274	135,716	142,670
Growth rates						
	2017	2018	2019	2020E	2021E	2022E
Loans and advances to customers	0.2%	2.3%	9.4%	7.3%	9.3%	9.6%
Deposits	4.7%	8.6%	8.2%	5.1%	4.8%	4.9%
Equity	4.8%	12.7%	6.8%	5.7%	6.8%	7.8%
Assets	4.1%	9.1%	7.6%	5.1%	5.0%	5.1%
Net income	6.8%	113.7%	1.1%	-20.3%	10.3%	18.4%
Net interest income	-0.3%	-19.5%	-2.7%	6.3%	4.3%	7.9%
RATIOS & VALUATIONS						
	2017	2018	2019	2020E	2021E	2022E
Net loans to deposits	49.7%	46.9%	47.4%	48.4%	50.5%	52.8%
Deposits to assets	87.0%	86.6%	87.1%	87.1%	86.9%	86.7%
Net loans to assets	43.3%	40.6%	41.3%	42.2%	43.9%	45.8%
Equity to assets	10.6%	10.9%	10.8%	10.9%	11.1%	11.4%
Net interest margin	3.2%	2.4%	2.1%	2.1%	2.1%	2.1%
Net interest income to average assets	3.0%	2.3%	2.1%	2.0%	2.0%	2.1%
Nil to avg assets adj. for prov. [WOOD]	0.6%	1.5%	1.5%	0.8%	1.2%	1.3%
Costs to average assets	-1.8%	-2.0%	-1.5%	-1.5%	-1.4%	-1.4%
Cost to income	35.2%	44.6%	41.6%	37.7%	39.7%	37.4%
Pre-tax income to average assets	0.9%	1.8%	1.7%	1.3%	1.3%	1.5%
Effective tax rate	-10.1%	-10.7%	-9.1%	-10.0%	-10.0%	-10.0%
ROA	0.8%	1.7%	1.6%	1.2%	1.2%	1.4%
ROE	7.9%	15.3%	14.4%	10.6%	11.0%	12.2%
ROTE	8.0%	15.3%	14.5%	10.7%	11.1%	12.2%
P/E	5.9x	4.1x	6.4x	10.3x	9.3x	7.9x
P/BV	0.5x	0.6x	0.9x	1.1x	1.0x	0.9x
P/Tangible BV	0.5x	0.6x	0.9x	1.1x	1.0x	0.9x
Dividend yield	8.2%	12.9%	10.7%	4.4%	4.8%	5.7%
LOANS AND ADVANCES TO CUSTOMERS						
	2017	2018	2019	2020E	2021E	2022E
Non-financial companies	77.6%	74.3%	71.2%	70.6%	69.4%	64.7%
Government	2.5%	2.6%	2.9%	3.1%	3.0%	2.6%
Non-profit institutions	0.1%	0.1%	0.3%	0.4%	0.4%	0.3%
Financial companies excl banks	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%
Households	19.4%	22.6%	25.4%	25.9%	26.5%	31.9%
Other	0.3%	0.4%	0.2%	0.0%	0.7%	0.4%
CAPITALIZATION						
	2017	2018	2019	2020E	2021E	2022E
Tier 1 ratio (%)	16.0%	16.9%	16.6%	17.0%	16.9%	16.9%
CAR (%)	16.0%	16.9%	16.6%	17.0%	16.9%	16.9%
CAR (% , standalone)	16.0%	16.9%	16.6%	n.a.	n.a.	n.a.
Equity to total assets	10.6%	10.9%	10.8%	10.9%	11.1%	11.4%
DUPONT ANALYSIS						
	2017	2018	2019	2020E	2021E	2022E
Net interest income	2.3%	2.0%	2.0%	2.0%	2.0%	2.1%
Net fee and commission income	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Other operating income	1.4%	0.8%	1.1%	0.7%	0.7%	0.7%
Net operating income	4.5%	3.7%	4.0%	3.6%	3.6%	3.6%
Total operating expenses	-2.0%	-1.5%	-1.5%	-1.4%	-1.4%	-1.4%
Profit before provisions, impairment	2.5%	2.1%	2.5%	2.1%	2.3%	2.3%
Impairment of financial assets	-0.7%	-0.5%	-1.2%	-0.9%	-0.8%	-0.8%
Gross result	1.8%	1.7%	1.3%	1.3%	1.5%	1.5%
Tax expense	1.5%	1.4%	1.0%	1.1%	1.1%	1.2%
Net result for the period	1.6%	1.5%	1.1%	1.2%	1.4%	1.4%
CHARTS						

Source: Bank data, Bloomberg, WOOD Research

Investment case

We initiate on Komercijalna Banka with a BUY rating and a price target (PT) of MKD 7,953/share, offering upside of c.21.2%. We appreciate the bank's strong position in the local, almost oligopolistic, market, coupled with its conservative balance sheet structure and best-in-class cost efficiency, with C/I ratios below 40%. Its liquid balance sheet, in our view, could help it to weather the current storm, and offers growth potential that could support the currently falling NIMs amid the recent interest rate cuts. Despite offering quite substantial payouts in the past, the bank remains well-capitalised and, on our numbers, should remain so over the course of the crisis, as well as for the rest of our forecast period. FX exposure is an issue, but is a function of the overall Euronisation of the economy, and the bank is managing to offset these exposures well. We also note that our COR and dividend assumptions may be too conservative.

We like the bank's strong position in the local market. Komercijalna Banka is one of the largest banking institutions in the country and, in terms of assets, it is the largest house, with a 22% market share. The bank's market share in gross loans to non-financial corporate clients is 21%; also the highest in the market. Komercijalna holds the largest amount of deposits as well, from both local households, as well as corporates. With the almost oligopolistic banking sector being quite concentrated amongst the five-largest banks, Komercijalna Banka is one of the market leaders. The bank serves clients all across North Macedonia with 62 branches (as of March 2020) and the largest ATM network in the country.

We appreciate the quality cost efficiency, which results in very low C/I ratios. The C/I ratios bottomed out in 2017, when they reached 35.2%, and have grown to 40-45% since then. The majority of the bank's expenses are personnel costs and, with a declining number of employees over time and low salary inflation, upward pressure, if any, is likely to come from other expenses. At the same time, we believe the potential for a further improvement in the bank's cost efficiency is rather limited, especially as the C/I ratio fell to 35% in 1H20. We see this reversing, and expect the bank to report 37.7% by the year-end. We then anticipate the ratio at 39.7% and 37.4% for 2021E and 2022E, respectively, and believe these levels are sustainable going forward.

Liquidity higher than the market average shows potential for top-line growth. The majority of the frontier banks in our universe are highly liquid, but Komercijalna Banka is a real outlier. The bank's L/D ratio stood at 50.4% vs. levels just below 80% for the overall market. The bank decided to take a more conservative stance, mostly as a result of the recent macroeconomic and political risks in the country, diversified its loan book and increased the liquidity of its balance sheet. The share of loans has declined continuously, to 41-44%, from 51% in 2014. Investment securities account for c.10% of the balance sheet. While this may seem counterproductive, we believe it gives Komercijalna a large amount of ammunition, to be used once it deems circumstances have improved. Once this happens and the liquidity is placed into loans, the bank's NIMs, which we anticipate to decline in the near term, could see upside in the mid-term. We expect net loans to grow by 7.3% in 2020E, 9.3% in 2021E and 9.6% in 2022E.

Sound capital levels allow for high dividend payouts and yields. Despite paying out 69% of its 2019 profit in 2020, the bank remains well capitalised. Not only have the capital levels been improving in the past, but its stand-alone CAR increased to 17.62% for 1H20, from 16.59% as of the end of 2019. As the group's subsidiaries are small, we expect a similar development on the consolidated level. We also believe that the CAR should not fall below 16.86% in our forecast period. While we note that the bank is committed to paying out dividends, capital adequacy takes a higher priority now, according to the bank, especially amid the current macroeconomic backdrop. We thus model lower payouts for 2020-22E than we have seen in the past. There may be upside for our dividend estimates, however, mostly on the back of our conservative approach to our COR and dividend payout assumptions.

FX exposure on the balance sheet remains, but Komercijalna manages to offset it. Despite the quite high Euronisation of the local economy, the bank manages its net total FX exposure quite well, matching its levels of FX loans with FX deposits. FX loans now account for c.44% of net loans. The bank issues FX loans mostly in EUR, but also carries MKD 525m worth of USD loans. In 2019, the net FX exposure was only MKD 40m. Despite the inherent risks coupled with such a high FX position, we note that the central bank's policy calls for a fixed EUR/MKD rate (see page 21 for more details). Despite the decline of FX credit (to c.42% in 1Q20, from c.60% in 1Q12), as well as FX deposits (to c.41%, from c.50% in 1Q12) in the country's banking system, foreign currency continues to be used frequently.

The bank trades currently at 1.0x and 0.9x on our 2021E and 2022E P/BVs, respectively. Despite these multiples being at historically high levels, we do not see the multiples as too stretched. Our view is based on multiple factors, including the higher growth potential, given the bank's balance sheet, high profitability, the conservative risk profile of the balance sheet and the good capitalisation. Our PT of MKD 7,953/share offers upside of c.21.2%. In terms of our PT, the company would trade at 1.2x and 1.1x 2021E and 22E book value, respectively.

Valuation

We set our price target (PT) for Komercijalna Banka ad Skopje at MKD 7,953/share, offering upside of c.21.2% to the closing price on 8 September. We arrive at our PT using a combination of our excess return valuation model, giving us a PT of MKD 8,625/share, and our three-stage DDM, which yields a PT of MKD 7,282/share. The difference between the two methods is 18%.

Komercijalna Banka: valuation summary

KMB MS Equity	
Excess return valuation (50%)	8,625
3-stage DDM (50%)	7,282
Weighted average PT	7,953
Current price	6,565
Potential upside	21.2%

Source: WOOD Research

Cost of equity estimate

To estimate Komercijalna Banka's cost of equity, we use a risk free rate of 5% for North Macedonia, a market risk premium of 6.0% and a beta of 1.1x. All this yields a COE of 11.6%.

Komercijalna Banka: cost of equity estimate

KMB MS Equity	
Risk free rate	5.0%
Market risk premium	6.0%
Market return	11.0%
1Y monthly beta	1.10
Cost of equity	11.6%

Source: WOOD Research

Excess return valuation model

Komercijalna Banka: three-stage excess return valuation model

	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	+
Net profit (MKD m)	1,827	1,456	1,606	1,900	2,158	2,375	2,551	2,691	2,800	2,884
growth yoy		-20.3%	10.3%	18.4%	13.6%	10.0%	7.4%	5.5%	4.1%	3.0%
Dividend distribution (MKD m)	957	1,253	655	723	855	929	1,377	1,759	2,073	2,155
growth yoy		31.0%	-47.7%	10.3%	18.4%	8.6%	48.2%	27.8%	17.9%	3.9%
Shareholders' equity (MKD m)	13,323	14,077	15,027	16,205	17,508	18,954	20,128	21,060	21,787	22,516
growth yoy		5.7%	6.8%	7.8%	8.0%	8.3%	6.2%	4.6%	3.5%	3.3%
Cost of equity (MKD m)	1,545	1,589	1,688	1,811	1,955	2,115	2,267	2,389	2,485	2,570
growth yoy		2.8%	6.2%	7.3%	7.9%	8.2%	7.2%	5.4%	4.0%	3.4%
Excess return (MKD m)	281	-133	-82	89	203	260	284	302	315	3,656
ROE	10.6%	11.0%	12.2%	12.8%	13.0%	13.1%	13.1%	13.1%	13.1%	13.0%
Payout ratio	68.6%	45.0%	45.0%	45.0%	45.0%	43.0%	58.0%	68.9%	77.0%	77.0%
Time adjustment for the valuation date		0.31	1.31	2.31	3.31	4.31	5.31	6.31	7.31	8.31
Discount factor		97%	87%	78%	70%	62%	56%	50%	45%	40%
Discounted excess return per share		-56	-31	30	62	71	70	66	62	644
Implied P/BV										1.17x
Book value per share implied at P/BV										6,811
Number of shares (m)	2.28									
Fair value of Komercijalna's share	7,728									
Target price	8,625									
Upside	31.38%									
Valuation date	8 September 2020									
Fiscal year end	31 December 2020									
Time adjustment	0.31									

Source: WOOD Research

To calculate the fair value of Komercijalna Banka's shares, we sum up the present value of excess returns per share until 2027E, the present value of the excess return in the terminal period beyond 2027E and the current capital invested in the bank at the implied P/BV ratio of 1.17x ($P/BV = (LT\ ROE - g) / (COE - g)$), based on a long-term ROE of 13.0%, a COE of 11.6% and a long-term growth rate of 3%. The fair value of an individual share then lands at MKD 7,728, giving us a 12M PT of MKD 8,625/share.

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

Komercijalna Banka: sensitivity of our excess return valuation model

		Long term growth rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	9.6%	12,447	12,990	13,582	14,246	15,008
	10.6%	10,098	10,433	10,786	11,167	11,590
	11.6%	8,224	8,424	8,625	8,833	9,056
	12.6%	6,690	6,798	6,899	6,997	7,094
	13.6%	5,406	5,451	5,485	5,509	5,525

Source: WOOD Research

Three-stage dividend discount model

In our dividend discount model, we assume a 45% payout ratio from 2020E earnings, which more or less continues for the four following years. In the second stage of our model, we assume that the payouts could increase gradually, to 77%, which we calculate as a sustainable level of payouts in the long term. The lower payout ratios in the early stages of our model are the result of the pandemic-caused crisis, as well as the higher growth rates assumed after the pandemic has run its course, as the bank could use its excess liquidity for growth.

Komercijalna Banka: three-stage dividend discount valuation model

	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	+
Net profit (MKD m)	1,827	1,456	1,606	1,900	2,158	2,375	2,551	2,691	2,800	2,884
growth yoy		-20.3%	10.3%	18.4%	13.6%	10.0%	7.4%	5.5%	4.1%	3.0%
EPS (MKD)	802	639	704	834	947	1,042	1,119	1,181	1,229	1,265
growth yoy		-20.3%	10.3%	18.4%	13.6%	10.0%	7.4%	5.5%	4.1%	3.0%
Shareholders' equity (MKD m)	13,323	14,077	15,027	16,205	17,508	18,954	20,128	21,060	21,787	22,516
growth yoy		5.7%	6.8%	7.8%	8.0%	8.3%	6.2%	4.6%	3.5%	3.3%
BVPS (MKD)	5,846	6,176	6,593	7,110	7,682	8,316	8,832	9,241	9,559	9,879
growth yoy		5.7%	6.8%	7.8%	8.0%	8.3%	6.2%	4.6%	3.5%	3.3%
DPS paid (MKD)	420	550	288	317	375	408	604	772	910	945
growth yoy		31.0%	-47.7%	10.3%	18.4%	8.6%	48.2%	27.8%	17.9%	3.9%
ROE	10.6%	11.0%	12.2%	12.8%	13.0%	13.1%	13.1%	13.1%	13.1%	13.0%
Payout ratio		68.6%	45.0%	45.0%	45.0%	43.0%	58.0%	68.9%	77.0%	77.0%
Time adjustment for the valuation date		0.64	1.64	2.64	3.64	4.64	5.64	6.64	7.64	8.64
Discount factor		93%	84%	75%	67%	60%	54%	48%	43%	39%
Discounted DPS			240	237	252	245	325	372	393	
Terminal value per share estimate										11,510
Discounted terminal value per share estimate										4,460
Implied P/BV (x)		1.17								
Fair value of Komercijalna's shares		6,525								
Price target		7,282								
Upside		10.93%								
Valuation date		8 September 2020								
Dividend payment day		29 April 2021								
Time adjustment		0.64								

Source: WOOD Research

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 (2020-22E), the present value of the dividends in the second stage (2023-27E) and the book value of equity in the terminal value multiplied by the implied P/BV of 1.17x. Putting two and two together, we arrive at a fair value MKD 6,525/share, or a 12M PT of MKD 7,282/share.

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%.

Komercijalna Banka: sensitivity of our excess return valuation model

		Long term growth rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	9.6%	9,830	9,878	9,927	9,976	10,024
	10.6%	8,345	8,384	8,423	8,463	8,502
	11.6%	7,217	7,250	7,282	7,315	7,347
	12.6%	6,335	6,362	6,389	6,416	6,443
	13.6%	5,627	5,650	5,673	5,696	5,719

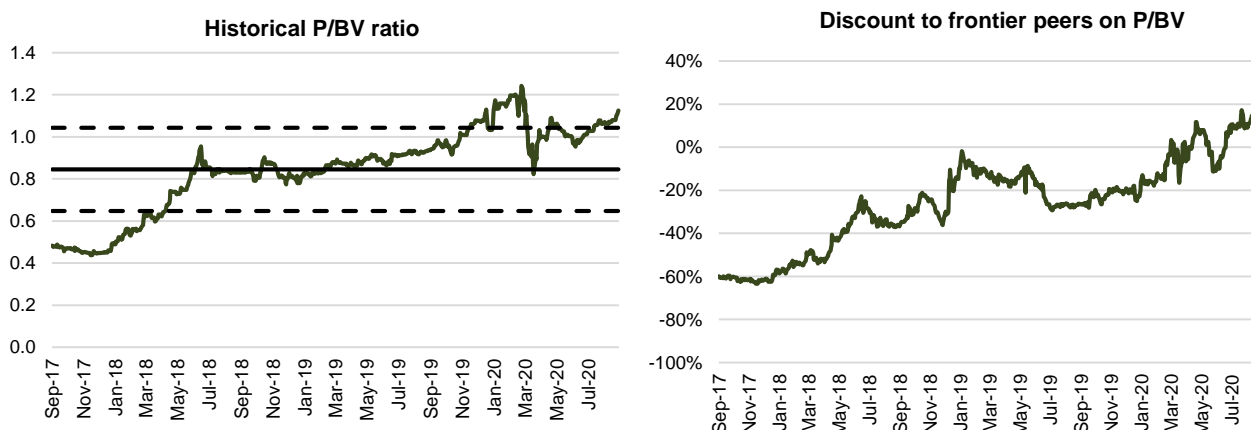
Source: WOOD Research

Peer comparison and multiples valuation

The ever-increasing P/BV ratio and the narrowing discount vs. its peers is the result of the stellar performance of the share price in the past, which has grown from levels between MKD 1,200 and MKD 2,400/share in the 2014-17 period, to the current MKD 6,500/share.

The stock is trading currently above +1 standard deviation from its average price-to-book multiple and at a premium to other frontier banks under our coverage (we note these are based on historical financials, due to the lack of any consensus estimates for Komercijalna Banka). We believe the stock still has room to grow, however. We base our assumptions on its superior profitability, ROEs and dividend payouts, as well as yields, prior to COVID-19, which we assume could return in the second stage of our valuation model.

Komercijalna Banka: historical P/BV multiples and discount vs. frontier peers



Source: WOOD Research. Bloomberg

Finally, we also look at the bank's multiples to compare them with the current market multiples and also to cross-check where Komercijalna Banka trades at our PT. On our numbers, the bank trades currently at multiples similar to its peers. However, we expect superior ROEs in our forecast period than what we expect for most other banks in our coverage universe for the period, which results in what may seem rather an expensive P/BV multiple. On the other hand, the P/E multiples are near the median. We expect a mediocre dividend yield in the first stage of our forecast period, but this should improve in the second stage. Similarly, we have taken rather a conservative stance towards payouts, and believe that there may be upside for our dividend estimates.

Komercijalna Banka: current peer valuation table as of 25 September 2020

Bank	Last price	Market Cap	P/E			P/BV			ROE			Div yield		
	lcl	USD m	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Macedonia														
Komercijalna Banka ad Skopje	6,565.0	286	10.3	9.3	7.9	1.1	1.0	0.9	10.6%	11.0%	12.2%	8.4%	4.4%	4.8%
Czech Republic														
Komercni	530.0	4,473	12.4	11.7	9.3	0.9	0.9	0.9	7.4%	7.7%	9.7%	11.1%	11.4%	7.5%
Moneta	54.0	1,225	12.2	16.1	8.3	1.0	1.0	1.0	8.8%	6.4%	12.1%	6.5%	5.0%	9.6%
Georgia														
TBC Bank	935.0	2,692	4.1	3.5	n/a	0.7	0.6	n/a	18.3%	18.3%	n/a	5.7%	6.1%	n/a
Bank of Georgia	925.0	2,356	4.1	3.6	n/a	0.8	0.7	n/a	19.9%	19.9%	n/a	7.3%	8.3%	n/a
Hungary														
OTP	10,290.0	9,495	16.2	11.5	7.8	1.2	1.1	1.0	7.6%	10.1%	13.6%	2.8%	3.3%	4.0%
Lithuania														
Siauli Bankas	0.4	305	10.0	7.4	5.8	0.8	0.7	0.7	8.0%	10.0%	11.8%	3.3%	4.7%	6.0%
Poland														
PKO BP	20.8	6,884	13.2	10.4	7.0	0.6	0.6	0.6	4.6%	5.6%	8.1%	3.6%	9.1%	13.6%
Santander Bank	140.1	3,783	14.6	12.6	6.9	0.5	0.5	0.5	3.8%	4.3%	7.5%	3.4%	7.9%	14.5%
Pekao	49.8	3,455	14.2	9.7	6.4	0.5	0.5	0.5	3.8%	5.4%	8.0%	3.5%	9.8%	14.8%
ING BSK	131.4	4,522	19.1	15.1	10.1	1.1	1.0	0.9	5.7%	6.8%	9.5%	0.8%	2.0%	3.0%
mBank	169.1	1,895	28.3	14.5	7.1	0.4	0.4	0.4	1.6%	3.0%	5.8%	0.0%	6.9%	13.9%
Handlowy	35.5	1,227	20.2	17.3	10.3	0.6	0.6	0.6	3.2%	3.7%	6.1%	5.0%	5.8%	9.8%
Millennium	2.8	902	22.6	20.8	6.2	0.4	0.4	0.4	1.7%	1.8%	5.8%	0.0%	5.0%	16.0%
Alior Bank	13.3	461	n/m	n/m	5.5	0.3	0.3	0.3	-4.4%	-0.7%	4.8%	0.0%	0.0%	0.0%
Romania														
Banca Transilvania	2.4	3,029	12.8	12.1	10.0	1.5	1.4	1.3	11.5%	12.1%	13.5%	5.1%	5.4%	6.5%
BRD-GSG	12.6	2,125	12.0	11.5	9.5	1.1	1.1	1.0	9.0%	9.3%	10.8%	5.8%	6.1%	7.3%
Patria Bank	0.1	65	n/m	n/m	16.4	n/m	n/m	0.9	-1.7%	2.6%	5.5%	0.0%	0.0%	0.0%
Slovenia														
NLB (GDRs)	39.0	918	15.0	7.3	7.3	0.5	0.4	0.4	3.1%	6.2%	6.1%	4.7%	9.6%	9.6%
Komercijalna Banka ad Skopje est.	6,565.0	286	10.3	9.3	7.9	1.1	1.0	0.9	10.6%	11.0%	12.2%	8.4%	4.4%	4.8%
Komercijalna Banka ad Skopje PT	7,953.5		12.4	11.3	9.5	1.3	1.2	1.1	10.6%	11.0%	12.2%	6.9%	3.6%	4.0%
Mean [region]			14.4	11.9	7.5	0.6	0.6	0.6	4.2%	5.9%	8.0%	3.5%	5.6%	8.6%
Mean [Frontier]			12.0	11.5	9.8	1.1	1.1	0.9	8.5%	9.6%	11.3%	4.2%	5.0%	6.3%
Current premium/(discount) to peers			-14%	-19%	-19%	-2%	-6%	-2%	2.1pts	1.4pts	0.9pts	4.2pts	-0.7pts	-1.4pts

Source: WOOD Research, Bloomberg

Komercijalna Banka: price target peer review table as of 8 September 2020

Bank	PT Mkt Cap (PT)		P/E			P/BV			ROE			Div yield		
	lcl	USD m	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Macedonia														
Komercijalna Banka ad Skopje	7,953.5	346	12.4	11.3	9.5	1.3	1.2	1.1	10.6%	11.0%	12.2%	6.9%	3.6%	4.0%
Czech Republic														
Komercni	746.0	6,296	17.4	16.5	13.1	1.2	1.3	1.3	7.4%	7.7%	9.7%	7.9%	8.1%	5.3%
Moneta	69.7	1,582	15.8	20.8	10.7	1.3	1.3	1.2	8.8%	6.4%	12.1%	5.0%	3.9%	7.5%
Georgia														
TBC Bank	1,710.0	4,923	7.5	6.5	n/a	1.3	1.1	n/a	18.3%	18.3%	n/a	3.1%	3.3%	n/a
Bank of Georgia	1,580.0	4,025	7.1	6.2	n/a	1.3	1.1	n/a	19.9%	19.9%	n/a	4.3%	4.9%	n/a
Hungary														
OTP	11,623.0	10,725	18.3	12.9	8.8	1.4	1.3	1.1	7.6%	10.1%	13.6%	2.5%	2.9%	3.5%
Lithuania														
Siauliu Bankas	0.6	403	13.2	9.8	7.7	1.0	0.9	0.9	8.0%	10.0%	11.8%	2.5%	3.6%	4.6%
Poland														
PKO BP	31.6	10,448	20.0	15.8	10.6	0.9	0.9	0.8	4.6%	5.6%	8.1%	2.4%	6.0%	9.0%
Santander Bank	221.1	5,970	23.1	19.9	10.9	0.9	0.8	0.8	3.8%	4.3%	7.5%	2.2%	5.0%	9.2%
Pekao	82.8	5,748	23.7	16.2	10.7	0.9	0.9	0.8	3.8%	5.4%	8.0%	2.1%	5.9%	8.9%
ING BSK	161.8	5,568	23.6	18.6	12.4	1.3	1.2	1.1	5.7%	6.8%	9.5%	0.6%	1.6%	2.4%
mBank	189.1	2,119	31.7	16.2	8.0	0.5	0.5	0.5	1.6%	3.0%	5.8%	0.0%	6.1%	12.4%
Handlowy	34.9	1,206	19.8	17.0	10.1	0.6	0.6	0.6	3.2%	3.7%	6.1%	5.1%	5.9%	9.9%
Millennium	3.4	1,078	27.0	24.9	7.4	0.4	0.4	0.4	1.7%	1.8%	5.8%	0.0%	4.2%	13.4%
Alior Bank	13.8	477	n/m	n/m	5.7	0.3	0.3	0.3	-4.4%	-0.7%	4.8%	0.0%	0.0%	0.0%
Romania														
Banca Transilvania	2.5	3,161	13.4	12.7	10.4	1.6	1.5	1.3	11.5%	12.1%	13.5%	4.9%	5.1%	6.2%
BRD-GSG	13.5	2,281	12.9	12.3	10.2	1.2	1.1	1.1	9.0%	9.3%	10.8%	5.4%	5.7%	6.8%
Patria Bank	0.1	64	n/m	n/m	16.1	n/m	n/m	0.9	-1.7%	2.6%	5.5%	0.0%	0.0%	0.0%
Slovenia														
NLB	58.0	1,366	22.3	10.8	10.8	0.7	0.7	0.7	3.1%	6.2%	6.1%	3.1%	6.5%	6.5%
Komercijalna Banka ad Skopje PT	7,953.5	346	12.4	11.3	9.5	1.3	1.2	1.1	10.6%	11.0%	12.2%	6.9%	3.6%	4.0%
Mean [region]			19.9	16.2	10.5	0.9	0.9	0.9	4.2%	5.9%	8.0%	2.4%	5.1%	6.7%
Mean [Frontier]			13.2	12.3	10.3	1.2	1.1	1.0	8.5%	9.6%	11.3%	3.7%	4.3%	5.4%
Current premium/(discount) to peers			-6%	-9%	-8%	10%	7%	15%	2.1pts	1.4pts	0.9pts	3.2pts	-0.7pts	-1.4pts

Source: WOOD Research, Bloomberg

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Pekao	4, 5
PGE	5
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Philip Morris CR	5
PKN Orlen	5
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PZU	4, 5
Romgaz	5
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