



Strong start into the year

Merkur Bank has published its Q1 results today. With a net profit of EUR 1.37m, an increase by 16% yoy, Merkur Bank had a strong start into the year and surpassed our forecast of EUR 1.28m. While total revenues were up by 22% yoy to EUR 9.8m (PAS: EUR 9.0m) costs increased less than proportionately by 6% yoy to EUR 5.84m. CIR was with 39% on a low level (PAS: 40%). Positively, Merkur Bank reached an increase of the net profit by 16% yoy despite higher risk provisions (up by EUR 0.3m) and a higher contribution to the fund for general banking risks (up by EUR 0.5m), i.e. underlying performance was even better. The strong Q1 results confirm our positive view for the shares. We stick to our Buy rating with a target price of EUR 10.50. Shares are attractively valued with a 2020e P/B of 0.9x (ROE: 7.5%) while offering a div. yield of close to 4%. As the residential real estate market in Munich should remain benign, the bank's growth prospective remains good.

Net interest income with strong development

Net interest income increased by 69% yoy to EUR 9.6m in Q1; adjusted for an accounting change (loan processing fees are accounted for under net interest income since Q4 '18) NII was up by 17% yoy which can be explained by the higher loan volume.

Loan book development

The bank's total loan volume was up by 4% qoq to EUR 1.2bn, which was the main reason for the strong net interest income increase assuming that margins did not go up. Assets under custody were up by 10% qoq to EUR 371m and were thus even above the Q3 2018 level of EUR 354m i.e. the Q4 market-driven decline has been more than recovered. Regulatory capital increased by 4% qoq to EUR 119m as Merkur Bank has presumably issued some hybrid capital again in Q1.

EURm	2016	2017	2018p	2019e	2020e
M.cap.	38	45	46	49	49
NII	23	23	29	34	34
Other inc.	1	1	(1)	(1)	(1)
Op.costs	(23)	(24)	(22)	(23)	(23)
L.losses	2	(0)	(0)	(1)	(1)
Net profit	3	3	4	4	4
EPS	0.61	0.60	0.64	0.67	0.69
EPS adj	0.61	0.60	0.64	0.67	0.69
P/E	10.9	13.0	12.6	12.9	12.4
P/B	0.84	0.93	0.93	0.95	0.91
Yield (%)	3.9	3.8	4.0	3.9	4.0
ROE (%)	7.5	7.4	7.5	7.5	7.5

Source: Pareto

Target price (EUR)	10.5
Share price (EUR)	8.6

Forecast changes			
%	2019e	2020e	2021e
NII	12	12	-
Operating income	0	0	-
PBLL	0	0	-
EPS	0	0	-

Source: Pareto

Ticker	MBKG.DE, MBK GY
Sector	Banks
Shares fully diluted (m)	5.7
Market cap (EURm)	49

Performance



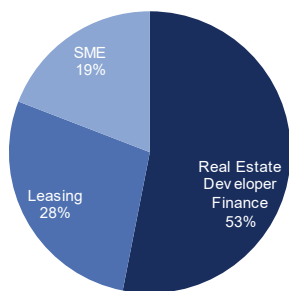
Source: Factset

Analysts

Dr Philipp Häßler CFA
+49 69 58997 414, philipp.haessler@paretosec.com

Exhibit 1: Investment Case in Charts

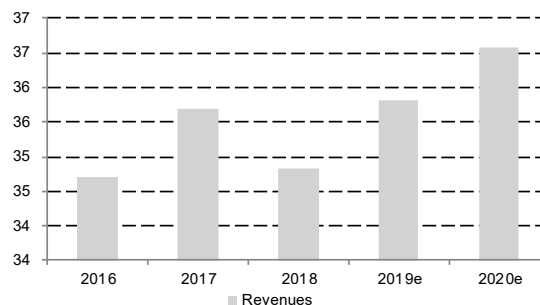
Loan portfolio split by business unit (12 2018)



Commercial Real Estate Developer Financing business is Merkur Bank's key revenue pillar.

Source: Merkur Bank, Pareto Research

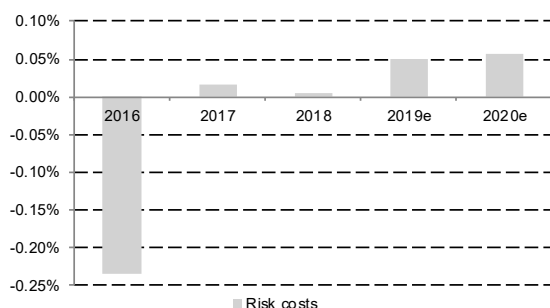
Revenues should grow again ...



Revenues should grow in 2019e and 2020e, a higher net interest income being the key driver.

Source: Merkur Bank, Pareto Research

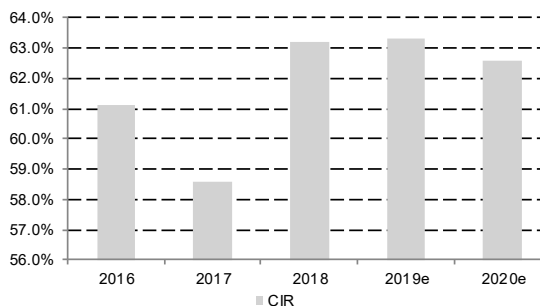
... while risk costs should remain low



Risk costs should remain on low level as we expect the benign commercial real estate environment to continue.

Source: Merkur Bank, Pareto Research

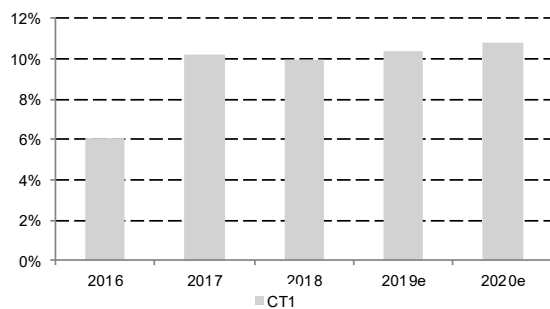
Efficiency is solid with a CIR of slightly above 60%



CIR is at relatively low level. We see however no room for further improvement as Merkur Bank is already operating quite efficiently.

Source: Merkur Bank, Pareto Research

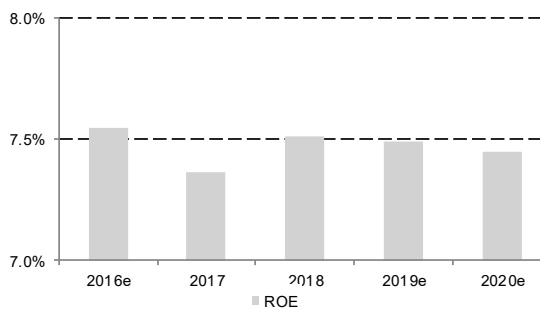
Capitalization on sufficient level



With an estimated CT1 ratio of 10% in 2018 we see Merkur Bank sufficiently capitalized.

Source: Merkur Bank, Pareto Research


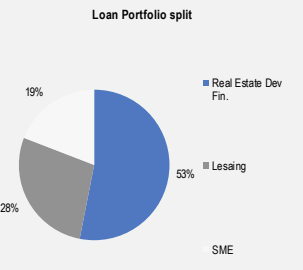
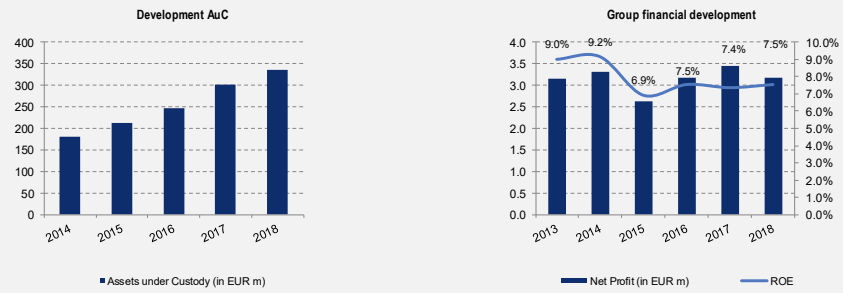
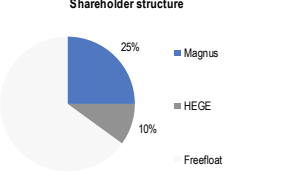
Solid Profitability



With an expected ROE of around 7.5% for 2019e Merkur Bank has a solid profitability.

Source: Merkur Bank, Pareto Research

Exhibit 2: At a Glance

Business Areas	Corporate Banking	Retail / Private Banking		
Company Profile	 <p>MERKUR BANK</p> <p>MERKUR Bank is a private bank, located in Munich, focusing on corporate and retail banking. While it has expanded its retail banking activities in recent years, residential real estate developer finance remains its most important business. MERKUR Bank has the legal status of a KGaA and is listed on the Munich stock exchange.</p>			
Business Focus	MERKUR Bank offers residential real estate developer finance, leasing and classical loans to its customers with a clear focus on developer loans. Total corporate loans amount to around EUR 1.15bn.	In Retail / Private Banking MERKUR Bank offers retail banking services both online and through its four branches to its customers. It has more than EUR 300m assets under custody.		
Customers	MERKUR Bank's customer are SME customers. While in real estate financing they comprise different real estate investors, they include traditional SME in the other segments.	MERKUR Bank's customers are classical retail customers which should be somewhat more affluent than the average retail customer.		
Regional Focus	Regional Focus in real estate developer finance is Munich and to a lesser extent Stuttgart and Nuremberg.	Regional Focus is Bavaria, Thuringia and Saxony with the branches being located in Munich, Jena, Plauen and Auerbach.		
Market share/ positioning	MERKUR Bank's market share should be insignificant overall but in its core market Munich MERKUR Bank should be among the established players in its niche.	MERKUR Bank's market share in the German retail banking market insignificant.		
Drivers	Apart from the general macroeconomic development in Germany, the overall demand for housing in Munich and thus new construction activity is the key driver for MERKUR Bank's revenues.	We see two developments which should be beneficial for MERKUR Bank: 1) The ongoing branch closures of the market leaders (savings and mutual banks) should continue to be beneficial for MERKUR Bank as it should help it to further grow its assets under custody. 2) The low interest rate environment forces people to invest its assets into riskier assets which should be beneficial for banks/asset managers offering asset management services.		
Asset Quality	We do not have any NPL figures for MERKUR Bank but based upon the current very favorable housing market in Munich, particularly the high demand for new housing, and the company's statement we assume that NPLs are currently on low levels. Clearly, a deterioration of the housing market in Munich should lead to rising NPLs.			
Capitalization	With a CT 1 ratio of 10% (2018; Pareto estimate) and total capital ratio of 15.3% MERKUR Bank fulfills the regulatory requirements but capitalization, unlike in the years before the CT 1 ratio, is not a weak spot anymore for MERKUR Bank, i.e. the bank should be able to take advantage of future growth opportunities.			
Strategy & Guidance	Strategy: (I) MERKUR Bank intends to further increase its AuC to increase revenues in retail/private banking to become less dependent from the real estate business (II) Further improve its capitalization to be able to make use of the business opportunities in the housing market in Munich	Guidance 2019: no concrete earnings guidance published	Pareto Estimates EPS y/y: 0.67 9.1%	Consensus na na
2018	Revenues (EURm) 34.8 %y -2.4%	CIR 63.2%	Net Profit (EURm) 3.7 ROE 7.5%	EPS 5Y hist. CAGR 1.1%
New bus. & Portfolio Split				
Shareholder structure & management	CEO <u>Dr. Marcus Lingel</u> CEO & personal liability partner <ul style="list-style-type: none"> Dr. Lingel joined MERKUR Bank's management board in 2005 He joined MERKUR Bank in 2000 after having finished his studies and having worked for a large private bank in the corporate banking unit 	Board member <u>Claus Herrmann</u> <ul style="list-style-type: none"> Mr. Herrmann joined MERKUR Bank in 1999 and became a board member in 2002 Mr. Herrmann has gained bank experience in different savings banks and other mid-sized banks 	Shareholder structure 	
# of employees FY 2017	189			

Source: Pareto Securities Research

PROFIT & LOSS (fiscal year) (EURm)	2015	2016	2017	2018p	2019e	2020e
Net interest income	22	23	23	29	34	34
Net fee and commission income	10	10	12	7	3	3
Operating income	33	35	36	35	36	37
Staff costs	(13)	(13)	(13)	(14)	(14)	(14)
Other expenses	(9)	(9)	(10)	(8)	(8)	(8)
Depr.	(1)	(1)	(1)	-	-	-
Operating expenses	(23)	(23)	(24)	(22)	(23)	(23)
Operating profit before losses	10	11	12	13	13	14
Net loan losses	(2)	2	(0)	(0)	(1)	(1)
Pre-tax profit	8	13	12	13	13	13
Tax expense	(3)	(4)	(4)	(5)	(5)	(5)
Net profit	4	9	7	7	8	8
Minority interests	(2)	(6)	(4)	(4)	(4)	(4)
Net profit attributable	3	3	3	4	4	4
BALANCE SHEET (EURm)	2015	2016	2017	2018p	2019e	2020e
Current assets	72	121	141	98	141	146
Gross loans	813	847	888	1,155	1,178	1,201
Other assets and accruals	87	65	64	100	80	80
Total assets	973	1,033	1,094	1,353	1,398	1,427
Deposits from credit institutions	84	74	62	68	63	63
Deposits from the public	800	846	905	1,152	1,201	1,225
Certificates and bond loans	-	-	-	-	-	-
Other liabilities accruals and allocat.	19	26	32	31	30	32
Subordinated loan capital	31	41	46	52	52	53
Equity	39	46	48	50	52	54
Total debt and equity	973	1,033	1,094	1,353	1,398	1,427
Average total assets		1,003	1,063	1,223	1,375	1,412
PER SHARE DATA & VALUATION (EUR)	2015	2016	2017	2018p	2019e	2020e
Avg. no. of shares	5	5	6	6	6	6
End. no. of shares	5	6	6	6	6	6
Price	5.9	6.7	7.9	8.2	8.6	8.6
Market cap.	31	38	45	46	49	49
EPS reported	0.51	0.61	0.60	0.64	0.67	0.69
EPS adj.	0.51	0.61	0.60	0.64	0.67	0.69
BVPS	7.5	8.0	8.4	8.7	9.1	9.4
DPS	0.22	0.26	0.30	0.32	0.33	0.35
P/E	11.6	10.9	13.0	12.6	12.9	12.4
P/E adj.	11.6	10.9	13.0	12.6	12.9	12.4
P/B	0.8	0.8	0.9	0.9	0.9	0.9
Dividend Yield	3.7%	3.9%	3.8%	4.0%	3.9%	4.0%
KEY RATIOS	2015	2016	2017	2018p	2019e	2020e
Net interest margin	2.39%	2.30%	2.16%	2.39%	2.44%	2.42%
Net interest margin (int.-bearing assets)	2.63%	2.62%	2.53%	2.70%	2.72%	2.76%
Cost/Income	67%	64%	63%	63%	63%	63%
Loan losses (bps annualised)	0	(0)	0	0	0	0
ROE		7.5%	7.4%	7.5%	7.5%	7.5%
ROA	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
RORWA	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%

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Pareto Bank ASA	10,846,900	18.50%	Sparebanken Vest	4,507,960	7.64%

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NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,140,010	9.20%
Pareto Bank ASA	10,846,900	18.50%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,174,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,557,140	2.48%	Sparebanken Vest	4,507,960	7.64%
SpareBank 1Nord-Norge	1,040,659	1.04%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Jæren Sparebank	0	500	REC Silicon	0	157,742
Aker	0	682	Komplett Bank	0	104,934	SailMar	0	280
Aker BP	0	5,080	Kongsberg Gruppen	0	5,901	Sandnes Sparebank	0	19,782
Aker Solutions	0	1,825	KWS Saat	15	15	Scatec Solar	0	35,635
AKVA Group	0	1,500	Lerøy Seafood	0	34,795	Seadrill	0	8,661
Archer	0	72,770	Magesis Fairfield	0	12,379	Selvaag Bolig	0	5,000
Atea	0	450	Mono bank	0	1,371,000	SpareBank 1BV	0	17,700
Austevoll Seafood	0	5,780	Mowi	0	2,639	SpareBank 1Nord-Norge	0	25,000
Avance Gas	0	6,645	NEXT Biometrics	0	10,976	SpareBank 1Ringerike Had	0	500
Axactor	0	19,724	Nordic Semiconductor	0	6,000	SpareBank 1SMN	0	16,590
B2Holding	0	5,500	Norsk Hydro	0	126,295	SpareBank 1SR-Bank	0	29,391
Bonheur	0	55,209	Northern Drilling	0	6,060	Sparebank 1Østfold Akersl	0	450
Borr Drilling	0	4,685	Norwegian Air Shuttle	0	26,402	SpareBank 1Østlandet	0	4,042
BWLPG	0	5,569	Norwegian Energy Compan	0	400	Sparebanken Møre	0	6,550
DNB	0	35,132	Norwegian Property	0	150,000	Sparebanken Sør	0	43,280
DNO	0	29,377	Ocean Yield	0	32,967	Sparebanken Vest	0	1,900
Entra	0	14,362	Odfjell Drilling	0	8,649	Sparebanken Øst	0	1,500
Equinor	0	10,201	Okeanis Eco Tankers	0	1,886	Stolt-Nielsen	0	900
Europris	0	10,850	Orkla	0	24,176	Storebrand	0	5,005
Flex LNG	0	1,182	Panoro Energy	0	5,670	Subsea 7	0	6,684
Frontline	0	13,003	Pareto Bank	0	971,027	Telenor	0	2,311
Gjensidige Forsikring	0	8,623	Petroleum Geo-Services	0	57,884	TGS-NOPEC	0	2,050
Golden Ocean Group	0	1,824	Pioneer Property	0	2,050	XXL	0	11,115
Grieg Seafood	0	970	Prosafe	0	3,484	Yara International	0	19,516
Helgeland Sparebank	0	4,282	Protector Forsikring	0	15,385	Zenterio	0	78,865
Høegh LNG	0	6,085						

This overview is updated monthly (last updated 16.04.2019).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Africa Energy	Fortum	Odfjell Drilling
African Petroleum Corporation	Gfinity Plc	Okea AS
Akva Group	Gulf Keystone Petroleum	OkeanisEco Tankers
American Tanker	Hertha BSC GmbH	Panoro Energy
Andfjord Salmon	HKN Energy Ltd	Pareto Bank
APC Forsikringsmæglere A/S	Hunter Group	Petro Matad Limited
Arnarlax	Ice Group	Petroleum Geo-Services
Atlantic Sapphire AS	Instabank	Pioneer Public Properties Finland Oy
Avida Holding AB	Jactel AS	Point Resources AS
Bank Norwegian	Klaveness Ship Holding	Quant AB
Bluewater Holding	Lundin Petroleum	Rødovre Port Holding A/S
DNO ASA	Magseis	SAS
DOF ASA	McDermott International	Scatec Solar
Dof Subsea AS	Monobank ASA	Scorpio Tankers
Echo Energy	Nemaska Lithium	Shamaran Petroleum
Eco Atlantic Oil and Gas	NGEX Resources	Sparebank 1 Østlandet
Eland Oil & Gas	Northern Drilling	SpareBank1 Buskerud-Vestfold
FFS Bidco	Northmill Group AB	Sparebanken Vest
Flex LNG	Norwegian Air Shuttle	Union Maritime Limited
Floatel	Odfjell	Vantage Drilling

This overview is updated monthly (this overview is for the period 31.03.2018 – 31.03.2019).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	65%
Hold	31%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	93%
Hold	7%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 16.04.2019).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Azelio	Green Landscaping Holding	Magnolia Bostad	ShaM aran Petroleum
Climeon	Jetpak Top Holding AB	Sedana Medical	Vostok New Ventures

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universes:

Cavotec	Saltängen Property Invest	Sedana Medical	Tethys Oil
Cibus Nordic Real Estate	SciBase Holding	ShaM aran Petroleum	Vostok Emerging Finance
Isofol Medical			

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 15.04.2019).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Gesco *	Merkur Bank	SCOUT24
Aixtron *	GFT Technologies *	MLP *	Siemens Healthineers AG
Baywa	Gigaset *	MOBOTIX AG	SMT Scharf AG *
Biotest *	Heidelberg Pharma *	OVB Holding AG	Surteco Group *
Brenntag	Hypoport AG	Procredit Holding *	Szygy AG *
CORESTATE Capital Holding S.A.	init*	PSI SOFTWARE AG *	TAKKT AG
Demire	Intershop Communications AG	PWO *	Vapiano
Epigenomics AG*	Leifheit *	RIB Software *	va-Q-tec *
Euromicron AG *	Logwin *	S&T AG *	Viscom *
Eyemaxx Real Estate	Manz AG *	Schaltbau Holding AG	windeln.de
Freenet	MAX Automation SE *		

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return - receives compensation.

Adler Modemaerkte	Daldrup & Söhne	Intershop Communications AG	OVB Holding AG
Baywa	Eyemaxx Real Estate	Merkur Bank	Schaltbau Holding AG
BB Biotech	First Sensor	MOBOTIX AG	Siegfried Holding AG
comdirect	Hypoport AG	OHB SE	Vapiano

This overview is updated monthly (last updated 24.04.2019).