

Buy

Recommendation unchanged

Share price: EUR 6.07

closing price as of 04/11/2016

Target price: EUR 8.20

Target Price unchanged

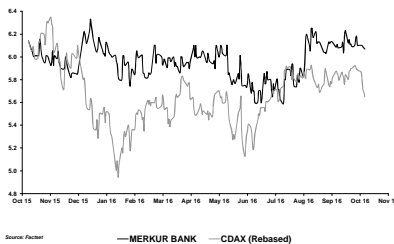
Reuters/Bloomberg

MBKG.DE/MBK.GY

Market capitalisation (EURm)	31
Current N° of shares (m)	5
Free float	65%

Daily avg. no. trad. sh. 12 mth	1
Daily avg. trad. vol. 12 mth (m)	6
Price high 12 mth (EUR)	6.33
Price low 12 mth (EUR)	5.59
Abs. perf. 1 mth	-0.26%
Abs. perf. 3 mth	7.66%
Abs. perf. 12 mth	0.80%

Key financials (EUR)	12/15	12/16e	12/17e
Total Revenue (m)	33	33	33
Pre-Provision Profit (PPP) (m)	9	10	10
Operating profit (OP)	7	8	8
Earnings Before Tax (m)	6	6	6
Net Profit (adj.) (m)	3	3	3
Shareholders Equity (m)	39	40	42
Tangible BV (m)	39	40	42
RWA (m)	718	832	832
ROTE	6.8%	7.1%	7.3%
Total Capital Ratio (B3)	10.4%	9.8%	10.2%
Cost/Income	64.4%	63.4%	63.7%
NPL ratio (gross)	0.0%	0.0%	0.0%
P/PPP	3.3	3.1	3.1
P/E (adj.)	11.8	11.1	10.5
P/BV	0.8	0.8	0.7
P/TBV	0.8	0.8	0.7
Dividend Yield	3.6%	3.8%	4.0%
PPPPS	1.80	1.94	1.95
EPS (adj.)	0.50	0.55	0.58
BVPS	7.51	7.83	8.16
TBVPS	7.51	7.83	8.16
DPS	0.22	0.23	0.24



Source: Factset
Shareholders: Magnus 25%; HEGE 10%;

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Strong Q3 pretax profit pave way for new record result

The facts: Yesterday afternoon Merkur Bank reported particularly strong Q3 results on a pretax profit level (+274% yoy) which came in well above our forecast due to higher than expected revenues and a release of risk provisions. Net profit increased by 1% yoy to EUR 1.01m which was also better than expected (EUR 0.88m). The CEO sees good chances to realize the planned capital increase this year without negatively impacting the shares' underlying value. Furthermore the bank sticks to its payout ratio of up to 50%.

Our analysis:

Total revenues increased by 19% yoy to EUR 9.03m (equinet: EUR 8.54m), a higher commission income (+29% yoy) was the main driver. According to the CEO the bank benefited from a strong new business development in the real estate developer segment. The net interest income increased by 10% yoy to EUR 5.96m. Expenses remained stable yoy at EUR 5.34m and were thus slightly below our forecast. Merkur Bank released risk provisions of EUR 2.45m in Q3 to bolster its capital position. Thus, pretax profit almost tripled to EUR 6.13m. Net profit increased by only 1% yoy to EUR 1.01m as MB booked \$ 340g reserves of EUR 4m.

Quarterly Earnings Development

	Q2 2016	Q3 2016	Q3 2016e	yoy
Total revenues	8.29	9.03	8.54	19%
of which Net Interest Income	5.78	5.96	5.84	10%
of which Commission Income	2.67	3.33	2.70	29%
Total expenses	5.43	5.34	5.50	0%
Risk provisions	0.35	-2.45	0.40	nm
Pretax profit	2.52	6.13	2.64	274%
Taxes	0.86	1.12	1.06	75%
\$340g HGB reserves	0.80	4.00	0.70	
Net Profit	0.86	1.01	0.88	1%

Sources: Merkur Bank, equinet

MB's assets under custody increased by 19% (since 12 2015) to EUR 254m, the loan volume went up by 9% to EUR 886m, underlining the very good business development during 2016.

Conclusion & Action: MERKUR Bank reported strong 9M results and is thus well on track to achieve a new record result.

We stick to our Buy recommendation with a target price of EUR 8.20 for the following reasons: With an adjusted ROE of 9% MERKUR Bank has an above average profitability while offering a dividend yield of almost 4% for 2016e. Shares are trading below book value at a 2017e P/B of 0.7x. Importantly, the CEO is a personally liable partner and should therefore be highly committed to the bank and make sure that the bank pursues a cautious and risk adverse strategy. We do not see the planned capital increase negatively as it would enable Merkur Bank to continue to benefit from the favourable market environment while preparing the bank for the tougher capital rules.