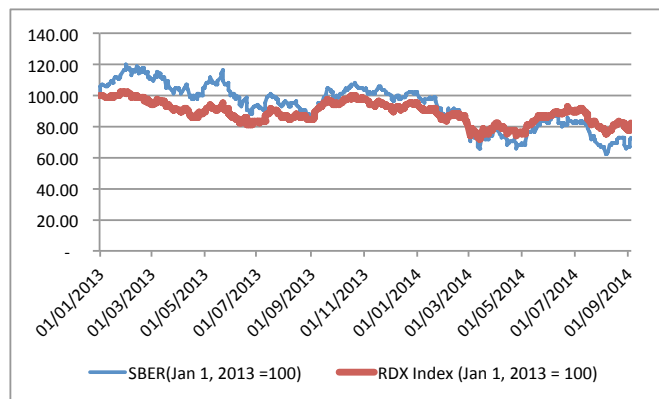


# Sberbank

Price (local)	RUB77.9
Market cap	USD 43.9 bln
Avg daily turnover (local)	USD 260 mln

	2014	2015
P/E	4.9	4.4
P/B	0.8	0.7



## COMPANY DESCRIPTION

Sberbank is Russia's largest bank, with about 46% of retail deposits, and about 34% of all loans, retail and corporate. It has about 110 million retail clients out of a total population of about 143 million. The company has turned around under new management since 2007, when German Gref left his job as Putin's main economic advisor to take over. Total assets have grown 156% in the last five years, and 2013 profits were about 14 times higher than in 2009, and double those of 2010.

## WILL MISS LOAN GROWTH GUIDANCE THIS YEAR

Growth is weaker than promised - the company guided 12% corporate loan book growth in 2014, and 20% retail growth, but has so far only delivered 8.8% for corporate and 4.6% for retail respectively in 1H14. This is due to the weakness in the overall economy, although VTB grew its loan book faster. For the top 100 banks, total loans grew 7.8% in 1H14.

## POOR GROWTH OUTLOOK

There are few signs that lending is picking up. Part of the reason is that the banks themselves are tightening standards on the retail book. Corporate growth is sluggish because the economy is weak - the World Bank forecasts 0.3% GDP growth in 2015. Sberbank and VTB will do better than the economy as they can boost market share, especially with borrowers who lose access to foreign funding. So far Sberbank has been better than VTB in avoiding making loans to lame duck state-owned enterprises, but this is a risk for the future.

## MARGINS ARE STEADY, AND THE HIGHEST IN RUSSIA

After a scare earlier this year, its cost of risk in 2Q14 at 200 bps is now below its high of 220 bps, although well above the customary level closer to 100 bps (which are in any case the lowest in the industry in Russia - VTB in 2Q14 had 250 bps). Net interest margin in 2Q14 was steady at 5.7%, helped by cheap funding and flat interest rates (vs 4.3% for VTB).

## DIRECT SANCTION THREAT IS SMALL

Sberbank is not dependent on foreign funding - only about 7% of its balance sheet is financed from abroad. It will benefit from increased domestic deposits, assuming capital is repatriated, and as weaker banks are closed by the Central Bank as part of its cleanout campaign. Any shortfall can be replaced by government and Central Bank deposits. Sberbank's foreign operations are minimal, and the major damage from sanctions comes from economic and confidence weakness.

## RECOMMENDATION

Sberbank has a fair value of about RUB 110, based on a dividend discount model that assumes it maintains its 20% payout ratio and 20% ROE, with loan book growth of about 10%, and a discount rate of 15%. This makes it an overweight relative to the Russian market. However the Russian market is threatened by political factors, so the stock price will likely fall in the short term. Absolute basis recommendation is SELL, but a long versus a short position in the RTS.