



# Bank Saint-Petersburg

Company  
Note

**HOLD**

**Upside: 1%**  
**Target Price: \$5.37**

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## Stock data

Ticker	STBK, STBKP	M.Cap, \$ mn	1,498
Shares Ords	282,200,000	Free Float, %	25
Shares Prefs	20,100,000	Free Float, \$ mn	375
Bid Ords, \$	5.26	Offer Ords, \$	5.35

## Market performance

		1 month	6 months
Absolute	Ords	-0.4%	68.3%
Relative to RTSI	Ords	-5.7%	48.4%
Price range, \$			
High	Ords	5.10	3.15
Low	Ords	5.40	5.65

## Financials, 2007E

Assets, \$ mn	4,360	ROE	20.0
Book Value, \$ mn	601	P/E	19.4
Net income, \$ mn	77	P/BV	2.5

## Positive 9M07 results, increased transparency

- On December 19, BSPb published its 9M07 IFRS results.
- The results demonstrate that the bank has maintained the rapid 2005-06 and 1H07 growth rates of its business. Its asset growth rate (60% YTD) is twice as fast as the aggregate growth rates in the Russian banking sector. The bank is highly profitable (with a ROE of about 30.5%). Its credit portfolio has grown at a rate of 86% YTD. At the same time, the credit quality of its portfolio is unusually high with NPL of about 0.4%. Its efficiency ratio (Cost/Income) has fallen from 43% in 2006 to 37%, which is a very good level for Russian banks.
- The bank's net interest income declined slightly (according to our estimate, from 6.4% in 1H07 to 6.1%) due to increased market competition and higher funding costs.
- Customer deposits (amounting to about 81% of its liabilities) constitute the bank's principal funding source. In our opinion, this gives it a substantial advantage in terms of the growing instability of global financial markets. At the same time, the bank can successfully borrow funds on global markets and plans to raise \$1 bn over the next three years.
- The bank's annualised 9 months results closely match our expectations, whilst the growth of its credit and deposit portfolios has exceeded our forecasts. We have adjusted our model, taking into account the bank's 9M07 results, its guidance for 2007-09, and the change in our market forecasts. Our net income forecast increased by 3% for 2007 and by 7-11% in 2008-10.
- We appreciate the progress made by the bank in terms of information transparency, including initiating the regular publication of IFRS quarterly results, its first conference call, and improvements on its web-site's structure and content. Therefore, we have lowered our estimate of the transparency premium from 0.5% to 0.25%.
- In our 2008 year-end target price of the bank's common shares (as opposed to our previous 2007 year-end target price) we have taken into account the adjustments mentioned above. We **raise** our target price (2008 year-end) from **\$4.50** to **\$5.37**, giving potential upside of 1% for the bank's common shares and maintain our **HOLD** recommendation.



During its first conference call, the bank announced following ambitious objectives for 2007-09:

- To increase its market share of banking assets in the S-Petersburg region from 8.4% (on 01 November 2007) to 10-11%.
- To almost double its assets (from \$3.9 bn to \$8 bn).
- To open at least 30 new offices in S-Petersburg and 2 branches outside the city, and expand its ATM network to 450.
- To expand its retail client base from 550,000 to 825,000
- To increase its retail credit portfolio from \$248 mn to \$1.1 bn and to raise the proportion of retail loans from 8% to 20-25%.

We appreciate the progress made by the bank in terms of information transparency, including initiating the regular publication of IFRS quarterly results, its first conference call, improvements on its web-site's structure and content. We have adjusted our model, taking into account the bank's 9Mo7 results, its guidance for 2007-09, and the change in our market forecasts. Our net income forecast increased by 3% for 2007 and by 7-11% between 2008-10.

**Table 1 – Projected income statement, \$ mn**

	2005	2006	2007E	2008E	2009E	2010E
Interest income on loans	93	161	339	531	678	824
Interest expenses	-33	-61	-169	-273	-343	-412
<b>Net interest income</b>	<b>60</b>	<b>100</b>	<b>170</b>	<b>257</b>	<b>335</b>	<b>412</b>
Provisions for loan impairment	-17	-18	-35	-33	-34	-35
<b>Net interest income after provision for loan impairment</b>	<b>43</b>	<b>82</b>	<b>136</b>	<b>224</b>	<b>301</b>	<b>377</b>
Net fee and commission income	14	21	31	45	63	80
<b>Operating income</b>	<b>68</b>	<b>114</b>	<b>185</b>	<b>299</b>	<b>404</b>	<b>508</b>
Operating costs	-40	-56	-83	-133	-184	-234
<b>Profit before tax</b>	<b>28</b>	<b>58</b>	<b>102</b>	<b>166</b>	<b>220</b>	<b>275</b>
Profit tax	-6	-14	-24	-40	-53	-66
<b>Net profit</b>	<b>22</b>	<b>44</b>	<b>77</b>	<b>127</b>	<b>167</b>	<b>209</b>

Source: Company data, SOVLINK forecast

**Table 2 – Projected balance sheet, \$ mn**

	2005	2006	2007E	2008E	2009E	2010E
Cash and cash equivalents	158	333	349	415	540	674
Mandatory reserves	17	29	78	107	139	173
Securities	116	283	436	593	925	1,445
Loans to other banks	73	70	22	119	154	193
Loans and advances to customers	662	1,508	3,314	4,447	5,627	6,841
Fixed assets	48	61	131	160	193	222
Other assets	7	16	31	89	131	87
<b>Total assets</b>	<b>1,082</b>	<b>2,301</b>	<b>4,360</b>	<b>5,930</b>	<b>7,708</b>	<b>9,636</b>
Bank credits and deposits	45	29	38	62	68	86
Customer deposits	814	1,700	3,045	4,060	5,291	6,544
Own debt securities	98	267	383	573	819	1,112
Other borrowings	1	124	252	469	614	770
Other liabilities	8	10	41	42	34	43
<b>Total liabilities</b>	<b>967</b>	<b>2,130</b>	<b>3,759</b>	<b>5,206</b>	<b>6,827</b>	<b>8,555</b>
<b>Total shareholders' equity</b>	<b>115</b>	<b>171</b>	<b>601</b>	<b>724</b>	<b>881</b>	<b>1,081</b>

Source: Company data, SOVLINK estimates

**Table 3 – Financial ratios**

	2005	2006	2007E	2008E	2009E	2010E
P/E	56.5	28.7	19.8	12.1	9.1	7.3
P/BV	10.9	7.3	2.5	2.1	1.7	1.4
ROE	24.3%	30.6%	20.0%	19.1%	20.8%	21.3%
ROA	2.6%	2.6%	2.3%	2.5%	2.5%	2.4%
Cost/Income	47%	43%	38%	40%	42%	43%
Fees & commission / operating income	20%	19%	17%	15%	15%	16%
Net interest income (after loan impairment provisions) / operating income	63%	72%	73%	75%	75%	74%
Provisions / Loans	5.8%	3.9%	2.8%	2.8%	2.8%	2.8%
Earning asset yield	13.9%	11.8%	12.0%	11.9%	11.4%	10.9%
Cost of liabilities	-4.7%	-3.9%	-5.8%	-6.2%	-5.7%	-5.4%
Net interest spread	9.2%	7.9%	6.3%	5.7%	5.7%	5.5%
Net interest margin	8.9%	7.4%	6.0%	5.8%	5.6%	5.4%

Source: Company data, SOVLINK estimates

### Valuation of ordinary shares

We have estimated the bank's fair value based on the modified Gordon growth model (Target P/BV), where  $(P/BV = (ROE - g) / (r - g))$ . We have continued to assume a terminal ROE rate of 19%, and a terminal growth rate of 6%. However, we have lowered the discount rate used from 13.34% to 13.08% due to lowering our transparency premium from 0.5% to 0.25%.

<b>Risk-free rate in Russia</b>	<b>5.62%</b>	Russian-30 YTM
Risk premium for investments on the US stock markets	4.36%	Historical for the period from 1929 to 2005
Sovereign risk premium for Russian equity	1.65%	Based on Russia's sovereign credit rating and adjustments for excessive risk of investments in shares as opposed to Eurobonds
<b>Russian equity risk premium</b>	<b>6.0%</b>	
Beta	0.95	
<b>Risk premium for investment in the company</b>	<b>5.71%</b>	
<b>Liquidity premium</b>	<b>1.50%</b>	
<b>Transparency &amp; Disclosure premium</b>	<b>0.25%</b>	
<b>Cost of equity</b>	<b>13.08%</b>	

	2006	2007E	2008E	2009E	2010E
Shareholders' equity, \$ mn	171	601	724	881	1,081
Net profit	44	77	127	167	209
Equity value				13.08%	13.08%

Applying the Gordon model we obtain a target P/BV-2010F of 1.84. Taking the forecast BV-2010 equal of \$1,081 mn, we obtain the bank's fair value at the end of 2010 to be P-2010=\$1,985 mn.



Having discounted the value as at the end of 2008, we obtain P-2008=\$ 1,552 mn, with a target price of \$5.37 per share at the end of 2008.

Terminal ROE rate	19.0%
Terminal growth rate	6.0%
Target P/BV-2010	1.84
Fair value of equity (P-2010), \$ mn.	1,985
Discount rate	13.08%
<b>Fair value of equity at the end of 2008, \$ mn</b>	<b>1,552</b>
Ordinary shares after SPO, mn.	282.2
Preferred shares, mn.	20.1
Total shares (adjusted)	289.03
<b>Fair value of 1 ordinary share, \$</b>	<b>5.37</b>
Fair value of 1 ordinary share at the end of 2008, \$	<b>5.37</b>
Market value of 1 ordinary share (20.12.2007)	<b>5.30</b>
Upside, %	<b>1.3%</b>
Recommendation	<b>HOLD</b>

We therefore **raise** our target price (2008 year-end) from **\$4.50** to **\$5.37**, giving potential upside of 1% for the bank's common shares and maintain our **HOLD** recommendation.



## STOCK RATING POLICY

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<b>STRONG BUY:</b>	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
<b>BUY:</b>	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
<b>HOLD:</b>	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
<b>SELL:</b>	Target price at or below current price levels

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