



Sberbank

**Investment
Alert****BUY****Upside: 34%****Target Price: \$5.2****Analyst: Olga Belenkaya**

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Stock data

Ticker	Sber	M.Cap, \$ mn	85,337
Shares Ords '000	21,586,948	Free Float, %	40
Shares Pref '000	1,000,000	Free Float, \$ mn	34,134
Bid Ords, \$	3.80	Offer Ords, \$	3.84
Bid Prefs, \$	2.40	Offer Prefs, \$	2.60

Market performance

		1 month	6 months
Absolute	Ords	-8.8%	-10.3%
Relative to RTSI	Ords	2.6%	-9.5%
Price range, \$			
High	Ords	4.35	4.42
Low	Ords	3.66	3.53

Financials, 2007E

Assets, \$ mn	192,593	ROE	21.0%
Book Value, \$ mn	25,229	P/E	21.5
Net income, \$ mn	3,858	P/BV	3.3

9M07 IFRS results: expenses continue to grow faster than income

• On January 25, Sberbank released its interim 9M07 IFRS results. Net profit is 6% below our estimates and the consensus forecast, which has turned out to be the main disappointment for the market.

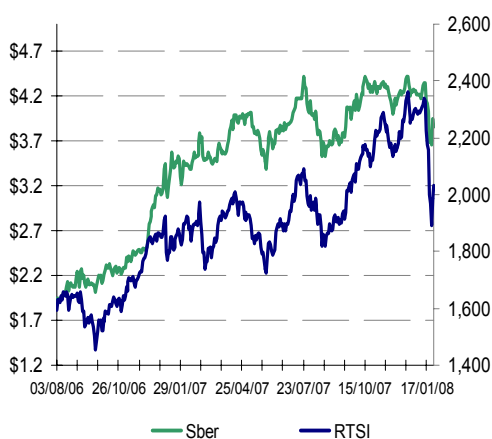
• As compared to 2Q07 (q-o-q), net profit grew by only 8.4% and slowed to 22% vs. 9M06. Such results cast doubts on the bank's ability to earn net profits of greater than RUR 100 bn (IFRS) by the end of the year, which (until recently) was also our forecast (versus RUR 95 bn conservatively forecast by the bank).

• Whilst, operating income (net interest and fee and commission income) has grown rapidly, because of the credit crunch in global financial markets which impacted Russian companies in 3Q07, the bank recorded a RUR 2.7 bn loss from trading securities – this, in turn, which slowed the rate at which its operating income grew.

• Although its operating income turned out to be close to our expectations, operating expenses exceeded our expectations by 7%. The bank's cost/income ratio remained at the previous fairly high level of 58%. Top management's remuneration grew at a rapid pace (by 63% over 9 months and 4.7 times for the quarter). However, this alone, does not explain the higher growth rate of the bank's expenses.

• However, in our opinion, the results are not excessively negative. On the positive side, the bank managed to improve its net interest margin indicator by restructuring its asset portfolio in a tough environment: the liquidity crunch, weakening retail growth and the outflow of corporate deposits. In spite of asset growth slowing to 5.6%, the bank managed to replace the lower yielding securities in its portfolio by more profitable loans. Loans as a % of assets climbed to 76%, with its loan portfolio growing by over 20% by the end of the quarter. This has laid the ground for steady growth of its interest income in future.

• Based on the interim report, we might reduce our net profit estimates for 2007 from RUR 103-105 bn to RUR 95-98 bn. Yet, despite the fact that the bank's net profit did not meet consensus forecasts, the bank's asset structure has improved, which should provide for stable growth of its operating income in 2008, which is expected to be a tough year for the banking sector. The bank's main advantage is its strength against the key risk factors (credit and exchange risks, deteriorating funding conditions, and the liquidity crunch), which is essential, given the moderate overall decline forecast for the financial sector. Currently, our year-end target price is **\$5.2**, giving potential upside of 34% from current prices and we reiterate our **BUY recommendation**; however, we plan to update our valuation based on the recently released financial results and details of the conference call.

Sberbank – Relative performance

Source: RTS



On January 25, Sberbank released its interim 9MO7 IFRS results.

Initially the market was disappointed – net profit (RUR 69.9 bn) was 6% lower than our estimate of RUR 74.67 bn and the consensus forecast of RUR 74.5 bn. Net profit grew by only 8.4% vs. 2Q07 (q-o-q), although Sberbank usually shows strong results in Q3. Over 9 months, net profit growth amounted to 22.1% (y-o-y). Such results cast doubts on the bank's ability to earn net profits of over RUR 100 bn (IFRS) by year-end, which (until recently) was also our net profit forecast (versus RUR 95 bn conservatively forecast by the bank).

Whilst, operating income growth (net interest and fee and commission income) was quite strong and came close to matching our preliminary forecast. Thus, the bank's net interest income increased by 30% (q-o-q), and net fee and commission income by 26%. Yet, the credit crunch prevalent on global financial markets, which impacted Russian companies in 3Q07, has restricted the bank's ability to profit from the stock market. In 3Q07, the bank recorded a RUR 2.7 bn loss on its securities portfolio vs. a profit of RUR 4.8 bn in 3Q06.

Nevertheless, its operating income turned out to be 1% higher than our expectations; however its operating expenses exceeded our estimates by 7%. As a result, its cost/income ratio remained at the previous fairly high level of 1H07 (58%), although the bank's management attributed the faster growth of expenses in 2Q07 to non-recurring factors and forecast a decline in its cost/income ratio to 55% in 2H07. This, in our opinion, explains the relatively weak growth of its net profit. (Top management's remuneration jumped higher in 3Q07 (to RUR 472 mn vs. RUR 101 mn in 3Q06). However, it has an insignificant impact on the bank's higher total expenses.)

Further analysis shows that the report also contains some positive aspects. The bank managed to improve its net interest margin indicator by restructuring its asset portfolio in a tough market environment: the liquidity crunch, weakening retail growth and outflow of corporate deposits. In spite of decelerating asset growth, the bank replaced its portfolio of low-yield securities by more profitable loans. Loans as a % of assets climbed to 76%, with its loan portfolio growing in excess of 20% by the end of the quarter. This, in management's view (expressed by former first deputy Aleshkina at the end of October) has laid the ground for steady growth of the bank's interest income in future. The bank's corporate loan portfolio grew rapidly, whilst its share of retail loans decreased.

Low credit risks enabled the bank to lower its provisions from 3.3 to 2.8%, as anticipated by us, by the year-end. This further improved the bank's revenue trend.

Furthermore, in October, the bank sold about 10% of its securities portfolio with profits of RUR 19 bn, which will be reflected in its 4Q07 reports.

Additional operating expenses are expected to peak in 4Q07 which the bank's management announced earlier – this is due to changes in the bank's accounting policy (recording its 2008 expenses in the last quarter of 2007) and contingent (if approved by the new management) bonuses.

Based on the interim report, we might lower our 2007 net profit forecasts from RUR 103-105 bn to RUR 95-98 bn. Yet, despite net profit not meeting the consensus forecast, the bank's asset structure has improved, which should provide stable growth of its operating income in 2008, which is expected to be a tough year for the banking sector. The bank's main advantage lies in its strength against the key risk factors (credit and exchange risks, deteriorating funding conditions, and the liquidity crunch), which is essential given the moderate overall decline in forecasts for the financial sector. Currently, our year-end target price is **\$5.2** on the bank's ordinary shares and we reiterate our **BUY recommendation**; however, we plan to update our valuation model based on the recently released financial results and details of the conference call.



Table 1 – Balance sheet summary 9Mo7 IFRS, mn RUR

	As of 01.10.2007	Consensus	SOVLINK estimates	Difference from SOVLINK estimates	As at the beginning of 2007	Changes since the beginning of the year for 9M07 (YTD), %	Changes for 1Q07 (q-o-q), %	Changes for 2Q07 (q-o-q), %	Changes for 3Q07 (q-o-q), %
Assets	4,520,466	4,394,000	4,363,376	4%	3,466,673	30%	13.6%	8.8%	5.6%
Loans to customers	3,453,768	3,227,000	3,208,515	8%	2,541,617	36%	3.9%	8.7%	20.3%
Loans/assets, %	76.4%	73.4%	73.5%		73.3%				
Retail loans	835,180		867,000	-4%	665,221	26%	3.6%	14.4%	5.9%
As % of loan portfolio	24.2%		27.0%		26.2%				
Securities	571,202		423,422		474,686	20%	48.8%	6.4%	-24.0%
As % of assets	12.6%		9.7%		13.7%				
Retail deposits	2,457,241		2,458,729	0%	2,046,035	20%	6.0%	7.6%	5.3%
As % of liabilities	62.7%		65.4%		64.8%				
Corporate deposits	998,846		997,760	0%	782,789	28%	11.6%	18.4%	-3.5%
As % of liabilities	25.5%		26.6%		24.8%				
Equity	600,712		606,561	-1%	308,524	95%	83.3%	2.2%	4.0%

Sources: company's reports, SOVLINK estimates

Table 2 – Income statement 9Mo7 IFRS, mn RUR

	9M07	Consensus	SOVLINK estimates	Difference from SOVLINK estimates	Difference from consensus	9M06	9M07/9M06, change %	3Q07	3Q06	3Q07/3Q07, change %
Interest income	304,084		300,355	1%		227,543	33.6%	111,711	83,361	34.0%
Interest expenses	-127,092		-128,591	-1%		-86,624	46.7%	-45,705	-32,583	40.3%
Net interest income	176,992	174,900	171,764	3%	1%	140,919	25.6%	66,006	50,777	30.0%
Net interest income after provision for loan impairment	172,964		168,068	3%		130,300	32.7%	62,380	47,593	31.1%
Net fee and commission income	45,671		46,212	-1%		35,423	28.9%	16,649	13,206	26.1%
Operating income	225,045		222,850	1%		182,913	23.0%	78,284	65,975	18.7%
Operating expenses	-133,767		-124,601	7%		-106,506	25.6%	-48,448	-38,620	25.4%
PBT	91,278		98,250	-7%		76,407	19.5%	29,836	27,355	9.1%
Net profit	69,922	74,500	74,670	-6%	-6%	57,272	22.1%	21,931	20,235	8.4%

Sources: company's reports, SOVLINK estimates



Табл. 3 – Profit ratios, %

	9M07	1H07	1Q07	2Q07	3Q07
Asset yield	11.5%	11.4%	11.3%	11.4%	11.5%
Cost of funding	-4.8%	-4.8%	-4.7%	-5.0%	-4.9%
Net interest spread	6.6%	6.6%	6.6%	6.5%	6.6%
Net interest margin	6.7%	6.6%	6.6%	6.6%	6.8%
Net interest income after loan impairment provision / Net operating income	76.9%	75.3%	76.7%	74.2%	79.7%
Net fee and commission income / Net operating income	20.3%	19.8%	19.6%	20.0%	21.3%
ROE	20.5%	21.7%	24.5%	14.8%	14.9%
ROA	2.3%	2.5%	2.9%	2.4%	2.0%
Cost / Income	58.4%	58.0%	51.7%	63.4%	59.1%

Sources: company's reports, SOVLINK estimates



STOCK RATING POLICY

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

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