



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

April 30, 2008

# Sberbank

Investment  
Alert

**BUY**

**Upside: 57%**

**Target price: \$5.07**

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## Stock data

Ticker	Sber	M.Cap, \$ mn	69,941
Shares Ords '000	21,586,948	Free Float, %	40
Shares Pref '000	1,000,000	Free Float, \$ mn	28,000
Bid Ords, \$	3.20	Offer Ords, \$	3.28
Bid Prefs, \$	1.99	Offer Prefs, \$	2.08

## Market performance

		1 month	6 months
Absolute	Ords	3.8%	-24.8%
Relative to RTSI	Ords	0.1%	-20.3%
Price range, \$			
High	Ords	3.36	4.42
Low	Ords	3.11	3.10

## Financials, 2007

Assets, \$ mn	200,766	ROE	22.5%
Book Value, \$ mn	25,955	P/E	16.8
Net income, \$ mn	4,165	P/BV	2.7

## 2007 IFRS Results – Net profit beats expectations

- On April 29, Sberbank released its 2007 IFRS report. The bank beat market expectations and its own estimates with a 28.6% increase in 2007 net profit, which climbed to RR106.5 bn. The bank succeeded in boosting its ROE, ROA and interest margin in 4Q07 due to a substantial increase in corporate deposits.

- Nevertheless, growth of revenues from operating activities came close to meeting our preliminary forecasts. Net interest income grew by 29.9%, which is 5% higher than our estimates, and net fee & commission income by 31.6%, which is 1% higher than our estimates. Accordingly, operating income exceeded our estimates by 6% with growth of 32% on an annual basis. Non-recurring items, which contributed to the rise in operating income in 4Q07 included the sale of a large block of shares for RR19.4 bn, as well as one-time gains from securities and foreign currency trading.

- The bank's operating income grew by 35%, which is slightly higher than our expectations and the preliminary estimates of the bank in January (+30%). Management has repeatedly warned of the bank's anticipated high expenditures in 4Q07 due to changes in accounting procedures, and yet, expected expenses to decline significantly in 2008. Now, management admits expenses will grow at the same rate in 2008 as in 2007, and that the impact of cost optimization will take effect in 2009.

- We were surprised by the expansion of the bank's provisions for impaired loans in 4Q07. Whereas provisions in 9M07 amounted to only RR4 bn, for 2007, provisions soared to RR17.6 bn. Provisions as a proportion of the bank's loan portfolio ratio remained at the same level (2.8%), although earlier the bank's management had predicted that it would decline. As to the bank's policy towards provisions, Deputy Board Chairman Anton Karamzin explained the bank's policy towards provisions by mentioning the deterioration in macroeconomic factors, credit risks and some bad loans issued by the previous management, which may result in losses in the future. We believe that such broad media coverage of the bank's bad loans, which were previously issued in some bank branches, does not correspond to the scale of the announced losses and may affect Sberbank's image as one of the most reliable financial institution in Russia.

- On the whole, we positively view the bank's 2007 report, as well as its preliminary 1Q08 results. Nonetheless, we may revise our net profit forecasts for 2008 as a result of the forecast slowdown in the growth rate of the bank's business stemming from its high base level, instability prevalent on global financial markets, uncertainty regarding the bank's capability to preserve its high interest margin, the formation of a new strategy by the new management team in its transition phase, and significantly higher operating expenses forecast by management. The minimum level of RAS net profit (RR130 bn) in 2008 forecast by German Gref implies only 12% growth this year.

- Our current year-end target price is **\$5.07**, which implies a **BUY recommendation**.

## Sberbank- Relative performance



Source: RTS

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**Table 1 – Balance sheet summary 2007 IFRS, mn RUR**

	As of 01.01.2008	Consensus	SOVLINK estimates	Difference from SOVLINK estimates	Difference from Consensus	As at the beginning of 2007	Changes 2007/2006, %	Changes for 4Q07 (q-o-q), %
Assets	4,928,808	4,821,000	4,922,676	0%	2%	3,466,673	42%	9.0%
Loans to customers	3,921,546	3,836,000	3,854,086	2%	2%	2,541,617	54%	13.5%
Loans/assets, %	79.6%	79.6%	78.3%			73.3%		
Retail loans	945,928		958,804	-1%		665,221	42%	13.3%
As % of loan portfolio	24.1%		24.9%			26.2%		
Securities	503,339		514,082	-2%		474,686	6%	-11.9%
As % of assets	10.2%		10.4%			13.7%		
Retail deposits	2,681,986		2,640,928	2%		2,046,035	31%	9.1%
As % of liabilities	62.5%		65.4%			64.8%		
Corporate deposits	1,195,634		1,161,633	3%		782,789	53%	19.7%
As % of liabilities	27.9%		26.6%			24.8%		
Equity	637,197		625,766	2%		308,524	107%	6.1%

Sources: Company reports, SOVLINK estimates

**Table 2 – Income statement 2007 IFRS, mn RUR**

	2007	Consensus	SOVLINK estimates	Difference from SOVLINK estimates	Difference from consensus	2006	2007/2006, change %
Interest income	426,866		421,662	1%		317,646	34.4%
Interest expenses	-175,905		-180,360	-2%		-122,030	44.1%
Net interest income	252,761	247,900	241,302	5%	2%	195,616	29.2%
Net interest income after provision for loan impairment	235,128		231,243	2%		181,765	29.4%
Net fee and commission income	65,875		65,379	1%		50,076	31.6%
Operating income	335,513		316,058	6%		254,160	32.0%
Operating expenses	-195,764		-188,682	4%		-145,140	34.9%
PBT	139,749	134,900	127,376	10%	4%	109,020	28.2%
Net profit	106,489	102,800	96,806	10%	4%	82,804	28.6%

Sources: Company reports, SOVLINK estimates



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**Table 3 – Profitability ratios, %**

	2007	9M2007	2007H1	2007Q1	2007Q2	2007Q3
Asset yield	11.5%	11.5%	11.4%	11.3%	11.4%	11.5%
Cost of funding	-4.8%	-4.8%	-4.8%	-4.7%	-5.0%	-4.9%
Net interest spread	6.7%	6.6%	6.6%	6.6%	6.5%	6.6%
Net interest margin	6.8%	6.7%	6.6%	6.6%	6.6%	6.8%
Net interest income after loan impairment provision / Net operating income	70.1%	76.9%	75.3%	76.7%	74.2%	79.7%
Net fee and commission income / Net operating income	19.6%	20.3%	19.8%	19.6%	20.0%	21.3%
ROE	22.5%	20.5%	21.7%	24.5%	14.8%	14.9%
ROA	2.5%	2.3%	2.5%	2.9%	2.4%	2.0%
Cost / Income	55.4%	58.4%	58.0%	51.7%	63.4%	59.1%

Sources: Company reports, SOVLINK estimates



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## 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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