



Sberbank

Investment
Alert

BUY

Upside potential: 76%

Target price: \$4.97

Analyst: Olga Belenkaya
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Conference call and meeting with analysts

Stock data

Ticker	Sber	M.Cap, \$ mn	60,875
Shares Ords '000	21,586,948	Free Float, %	40
Shares Pref '000	1,000,000	Free Float, \$ mn	24,350
Bid Ords, \$	2.82	Offer Ords, \$	2.93
Bid Prefs, \$	1.60	Offer Prefs, \$	1.80

Market performance

		1 month	6 months
Absolute	Ords	-13.0%	-26.0%
Relative to RTSI	Ords	5.2%	-20.4%
Price range, \$			
High	Ords	3.33	3.81
Low	Ords	2.82	2.82

Financials, 2008E

Assets, \$ mn	269,050	ROE	20.2%
Book Value, \$ mn	31,123	P/E	10.8
Net income, \$ mn	5,655	P/BV	2.0



Source: RTS

- Sberbank's management discussed its 1Q08 IFRS results in a conference call and meeting with analysts on July 28-29.

- The bank forecast 2008 net profit of about RUR 130 bn (RAS), with potential variance from IFRS figures by +/- RUR 5 bln).

- Management said that it will be focusing on controlling costs and expects to restrict cost growth to 20-22% by the end of the year (against 56% in 1Q08 or 40% - excluding the effect of 2007 benefits, which were approved in 1Q08). Management believes that increased productivity – achieved through improving business processes, advancing customer service technologies, reducing labor costs, upgrading IT systems and enhancing the functionality of ATMs – will play a key role in reducing costs.

- A clear leader in the retail deposits market, Sberbank is concerned with the reduction of its market share in this segment and intends to focus on stabilizing its losses and, where possible, regaining market share – without raising interest rates on deposits. It intends to achieve this primarily by improving its deposits product line and launching a brand promotional campaign, presenting Sberbank as the most reliable financial institution in Russia.

- The bank plans to maintain its target ROE level at not less than 20% (in 1Q08 its ROE was slightly lower). Shareholders' equity could grow by about \$1 bln in case there is another real-estate revaluation, required by financial accounting standards (once in 3 years). Management considers it highly likely that this will happen and believes that it could be reflected in the bank's annual statement for 2008 (June 2009). In our opinion, the increase in the bank's equity is generally positive, allowing it to increase its assets and credit financing; however, the revaluation of the real-estate depreciation cost could result in a rise in the bank's property tax (the law provides for a maximum rate of 2.2%).

- In our opinion, management's views on the quality of the bank's loan portfolio are of crucial importance. We believe that the revaluation of global credit risks provides the biggest threat to the banking sector as a whole. Generally, we think that (for the time being) Sberbank is developing satisfactorily and we assess the increase in its interest margin and its cost reduction program positively. In our opinion, currently, the market is significantly overestimating the risks of investing in Russian banks. Despite the growth of macroeconomic and banking risks, Sberbank's business model is highly stable, due to its focus on internal sources of financing, the advantageous status of the country's main retail bank, the trust of the population, its branch office network, its unique size, its leadership in all segments of the Russian banking sector, its conservative credit policy and the support of the state. We, therefore, maintain our current target price of **\$4.97 per ordinary share, offering potential upside of 76%**, and reiterate our **BUY** recommendation.



Sberbank's management discussed its 1Q08 IFRS results in a conference call and meeting with analysts on July 28-29.

Management said that it will be focusing on controlling costs and expects to restrict cost growth to 20-22% by the end of the year (against 56% in 1Q08 or 40% - excluding the effect of 2007 benefits, which were approved in 1Q08). Management believes that increased productivity – achieved through improving business processes, advancing customer service technologies, reducing labor costs, upgrading IT systems and enhancing the functionality of ATMs – will play a key role in reducing costs.

The bank's strategy envisages a possible headcount reduction – however, at the same time, management is sensitive of its social responsibility. Wherever possible, released employees will be re-trained for more profitable activities. The general effect of the cost reduction program will be clarified early in 2009.

In 2008, management estimates net profit of about RUR 130 bn (RAS), with potential variance from IFRS figures of +/- RUR 5 bln.

A clear leader in the retail deposits market, Sberbank is concerned with the reduction of its market share in this segment and intends to focus on stabilizing its losses and, where possible, regaining market share – without raising interest rates on deposits. It intends to achieve this primarily by improving its deposits product line and launching a brand promotional campaign, presenting Sberbank as the most reliable financial institution in Russia. At the same time, management forecasts a weak inflow of retail deposits in the banking sector as a whole, due to high inflation and negative real interest rates.

The bank plans to maintain its target ROE at no less than 20% (in 1Q08 its ROE was slightly lower). As the equity raised through the SPO has not been fully distributed as yet, there are no plans to hold a new SPO during the (presumed) introduction of stocks in foreign markets in the form of depositary receipts (possibly in autumn 2008). At the same time, its shareholders' equity may increase by about \$1 bln in case of another real-estate revaluation, required by financial accounting standards (once in three years). Management considers it highly likely that this will happen and believes that it could be reflected in the bank's 2008 annual statement (June 2009). In our opinion, the increase in the bank's shareholders' equity is generally positive, allowing it to increase its assets and credit financing; however, the opportunities of leveraging additional equity capital will depend on market conditions. Meanwhile, the revaluation of the real-estate depreciation cost could result in a rise in the bank's property tax (the law provides for a maximum rate of 2.2%).

Regarding expansion in the CIS and other regions, as well as M&A deals, the bank intends to maintain its conservative policy.

In our opinion, management's views on the quality of the bank's loan portfolio are of crucial importance. We believe that the revaluation of global credit risks is the biggest threat faced by the banking sector as a whole. It should not be forgotten that the credit boom of the last four years developed amidst highly favourable conditions in the Russian economy and excess liquidity. Banks, as a rule, tend to underestimate credit risks during periods of credit expansion. Currently, the crisis on global financial markets and the deterioration of global economic conditions, is affecting the stock market, debt markets (rise in the defaults of corporate securities), and real-estate markets. It may severely test the endurance of the Russian economy and financial system. Consequently, even a conservative financial institution such as Sberbank – which claims in its 1Q08 financials that 33% of its loan portfolio consists of specialized credit financing of legal entities (financing of investment and construction projects, contract financing and loans to development companies) and 33% of its retail loan portfolio consists of mortgage loans – could find itself in need of boosting reserves for troubled loans in case the quality of its loan portfolio deteriorates.

According to the bank's deputy chairman Anton Karamzin, the NPL of both Sberbank (1.5%) and the banking industry as a whole is extremely low. However, considering the ambiguous impact of the global economic crisis on the Russian economy, at the moment, it is difficult to forecast how the quality of its loan portfolio will change. Traditionally, the bank has adhered to a highly conservative credit policy with respect to more risky retail loans, and if it relaxes its requirements, this could affect its risk averse borrowers – such as the bank's employees and the employees of its corporate clients, holding payroll accounts at Sberbank. Credits on real estate were also provided on an extremely conservative basis and at high interest rates. Nevertheless, over the next few months, management plans to reconsider



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YOUR FIRST CALL – FOR THE SECOND TIER

July 30, 2008

its credit risk evaluation system and its approaches to provisioning. According to management, the current level of provisioning (2.7% of the bank's loan portfolio against 2.8% in the beginning of the year) is quite sufficient.

Management is also considering an options program, where the managerial fees will depend on the bank's capitalization.

Generally, we think that, at the moment, Sberbank is developing satisfactorily and we assess the increase in its interest margin and its cost reduction program positively. We believe that the revaluation of global credit risks provides the biggest threat to the banking sector as a whole. Despite the growth of macroeconomic and banking risks, Sberbank's business model is extremely stable, due to its focus on internal sources of financing, its advantageous status as the country's main retail bank, the trust of the population, its branch office network, its unique size, its leadership in all segments of the Russian banking sector, its conservative credit policy and the support of the state. We, therefore, maintain our current target price of **\$4.97 per ordinary share, offering potential upside of 76%**, and reiterate our **BUY** recommendation.



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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