

# Sberbank strategy review: weathering the tough times



Sberbank common		BUY	
Ticker		SBER RX	
Free float		40%	
Share price*, RUB		82.7	
TP 2011, RUB		120.1	
Upside		45%	
Sberbank preferred		BUY	
Ticker		SBERP RX	
Free float		100%	
Share price*, RUB		60.4	
TP 2011, RUB		90.1	
Upside		49%	
	2010	2011E	2012E
ROE, %	20.6	25.6	20.3
ROA, %	2.3	3.0	2.6
EPS, RUB	8.4	13.0	12.3
BVPS, RUB	43.5	53.4	63.3
P/BV	1.88	1.53	1.29
TP/BV	2.73	2.22	1.88
P/E	10.2	6.6	6.9
TP/E	14.8	9.6	10.0

\* closing price as of December 13, 2011

Yesterday, Sberbank hosted a regular annual meeting with analysts. The core topic of the meeting was discussion of the interim results under the bank's strategy for 2009-2014. We point out a few key takeaways from the discussion.

- ▶ Sberbank reiterated its KPI to be achieved by 2014 (25-30% market share by assets, ROE of 20+%, CIR of 40% under RAS). However, Sberbank noted that in 1Q12 it will come up with amendments to this strategy based on assumptions from 2012 business planning.
- ▶ Sberbank reiterated its 24% loan growth target for 2012 (announced recently by the head of Sberbank German Gref), both for corporate and retail segments. Corporate deposits are expected to grow at 18%, which stipulates further L/D ratio increase (0.92 as of 9M11; up to 1.05 is comfortable for Sberbank). According to Sberbank, such pace is achievable under the base-case scenario (4% GDP growth rate, 7.7% CPI, \$95/barr Urals, and RUB 29.5 for USD/RUB exchange rate). The pessimistic scenario presumes lower target of loans growth, but the management declined to comment on specific figures during the meeting.
- ▶ LLP charge will be close to the level of 2011 (close to zero in our estimates), which should propel the estimated LLP ratio from 9% (9M11) to 7.3% (incorporating Sberbank's expected growth rates).
- ▶ Aggressive growth prospects require thorough attention to distribution channels, and Sberbank plans to expand its branch network by 800 in 2011 and by further 2000 in 2012 to increase its penetration in high-density urban areas.
- ▶ VBI acquisition will be completed in February. Sberbank is still interested in M&A targets in Poland and Turkey but in 2012 it will focus on VBI integration.
- ▶ In current circumstances, Sberbank feels very confident and views the current liquidity squeeze as an additional growth opportunity, as its largest balance sheet and the cheapest funding allow it to benefit from the foreign debt refinancing boom among local companies. Furthermore, Sberbank once again stressed at qualitative changes in its infrastructure (both IT and procedural) that should allow it to successfully compete not only in "traditional" areas (e.g. pricing), but also in quality and flexibility.
- ▶ Sberbank is not concerned with the growing L/D ratio and considers it to be driven by the lag between loans and deposits demand. Apart from having obvious pricing tools to tweak deposits attractiveness, Sberbank plans to expand into VIP segment to boost deposits volume. For this, Sberbank plans to be employing the VIP sales force of 100 persons in 2012.

## Bottom line

In our view, the rhetorics of Sberbank is the most confident one in the market at the moment. In the uneasy circumstances, the trumps of Sberbank (the biggest BS, the cheapest and non-wholesale funding, chunky margins and conservative LLP policy) are the most prominent. Instead of struggling like others, Sberbank seems to be taking advantage from the current liquidity squeeze and wholesale debt market constraints. This translates into great growth performance over the past few months, and bright prospects for the next year if things remain tough.

We point out that Sberbank has changed its guidance approach from conservative into aggressive one (e.g. loans growth in 2012). We believe that this guidance is largely based on fairly optimistic macro assumptions (e.g. 4% GDP growth vs. 3.5% anticipated by our in-house macroeconomists) and prefer to assess growth prospects in a more cautious way at the moment.

Nonetheless, our general impression from the meeting is fairly positive and we reiterate our BUY recommendation for ordinary shares of Sberbank with the 12M target price of RUB 120.

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