



# Guillermo Nieto

Partner and Portfolio Manager, Salmon Mundi Capital





# **salmón mundi**



October 2019

MOI  
GLOBAL

# Salmón Mundi Capital

- Spanish Sicav (ISIN: ES0109297038) which trades on MAB.
- Our investment philosophy is based on Value Investing and the Austrian School of Economics.
- We invest all over the world, in different asset classes, with long and short positions.
- We are interested in assets, sectors, commodities or countries out of favor.
- We invest with a long term horizon.

# Who we are



**Guillermo Nieto**

- CEO, Partner and Chief Investment Officer
- Bachelor's Degree in Law and Business Administration from the Universidad Pontificia Comillas (ICADE; E-3).
- Former analyst for banks, airlines and paper sectors and managed family portfolios.



**Marta Escribano**

- Partner and Principal Analyst
- Bachelor's Degree in Law from the Universidad Pontificia Comillas (ICADE; E-1) and a Master's Degree in Financial Markets and Alternative Investments (MFIA).
- Formerly in treasuries and equity, FI and FX desks.



**SBERBANK**

# Investment thesis

- Sberbank is the main Russian bank with a leading position in both deposits and loans.
- It is the most profitable among the biggest international banks (ROE 24%). And it trades at just P/B 1.2x and PER 5.6x.
- It is very efficient in costs (33% cost to income) and it has a good asset quality (4% NPLs).
- The debt penetration in Russia is low (both public and private debt is c80% to GDP).
- Russian equities are very cheap (CAPE 7x).

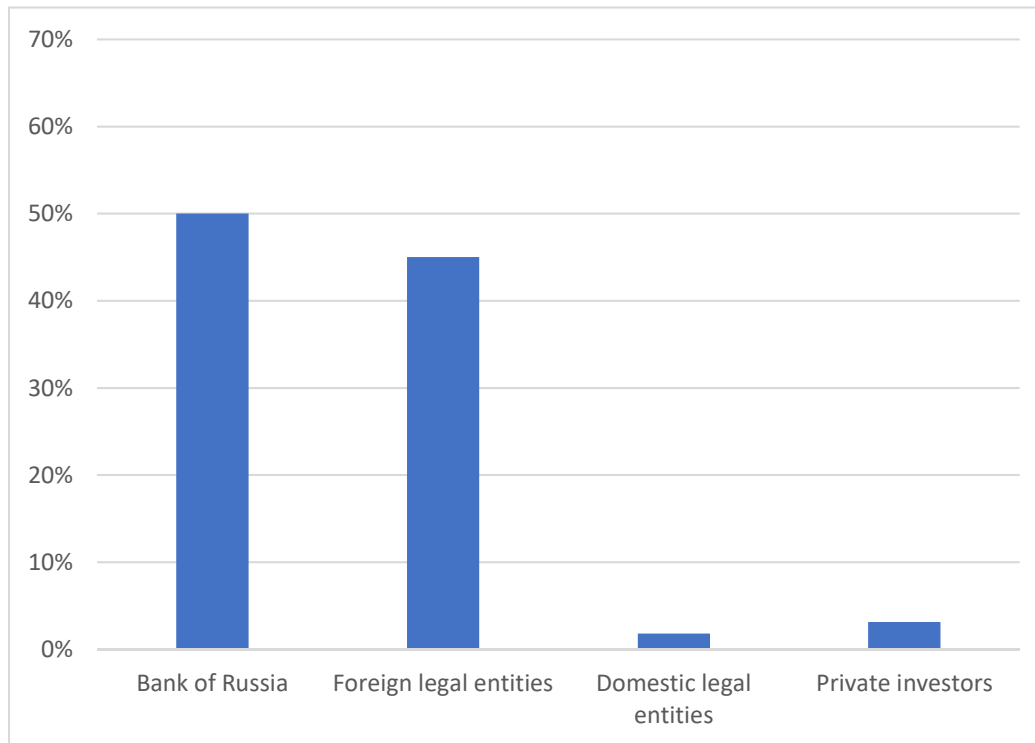
# I. The bank

# Description

- Sberbank, founded in 1841, is the leading Russian bank. The Central Bank of Russia is its major shareholder (50% +1 share). It has a \$77.5 bn market cap (\$14.4 ADR, SBER LI).
- The bank is leader in retail deposits (45% market share) and corporate loans (31%).
- It has sound capital ratios: Tier1 of 12.3% and total capital 12.6%.
- It has 93 millions of active retail clients, 292,000 employees in 22 countries and 14,200 branches.
- Sberbank was named the 2nd strongest brand in the world in 2019 by Brand Finance.



# Ownership



*Source: Sberbank*

# CEO: Herman Gref

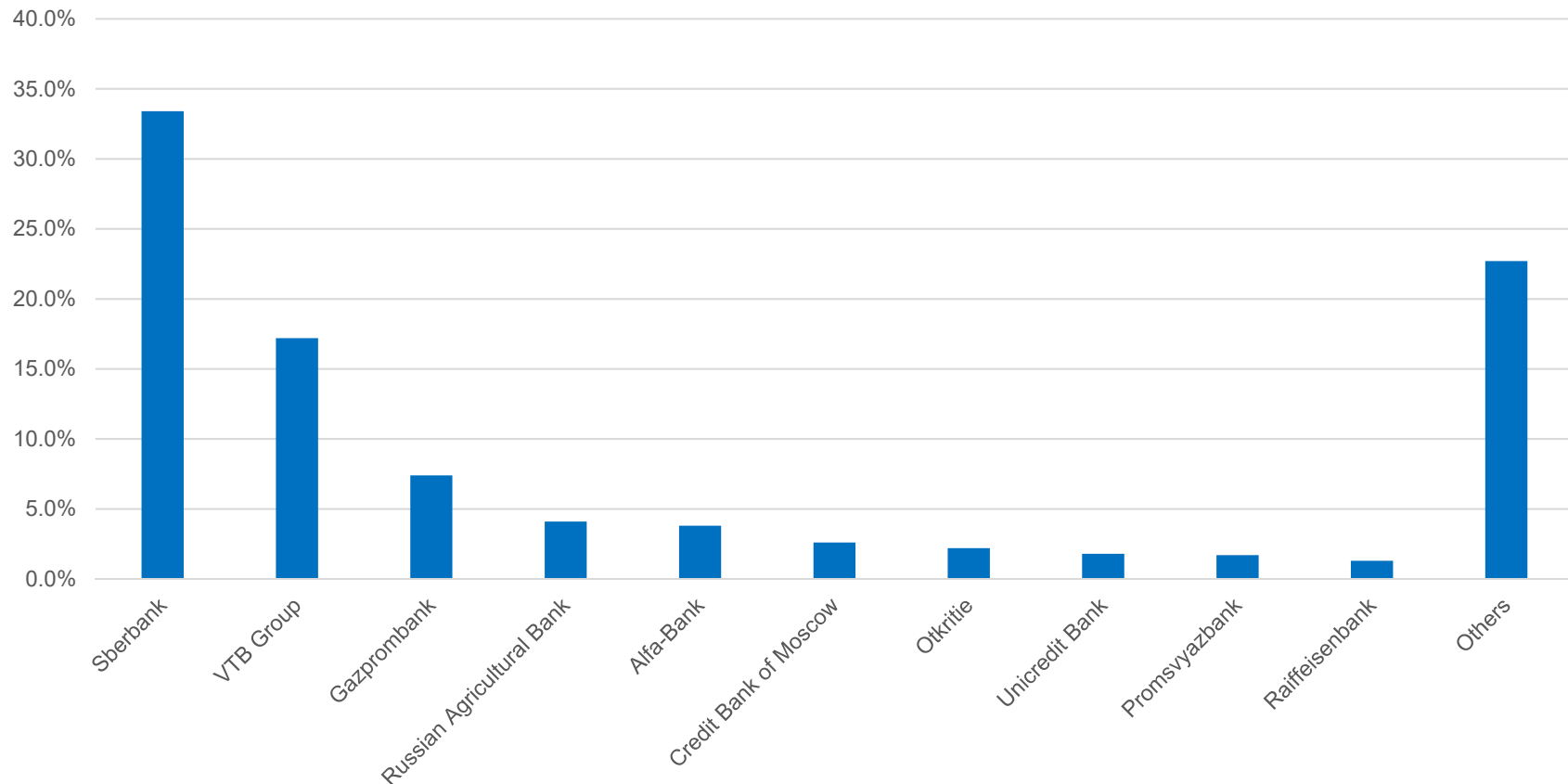


- Herman Gref has been the CEO since 2007.
- His family, of German origin, was deported to Kazakhstan.
- He studied Law and worked in San Petersburg's local administration.
- He became First Deputy Minister of State Properties and Minister of Economic Development and Trade from 2000 to 2007.
- Gref was one of the liberal reformers of the Russian economy and he was a major advocate of Russia's joining the WTO (World Trade Organization).

# Bank philosophy

- With Gref the corporate culture has changed. Now it's more focus on clients and technology.
- They aim to be not just a bank, but a professional service company focus on client ("tech firms are competitors"). +70% of active clients use its digital platform.
- They have made significant improvements in IT. Their centralized system has enabled them to reduce costs.
- There's a high level of customer satisfaction.

# Russian banking system (Assets)



Source: Gazprombank, SMC

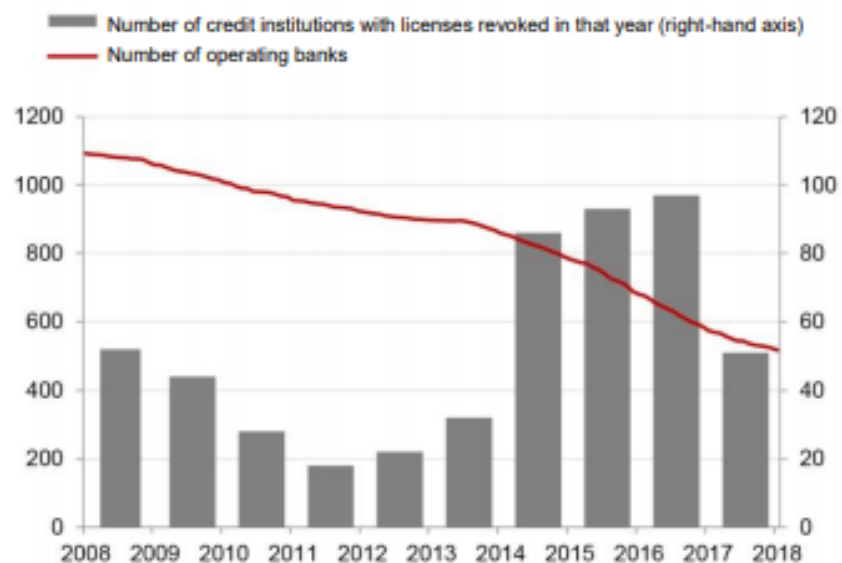
# Market share in Russia (2Q19)

Market share in Russia	
Assets	31.6%
Corporate loans	31.1%
Retail loans	40.8%
Mortgages	54.4%
Credit cards	43.9%
Corporate deposits	24.9%
Retail deposits	44.6%

Source: Sberbank, SMC

# Number of banks in Russia

**Chart 32. Dynamics of the number of banks**

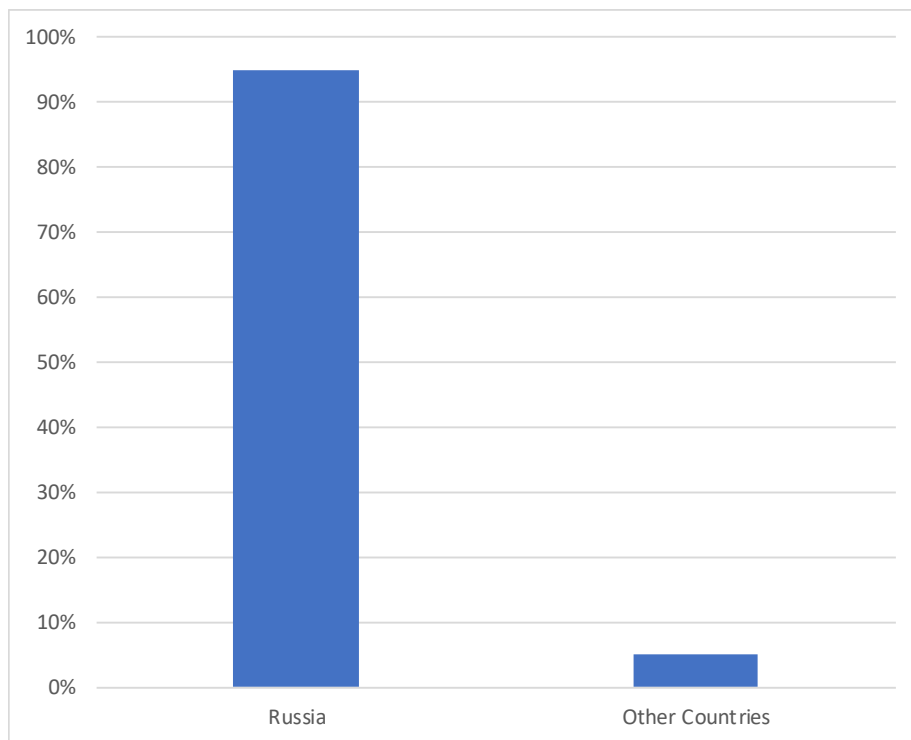


Source: Bank of Russia calculations.

Source: CBR

# Geographical presence

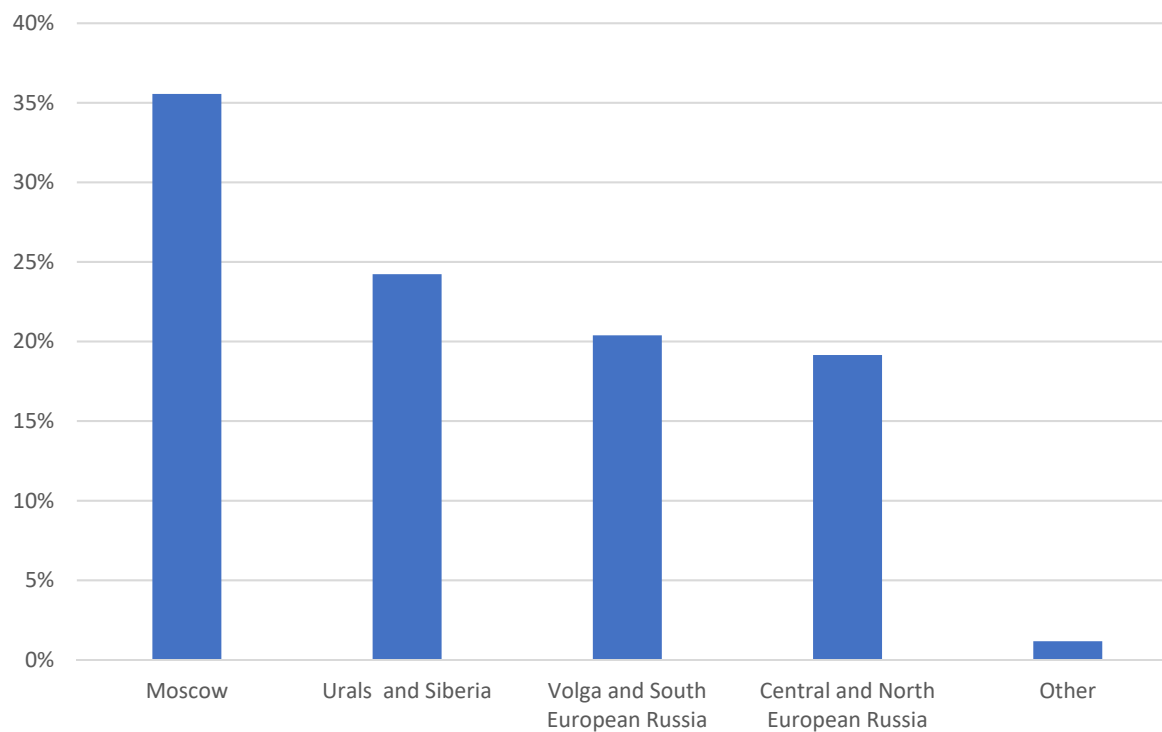
# Net income by country (2018)



Source: Sberbank, SMC



# Net income by region (2018)



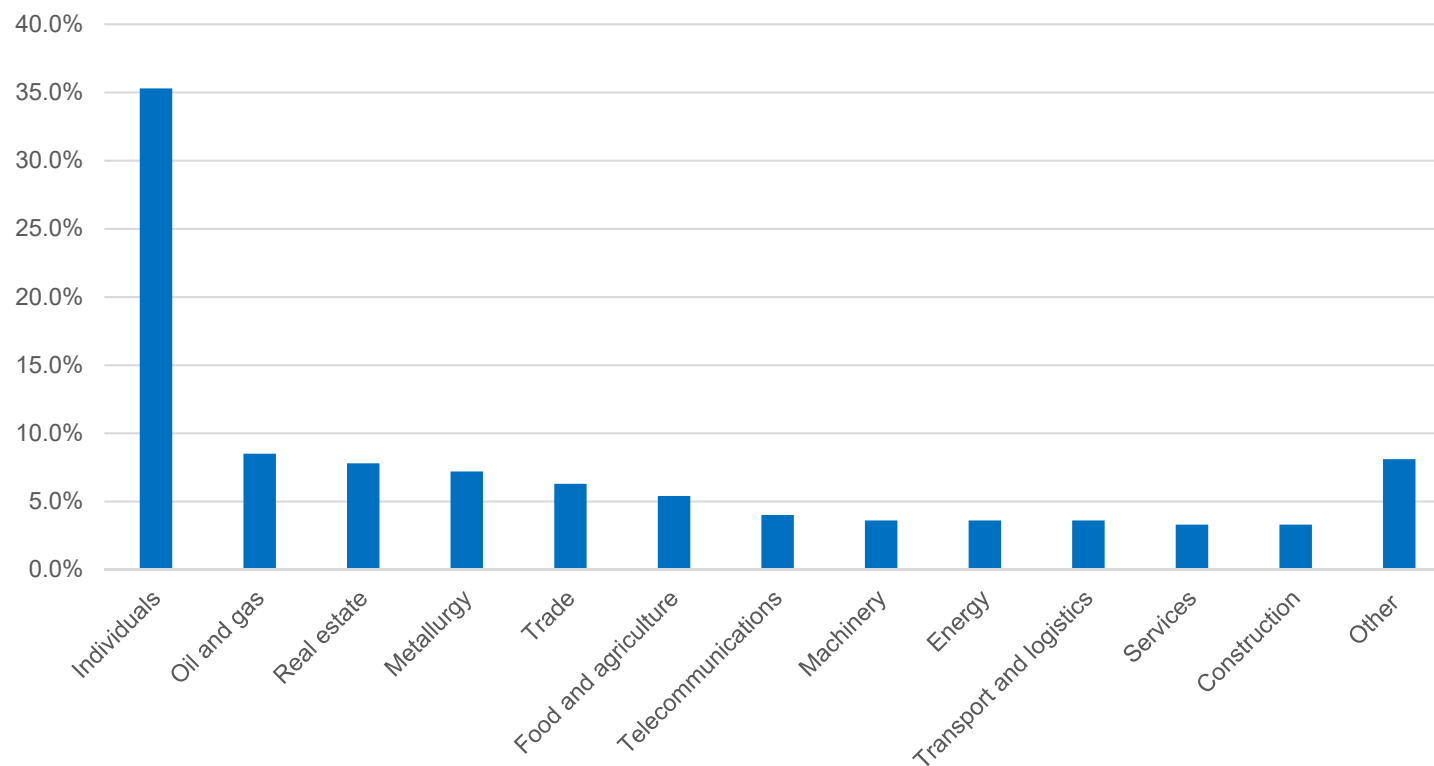
Source: Sberbank, SMC

# Balance sheet

# Loans

- About 65% of loans are to corporates and 35% to retail.
- Major companies represent a high share of all corporate loans.
- The main sectors in corporate loans are oil & gas, real estate and metallurgy.
- Mortgages represent a 56% of personal loans and consumer a 32%.
- Sberbank expects faster growth in retail lending and SMEs.

# Loans by industry (2019)

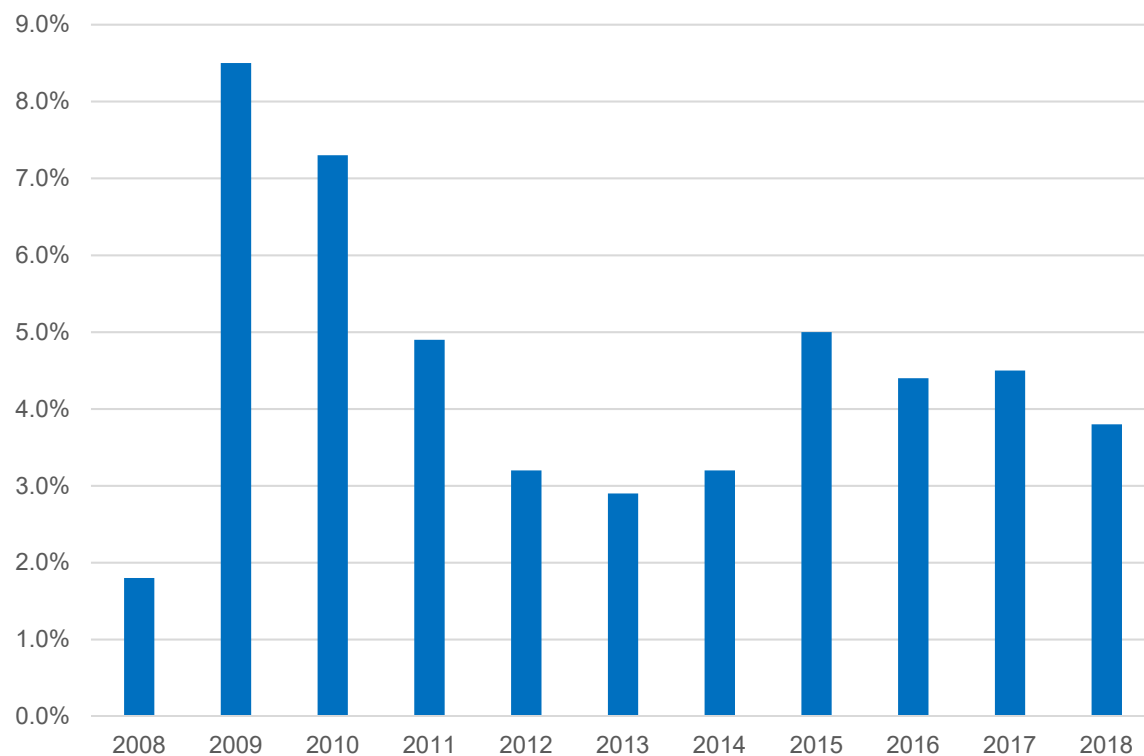


Source: Sberbank, SMC

# NPLs and provisions

- NPL rate is 4%, better than the sector average.
- The coverage ratio is 178%.
- Annual provisions were 115 basis points (2018) and since 2010 they have been between 0 and 270 bps.
- The NPL ratio has improved in recent years, being reduced from 8.4% in 2009 to current 4%.
- Investment grade rating: BBB Stable by Fitch and Baa3 Stable by Moody's.

# NPLs (2008-18)

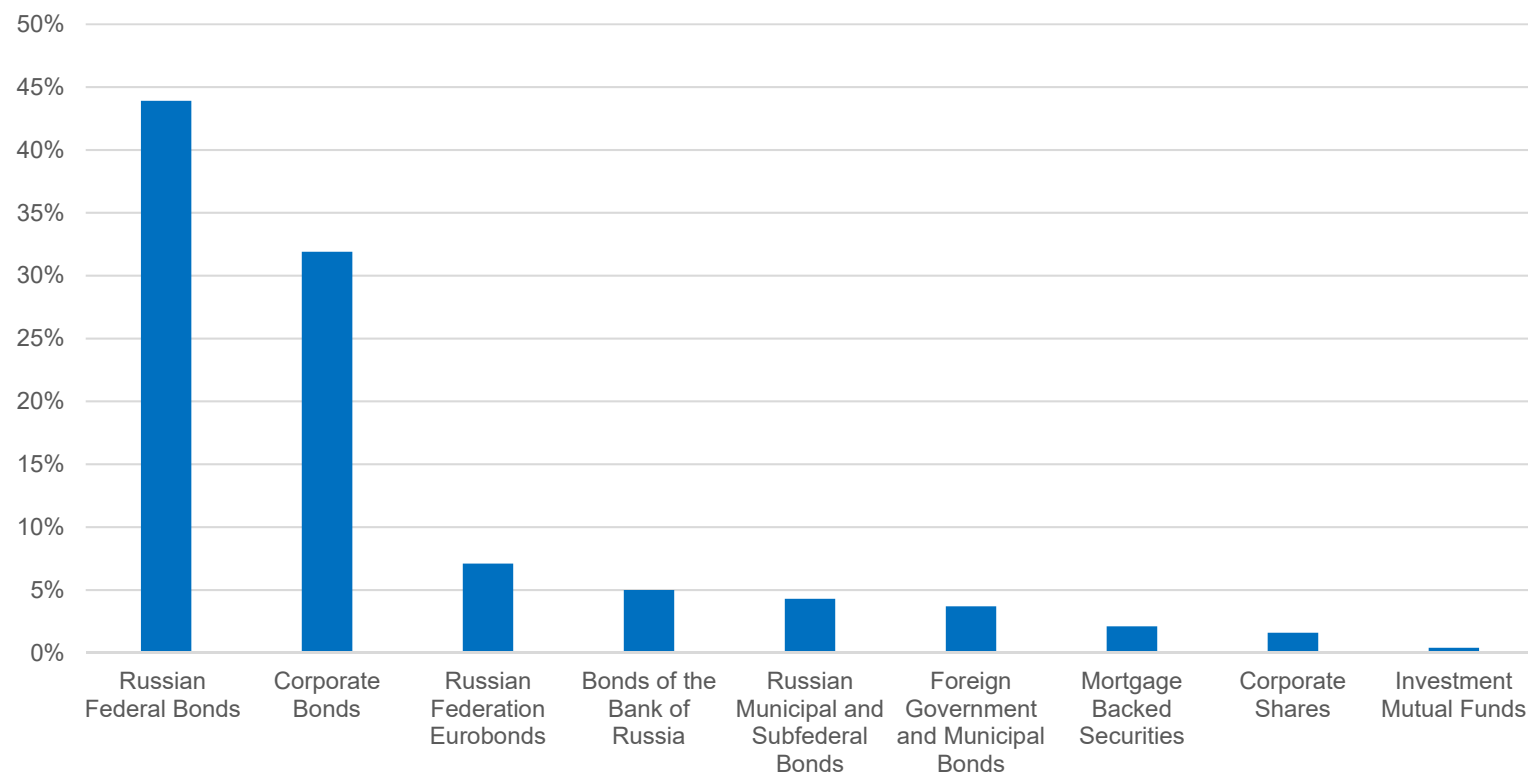


*Source: Sberbank, SMC*

# Investment portfolio

- Bonds make up 98% of Sberbank's portfolio.
- Central and local government bonds make up 65% of total bonds, while corporate bonds represent 35%.
- 61% of Sberbank's portfolio bonds are investment grade, 35% non-investment grade and 4% are not rated (2017).
- The investment portfolio has derisked over past years, now it has less exposure to equities.

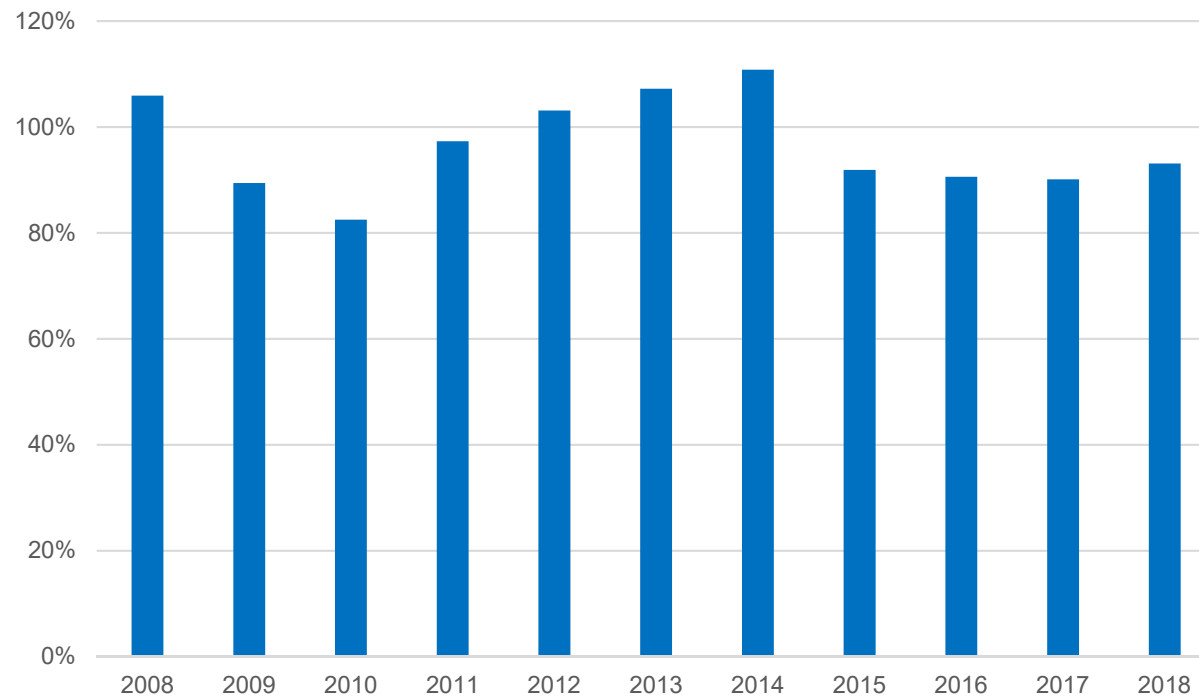
# Investment portfolio (2018)



Source: Sberbank, SMC



# Loans/deposits ratio (2008-18)



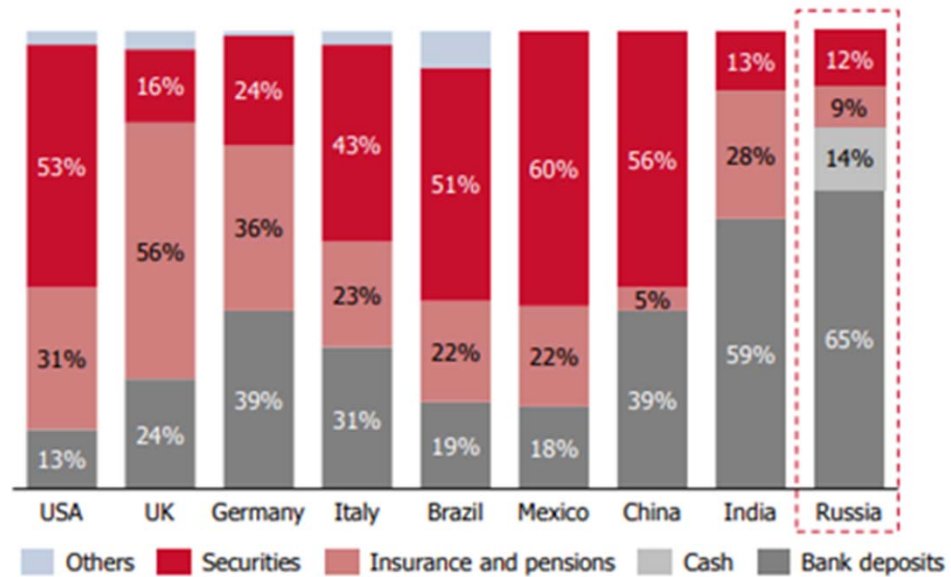
Source: Sberbank, SMC

# Deposits

- It's market share in retail deposits (45%) is one of Sberbank's main strenghts.
- 65% of all Sberbank's deposits are retail and 35% corporates.
- 69% of deposits are denominated in rubles.
- Russians have 65% of their savings in bank deposits, which is very high compared to other international countries.

# Deposits (Sep.2019)

**Russians hold majority of savings in banks and cash<sup>1</sup>**



Source: Moscow Stock Exchange

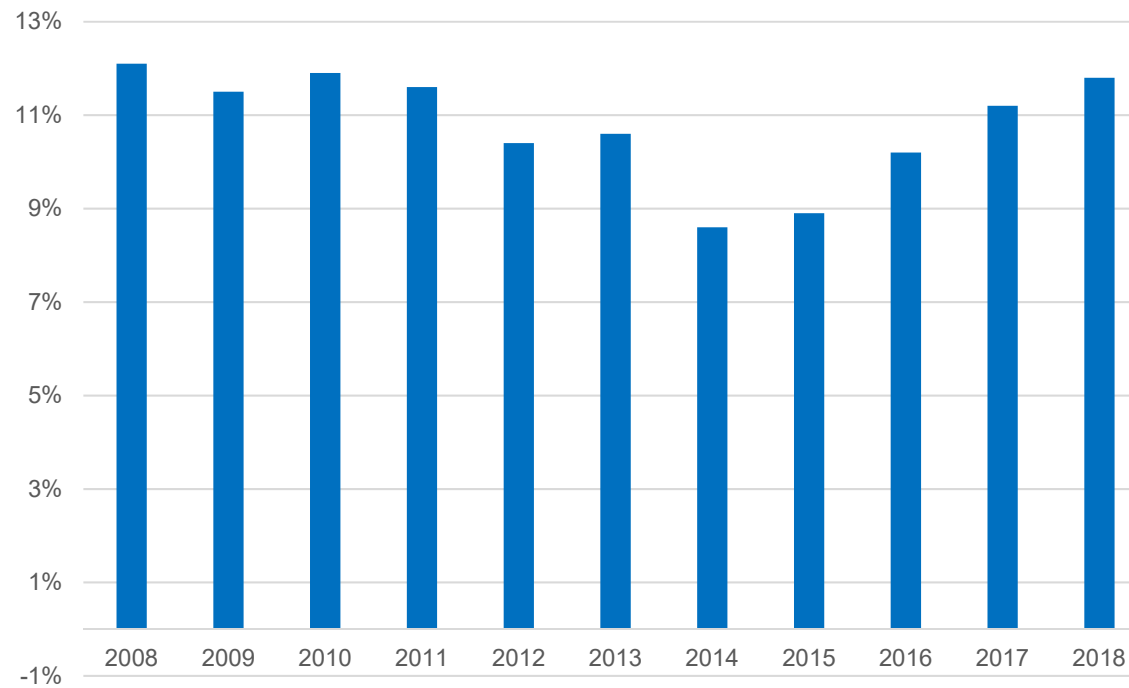
# Wholesale funding

- The wholesale funding has been reducing its size over the last few years.
- Now it represents only 1% of total liabilities. It has gone down from almost 4% in past years.
- 86% is long term and 14% short term.
- Reducing its wholesale funding and its large deposit base, makes Sberbank more resilient to market shocks than it has been in the past.

# Capital

- Sberbank has a solid position of Tier 1 capital of 12.3%, and of total capital ratio of 12.6%.
- Its tangible capital is among the highest among the largest international banks.
- With the sale of Denizbank its capital ratio will improve, although mitigated by new macroprudential measures of the CBR. For 2019 it's expected to be above 13%.
- Sberbank has maintained good capital adequacy levels even in the 2008 and 2015 crisis.

# Capital (Tier1) (2008-18)



Source: Sberbank, SMC

# FX, interest rates, oil

- Its assets are mainly in rubles. 69% of assets and 65% of liabilities are denominated in RUB and 17% of assets and 21% of liabilities are denominated in USD.
- 10 rubles change in USD/RUB rate, have not a big impact in P&L, but it has a negative effect of 46/50bps in capital.
- A parallel shift of 100bps in interest rates will impact bank net interest income in 20/22 billons rubles.
- Sberbank is resilient even if oil price falls. Management will be “satisfied” with bank’s ROE in a \$35/barrel scenario.
- Management thinks Sberbank is now less vulnerable to external shocks.

# Denizbank sale

- Sberbank has recently close the sale of the Turkish bank Denizbank (9% of Sberbank assets in 1Q2018).
- Sale price was 1.17x book value.
- Total proceeds will be \$5 billion, which will enable Sberbank to increase capital ratio in c120bps.
- This amount will be used to grow its ordinary business.



# Non-financial investments

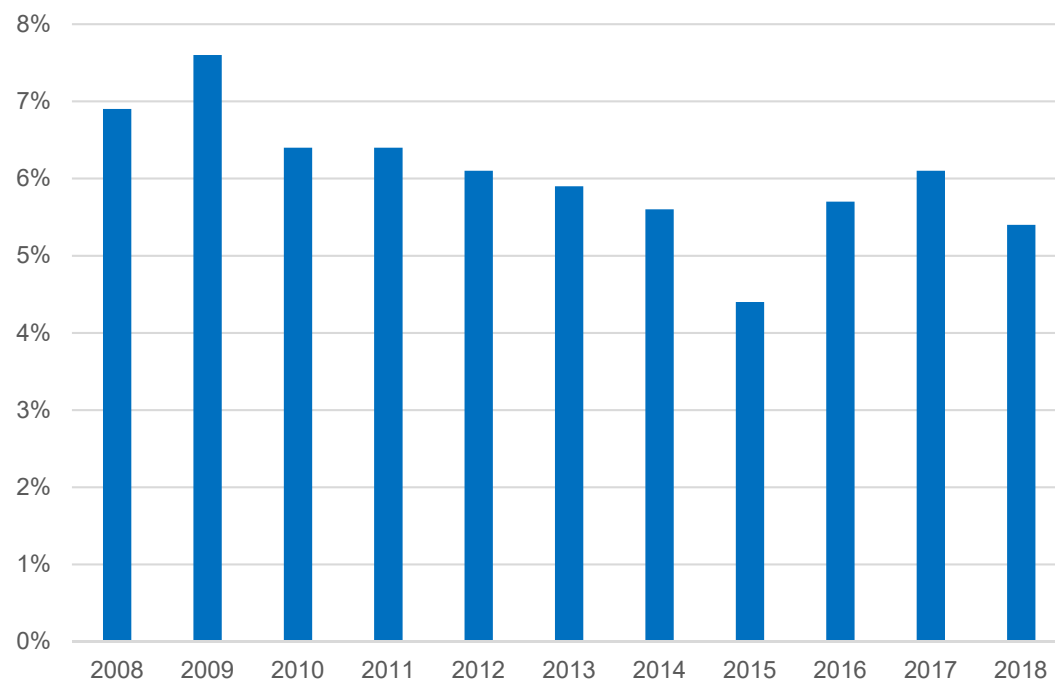
- Sberbank has spent \$1 billion in its non-financial ecosystem during last 3 years (3% of net income in 3 years).
- They want to leverage its client portfolio (93 millions of retail clients and 2.4 millions of corporates in Russia).
- Investments in cybersecurity, telecommunication, advertising, identification, cloud, professional services...
- Sberbank has launched joint ventures with Yandex and Mail.ru.

# Profit & loss

# Net interest margin

- Sberbank's NIM is high, at 5.4%.
- Its loans have an average yield of 9.8%, and deposits of 4.1%.
- Management expects to keep these margin levels due to focusing more on retail loans, which have higher margins.
- They also expect healthy growth in SMEs.

# Net interest margin (2008-18)



Source: Sberbank, SMC

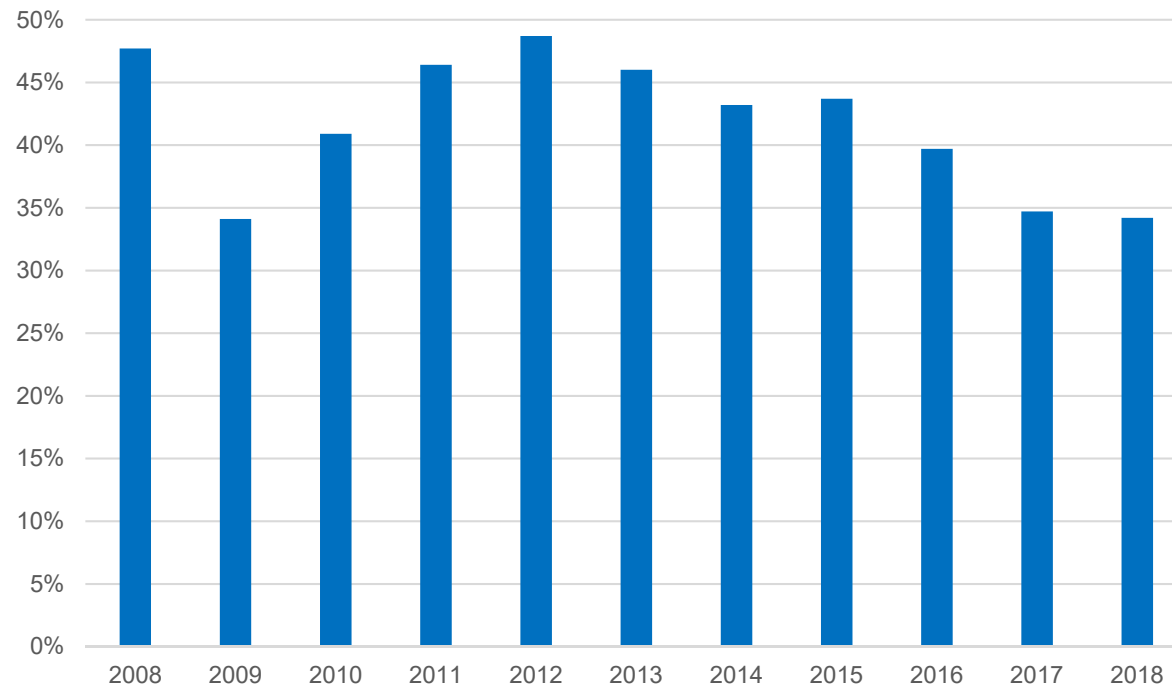
# Commissions

- It has been another important driver of growth.
- The highest exposure is in bank cards and cash transactions.
- Commissions already cover 69% of expenses.
- In its strategic plan they expect a significant growth of 12%-14% per year until 2020.

# Expenses

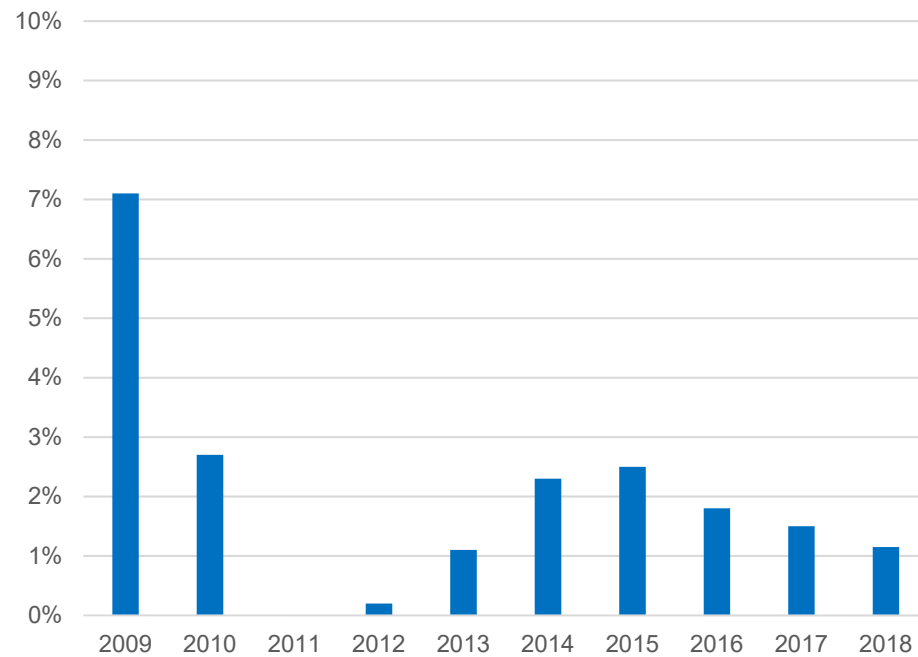
- Sberbank has one of the best cost income ratios among the major banks (33%).
- We think that the new management team has been key in this cost reduction.
- Its cost income ratio has gone from 47.7% in 2008 to current 33%.
- Cost-reduction measures: digitalization, centralization of technology systems and workforce reduction.

# Cost to income ratio (2008-18)



Source: Sberbank, SMC

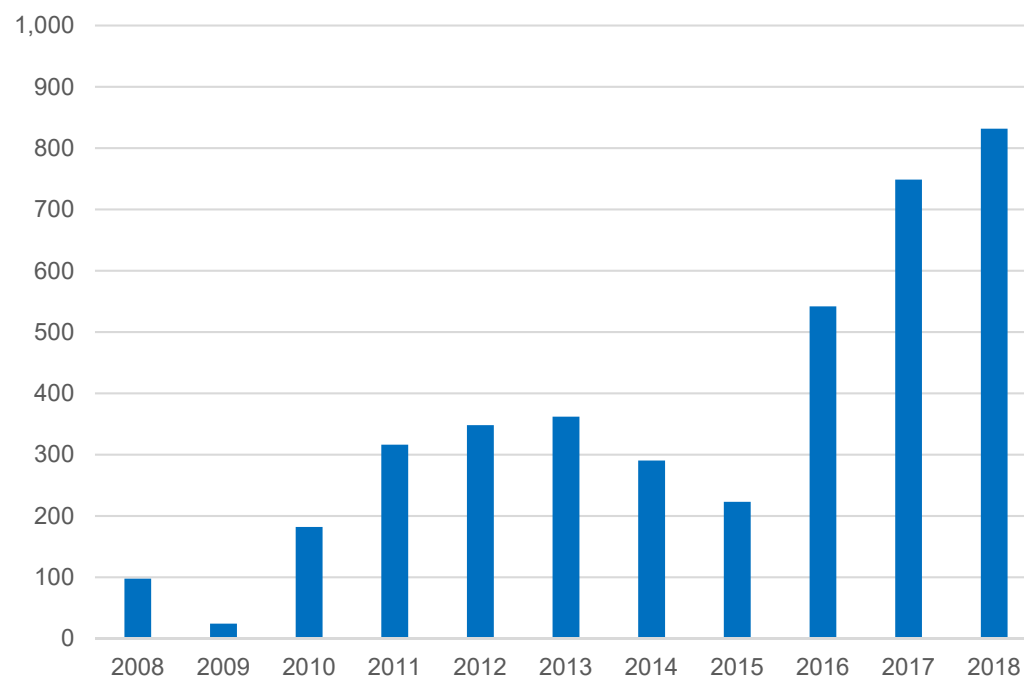
# Cost of risk (2009-18)



Source: Sberbank, SMC



# Net income (2008-18)

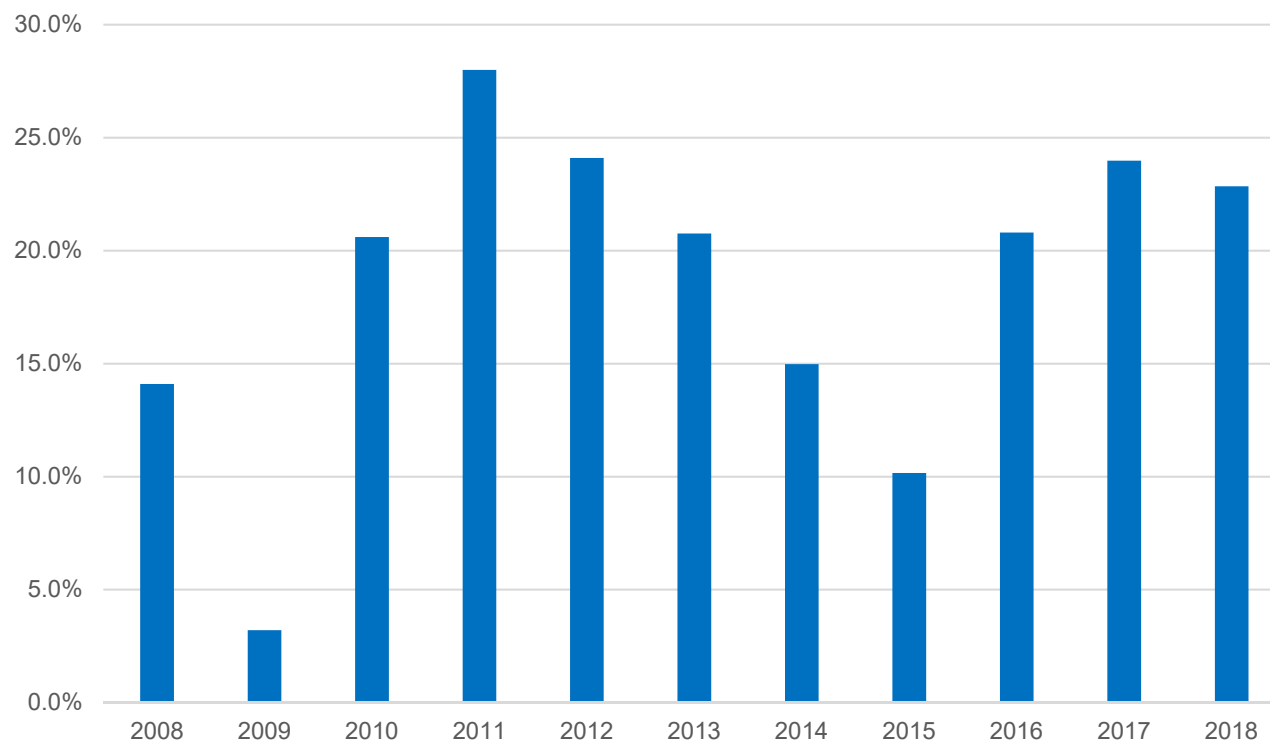


Source: SMC, Sberbank

# Profitability

- Sberbank is one of the most profitable international banks.
- Current ROE of 24% versus international average of c8%.
- In 2008 and 2015 crisis, Sberbank had positive ROEs.
- They reached this level of ROEs despite a slow-growing environment and a relatively adverse circumstances in the country (i.e. sanctions).

# ROE (2008-18)

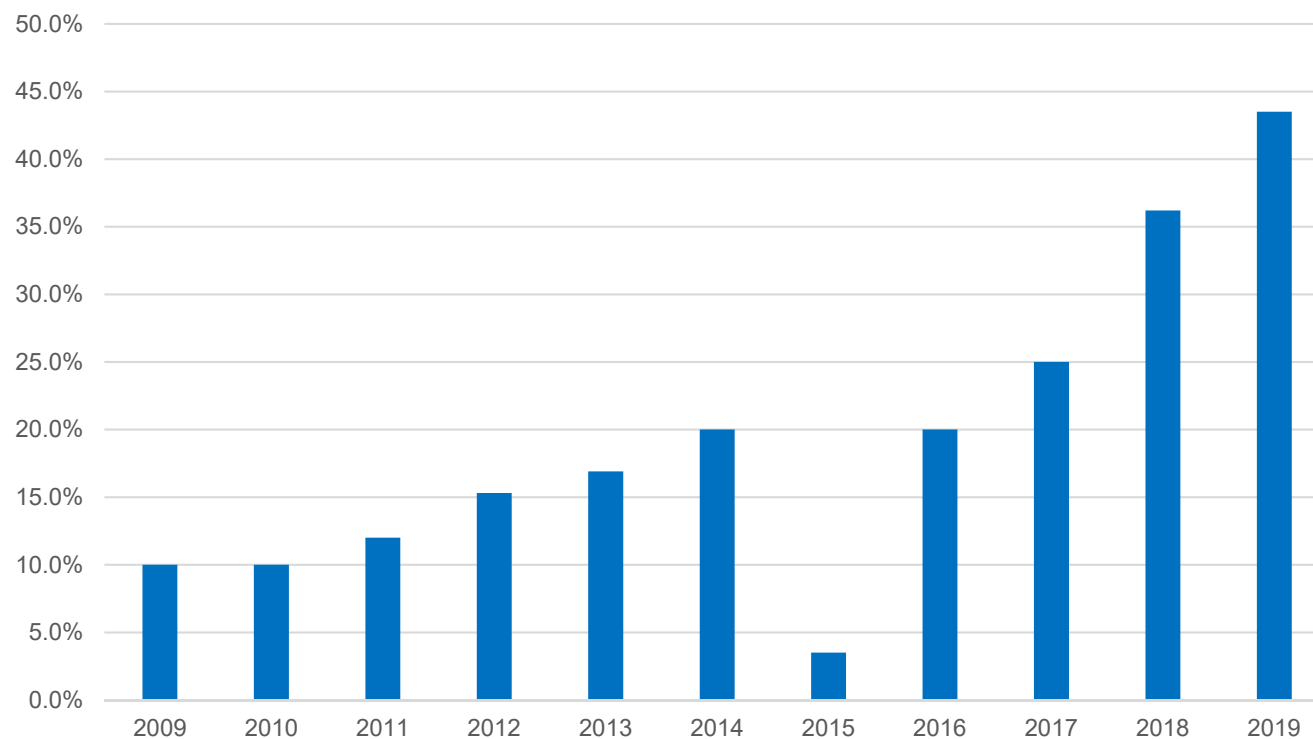


Source: SMC, Sberbank

# Dividend

- Sberbank has a high dividend yield (7%).
- 2019 payout will be 43.5%, but they want to increase it to 50% for next year (this will represent a 10% dividend yield).
- Russian government is encouraging state-owned enterprises to increase dividend yields.
- This payout increase is conditioned to the achievement of certain KPI (i.e. Tier1 12.5%).

# Dividend: pay-out (2009-19)



Source: Sberbank, SMC

# Strategic plan 2018-2020

## Strategic Plan 2020

Net income (bn RUB)	1000
Cost income ratio	c30%
NIM	<~5%
Commissssions growth	12-14%
Cost of risk	c130 bp
ROE (3 year average)	c20%
CE Tier 1	c12.5%

Source: Sberbank, SMC

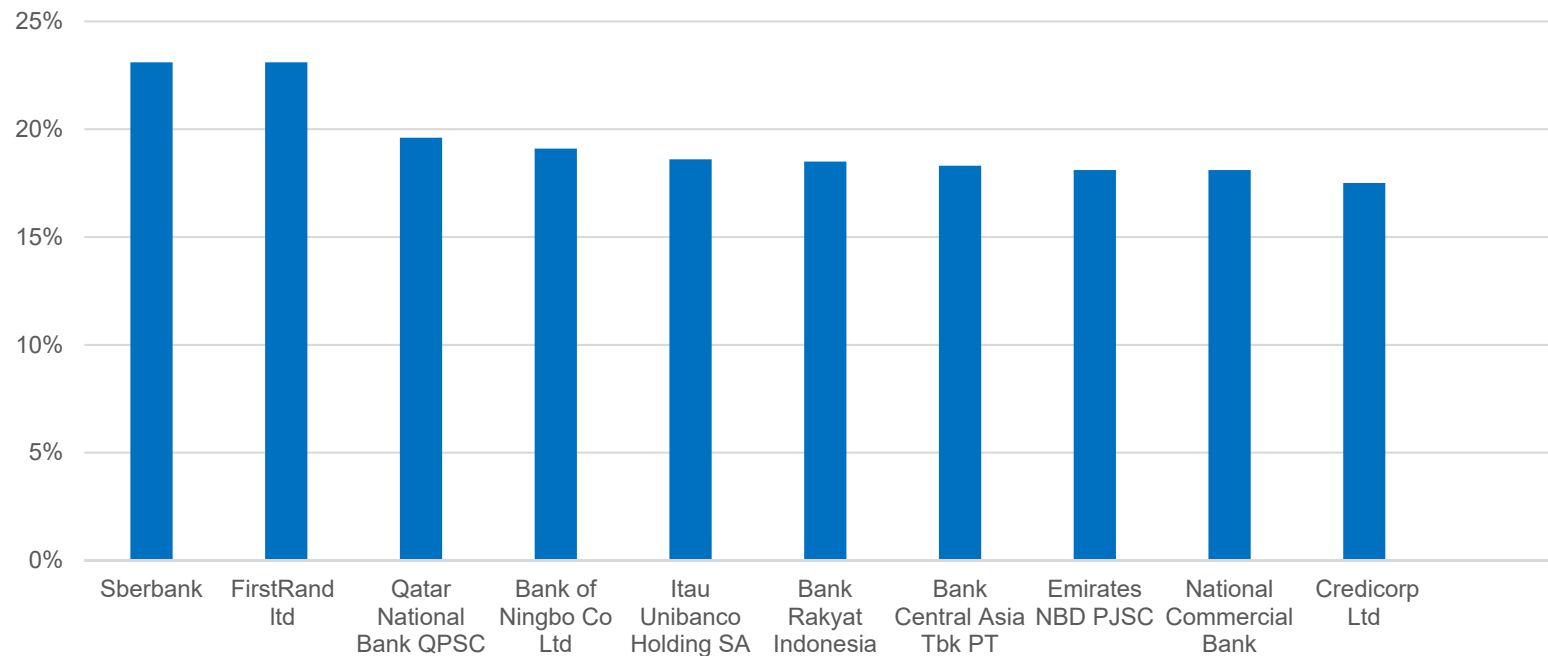
# Competition

# Local competition

- 1/3 of total assets in Russian banking system.
- It has a leading position in loans and deposits.
- Sberbank is the most cost-efficient Russian bank.
- It has better asset quality than the sector.
- It is the most profitable Russian bank.
- 62% of the Russian banking system total net income.



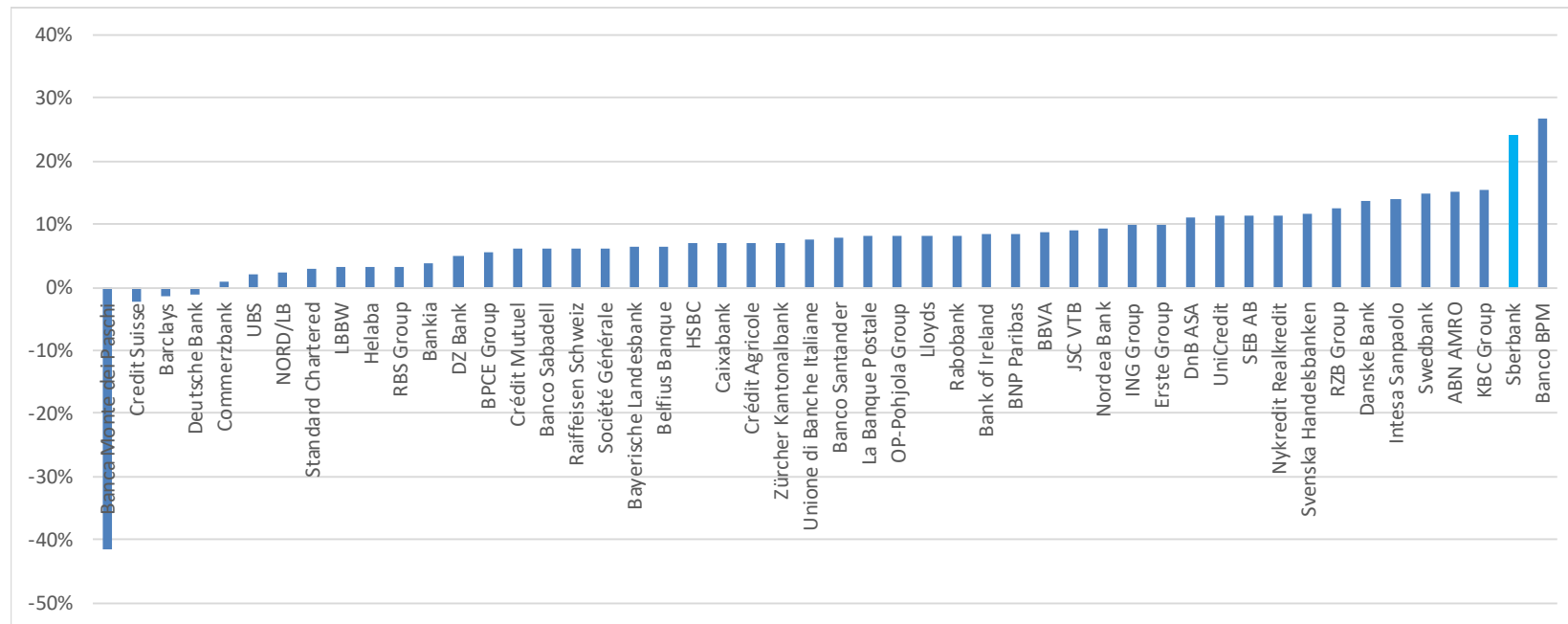
# ROE vs peers



Source: Sberbank/Bloomberg, 2018

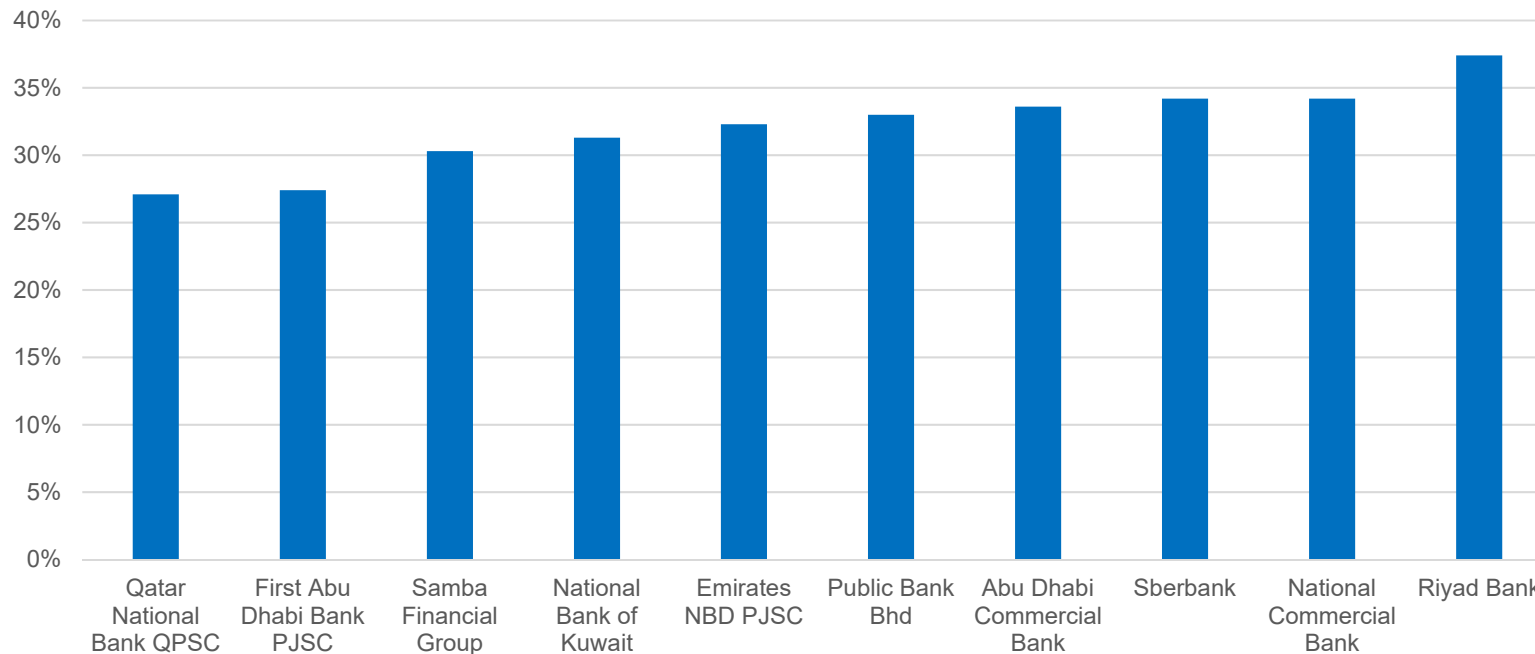
Compared to the 100 largest banks in terms of capitalization (ex China)

# ROE vs European peers



Source: Zeb, 2017

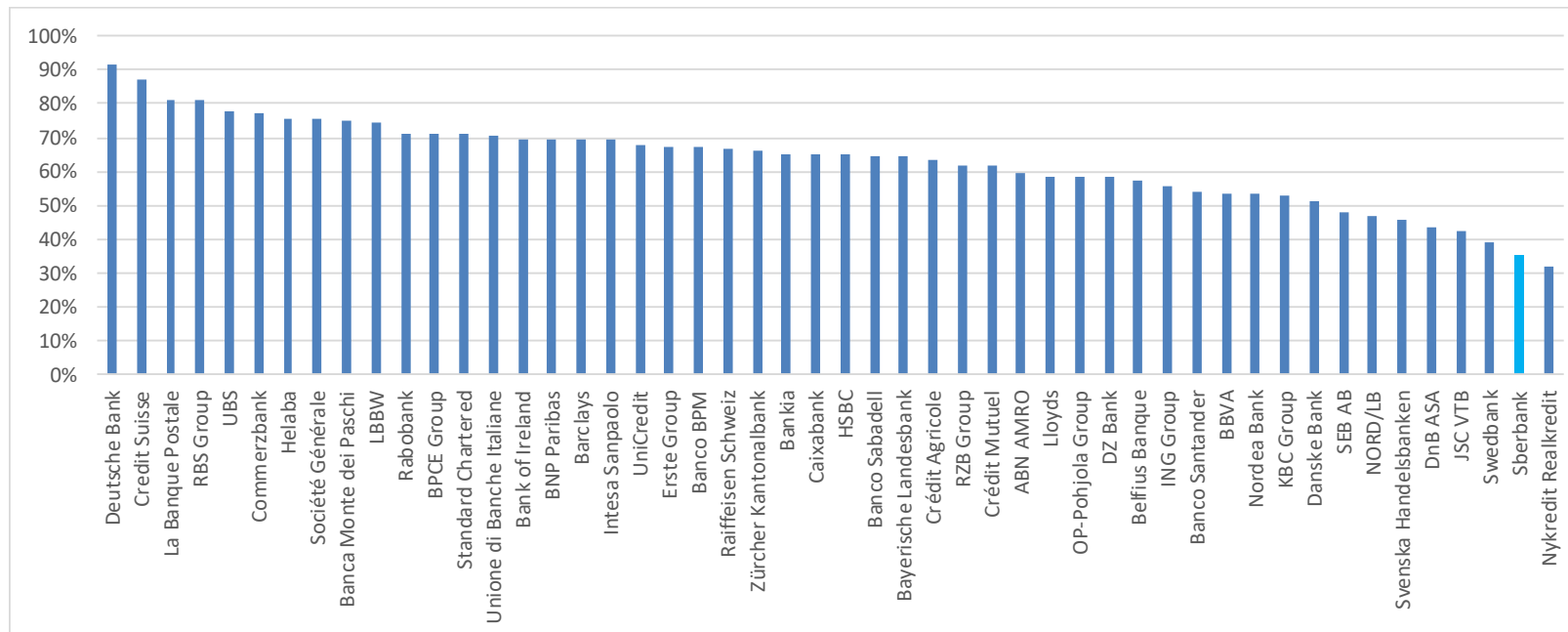
# Cost to income vs peers



*Source: Sberbank/Bloomberg, 2018*

*Compared to the 100 largest banks in terms of capitalization (ex China)*

# Cost to income vs European peers



Source: Zeb 2017

# Risks & opportunities

# Risks

- Global recession.
- Additional sanctions on Russia.
- Large slump in oil prices.
- Sharp devaluation of the Russian ruble.
- Aggressive interest rate hikes.
- Current management leaving the company.

# Opportunities

- Removal sanctions on Russia.
- Higher oil prices.
- Sharp appreciation of the ruble.
- Russian GDP growth.
- Higher investment in domestic shares.
- Lower stake of the government.

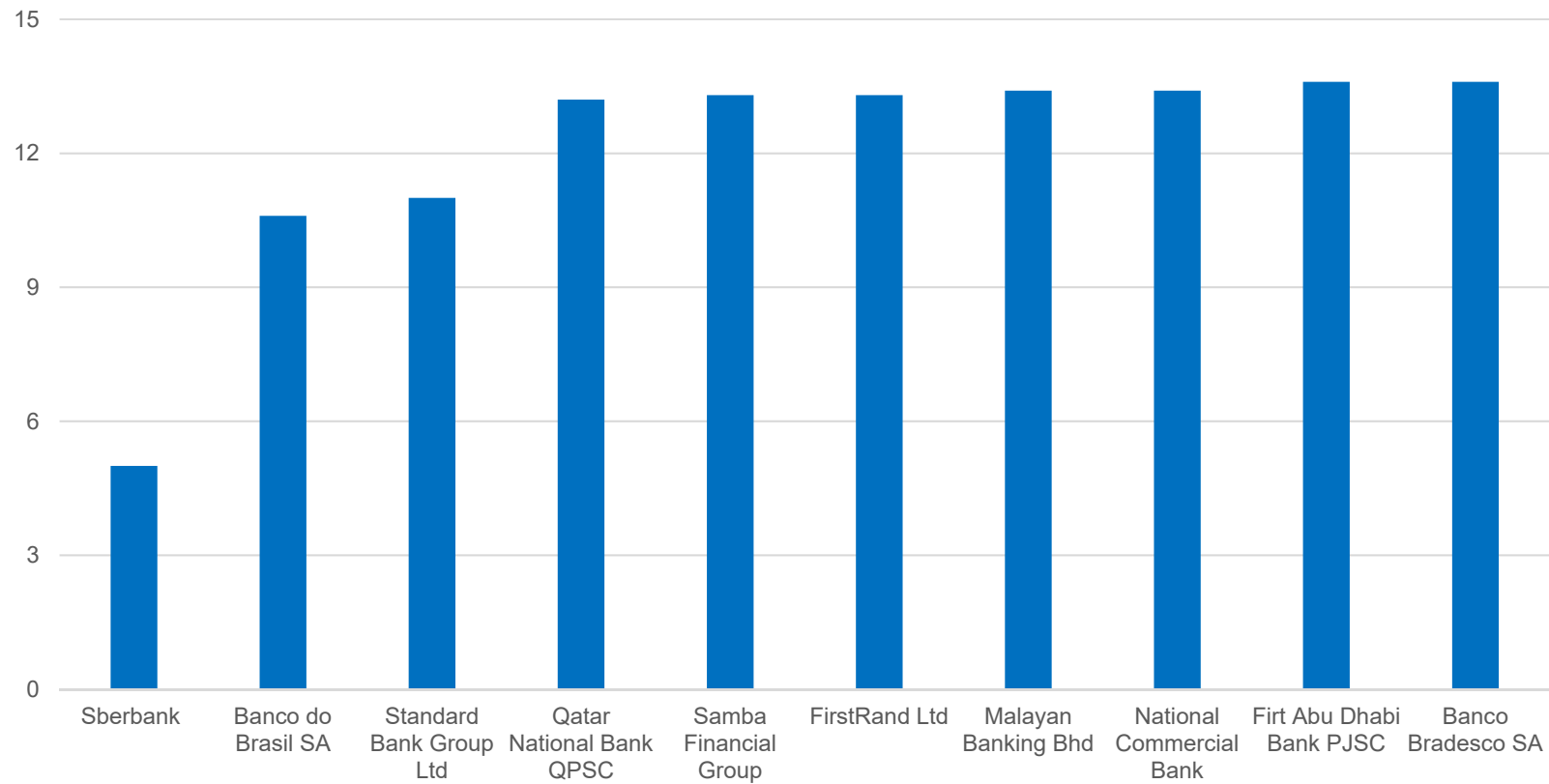
# Valuation



# Valuation

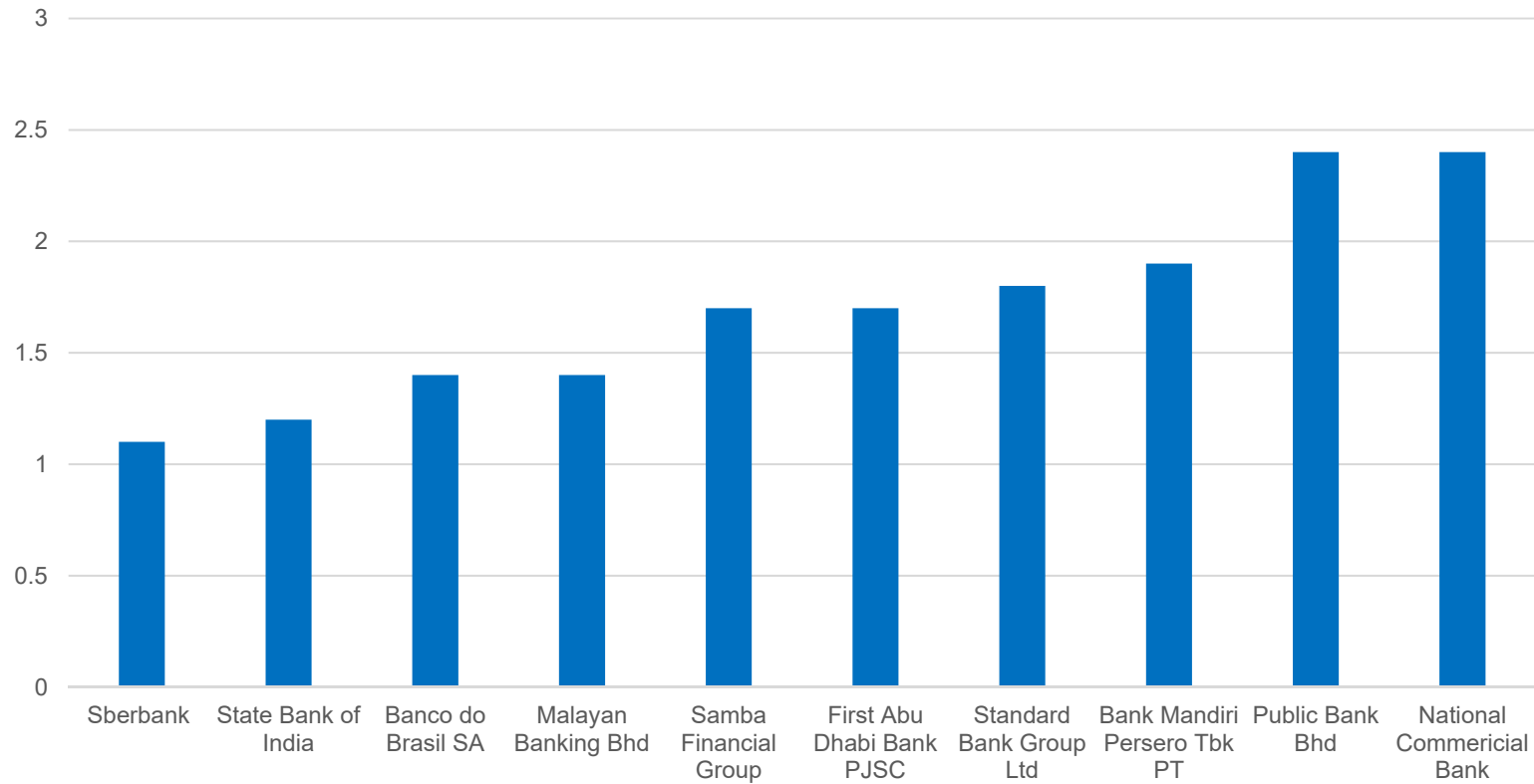
- Sberbank is very cheap, it trades at 5.6x earnings and at 1.2x book value.
- Assuming a 21% normalized ROE and a 12% of cost of equity, we think Sberbank's stock price has a 70% upside potential.
- Sberbank trades at a 50% discount versus other emerging market's banks.
- We think they will achieve their strategic plan for 2018-2020. And they could pay a 10% dividend yield by 2020.

# PE vs major banks



Source: Sberbank, Bloomberg, Jan. 2019

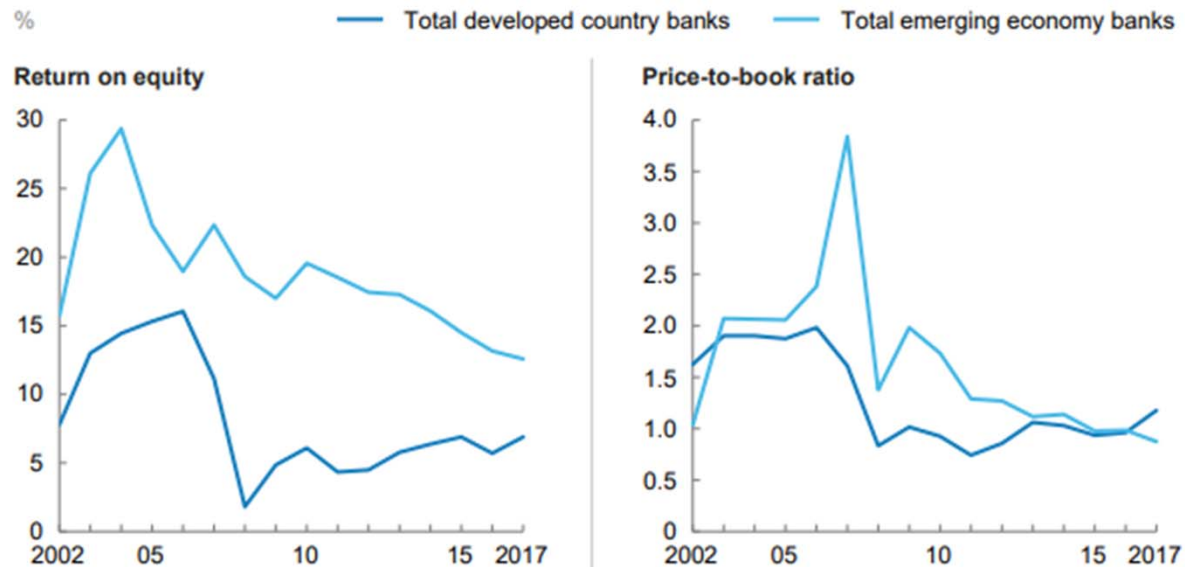
# P/B vs major banks



Source: Sberbank, Bloomberg, Jan. 2019

# Historical ratios

**Banks have posted weaker financial performance since the crisis.**



NOTE: Analysis includes ~1,000 banks in 70 countries, each with total assets exceeding \$2 billion. They account for ~75 percent of global bank assets.

SOURCE: SNL; McKinsey Panorama; McKinsey Global Institute analysis

*Source: McKinsey*

# Russian economy

# Sanctions

- Due to the annexation of Crimea, the US, the EU and other countries imposed sanctions on Russia.
- Sanctions were mainly related to limiting technology to oil companies, limiting access to credit and travel restrictions.
- The sanctions and lower oil led to a devaluation of the ruble.
- Russian Central Bank managed the crisis successfully. It rose rates and did not impose capital controls.
- Ruble devaluation helped exporters and raised reserves.
- Current interest rates are at 7% and Central Bank targets an inflation rate between 4-4.5% by the end of 2019.

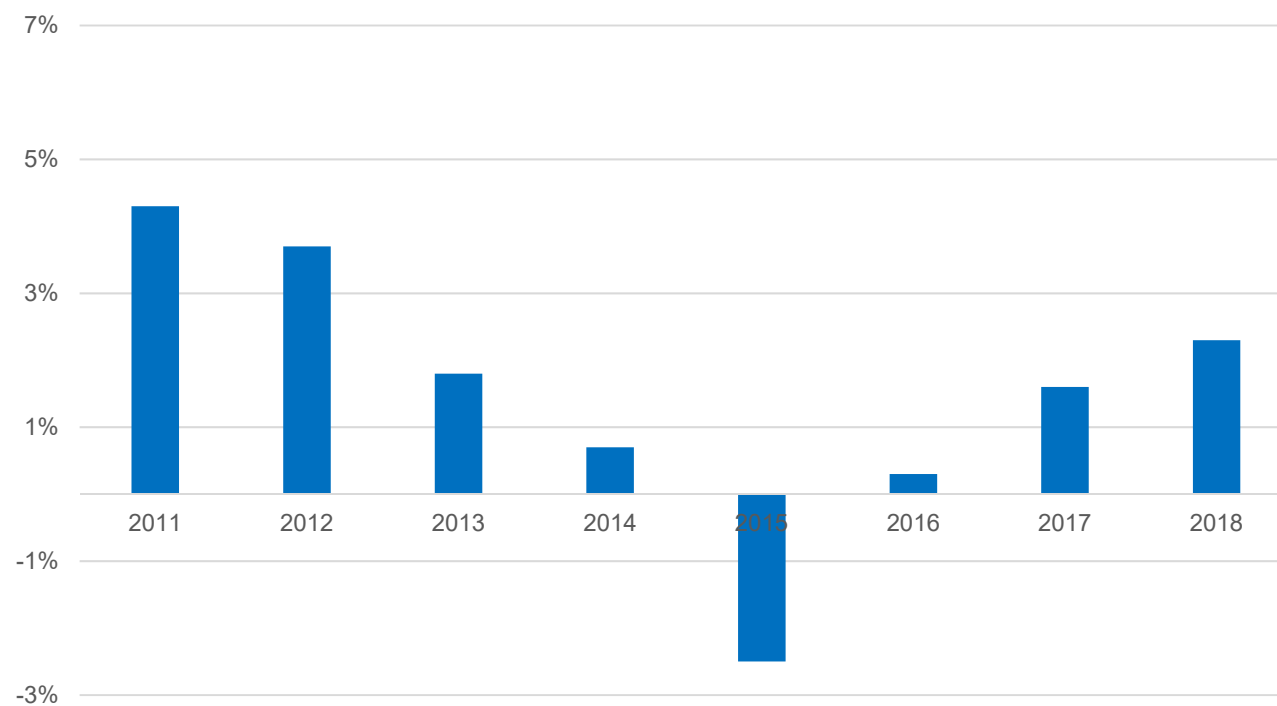
# Exchange rate USD/RUB

(2000-2018)



Source: FRED

# Real GDP growth (2011-18)

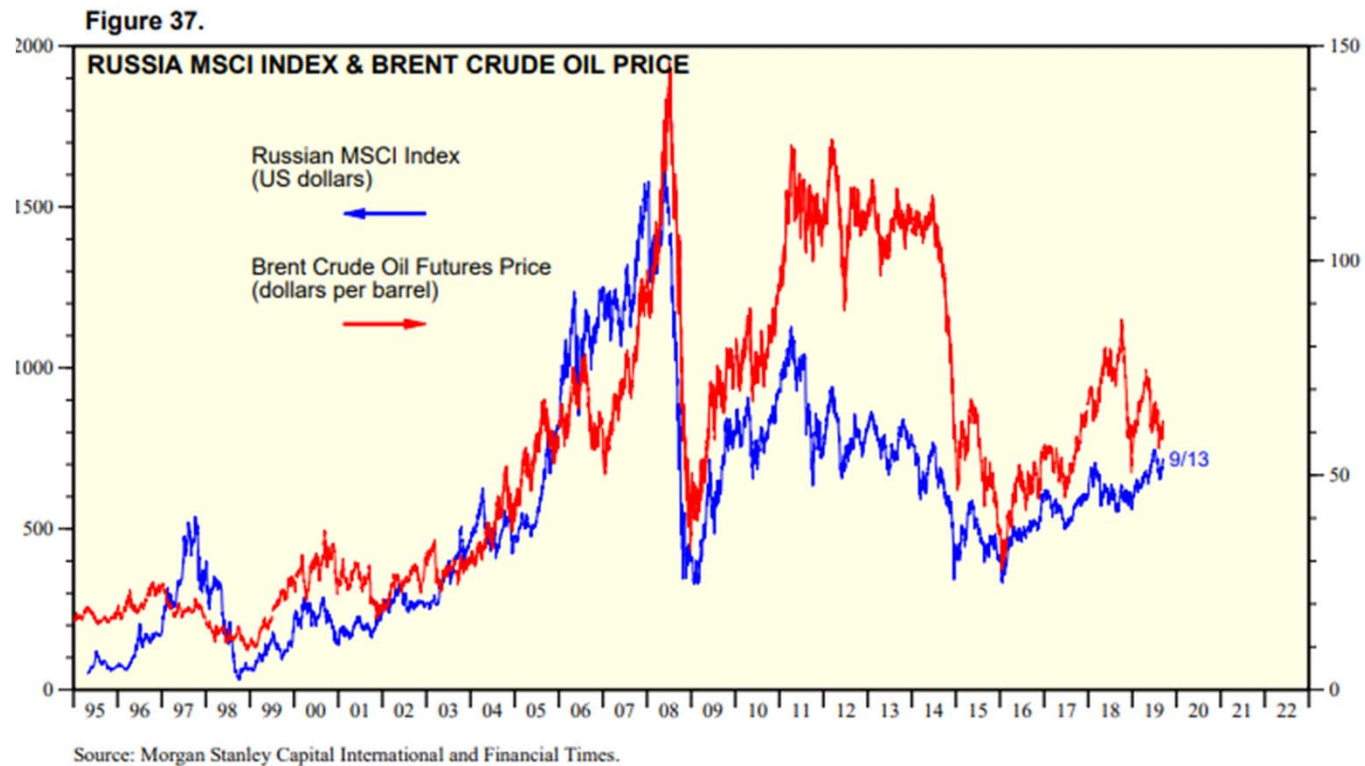


Source: Sberbank, SMC



# Oil

## Russia Price Index & Crude Oil Price

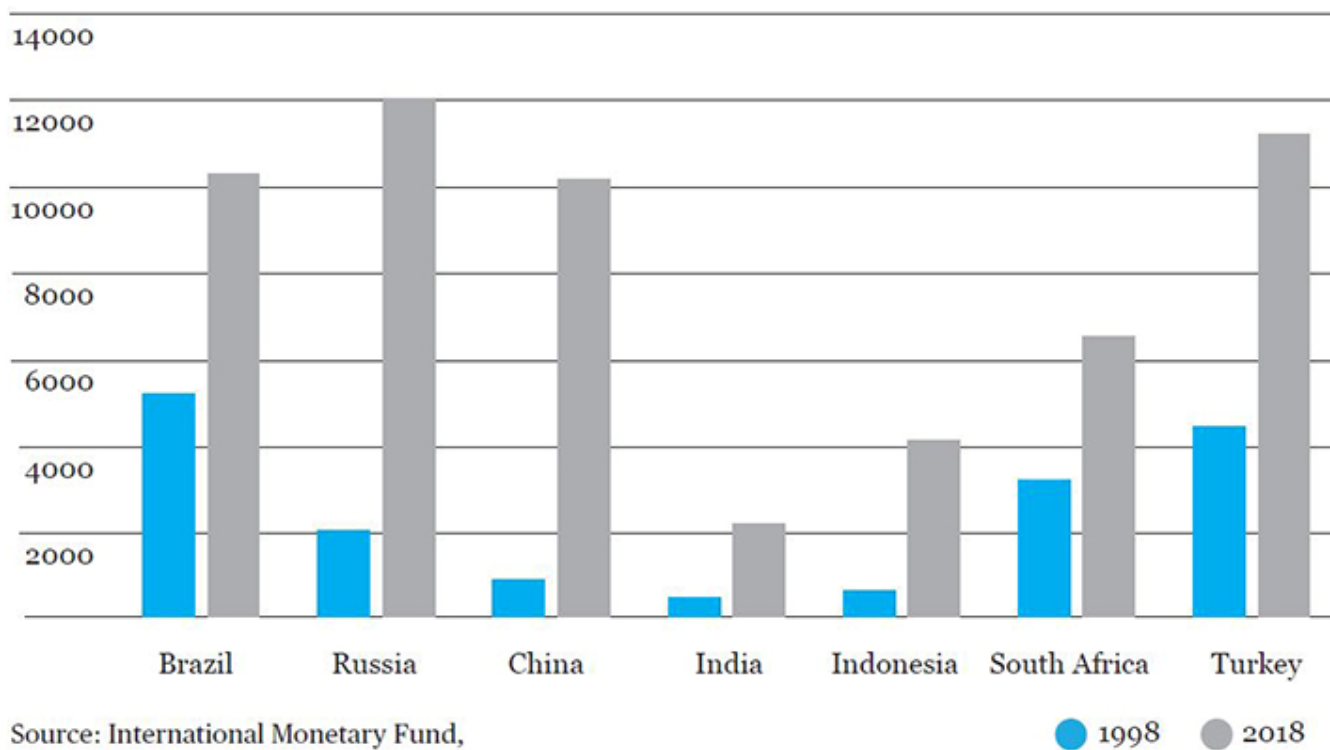


Source: Morgan Stanley, FT, Yardeni

# Positives

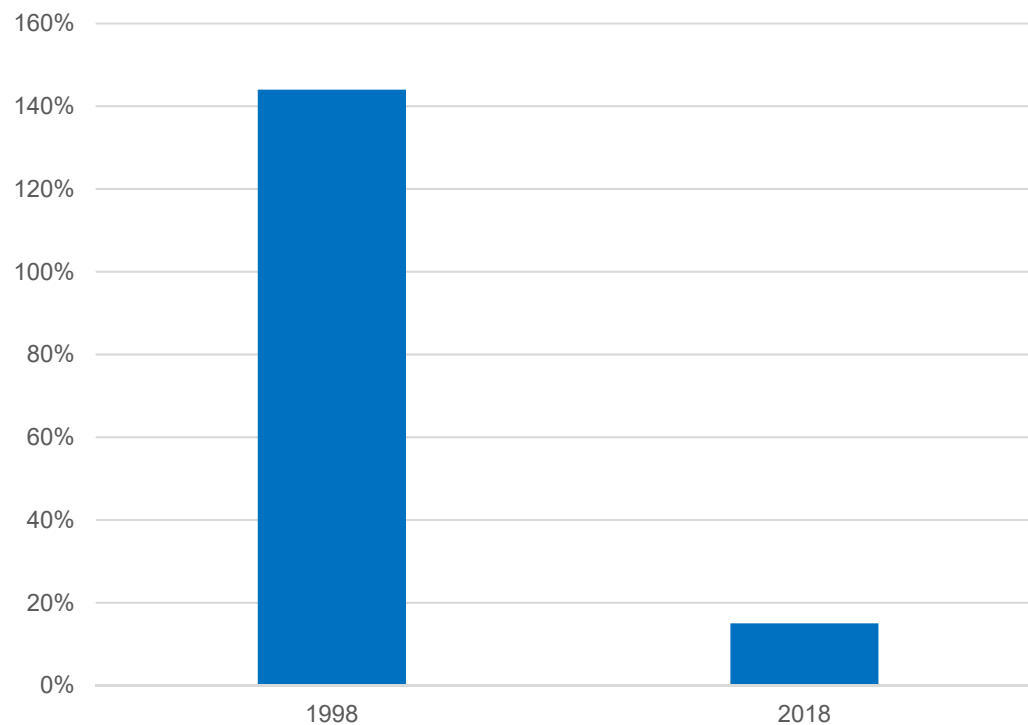
# GDP per capita in USD (1998-2018)

Figure 1. GDP per capita in current USD



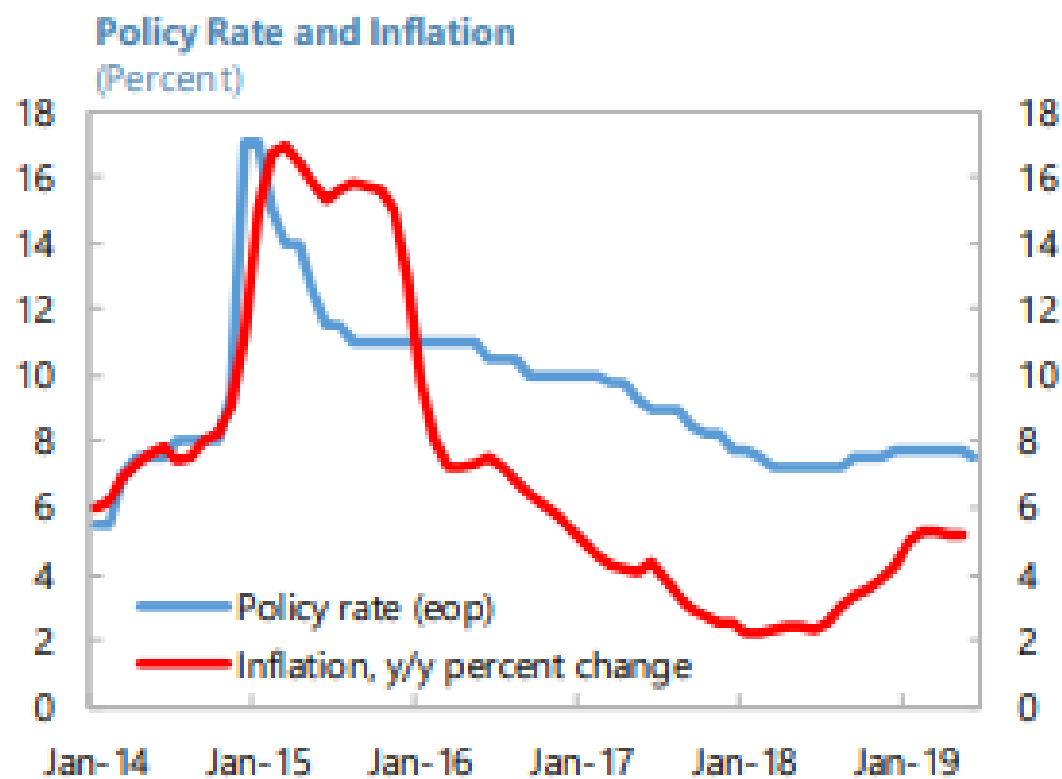
Source: IMF, East Capital

# Russian public debt (1998-2018)



Source: FRED, CBR

# Inflation



Sources: Central Bank of Russia and Rosstat.

Source: IMF, Central Bank of Russia, Rosstat

# Ease of doing business (n° 31 of 190)

TABLE 1.1 Ease of doing business ranking

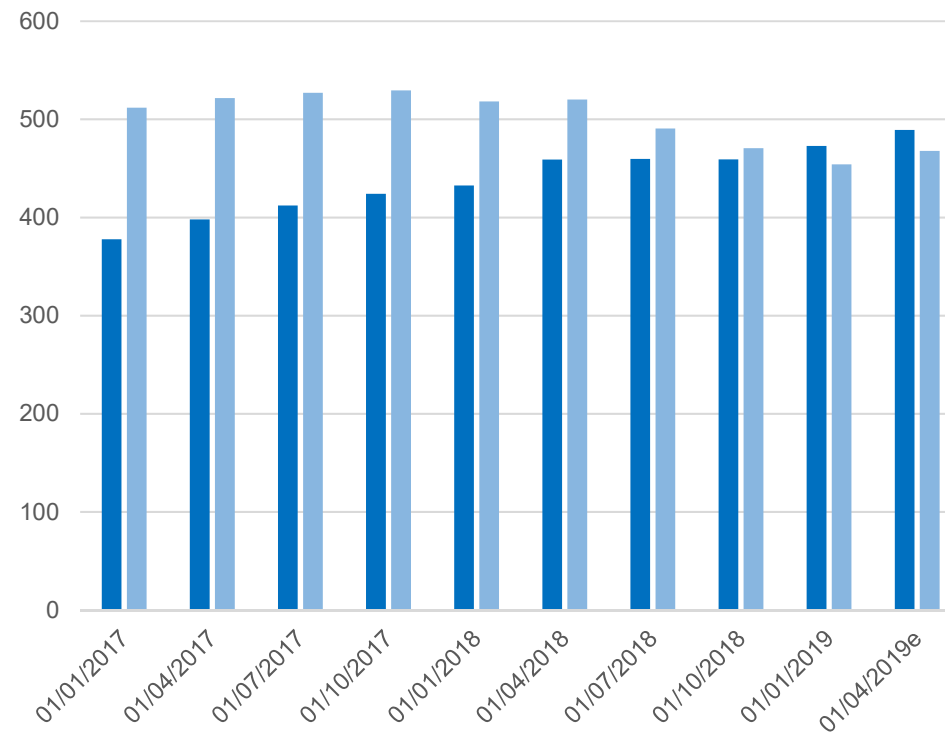
Rank	Economy	EODB score	EODB score change
1	New Zealand	86.59	0.00
2	Singapore	85.24	+0.27
3	Denmark	84.64	+0.59
4	Hong Kong SAR, China	84.22	+0.04
5	Korea, Rep.	84.14	-0.01
6	Georgia	83.28	+0.48
7	Norway	82.95	+0.25
8	United States	82.75	-0.01
9	United Kingdom	82.65	+0.33
10	Macedonia, FYR	81.55	+0.32
11	United Arab Emirates	81.28	+2.37
12	Sweden	81.27	0.00
13	Taiwan, China	80.90	+0.24
14	Lithuania	80.83	+0.29
15	Malaysia	80.60	+2.57
16	Estonia	80.50	+0.01
17	Finland	80.35	+0.05
18	Australia	80.13	-0.01
19	Latvia	79.59	+0.33
20	Mauritius	79.58	+1.29
21	Iceland	79.35	+0.05
22	Canada	79.26	+0.38
23	Ireland	78.91	-0.51
24	Germany	78.90	0.00
25	Azerbaijan	78.64	+7.10
26	Austria	78.57	+0.03
27	Thailand	78.45	+1.06
28	Kazakhstan	77.89	+0.73
29	Rwanda	77.88	+4.15
30	Spain	77.68	+0.07
31	Russian Federation	77.37	+0.61
32	France	77.29	+0.99
33	Poland	76.95	-0.36
34	Portugal	76.55	-0.07
35	Czech Republic	76.10	+0.05

Source: World Bank

# High reserves

- Russia ranks 4th in the list of countries by reserves.
- The country has current account surplus of 7% (2018).
- The reserves fully cover its total external debt (\$489.1bn vs \$467.8bn April 2019)
- Its external debt has been going down over the last years.
- Russia has one of the best reserves/external debt ratio among emerging countries.

# Reserves vs external debt



Source: Sberbank, SMC



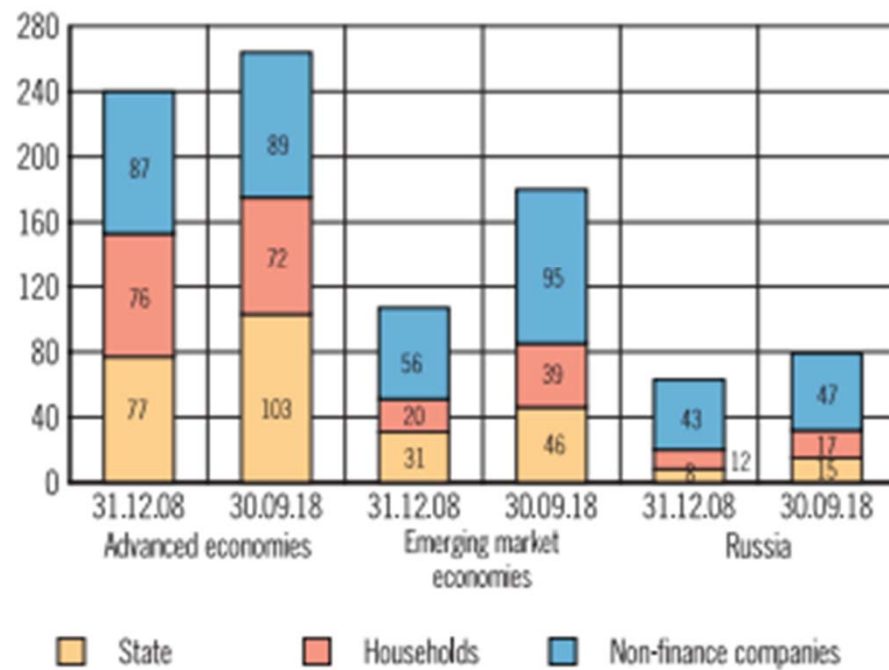
# Low debt

- Russia is one of the few major countries with a low debt ratio (c80% public+private to GDP).
- Low levels of public debt (15% of GDP) vs. 103% in developed countries or 46% in emerging countries.
- It has also a low corporate debt ratio, below other countries.
- Household debt to GDP is 17% vs 25-35% in Eastern European countries or 72% in developed countries.
- Mortgage debt to GDP is especially low (6%) vs. c40% of GDP in developed countries.

# Low debt

AGGREGATE DEBT OF THE NON-FINANCE SECTOR  
(STATE, HOUSEHOLDS, NON-FINANCE COMPANIES)  
(% OF GDP)

Chart 9

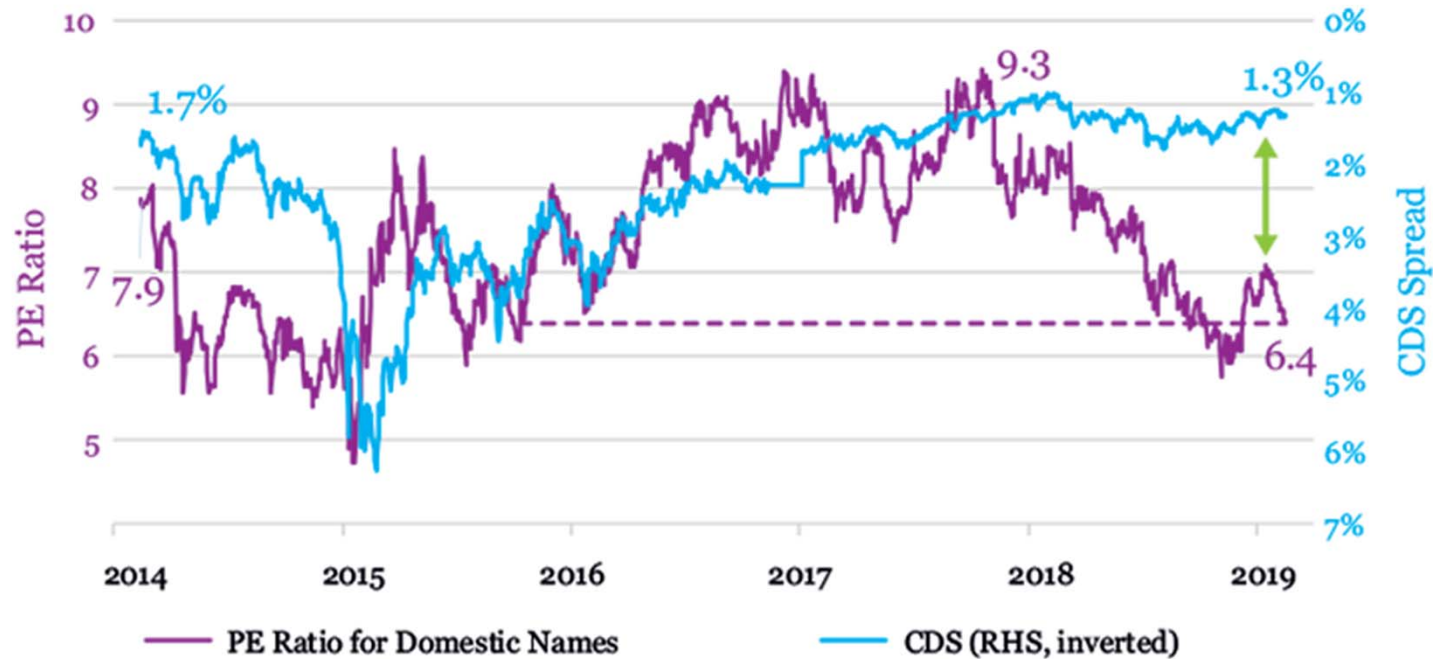


Source: Central Bank of Russia

# Equities

- Russian stock exchange trades at 7x CAPE, the lowest level of the main equity markets.
- The country trades at a c50% discount vs. emerging markets.
- Russia has not always traded at such low ratios. Currently is 40% undervalued compared to its historical average.
- Before the financial crisis of 2008, many Russian companies traded at similar multiples than developed countries' firms.

# Forward PE & CDS Russia



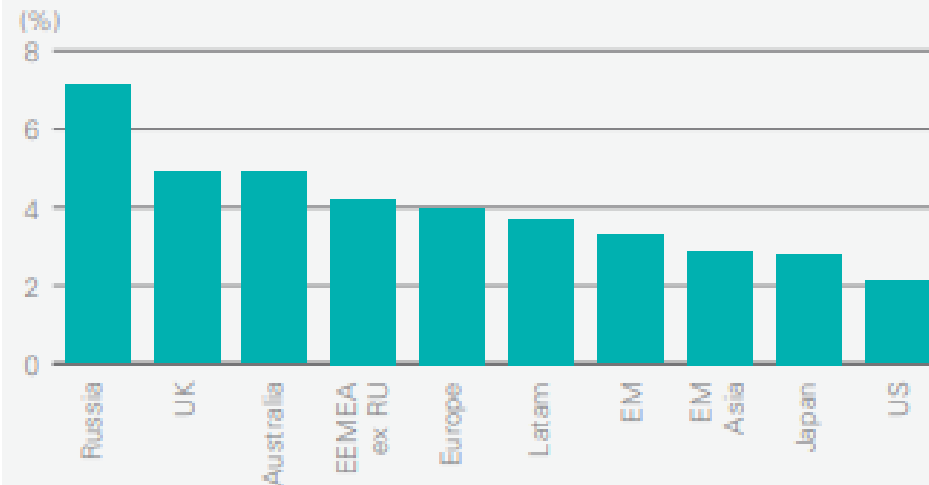
Source: Bloomberg, accessed 17.04.19

Source: East Capital

# Forward Dividend Yield

## Russia's Dividend Yield Is Relatively High versus Global Regions

12-month forward dividend yield by region

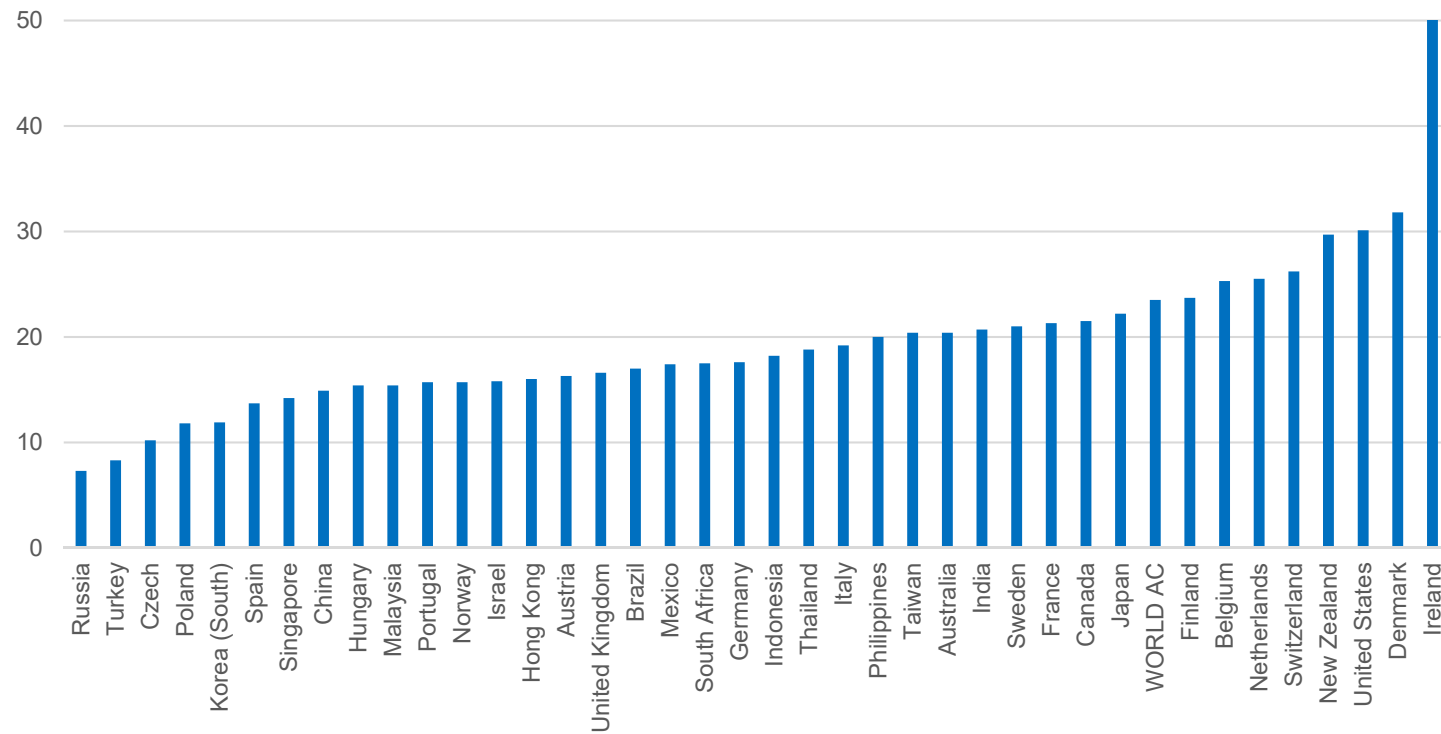


As of 3 June 2019

Source: Morgan Stanley Research

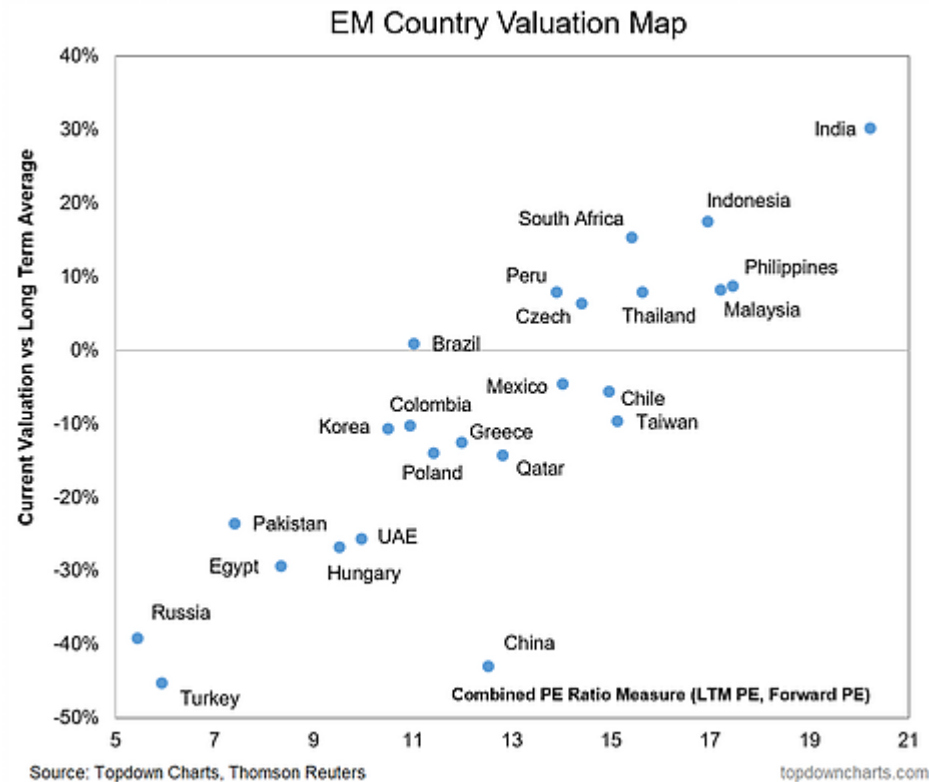
Source: Morgan Stanley

# CAPE by countries



Source: Star Capital

# Emerging markets valuation



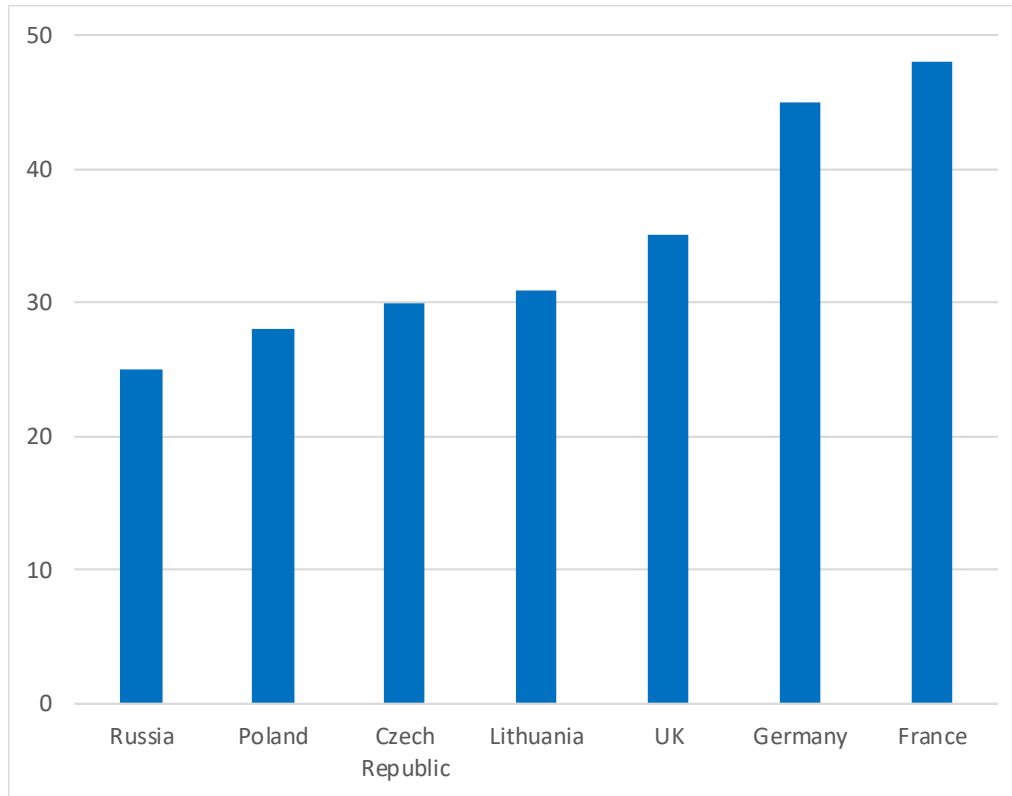
Source: TopDown Charts

# Real estate market

- In Russia real estate investments as a whole have gone down almost 70% from \$8.8bn in 2012 to \$2.8bn in 2018.
- Russia has 25sqm per capita constructed, a low level compared to Eastern Europe countries (30sqm), Europe (36spm) or US (70spm).
- Mortgages to GDP represent only 6% vs. c25% in Eastern European countries and c40% in developed countries.

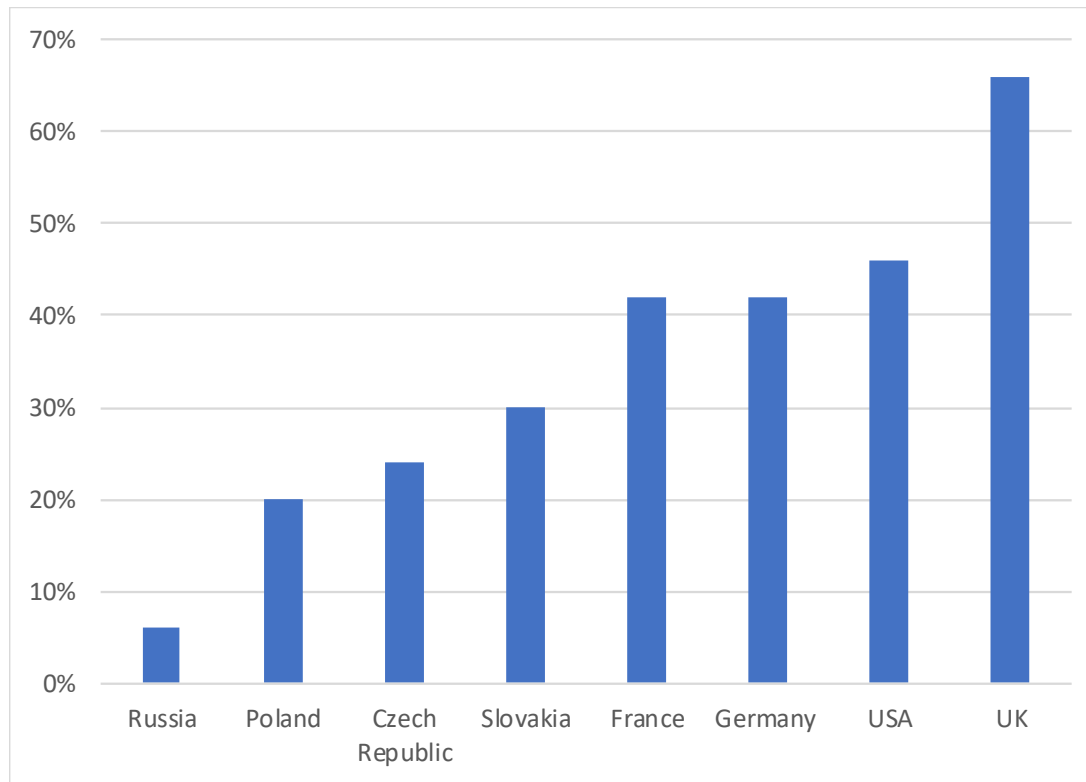


# Europe: Sq meters per capita



*Source: Etalon*

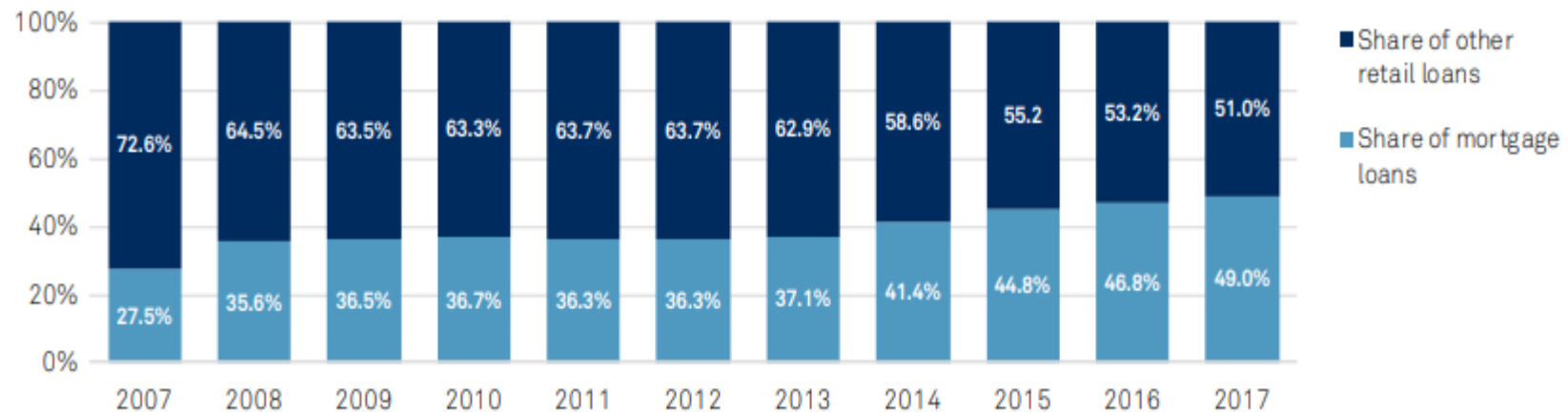
# Mortgages debt to GDP



Source: Hypostat

# Mortgage lending

## Mortgage Lending Is Driving Retail Growth



Source: S&P Global

# Conclusion

- Sberbank is the market leader in Russia, with a special strong position in deposits 45% market share.
- It is very profitable (ROE 24%) and it has a low cost to income (33%).
- The bank trades at just P/B 1.2x and PE 5.6x, with a dividend yield of 7%.
- Russia has a low penetration of credit (both public and private c80%).
- Russian equities are historically very cheap (CAPE 7x).

# Thank you

## LEGAL ADVICE

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