

**Banks**  
Russia

**Company update**  
Equity Research  
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# Renaissance Capital

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## Sberbank More confident in recovery path

- Positive meetings with Russian bank management.** We met with a host of Russian banks last week. Our key take-away is an improved outlook for asset quality. The consensus view is that peak income statement provisions are behind us, peak NPLs should occur YE09-1H10, and write backs, albeit too early to guide, are plausible, and as soon as 2H10 in some cases.
- Improving loan growth, asset quality and cost assumptions.** Loan growth of 18% in 2010E is expected by both Sberbank and us. Despite delivering a 4% cost reduction YoY (RAS) for 9M09, the market remains sceptical about cost delivery at Sberbank. We move to flat costs YoY in 2009E and 10.6% growth in 2010E. We believe headcount will continue to roll. On asset quality, we move to a more dramatic fall-off in provision charges (700 bpts in 2009 to 250 bpts in 2010E), as bottom-up guidance improves with each meeting. We increase our 2010/2011 earnings forecasts by 62% and 9%, respectively.
- New target price \$3 (previously \$2.70), maintain BUY rating.** We continue to like the combination of Russia's top-down recovery story (4%/8% GDP growth 2010/2011E) combined with Sberbank's bottom-up delivery (operating profit +90% YoY 1H09). We believe RoE of 21.5% is achievable in 2010 and we do not think we are getting ahead of ourselves. On a 2011E PER of below 6x, valuations remain on its side, in our view. The recent regulator sign-off for depository receipt was also welcome news.

<b>Report date:</b>	<b>28 October 2009</b>	
Rating common/pref.	BUY/BUY	
Target price (comm), \$	3.0	
Target price (pref), \$	2.25	
Current price (comm), \$	2.35	
Current price (pref), \$	1.54	
MktCap, \$mn	52,265	
Free float (common) (%)	40.00	
Free float in \$mn	22,048	
Average daily traded volume in \$mn	600	
Common shares outstanding, mn	21,584.94	
No of shares per ADR/GDR	na	
Major shareholder with shareholding	State 60%	
Reuters	SBER.MM	
Bloomberg	SBER03 RM Equity	
Web:	www.sbrf.ru	
Share price performance over the last	1 month	16.38%
	3 months	69.36%
	12 months	202.65%
Date of 52 week high:	14/10/2009	
Change from 52 week high:	-3.5%	
Date of 52 week low:	18/02/2009	
Change from 52 week low:	416.7%	

### Summary valuation and financials, \$mn

	Assets, \$mn	Equity, \$mn	Earnings, \$mn	EPS, \$	P/E, x	Earnings growth, %	EPS growth, %	Price/Book, x	ROE, %	ROA, %	Dividend yield, %
2008	200,797	25,959	4,168	0.19	13.6	48.9	-10.4	2.05	13.7	1.6	0.7
2009E	239,074	26,586	717	0.03	72.9	-77.1	-77.7	1.97	2.9	0.3	0.2
2010E	276,872	32,354	6,346	0.28	8.2	730.3	730.3	1.62	21.6	2.5	1.4
2011E	320,044	40,004	8,905	0.39	5.9	39.6	39.6	1.31	24.6	3.0	2.0

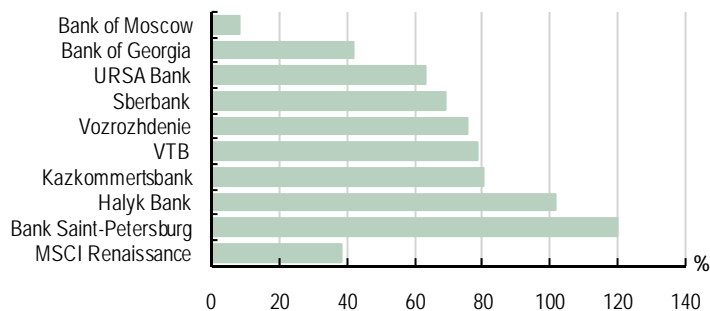
Source: Renaissance Capital estimates

Figure 1: Price performance – 52 weeks



Source: Bloomberg, MSCI

Figure 2: Sector stock performance – 3 months



Source: Bloomberg, MSCI

Figure 3: Sberbank summary sheet, RUBmn

Balance sheet, RUBmn	2007	2008	2009E	2010E	2011E	Balance sheet ratios, %	2008	2009E	2010E	2011E
<b>Assets</b>						<b>Loans/Assets</b>	75	77	78	81
Interbank	124,215	499,049	536,478	622,314	715,661	Deposits/Liabilities	71	75	75	75
Securities	503,339	493,678	617,098	617,098	555,388	Loans/Deposits	106	103	104	108
Net loans	3,921,546	5,077,882	5,254,603	6,125,054	7,360,782	Equity/Assets	11.1	11.1	11.7	12.5
Gross loans	4,038,105	5,282,923	5,840,453	6,869,782	8,046,060	<b>Capital ratios, %</b>				
Interest earning assets	4,549,100	6,070,609	6,408,178	7,364,466	8,631,831	Tier 1	12.2	11.5	12.1	12.6
Total assets	4,928,808	6,736,482	6,837,529	7,863,159	9,121,264	Tier 2	6.7	6.4	5.5	4.6
<b>Liabilities</b>						Total	18.9	17.9	17.5	17.1
Interbank	80,321	302,539	75,635	75,635	75,635	<b>Asset quality</b>				
Securities	300,916	834,203	846,716	922,920	1,015,213	NPLs, RUBmn	94,678	593,965	746,848	672,163
Deposits	3,877,620	4,795,232	5,108,391	5,892,882	6,825,520	NPL reserves, RUBmn	202,285	585,850	744,728	685,278
Interest bearing liabilities	4,258,857	5,931,974	6,030,741	6,891,437	7,916,367	NPLs/Gross loans, %	1.79	10.17	10.87	8.35
Total liabilities	4,928,808	6,736,482	6,837,529	7,863,159	9,121,264	Reserves/NPLs, x	2.1	1.0	1.0	1.0
Shareholders equity	637,197	750,162	760,347	918,853	1,140,113	Credit charge, %	2.10	7.00	2.50	1.50
<b>Income statement, RUBmn</b>						<b>Margins, %</b>				
Interest income	428,666	619,952	823,600	843,574	939,782	Asset margin	11.68	13.20	12.25	11.75
Interest expense	(175,905)	(244,175)	(324,448)	(361,532)	(411,905)	Liability margin	4.79	5.42	5.60	5.56
Net interest income	252,761	375,777	499,151	482,043	527,878	NIM	7.08	8.00	7.00	6.60
Net fee income	65,875	86,194	101,278	121,534	145,840	Spread	6.88	7.78	6.65	6.19
Trading income	29,989	(13,201)	26,396	16,953	18,818	<b>Costs, %</b>				
Other income	4,521	7,255	11,608	10,447	12,014	Cost/Income	48.6	34.7	38.9	39.2
Total revenues	353,146	456,025	638,434	630,976	704,551	Cost/Avg assets	3.8	3.3	3.3	3.3
Staff costs	(118,370)	(132,962)	(126,314)	(131,998)	(141,568)	Effective tax rate	25.2	20.0	20.0	20.0
Other costs	(77,394)	(88,777)	(95,479)	(113,246)	(134,447)	<b>Profitability ratios, %</b>				
Total costs	(195,764)	(221,739)	(221,793)	(245,244)	(276,015)	ROAE	13.7	2.9	21.6	24.6
Operating profit	157,382	234,286	416,641	385,732	428,536	ROAA	1.6	0.3	2.5	3.0
Provisioning charge	(17,633)	(97,881)	(389,318)	(158,878)	(111,869)	<b>Other P&amp;L ratios, %</b>				
Other pre tax items	-	(8,864)	-	-	-	Int inc/Revenues	82	78	76	75
Pre-tax profit	139,749	127,541	27,323	226,854	316,667	Fees/Revenues	19	16	19	21
Tax	(33,260)	(32,175)	(5,465)	(45,371)	(63,333)	Trading income/Revenues	(3)	4	3	3
Minorities	0	0	0	0	0	Fees/Staff costs	65	80	92	103
Other post tax gains/losses	0	0	0	0	0	Fees/Total costs	39	46	50	53
<b>Net profit</b>	<b>106,489</b>	<b>95,366</b>	<b>21,858</b>	<b>181,483</b>	<b>253,334</b>	Payout ratio, %	11.1	12.0	12.0	12.0
Dividend on ordinary shares	11,008	10,612	2,623	21,778	30,400	<b>No of:</b>				
Dividend on pref shares	650	630	144	1,199	1,674	Employees	241,172	243,620	251,208	259,999
						Branches	0	857	791	734
						Mini/Sub branches	0	19,244	19,499	19,675
						ATM's	n/a	n/a	12,808	12,808
<b>Key YoY growth rates, %</b>										
Loans		29.5	3.5	16.6	20.2					
Interest earning assets		33.4	5.6	14.9	17.2					
Deposits		23.7	6.5	15.4	15.8					
Interest bearing liabilities		39.3	1.7	14.3	14.9					
Assets		36.7	1.5	15.0	16.0					
Fee income		30.8	17.5	20.0	20.0					
Revenues		29.1	40.0	(1.2)	11.7					
Costs		13.3	0.0	10.6	12.5					
Operating profit		48.9	77.8	(7.4)	11.1					
Net profit		(10.4)	(77.1)	730.3	39.6					
EPS		(10.5)	(77.7)	730.3	39.6					
<b>Per share data, RUB</b>										
No of ordinary shares, mn	21,585	21,585	21,585	21,585	21,585					
EPS	4.8	4.3	1.0	8.0	11.1					
DPS	0.5	0.5	0.1	1.0	1.3					
BVPS	28.2	33.2	33.7	40.7	50.5					

Source: Company data, Renaissance Capital estimates

Figure 4: Sberbank summary sheet, \$mn

Balance sheet, \$mn	2007	2008	2009E	2010E	2011E
<b>Assets</b>					
Interbank	5,060	16,986	18,758	21,912	25,111
Securities	20,506	16,803	21,577	21,729	19,487
Net loans	159,762	172,835	183,727	215,671	258,273
Gross loans	164,510	179,814	204,212	241,894	282,318
Interest earning assets	185,328	206,624	224,062	259,312	302,871
Total assets	200,797	229,288	239,074	276,872	320,044
<b>Liabilities</b>					
Interbank	3,272	10,297	2,645	2,663	2,654
Securities	12,259	28,394	29,605	32,497	35,621
Deposits	157,972	163,214	178,615	207,496	239,492
Interest bearing liabilities	173,504	201,905	210,865	242,656	277,767
Total liabilities	200,797	229,288	239,074	276,872	320,044
Shareholders equity	25,959	25,533	26,586	32,354	40,004
<b>Income statement, \$mn</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Interest income	16,778	24,988	27,003	29,496	33,033
Interest expense	(6,885)	(9,842)	(10,638)	(12,641)	(14,478)
Net interest income	9,893	15,146	16,366	16,855	18,555
Net fee income	2,578	3,474	3,321	4,249	5,126
Trading income	1,174	(532)	865	593	661
Other income	177	292	381	365	422
Total revenues	13,822	18,381	20,932	22,062	24,765
Staff costs	(4,633)	(5,359)	(4,141)	(4,615)	(4,976)
Other costs	(3,029)	(3,578)	(3,130)	(3,960)	(4,726)
Total costs	(7,662)	(8,937)	(7,272)	(8,575)	(9,702)
Operating profit	6,160	9,443	13,660	13,487	15,063
Provisioning charge	(690)	(3,945)	(12,765)	(5,555)	(3,932)
Other pre tax items	-	(357)	-	-	-
Pre-tax profit	5,470	5,141	896	7,932	11,131
Tax	(1,302)	(1,297)	(179)	(1,586)	(2,226)
Minorities	0	0	0	0	0
Other post tax gains/losses	0	0	0	0	0
<b>Net profit</b>	<b>4,168</b>	<b>3,844</b>	<b>717</b>	<b>6,346</b>	<b>8,905</b>
Dividend on ordinary shares	431	428	86	761	1,069
Dividend on pref shares	25	25	5	42	59
<b>Key YoY growth rates, %</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Loans		8.2	6.3	17.4	19.8
Interest earning assets		11.5	8.4	15.7	16.8
Deposits		3.3	9.4	16.2	15.4
Interest bearing liabilities		16.4	4.4	15.1	14.5
Assets		14.2	4.3	15.8	15.6
Fee income		34.7	(4.4)	28.0	20.6
Revenues		33.0	13.9	5.4	12.2
Costs		16.6	(18.6)	17.9	13.1
Operating profit		53.3	44.7	(1.3)	11.7
Net profit		(7.8)	(81.4)	785.4	40.3
EPS		(7.8)	(81.9)	785.4	40.3
<b>Per share data, \$</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
No of ordinary shares, mn	21,585	21,585	21,585	21,585	21,585
EPS	0.19	0.17	0.03	0.28	0.39
DPS	0.02	0.02	0.00	0.03	0.05
BVPS	1.15	1.13	1.18	1.43	1.77
<b>Balance sheet ratios, %</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
Loans/Assets	75	77	78	81	
Deposits/Liabilities	71	75	75	75	
Loans/Deposits	106	103	104	108	
Equity/Assets	11.1	11.1	11.7	12.5	
<b>Capital ratios, %</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
Tier 1	12.2	11.5	12.1	12.6	
Tier 2	6.7	6.4	5.5	4.6	
Total	18.9	17.9	17.5	17.1	
<b>Asset quality</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
NPLs, \$mn	3,223	20,768	26,297	23,585	
NPL reserves, \$mn	6,885	20,484	26,223	24,045	
NPLs/Gross loans, %	1.79	10.17	10.87	8.35	
Reserves/NPLs, x	2.1	1.0	1.0	1.0	
Credit charge, %	2.29	6.65	2.49	1.50	
<b>Margins, %</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
Asset margin	12.75	12.54	12.20	11.75	
Liability margin	4.58	4.54	4.90	4.85	
NIM	7.73	7.60	6.97	6.60	
Spread	8.17	8.00	7.30	6.90	
<b>Costs, %</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
Cost/Income	48.6	34.7	38.9	39.2	
Cost/Avg assets	4.2	3.1	3.3	3.3	
Effective tax rate	25.2	20.0	20.0	20.0	
<b>Profitability ratios, %</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
ROAE	14.9	2.8	21.5	24.6	
ROAA	1.8	0.3	2.5	3.0	
<b>Other P&amp;L ratios, %</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	
Int inc/Revenues	82	78	76	75	
Fees/Revenues	19	16	19	21	
Trading income/Revenues	(3)	4	3	3	
Fees/Staff costs	65	80	92	103	
Fees/Total costs	39	46	50	53	
Payout ratio, %	11.1	12.0	12.0	12.0	
<b>No of:</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	
Employees	241,172	243,620	251,208	259,999	
Branches	0	857	791	734	
Mini/Sub branches	0	19,244	19,499	19,675	
ATM's	n/a	n/a	12,808	12,808	

Source: Company data, Renaissance Capital estimates