

# Equity Update Baader Bank: Slow markets offer an opportunity to rebuild

**Recommendation:**  **Hold**

**Target price: €3.50**

12 - months horizon

**Current share price: €3.42**

\* price as of 20/03/2024, 11:59 CEST

Sector: Financials

We reiterate our HOLD rating with a slightly lowered 12m TP of EUR 3.5 (EUR 3.7) assuming challenging market conditions to be gradually digested by increasing account volumes in the mid-term.



## Fresh start with a diversified business model after a humbling year

Having revised our medium-term estimates downwards, we are lowering our 12m TP from EUR 3.7 to EUR 3.5 but retain a HOLD rating. While 2024 should not bring major changes in the operational outlook, we expect gradual benefits from growing volumes (both organic and inorganic) and a return to a sector-specific revenue mix beyond 2024.

Baader Bank ends another difficult year characterized by low trading activity and little movement on the markets, although with high interest rates providing a slight safety net. In February, the company announced its preliminary figures for FY 23, with a pre-tax profit of EUR 4.0 mn (-67% vs. FY 22) driven by poor trading results (-30% yoy) and very high IT investments, which drove up administrative costs (+20% yoy), especially in the second half of FY 23. On the markets, the historically weak HY 22 was followed by an even more subdued FY 23 due to the unclear geopolitical situation and high inflationary pressure in the eurozone. On a positive note, Baader Bank's income benefited from the continuous rise in interest rates over the course of the year via intraday lending and a growing deposit base, until it finally reached 4.50% in September 2023, resulting in a 6.3x yoy increase in NII to a total of EUR 35.8 mn. As a result, the mix of revenues has changed substantially with the share of interest income in revenues climbing to a record high of 21%, almost reaching the level of trading income (-30% yoy), which is atypical for a market maker but reflects the trends also observed among other market participants. The weak result prompted management to most likely cancel the FY 23 dividend in its preliminary results announcement.

In our view, 2024 could bring top line stabilization (+3% yoy), assuming that interest income remains at an elevated and trading income at a subdued level. The recently acquired Smartbroker accounts (reported in our last update) should act as a driver for the trading income coupled with US elections which may trigger a minor positive volatility effect on markets. Costs should perform more benign (stable yoy) after management pointed to the slowdown in investments. Baader Bank will present its final full-year 2023 results on March 27 in conjunction with the publication of the 2024 guidance, for which we believe the company will adopt a rather cautious tone, especially given the not particularly encouraging market outlook and the underperformance of the initial 2023 targets.

## Equity Update: Baader Bank

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## Key financial data

### HOLD

Price 20.03.2024	3.4
Price target	3.5
Market cap.	159.1
(tot. shares, in EUR mn)	
Free float	28%
Free float in EUR mn	45.0
Avg. daily turnover (12 m) in EUR mn	0.01
Bloomberg	BWB.GY
Reuters	BLMG.DE



Income statement (EUR mn)	12/2021	12/2022	12/2023p	12/2024e	12/2025e	12/2026e
Net interest income	-1.6	4.9	35.8	37.6	33.8	28.8
Net fee & commission	12.9	73.6	79.5	81.1	83.6	89.4
Net trading result	185.0	53.2	37.4	38.9	46.3	54.7
Total operating income	196.3	131.7	152.8	157.7	163.7	172.8
Losses on loans and advances	0.0	0.0	0.0	0.0	0.0	0.0
Administrative expenses	-139.5	-147.4	-166.9	-168.5	-171.8	-180.4
Earnings from ordinary activities	57.4	12.2	4.0	7.6	10.8	11.7
Net profit before minorities	46.8	8.9	2.8	6.0	8.4	9.1
Net profit after minorities	46.6	8.9	2.8	6.0	8.4	9.1
Adjusted net profit	46.6	8.7	2.8	6.0	8.4	9.1
Balance sheet (EUR mn)						
Cash & central bank	1,372	160	19	3,174	3,501	3,859
Loans & advances to customers	99	91	145	160	176	194
Securities	100	615	776	836	902	972
Goodwill	12	15	17	19	21	23
Customer deposits	1,498	1,994	3,535	3,888	4,277	4,705
Debt securities issued	0	0	0	0	0	0
Subordinated capital	0	0	0	0	0	0
Shareholders' equity	164	165	165	171	180	186
Minority interests	1	1	1	1	1	1
Total assets & liabilities	1,820	2,377	3,939	4,322	4,746	5,209
Market capitalisation	303	206	164	165	165	165
Profitability (%)						
Return on assets	3.5%	0.4%	0.1%	0.1%	0.2%	0.2%
Return on equity adjusted	32.9%	5.3%	1.7%	3.5%	4.8%	5.0%
Ratios (x)						
Loan growth	110.0%	-8.8%	60.5%	10.0%	10.0%	10.0%
Deposit growth	152.3%	33.2%	77.3%	10.0%	10.0%	10.0%
Loans/deposits	6.6%	4.5%	4.1%	4.1%	4.1%	4.1%
Tier 1 ratio	24.5%	22.1%	21.7%	21.5%	21.3%	19.4%
Equity/total assets	9.0%	7.0%	4.2%	4.0%	3.8%	3.6%
NII growth	-38.3%	-401.4%	630.6%	5.0%	-10.0%	-15.0%
Net F&C growth	-58.4%	471.0%	8.1%	2.0%	3.0%	7.0%
NIM on total assets	-0.1%	0.2%	1.1%	0.9%	0.7%	0.6%
Cost income ratio	71.1%	111.9%	109.2%	106.9%	104.9%	104.4%
NPL/customer loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LLP /customer loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Per share data (EUR)						
EPS reported	1.00	0.18	0.06	0.12	0.17	0.19
Earnings per share (adj.)	1.00	0.18	0.06	0.12	0.17	0.19
Book value per share	3.50	3.38	3.39	3.51	3.69	3.82
Dividend per share	0.35	0.05	0.00	0.00	0.05	0.06
Payout ratio	35.1%	26.4%	0.0%	0.0%	30.0%	30.0%
Valuation (x)						
PE reported	6.5	23.2	57.9	27.7	19.6	18.1
Adjusted PE ratio	6.5	23.8	57.9	27.7	19.6	18.1
Dividend yield	5%	1%	0%	0%	2%	2%
Price book value	1.9	1.2	1.0	1.0	0.9	0.9
Price/tangible book value	2.0	1.4	1.1	1.1	1.0	1.0

Source: Baader Bank, RBI/Raiffeise Research estimates

## Adapting our mid-term estimates to the revised structure and the new reality

As we now have two full years of the new reporting format (the so-called “management account structure”), we have adjusted our estimates accordingly. While the new structure has not affected the value of total revenues and total costs, it has impacted the sub-items, which explains the significant differences from our previous forecasts in the table below. On the revenue side, interest- and trading-induced commission expenses have been deducted from NCI and added to the interest income and trading result respectively. In addition, brokerage and transaction income was also shifted from NCI to the trading result. There were only two changes on the cost side: depreciation expenses are now included in administrative costs and the allocation to the fund for general banking risks has been moved to risk costs. This essentially results in a significantly higher NCI and a lower trading result.

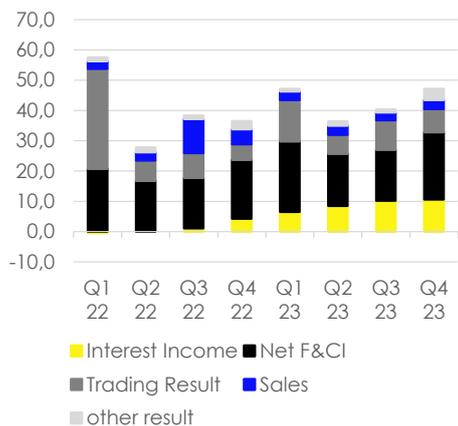
### Changes in mid-term estimates

in EUR mn	2023	2024e	2025e	2026e	2024e	2025e
		new	new	new	old	old
Interest Income	35,8	37,6	33,8	28,8	88,7	82,5
Net F&CI	79,5	81,1	83,6	89,4	-33,8	-26,0
Trading result	37,4	38,9	46,3	54,7	111,5	119,9
Sales	11,4	11,6	11,9	12,1	13,1	12,9
Other	6,7	6,8	7,0	7,1	3,8	3,9
<b>Revenues</b>	<b>170,9</b>	<b>176,1</b>	<b>182,6</b>	<b>192,1</b>	<b>183,2</b>	<b>193,2</b>
Staff costs	72,6	81,3	86,2	92,2	75,7	79,5
Administrative costs	90,6	83,4	81,7	84,1	75,2	77,5
Depreciation / risk costs	3,7	3,8	3,9	4,0	15,6	16,3
<b>Expenses</b>	<b>166,9</b>	<b>168,5</b>	<b>171,8</b>	<b>180,4</b>	<b>166,5</b>	<b>173,3</b>
<b>Pre-Tax Profit</b>	<b>4,0</b>	<b>7,6</b>	<b>10,8</b>	<b>11,7</b>	<b>16,7</b>	<b>19,9</b>
EPS (in EUR)	0,06	0,12	0,17	0,19	0,28	0,33
DPS (in EUR)	0,00	0,00	0,05	0,06	0,08	0,10
C/I Ratio (incl. risk costs & fund)	98%	96%	94%	94%	87%	86%
ROE	2%	4%	5%	5%	7%	8%

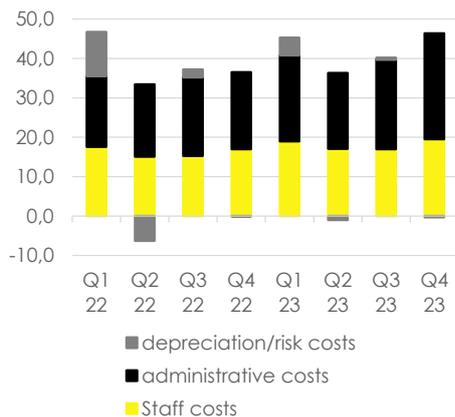
Source: company data, RBI/Raiffeisen Research estimates

Our revised mid-term estimates assume a return to a more market-maker-like revenue mix beyond 2024, based on a gradually increasing trading result (driven by volumes) versus a normalization of NII (driven by the upcoming monetary easing cycle). Baader Bank’s NCI is the most resilient revenue source against external conditions, therefore we expect moderate and steady annual growth. On the cost side, we expect a slight increase in staff costs in 2024, which will primarily be driven by inflationary effects. After the Smartbroker integration caused an investment-intensive year in 2023, we expect administrative costs to stabilize somewhat, while depreciation/risk costs should remain relatively stable. As a result of the weak trading result in FY 23 (leading to the missed FY 23 management guidance) and the poor outlook for this segment in the mid-term combined with higher than expected costs in the previous year, we have also cut our pre-tax profit estimate to EUR 7.6 mn for FY 24e (EUR 16.7 mn previously). Following management’s indication that the regulatory requirements for the allocation to the fund for general banking risks have been met for the current year, we assume a 50% lower contribution compared to the previous year (vs. EUR 6.8 mn allocation to the fund in FY 23).

**Revenue-split (in EUR mn)**



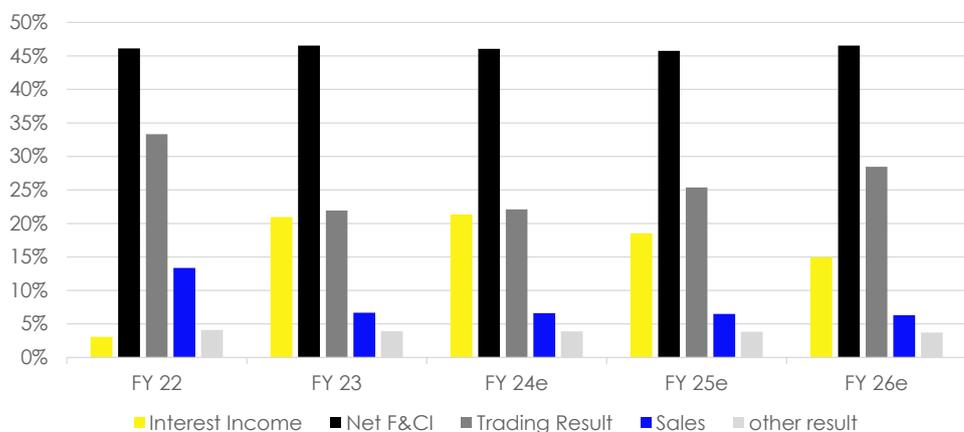
**Cost-split (in EUR mn)**



Source: company data

Source: company data

**Baader Bank Revenue Split**

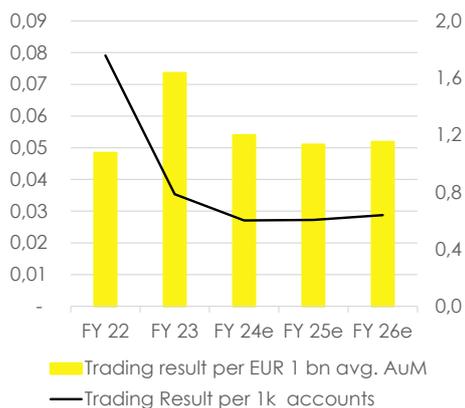


Source: company data, RBI/Raiffeisen Research estimates

**End of the "Smartbroker saga" yet no end in sight for customer growth**

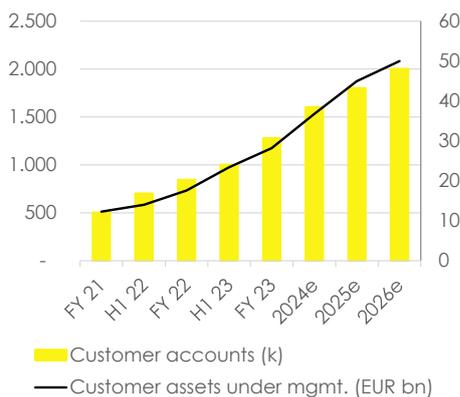
The lengthy process of the Smartbroker account integration was completed in November 2023. As a result, around 90k customer accounts with assets under management totaling EUR 5 bn have been integrated into Baader Bank's systems, bringing the current number of customer accounts to 1,277k. The integrated client base consists of more sophisticated and affluent investors (around 56k average account volumes compared to ~22k in Baader Bank's total client base). For FY 24, Baader Bank's management expects the customer base to increase by 20-30k clients per month (excluding the 20-30k additional Smartbroker customers expected for FY 24), which is why we are forecasting an increase to 1,600k total clients in FY 24.

### Trading result vs. Customer base (EUR mn)



Source: company data, RBI/Raiffeisen Research

### Customer accounts vs. Assets under management



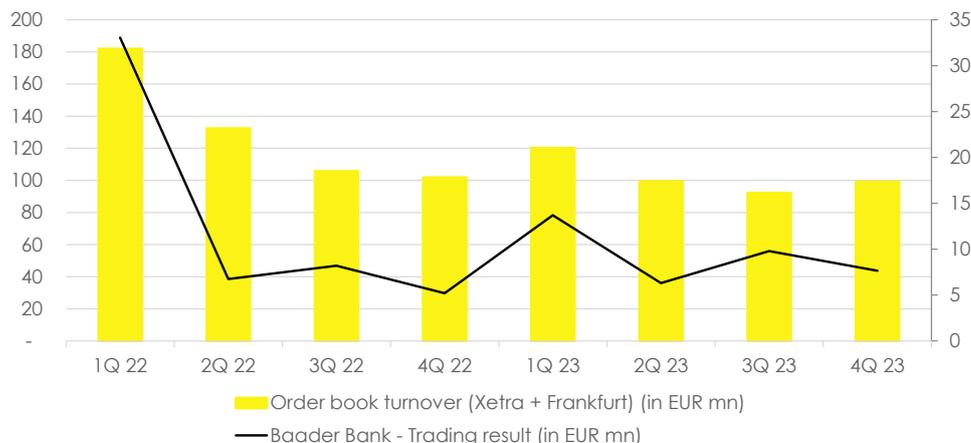
Source: company data

### The calm after the storm continues on the markets

The market environment on the financial markets is looking back on a historically weak year in terms of trading activity (average monthly order book turnover on the Xetra & Frankfurt exchanges fell by -21% yoy in FY 23), while FY 24 does not appear to have started much better with the weakest January since at least 2016 (as of this date, figures are available) and also a very disappointing February. In addition, global volatility in 2024 is at a lower level YTD than in the previous two years, as can be seen in the charts below. A slight market recovery combined with the EU and US elections as minor volatility boosters could compensate for the sluggish start to the year. However, we expect Baader Bank's trading result in FY 24e to be similar to the previous year and do not expect a noticeable recovery until 2025e.

Since our last update in October, little has changed with regard to the general ban on "payment for order flow" (PFOF). After the EU and the European Parliament agreed on the deal on "MiFID" rules last year, the final regulation was incorporated into EU legislation on March 8, 2024 and will enter into force on March 28. EU member states have until September 29, 2025 to transpose this decision into national law and affected companies, such as Baader Bank, are exempt from this law until June 2026. It remains to be seen when and how the law will be integrated into German law.

### Baader Bank's trading result vs. order book volumes (Xetra, FFT)



Source: Deutsche Börse, company data

### Global Volatility Index 2022 vs 2023 ytd

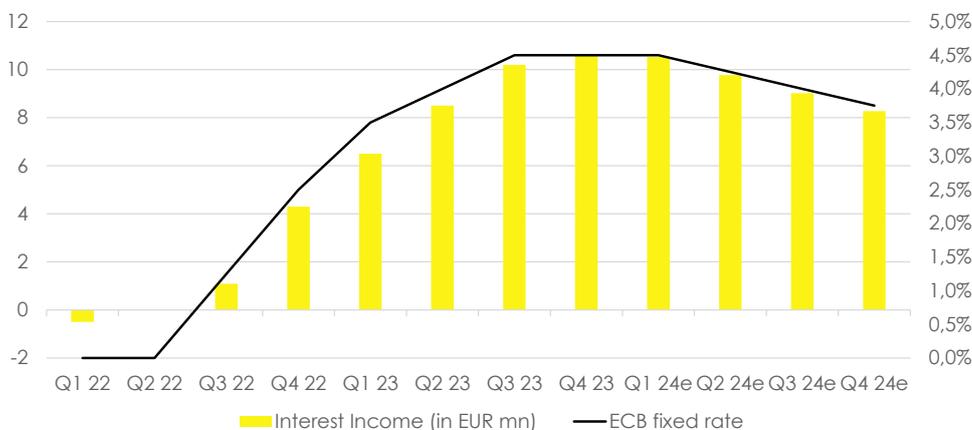


Source: Bloomberg

### NII emerges as surprising rescuer to the weak trading environment

In 2023, interest income emerged as the main driver of Baader Bank’s revenue growth on the wings of interest rate hikes. Lombard and intraday loans combined with a growing account base benefited strongly from the high interest rate level, leading to a jump in NII to EUR 35.8 mn in FY 23, almost reaching the level of trading result (EUR 37.4 mn). For 2024e, RBle expects the key interest rate reduction cycle to begin and the year-end level of 3.75% to be reached, which would still mean slightly higher average interest rates for FY 24e than in the whole of 2023. Given the high correlation between NII and interest rates, we expect the NII to move sideways (+5% yoy).

### Baader Bank NII vs. ECB fixed rate

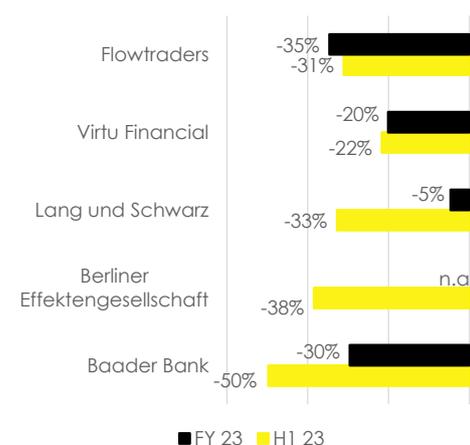


Source: company data, RBI/Raiffeisen Research estimates

## Domestic and International peers sitting in the same boat

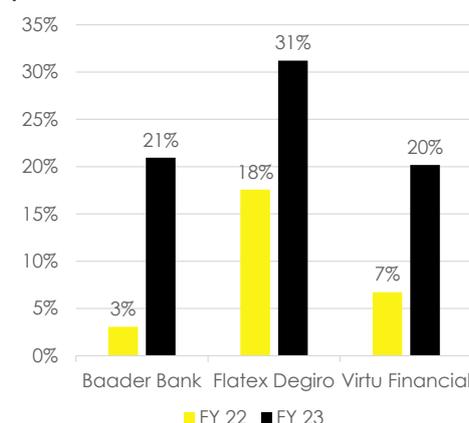
The geopolitical situation, the monetary policy measures and the slowdown in trading activities also affected Baader Bank's peers at national and international level. While Baader Bank suffered major losses in its trading result, particularly in H1 23, with a decline of -50% yoy, the figure settled at -30% for FY 23 and is thus much closer to the development of the peer group. Another trend that can be observed across the industry is the shift in revenues towards a more diversified approach, thanks to the increase in interest income. In the German market, Flatex Degiro increased net interest income as a percentage of total revenue from 22% in FY 22 to 31% in FY 23, while US market maker Virtu Financial saw an increase from 7% to 20%. Baader Bank made the biggest leap in this comparison from 3% in FY 22 to 21% in FY 23, although this is also due to the significantly weaker trading result compared to its competitors.

### Trading result - yoy development



Source: company data, peer group data

### NII share in revenues - Baader Bank vs. peers



Source: company data, peer group data

## Valuation

After a difficult year Baader Bank is expected not pay a dividend for FY 23. We forecast another difficult year in FY 24e in combination with a further dividend shortfall and a return to dividends from 2025e. Baader Bank will publish its final results for FY 23 and a guidance for FY 24 on March 27, 2024.

### Dividend Discount Gordon Growth model

in EUR	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TV
BVPS	3.5	3.7	3.8	4.0	4.3	4.6	5.0	5.0
EPS growth*	110.0%	41.3%	7.9%	29.0%	33.6%	31.7%	20.1%	4.0%
ROE adj.	3.5%	4.8%	5.0%	6.1%	7.8%	9.6%	10.6%	10.8%
EPS	0.12	0.17	0.19	0.24	0.32	0.42	0.51	0.0
DPS	0.00	0.05	0.06	0.07	0.10	0.13	0.15	0.0
LT risk free rate	2.00%	2.10%	2.20%	2.30%	2.45%	2.60%	2.60%	2.45%
Equity risk premium	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Company beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Cost of equity	8.6%	8.7%	8.8%	8.9%	9.1%	9.2%	9.2%	9.1%
Target P/B								1.3
Terminal value								6.7
DPS	0.00	0.05	0.06	0.07	0.10	0.13	0.15	0
Discounted DPS/TV	0.00	0.04	0.04	0.05	0.06	0.08	0.09	3.66
Fair value								3.99

RBI/Raiffeisen Research estimates

Our slight downward revision of mid-term estimates maintains the fair value in our DDGG model at a steady level, while the Dividend Yield drops from 1.9 to 0.9 after the expected shortfall of the Dividend Payout for FY 23. Using the same valuation methodology with the DDGG model weighted at 70% and the peer group multiplies at 30% we cut our target price to EUR 3.5 while maintaining our HOLD recommendation.

### Peer group valuation and DDGG

Valuation model	weight	TP
DDGG	70%	4,0
Dividend yield	10%	0,9
PER	10%	1,6
ROE - BV Regression	10%	4,7
<b>Target price</b>		<b>3,50</b>

### Peer group overview

Company	P/E			Div. yield			P/B			ROE		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Virtu	9,9	8,5	7,9	5,0%	5,0%	5,0%	1,9	1,7	1,3	22%	27%	26%
Cowen Inc	0,0	0,0	0,0	0,0%	0,0%	0,0%	0,0			12%		
Jefferies Fin. Group	13,2	10,4	8,5	2,8%	3,0%	3,6%	0,9	0,9		8%	9%	
Tradeweb Markets Inc	39,6	35,2	31,9	0,4%	0,4%	0,5%	4,1	3,8	3,5	10%	11%	11%
Flow Traders	9,9	8,5	7,5	5,0%	5,9%	6,7%	1,1	1,1	1,0	12%	13%	14%
ABC Arbitrage	12,5	9,1	8,2	7,5%	9,1%	10,2%	1,5	1,4	1,8	12%	16%	17%
Swissquote Group Holding	14,2	13,0	12,0	1,9%	2,1%	2,4%	3,6	2,9	2,5	26%	24%	23%
FlatexDegiro	13,4	9,5	8,7	0,0%	0,0%	0,0%	1,5	1,3	1,2	11%	15%	14%
<b>Median</b>	<b>13,2</b>	<b>9,5</b>	<b>8,5</b>	<b>3,9%</b>	<b>4,0%</b>	<b>4,3%</b>	<b>1,5</b>	<b>1,4</b>	<b>1,3</b>	<b>12%</b>	<b>14%</b>	<b>14%</b>
<b>Baader Bank</b>	<b>27,7</b>	<b>19,6</b>	<b>18,1</b>	<b>0,0%</b>	<b>1,5%</b>	<b>1,7%</b>	<b>1,0</b>	<b>0,9</b>	<b>0,9</b>	<b>5%</b>	<b>6%</b>	<b>8%</b>

Source: company data, Bloomberg

### ROE over time



Source: company data, RBI/Raiffeisen Research estimates

### CIR over time



Source: company data, RBI/Raiffeisen Research estimates

This company update was prepared with the active support of **Georgios Maniotis**, our associate analyst.

### Disclosure

Baader Bank

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#### Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

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Baader Bank Rating History as of 03/19/2024



History of long term recommendations

Symbol	Date	Recommendation	Company
BLMG.DE	10.10.2023	Hold	Baader Bank
BLMG.DE	29.03.2023	Buy	Baader Bank

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council (“special services”) have been provided in the past 12 months (column B).

	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 12 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	57.1%	55.0%
Hold recommendations	27.9%	27.7%
Sell recommendations	15.0%	17.3%

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council (“special services”) have been provided in the past 12 months (column B).

	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 12 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	57.1%	55.0%
Hold recommendations	27.9%	27.7%
Sell recommendations	15.0%	17.3%

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