VTM INTERNATIONAL FUNDMANAGEMENT AG

Liechtenstein

Investment Case – VP Bank

High Dividend – Re-Positioning on-going – Rock-Bottom Valuation

Facts: VP Bank reported a re-affirming consolidated net profit of CHF 25.5 million for the first half of 2023. Compared to the previous year, net profit increased by 19.4 percent from CHF 21.3 million (H1 2022). Income from commission and service businesses decreased by 3.1 percent to CHF 69.8 million in H1 2023 due to increasingly trendless stock markets during the reporting period. At the same time, the profit from the trading business grew from CHF 27.1 million to CHF 38.7 million. In H1 2023, income from financial investments amounted to CHF 5.3 million (previous year: CHF 6.5 million). Total operating expenses grew in the first six months by 14.3 percent from CHF 138.4 million to CHF 158.2 million. Nevertheless, the cost/income ratio improved from 85.7 percent to 84.0 percent. VP Bank demonstrates a very strong financial stability with a confirmed single A- rating by Standard & Poor's Fitch (as per 19 July 2023) and a tier 1 ratio of 23.4 percent. Group equity represents 8.7% of total assets (equity ratio).

Financial Analysis H1 2023 vs H1 2022

CHF (in millions)	H1 2023	H1 2022	+/-
Market Capitalisation	519.6	537.8	-3.4%
Book Value of Equity	1'098.9	1'102.1	-0.3%
Tier 1 Ratio	23.4%	22.8%	+2.6%
Net Revenues	210.1	198.4	+5.9%
Group Net Income	25.5	21.3	+19.4%
EPS (CHF)	4.16	3.18	+30.1%
Dividend per Share (CHF)	5.00	5.00	-
ROE	4.6%	3.9%	+17.9%
Assets under Management	47,226	46'486	+1.6%
Net new Money	83.1	179.8	-53.8%
Cost/Income	84.0%	85.7%	-2.0

Operating expenses grew due increased depreciation and amortisation costs, higher IT expenses and investments in new labour force: The various investment initiatives had a toll on the aggregated operating expenses. The bank had previously talked about higher depreciation and amortisation costs, increased IT infrastructure expenses and investments in new highly skilled professionals. This resulted in a 14 percent increase in operating expenses to CHF 158.2 million.

The IT investments were directed towards an «Open Wealth-ready IT» and service architecture enabling VP Bank to more easily integrate innovative third-party providers and to develop new services for greater client satisfaction.

Tier 1 ratio: With a Tier 1 ratio of 23.4 percent (previous period: 22.8 percent), VP Bank has a very solid equity base which compares favourably to the industry average.

Client assets under management: The bank's customer assets under management amounted to CHF 47.2 billion at the end of June 2023. This represents an increase of 1.6 percent compared to the previous period's value of CHF 46.5 billion. Custody assets increased to CHF 5.6 billion (previous period: CHF 5.5 billion). Customer assets including custody assets amounted to CHF 52.8 billion as of end of June 2023 (previous period: CHF 51.8 billion). Net new money amounted to CHF 83.1 million in the first six months of 2023 (vs. CHF 179.8 million in H2 2022).

Dividend: The market participants expect a dividend of CHF 5.00 per share for 2023 (payable in May 2024). This means that the current dividend yield amounts to 5.7%, which is one of the highest in the Swiss equity space. The Board of Directors always indicated that between 40 percent and 60 percent of the consolidated profit generated will be distributed to shareholders as long as the medium-term Tier 1 ratio target of 20 percent is exceeded. The aim is to achieve a constant dividend development. With that a stable dividend pay-out for the current year can be expected. The dividend will continue to underpin and support the current very low share price level. There is usually no better downside protection than a strong dividend pay-out level.

Outlook: VP Bank remains committed to its 2026 strategy cycle. The aim is to achieve net new money growth of at least 4 percent per year based on the customer assets under management. The cost/income ratio should be 75 percent (i.e. total operating expenses/total operating income) or less and a core capital ratio of at least 20 percent should be maintained. VP Bank started the new 2026 strategy cycle in 2021. The bank targets accelerated growth in the next few years, i.e. 2024 until 2026. In the second half of the year, it will focus on the further expansion of innovative digital services for clients, the widespread introduction of our wealth planning service and the creation of new services for young adults in its home market of Liechtenstein.

Conclusion: VP Bank is well advanced in its re-positioning efforts. All in all, the results for H1 2023 were in line with market expectations. Looking forward, there is without doubts tremendous potential for improvements, particularly in terms of profitability. The share price has not moved much year-to-date (+0.68%), which could be seen as an excellent entry point for investors into the stock.

The company is still trading at a very high discount to book value of around 50%. The P/E ratio for next year according to estimates published by Bloomberg amount to only 10.5x with a dividend yield of 5.7%. This makes the stock of VP Bank the cheapest bank equity on the Swiss stock market. We do not consider this discount to be justified after the disclosure of the H1 2023 results and the re-confirmed outlook statements. In the medium term, the share price should continue to increase in value. With a successful implementation of the 2026 strategy the stock should approach book value of CHF 190.00 or more.

Appendix 1: Stock prices development 01/01/2022 to 09/15/2023:

Appendix 2: SWOT Analysis:

Strengths	Weaknesses
(!) Strong equity position	(-) Size limitations
(!) Long-term orientated shareholders	(-) Private banking competition is intense
(!) High and stable dividend pay-outs	(-) Returns are below capital costs
(!) Well positioned in Asian markets	(-) Market turbulences impact performance
(!) Liechtenstein is a strong banking hub	
(!) Good positions in Europe	
(!) Clear focus on private banking services	

Opportunities	Threats and Risks
(+) Success in implementing strategy 2026	(*) Reputational risks
(+) Growth of Asian business	(*) Failure of risk management
(+) Higher interest rates/returns on fin. assets	(*) Regulation and compliance issues
(+) Expansion of international cooperation	(*) Litigation risks
(+) Return of excess capital to shareholders	

Appendix 3: Relative Value Analysis:

Company	FX	Price 14.11.2023	Market cap (EURm)	Performance (%) YTD	 1 year	P/E (x)	P/B (x)	ROE (%)	Dividend yield (%)	Ticker
VP Bank AG	CHF	82.20	562	-6.4%	-8.3%	10.9	0.5	4.1%	5.8%	VPBN SW Equity
Cembra Money Bank AG	CHF	63.30	1'964	-17.7%	-12.4%	11.4	1.5	12.1%	6.3%	CMBN SW Equity
Liechtensteinische Landesbank AG	CHF	62.50	1'991	12.0%	17.3%	12.2	0.9	8.0%	4.2%	LLBN SW Equity
Vontobel Holding AG	CHF	48.40	2'847	-21.0%	-19.5%	11.4	1.1	10.8%	6.2%	VONN SW Equity
St Galler Kantonalbank AG	CHF	484.00	3'001	0.6%	4.1%	13.3	1.0	8.0%	3.9%	SGKN SW Equity
EFG International AG	CHF	9.65	3'099	14.9%	21.5%	11.0	1.6	14.3%	4.9%	EFGN SW Equity
VZ Holding AG	CHF	90.00	3'724	25.3%	18.9%	20.0	4.2	22.1%	2.4%	VZN SW Equity
Graubuendner Kantonalbank	CHF	1'655.00	4'280	-2.4%	-2.1%	19.3	1.5	7.8%	2.6%	GRKP SW Equity
Banque Cantonale Vaudoise	CHF	101.00	8'991	13.8%	19.2%	19.5	2.3	12.4%	4.2%	BCVN SW Equity
Julius Baer Group Ltd	CHF	52.94	11'281	-1.7%	-1.4%	9.9	1.6	16.4%	5.1%	BAER SW Equity
Partners Group Holding AG	CHF	1'071.00	29'579	31.1%	4.8%	25.0	11.0	45.0%	3.7%	PGHN SW Equity
UBS Group AG	CHF	21.58	77'280	27.1%	26.2%	14.0	0.9	22.3%	2.5%	UBSG SW Equity
Average			**12'383**	**6.3%**	**5.7%**	**14.8**	**2.3**	**15.3%**	**4.3%**	
Weighted average				**21.4%**	**16.2%**	**16.3**	**3.2**	**24.3%**	**3.2%**	
STOXX Europe 600	*EUR*	*112.57*	*565'719*	*17.5%*	*22.7%*	*6.1*	*0.6*	*11.4%*		*SX7E Index*

Source: Bloomberg (14.11.2023); Forecast: Bloomberg consensus