

Company Report

Baader Bank

September 17, 2021

Banks/Global

Buy (Initiation)

Price 16.09.21*	6.96
Price target	10.30
Volatility risk	medium
Year high/low	10.20/2.76
Currency	EUR
EUR/EUR	1.00
GDR rate	n.a.
Shares outstanding eoy in mn	46.69
Market capitalisation (total shares) in EUR mn	324.9
Free float	30.5%
Free float in EUR mn	99.2
Avg. daily turnover (12 m) in EUR mn	0.18
Index	EURO STOXX Banks
ISIN code	DE0005088108
Bloomberg	BWB GY
Reuters	BLMG.DE
www.baaderbank.de	

A good play on global trading euphoria

We initiate the coverage of Baader Bank (Baader), a small-cap specialised bank offering a wide range of capital-market services, with a BUY call and a 12m TP of EUR 10.3. The shares have massively rerated since March 2020 on the wings of booming trading volumes and surging volatilities on global markets sparked by pandemic-related uncertainties – all that in tandem with successful new clients' acquisition. Backed by market positioning, our mid-term outlook suggests normalising, though fruitful years ahead and a relatively attractive valuation compared to peers leaving room for further upside of the share price.

What does Baader Bank do? Baader mainly acts as a market maker offering execution services mostly on gettex (platform at the Munich Stock Exchange), Frankfurt and Stuttgart Stock Exchange. On top, it offers various services foremost for neo-brokers, traditional banks, fintechs and asset managers. Given the unique type of the business model and limited number of competitors we derive our TP mainly from Dividend Discount Gordon Growth valuation model (75% weight) but also by applying peer group related multiples using companies in similar businesses (25%).

The effect of the euphoria of global trading is best illustrated by the skyrocketing ROE to an unbelievable 93% for H1 2021 from 42% in 2020 compared to levels around 0% in the last five pre-pandemic years (incl. a substantial negative ROE of -25% in 2018) – a period when Baader was going through a deeper restructuring process. The upswing has been predominantly achieved owing to amazing growth in the trading result, which accounts for nearly 80% of total revenues, costs being kept under control despite a (presumed) significant variable remuneration component and an expanding client base in most of its key business areas.

As a result of a significant profit recovery, the management proposal of a cash dividend was accepted by 29.1% of shareholders (EUR 0.25 per share) while 67.1% opted for scrip dividend at a subscription price of EUR 7.25 (corresponds to 25% pay-out). Going forward, our profit forecasts supported by sound capitalisation allow a sustainable pay-out of 30%, yielding 5-6%.

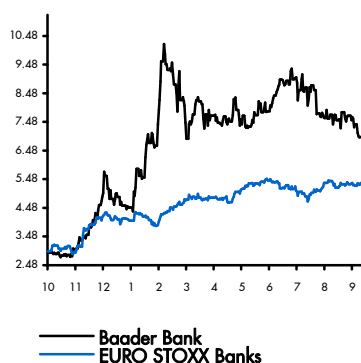
Moderating growth keeps high ROE: Within a 3y horizon we reckon with a positive, but decelerating growth rate in trading activity, which should keep the ROE at extraordinary levels. C/I might settle at around 60-65%, albeit assuming high linkage between remuneration and the trading result. Beyond 2023e, our long-term model incorporates a gradual normalisation of trading volumes back towards the 2020 level, which can be regarded as a conservative view.

Upside risks: Low interest rate for longer supporting the online brokerage market/asset management, elevated market volatility, M&A (from both sides), dividends. **Downside risks:** Regulation, competitive pressure, growing fee expenses.

Key figures and ratios

EUR	12/2019	12/2020	12/2021e	12/2022e	12/2023e
Total operating income	77.4	196.6	224.0	250.2	262.8
Earnings before taxes	n.a.	56.2	74.6	89.6	87.8
Net profit after minorities	-0.7	42.2	56.0	67.2	65.8
Earnings per share (adj.)	-0.02	0.92	1.20	1.44	1.41
EPS growth	96.7%	n.a.	30.6%	20.1%	-2.1%
Adjusted PE	-79.01	4.90	5.80	4.83	4.94
Dividend per share	0.00	0.25	0.36	0.43	0.42
Dividend yield	0.00%	5.56%	5.17%	6.21%	6.08%
Return on equity adjusted	-0.9%	43.5%	37.6%	33.1%	26.2%
Price book value	0.75	1.72	1.83	1.42	1.19
Price/NAV (ex. goodwill)	0.93	1.87	1.94	1.50	1.24

Source: Baader Bank, RBI/Raiffeisen Research estimates



Source: RBI/Raiffeisen Research

Co-Sponsored Research

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* The indicated price is the last price as available at 6:30 AM on 17.09.21, Source: Reuters/Bloomberg



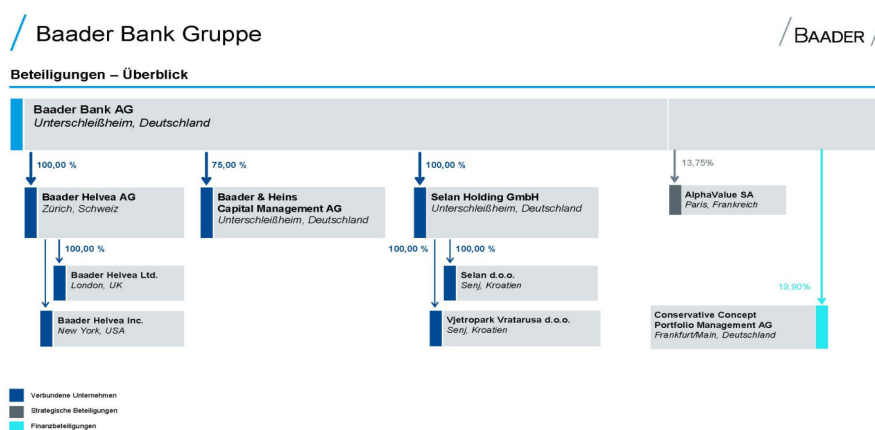
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Company profile

Baader Bank Group is a German bank based in Unterschleißheim near Munich with more than 35 years of experience operating on the capital markets. The bank runs an integrated business model combining Market Making, Brokerage incl. Capital Markets, Asset Management, Banking and Research and as such offers trading, settlement and banking services. Germany is the core market and through its network of subsidiaries it is also present in the DACH region as well as in London and New York with a various number of international institutional clients.

Baader Bank is a small-cap stock (current MCap at ca. EUR 330 mn) whose shares trade in the "Open Market" segment on eight German stock exchanges with its home market being Munich (m:access). The stock trades at ca. 1.8x P/B on our 2021e forecasts. The average daily trading volume of Baader Bank shares in the last 12m amounted to around EUR 180k.

Baader Bank Group structure



Source: Baader Bank

Main business segments

Market Making

The company mainly acts as lead broker, specialist and quality-liquidity provider on regulated stock exchanges (Berlin, Frankfurt, Stuttgart, Munich and Vienna) as well for OTC trading and is one of the leading players in Germany. Baader Bank is the exclusive market maker on gettex for stocks, which in the meantime has emerged as an alternative to the longer-standing Tradegate in Berlin.

Capital markets & Corporate Brokerage

Baader Bank offers ECM advisory for a wide spectrum of capital market transactions incl. IPO and various services under the umbrella of Designated Sponsoring.

Multi Asset Brokerage

In addition, it offers traditional sales and sales-trading activities for institutional clients on regulated markets and OTC.

Asset Management Services

As an outsourcing partner for traditional and digital asset managers, Baader Bank provides its expertise in areas such as portfolio management for fund managers with a primary focus on regulatory and administrative services, portfolio management and trading functions.

Banking Services

Baader Bank is a service provider for fintechs, Robo-advisors and asset management companies. For digital players Baader Bank acts predominantly via a B2B2C platform. Its main areas are account and custody businesses and stock exchange access. Baader Bank is a partner of Scalable Capital, the largest German digital asset manager.

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Research

The group performs sell-side research (13 analysts) with a focus on the DACH region. Via a partnership with the French player AlphaValue (stake increased from 5.4% to 13.75% in March 2021) the coverage universe has been significantly extended to around 600 listed companies, while the number of research customers increased by 34% in 2020. Baader plans to expand their spectrum of international securities with the help of "Baader Europe".

Non-core operations

Baader operates a wind park in Croatia, which does not belong to the core segment. It resulted from a debt-equity swap and given the nature of the business we cannot rule out the scenario of a disposal in the long-term perspective. This business contributes 5-10% of total revenues.

Baader Bank's history with key milestones

1983-1993

Pioneer in trading foreign, mainly US, stocks and rises to one of the leading institutions in this segment in Germany.

1993-2000

Expansion of the business into equity capital markets advising SMEs on various capital-market-related transactions; takeover of and merger with Ballmaier & Schultz Wertpapier AG, thus becoming one of the leading brokers in Germany. Finally in 2000, Baader entered the institutional brokerage business through two more acquisitions; launch of bond trading.

2000-2007

Baader Bank became the market leader in order book management for derivatives in Frankfurt (supported by an acquisition in 2004). Launch of services for investment managers, institutional clients and professional futures traders (acting as execution broker, custodian and investment manager).

2008-2014

After another purchase (Deutsche Börsenmakler GmbH), Baader expanded into ETF trading and also became the lead broker in this area in 2008. As a result of receiving a full banking licence in the same year, Nico Baader was appointed to the management board, the bank expanded into the retail business and intensified efforts in the Equity Capital Markets segment. 2010 can be marked as a breakthrough year for Market Making in over-the-counter securities with the bank trading for famous local banking groups (stocks and later ETFs, bonds, mutual funds). In 2011, the bank launched Equity Research and expanded into the Austrian market. In Switzerland Helvea was created in 2014.

2015 to date

2015 saw a generation change at the management board with Nico Baader succeeding Uto Baader. During 2016-2019, the bank went through a deeper restructuring process which had been triggered by weak profitability and tightening of regulatory criteria. During this period Baader Bank disposed of several non-core holdings, reduced the management board from four to three members, reduced the workforce by around 10% (by end 2020) and streamlined its organisational setup to six key business areas. Since 2019 the number of customers and accounts has been growing rapidly, especially during 2021 when it surpassed 300k securities accounts.

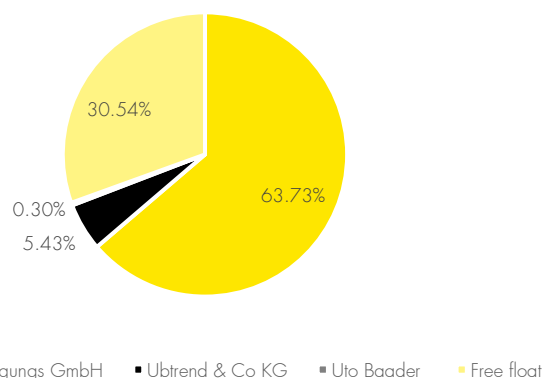
Corporate governance

The Baader family acts as an anchor shareholder having a track record in enabling the bank to smoothly adapt to the rapidly changing market environment and regulatory framework.

Baader Beteiligungs GmbH holds the majority stake in Baader Bank with 63.7% (+5.3% via UBtrend, a former real estate management company). The free float amounts to 30.5% and has been stable in the last few years.

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Shareholder structure



Source: Baader Bank

Dividend policy

Baader Bank has not paid dividends in past years due to weak profitability. Following the sharp increase of earnings in 2020 the management decided to share profits from 2020 results with a pay-out ratio of 25%, which was recently conducted in the form of cash dividend (EUR 0.25 per share, 22.9% of shareholders opted) and a scrip dividend (subscription price at EUR 7.25 per share, 67.1% of shareholders opted).

Management

The management board comprises three members around the CEO Nico Baader (responsible for Market Making, ECM, Strategy), who succeeded Uto Baader in 2015. Following the resignation of Dieter Brichmann, Dietmar von Blücher, a former Comdirect board member, was appointed new CFO. Oliver Riedel, in charge of Brokerage, Asset Management, Research and banking services, rounds out the management team.

Operational highlights during 2020 – 06/2021

Below we present the key operational developments in major segments during the period 2020-H1 2021, which was predominantly driven by expansion in the main business segments but also by positive effects from the strategic repositioning of previous years.

Market making

Revenues from this segment benefited directly from soaring trading volumes and extremely high volatilities on both the German and international markets as well as OTC during 2020 and at the beginning of 2021. On top of that, the bank finalised its optimisation projects in pricing and trading systems making it more competitive for new retail brokers (Finanzen.net zero Broker, Smartbroker on gettex, Scalable and other neo-brokers). In 2020 Baader managed to increase the total number of trades in market making by 90% while in 2021, the trend has continued with a further increase. Looking ahead, Baader sees a stable trend, especially on the trading platforms where the bank operates as a market maker.

Although volatilities are a little lower than in the extraordinary year 2020, they are still elevated in general. As the CBOE Volatility Index peaked in the first two months of 2021, monthly trading volumes on the German stock exchanges were at an equal or higher level than they were in 2020 at that time. While the share of foreign stocks traded increased significantly, domestic stocks, ETFs and funds, for example, remained constant or have moderately decreased yoy. As in FY 2020, Baader continued to benefit from strong new customer acquisition by "neo-brokers", triggered primarily by their function as service providers in market making via trading platforms (especially gettex). The drivers of this positive development in market making are firstly high trading volume (especially retail clients), which was particularly strong in Q1 21, and secondly the high number of new customers, which was especially noticeable in Q1 2021. Baader highlights that one of the

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short-term drivers of the high volatility and the significant increase in earnings was the trend of “short-squeeze stocks” (e.g. GameStop).

An essential area in which Baader was able to benefit strongly is the ascent of fee-optimised execution platforms, which within the German market have caused a loss of market share of traditional regional stock exchanges. Baader therefore was able to strengthen its market position through increased trading activities via “mobile brokers” and “robo advisors”. This development led to a growing B2B2C customer pool, which not only boosted the number of customers, but also bolstered Baader’s business activities as a market maker. Another point which underpins Baader’s increasing independence from traditional stock exchanges are high revenues from private clients and retail investors that strengthened the OTC offering and market making on the gettex platform.

Capital markets & Corporate Brokerage

Within ECM 29 transactions (incl. the special execution busines) were executed during 2020. The general trend was positive during H1 2021, as IPOs are slowly getting back on track and some capital market measures from 2020 were made up for. By the numbers H1 2021 showed promising and positive trends with already 44 deals representing a growth of nearly 50%. Baader was acting as a co-manager in the capital increase of BAUER AG, for net issue revenue of EUR 63.3 mn, supported the IPOs of the two US biotech companies Sensei Biotherapeutics and ATAI Life Sciences as financial advisor. While admitting to have a disadvantage in large-volume transactions with guarantee components due to balance sheet limits, Baader sees it inevitable to continue cooperating with globally active commercial banks.

In corporate brokerage, the total number of mandates grew to 80 vs. 74 by the year-end 2020 or +30% in yoy terms. Among these mandates are also some MDAX stocks (e.g. Scout24, MTU Aero and Teamviewer), which Baader supported in their capital market processes as well as via designated sponsoring.

The first half of 2021 was also very positive for the Multi Asset Brokerage segment, especially Q1. This was due to increasing trading activities (also among institutional investors), positive effects from the growth market of private investors via Baader's account and custody business as well as other upcoming projects. While some market participants are neglecting their brokerage area, Baader sticks to expansion plans on a sustained basis.

Banking and Asset Management services

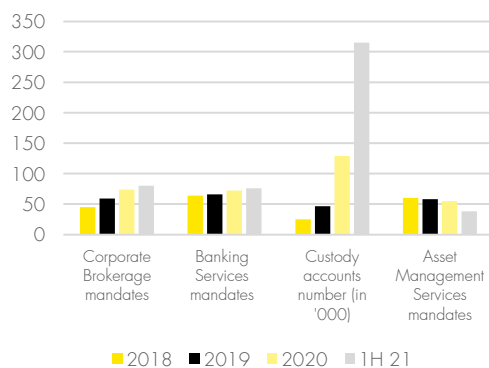
The total number of custody accounts skyrocketed from 46.3k in 2020 to 129.2k as of year-end 2020 and 315k after the first 6 months of 2021 (more than tripled yoy). When looking at volumes, the picture is similar: EUR 9.3 bn as of June 2021, which is approximately +70% yoy. The trend in the number of mandates within Banking Services was maintained throughout H1 21 with a total of 76 mandates, i.e. +4 vs. 2020 and +10 vs. 2019.

Baader explains this development with the increased interest of private investors in equity markets triggering an enormous push for neo-brokers and online asset managers, with whom Baader cooperates intensively. In addition, the bank managed to sign agreements with new cooperation partners in the first half of 2021 (2 neo-brokers, 3 online asset managers and 1 traditional asset manager). In mid-August 2021, Baader announced a long-term partner agreement with Sino AG, a German-based broker specialised in sophisticated heavy trading (most complex transactions), starting from H1 2022 (Sino AG owns an 8.8% stake in Trade Republic, a pure online broker from Berlin).

At the same time, the volume of assets under management declined by approximately 37% yoy, which is a consequence of one partner fund closing its business and can be regarded as a negative one-off which the management plans to compensate for in the near future. The interest of a new asset management partner is partially driven by increasing cost pressure and the regulatory side (MiFID 2). Such companies tend to outsource their asset management and trading desk services to external partners, like Baader Bank.

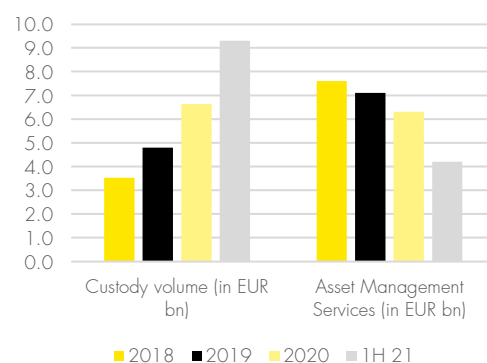
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Business development (1), mandates



Source: Baader Bank

Business development (2), in EUR bn

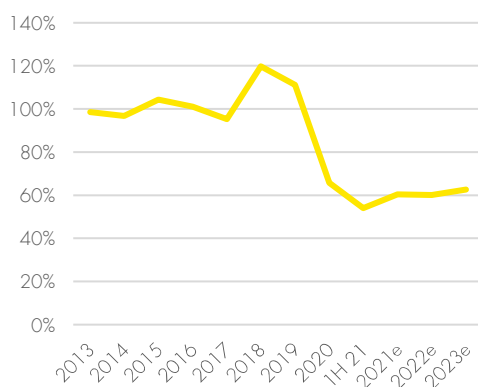


Source: Baader Bank

Financial highlights during H1 2021 and 2020

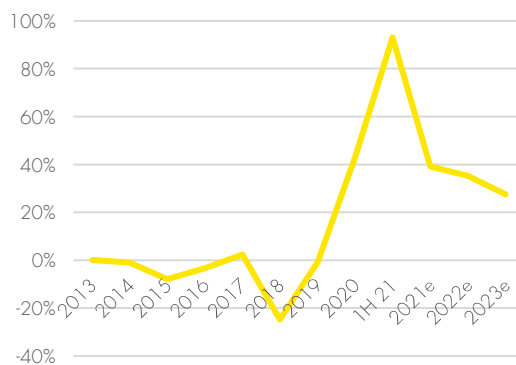
The reported ROE for 2020 skyrocketed to an extraordinary 43% and to an astonishing 93% as of June 2021 compared to levels below 0% in the last five years (incl. a substantial drop by -25% in 2018 and a release of a regulatory charge in 2019) mainly thanks to the booming trading revenues. Over the last few years and even before the exceptional year 2020, the revenue mix had gradually shifted from F&CI towards trading, partially as a consequence of a stricter regulatory framework, especially coming from MiFID rules, and tighter market competition. Furthermore, we point to the positive impulses from the aforementioned strategic streamlining as well as cost optimisation efforts (mainly reduction of the workforce by 10% between 2016 and 2020 after it started to rise again together with booming markets in 2021).

Cost/Income ratio



Source: Baader Bank, RBI/Raiffeisen RESEARCH

Return on equity



Source: Baader Bank, RBI/Raiffeisen RESEARCH

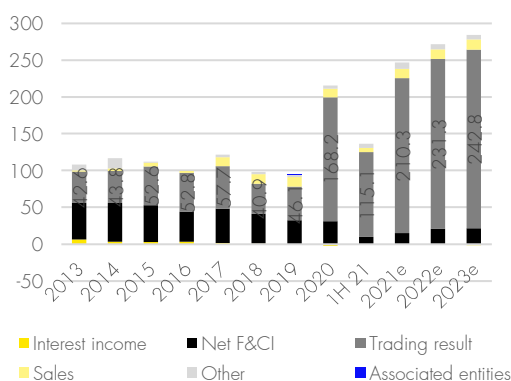
Strong revenue increase fuelled by soaring trading result

Baader benefitted significantly from the stellar increase of trading volumes on stock markets during 2020 and H1 21, particularly after the uncertainties around the impact of the pandemic had increased and triggered volatility globally since March. As data of Deutsche Börse show, the average monthly order book volumes in 2020 jumped by 37% yoy vs. 2019 staying almost flat so far during the first 6 months of 2021 (+34% vs. 2019). During 2020, Baader's trading result accordingly surged by 265% yoy, while the yoy trajectory slowed down to 36% in June 2021 due to the high base effect already from H1 20. The trading result represents by far the main source of revenues (85% of the total) followed by F&CI (7%). On top of that, the strategic refocusing

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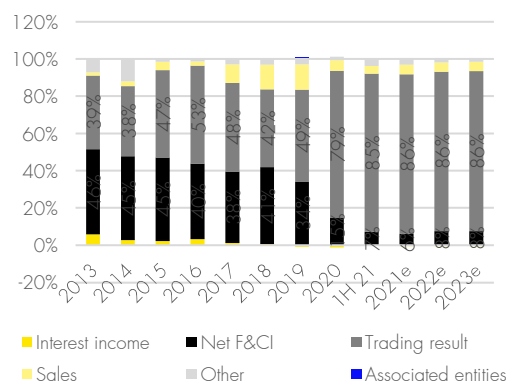
conducted in the last three years additionally contributed to the surging profitability in 2020. Because of the fully integrated operational model there is no precise breakdown of segmental revenue streams – hence we cannot individually assess all segments in detail. At the same time, sales from non-core operations (mainly wind parks) were flattish during H1 21 (+2% yoy) and contributed 8% to the revenue pool (normally it was in the low teens range in pre-pandemic years with normalized trading activity).

Revenues split (nominal)



Source: Baader Bank, RBI/Raiffeisen RESEARCH

Revenues split (share in total)



Source: Baader Bank, RBI/Raiffeisen RESEARCH

The second most important revenue stream, net F&CI, suffered from increasing expenses/charges directly related to the trading volumes especially during H1 2021. As the bank explains, such fee expenses, comprising brokerage, clearance and payments for order flow fees, are the main reason behind the drop of 56% yoy. At the same time, gross fee income was up by 3.5% yoy, which implies that the trading-related fee expenses might have appreciated by more than 50% vs. the same period in 2020. Those represent around 26%/32% of the respective trading result in H1 20/H1 21, which compares well to one of Baader's competitors in the US.

Quarterly earnings (in EUR mn)

	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
Revenues	26.2	19.0	61.0	51.0	43.6	57.0	91.8	43.8
Interest income	-0.2	-0.5	-0.6	-0.9	-0.7	-0.4	-0.3	-0.2
Net F&CI	7.5	6.9	14.6	7.6	4.5	4.3	8.4	1.3
Trading result	11.4	11.5	43.4	41.3	35.1	48.4	76.8	38.3
Sales	3.5	3.1	3.2	2.4	3.3	3.1	3.1	2.6
Other	3.9	-2.0	0.4	0.6	1.4	1.7	3.8	1.8
Associated entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenses	-28.0	-27.6	-35.4	-37.6	-29.6	-37.1	-40.6	-32.8
Staff costs	-11.5	-11.6	-11.3	-22.0	-15.4	-22.5	-24.9	-17.4
Administrative costs	-11.0	-11.4	-11.9	-10.8	-11.8	-13.6	-12.6	-12.9
Depreciation/risk costs	-3.6	-6.5	-12.17	-4.83	-2.4	-1	-3.06	-2.54
o/w depreciation	-2.2	-2.4	-2.0	-2.0	-2.2	-4.9	-2.0	-2.2
o/w risk costs	-1.4	-4.1	-10.2	-2.8	-0.2	3.9	-1.1	-0.3
Associated entities	-1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Allocation to "Fund for general banking risks"	0.0	10.5	-15.0	0.0	0.0	-1.8	-18.4	0.1
Pre-tax profit	-1.8	1.9	10.7	13.4	14.0	18.0	32.8	10.9
Income tax	0.5	-0.5	-3.6	-2.6	-1.6	-1.9	-5.9	-1.8
Net profit	-1.3	1.4	7.1	10.8	12.4	16.1	26.9	9.1

Source: company data, RBI/Raiffeisen Research

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Growth of sight deposits triggered high cash reserve; marginal credit risk exposure

The group's balance sheet structure shows an atypical picture with cash reserves representing 63% of total assets, as a consequence of a stellar rise of sight deposits of 47% ytd to EUR 875.2 mn reflecting the growing number of custody accounts. A small loan book in the amount of EUR 65 mn (mainly fully collateralised, up 39% ytd) and a fixed income securities portfolio of EUR 81.9 mn (+87% ytd thanks to deposit inflows) delivered a negative, though negligible, interest income. Risk costs from credit exposure is accordingly low and is only a marginally negative P&L item (the higher amount in Q1 20 was a result of precautionary provisioning in light of the pandemic outbreak, which in our view could be subject to write-backs in the upcoming quarters).

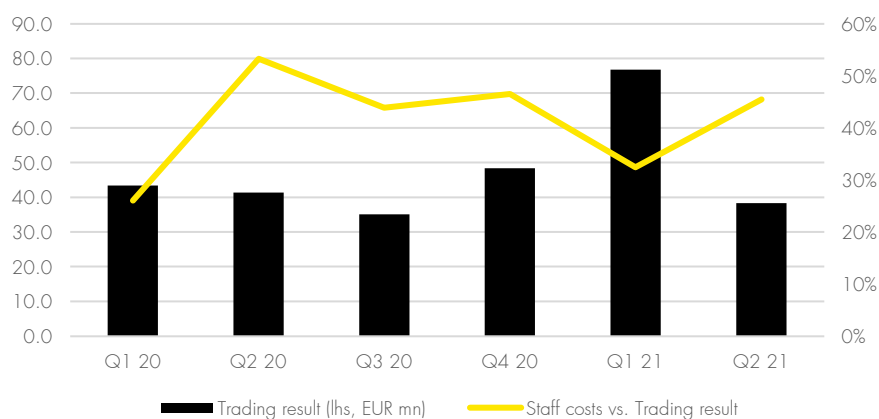
Capitalisation

The CET1/TCR as of H1 2021 stood at 15.9% (incl. the 2020 retained earnings, the regulatory capital only consists of CET 1) and is above the regulatory minimum requirement of 12% (based on FY 2020 financial statement). Given the nature of the business, the risk-weighted asset base is comprised by 37% credit risk, 25% market risk and 38% operational risk. In our baseline scenario, with ROE normalising to the region of 25-30% (vs. mid-single negative average ROE during 2015-2019), a recurring 30% dividend pay-out and a low double-digit growth of risk-weighted assets, the pro-forma CET 1 ratio would comfortably approach levels beyond 20%.

Cost management/efficiency

While the nominal cost base has been flat over the past years, the C/I ratio remarkably improved from 100% in 2013 to 54% after H1 2021 (excl. Fund for general banking risk). On the one hand, the management efforts to optimise the cost base have borne fruits and on the other this has been predominantly a result of sharply growing revenues. As an investment bank, we assume that the variable remuneration component (mainly linked to trading performance) accounts for the lion's share in total staff costs; during 2020 and H1 2021 personnel costs increased by 53% yoy and 27% yoy, respectively, followed by a modest increase of new employees (by 4% in 2020) and by further 8% ytd as of June 2021. We calculate that around 30% of staff costs has a variable component. Disclosure-wise provisions for credit risks are included as a cost item, which explains to some extent the temporary fluctuations of nominal costs line. Depreciation expenses have just a modest share in total costs (<10%, higher in 2020 due to an extraordinary goodwill write-down related to Wind park operator Selan in Croatia).

Staff costs in % of the trading result



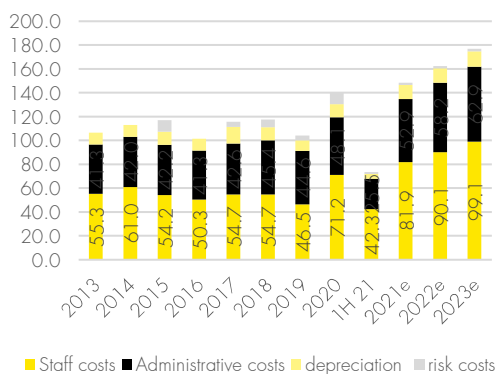
Source: company data, RBI/Raiffeisen Research

The 2020 and H1 2021 results were negatively impacted (capital neutral) by the booking of a charge in the amount of EUR 16.8 mn and EUR 18.3 mn, respectively, for the "Fund for general banking risks". This is an obligatory regulatory charge whose size directly depends on trading revenues (a minimum of 10% has to be contributed to the fund each year and in total the size of the fund has to cover at least 50% of the 5-year average trading result). It is part of the regulatory own funds. We have implemented this guidance in our forecasting methodology as well.

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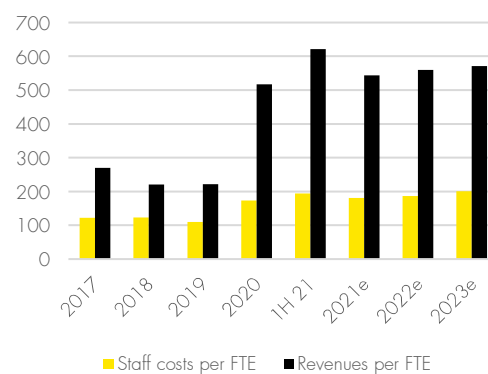
Interestingly, Baader released EUR 10.5 mn from the Fund in 2019 and thus avoided a much more negative reported ROE. Accounting wise, Baader adds this fund as a cost item, which explains the different level of C/I compared to our methodology.

Expenses breakdown (in EUR mn)



Source: Baader Bank, RBI/Raiffeisen RESEARCH

Revenues vs. staff costs per FTE at record gap (in EUR '000)



Source: Baader Bank, RBI/Raiffeisen RESEARCH

Earnings outlook

Still strong 2021 expected

Usually Baader Bank's management does not provide mid-term KPI targets, but rather a shorter-term outlook. Market making will be strongly dependent on external influences (market development, trading volumes, volatility). After H1 21 Baader also expects revenue contributions from market making, including cross-selling effects from banking services, remaining at or above the level of the 2020 financial year, even if the growth curve in both areas is expected to normalise.

Positive wording on the H2 2021 outlook

Expansion in most business areas to continue

Baader intends to continue to build on its strengths in the second half of 2021 and expand its optimal position in stock exchange and OTC market making in Germany as well as its platform business with neo-brokers, fintechs and digital asset managers. The other areas (brokerage, asset management services and research) are also expected to continue their positive development. The strong capital and liquidity position also ensures that Baader is prepared for highly volatile market phases and high trading volumes. For the remainder of 2021, Baader expects significant growth in the cooperation business as well as in accounts and custody services, assuming that general conditions remain unchanged. As a result, earnings before taxes for 2021 are expected to exceed the EUR 56.0 mn reported in 2020. The current financial figures strongly support the forecast for 2021, but it cannot be assumed that the H1 is a good proxy for H2 2021.

Guidance on key P&L items provided with FY 2020 report

The number of securities transactions is predicted to continue appreciating at a high level in 2021 vs. 2020 because of the sustained high sales volumes and the intensive market volatility, which has its origin in the consequences of the COVID-19 pandemic. This goes hand in hand with Baader's prediction of net trading income for 2021, which should be in a range of EUR 125 - 185 mn. The net fee and commission income for 2021 should reach around EUR 40 mn; the main drivers are on the one hand the number of transactions Baader concluded for its customers and on the other hand the number and volumes of deposits held. It is important to stress increasing settlement costs as trading volumes rise, which has a negative effect on F&CI. For the rest of the total income for 2021 Baader predicts the "Other revenue" item (apart from interest income, F&C income and sales revenue) to come to around EUR 11 mn. Furthermore, Baader expects operating costs at the range of EUR 123 - 163 mn (including variable compensation and the allocation to the Fund for general banking risks). Consequently, the management assumes earnings before taxes for 2021 to exceed EUR 56 mn.

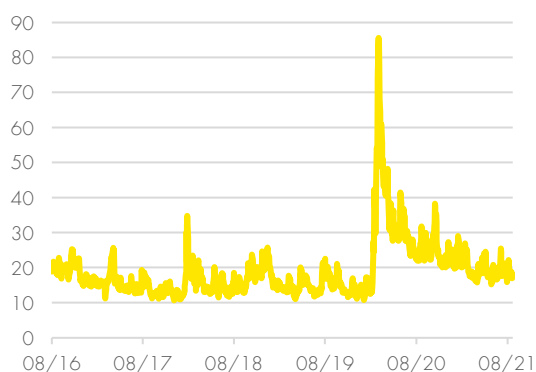
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RBI 2021 forecasts vs. management expectations

in EUR mn	mgmt guidance FY 21	RBIe FY 21	H1 21	implied H2 21e	H1 20	H2 20	H2 21e yoy	H1 21 yoy	H2 20 vs. H1 20	H2 21e vs. H1 21
Revenues	176-236	245.6	135.6	110.0	112.0	100.7	9%	21%	-10%	-19%
o/w trading result	125-185	210.3	115.1	95.2	84.7	83.5	14%	36%	-1%	-17%
o/w F&CI	40.0	15.1	9.7	5.4	22.2	8.8	-39%	-56%	-60%	-45%
o/w other	11.0	20.3	10.8	9.5	5.1	8.4	13%	112%	65%	-12%
Costs	123-163	171.0	91.7	79.3	88.0	70.0	13%	4%	-20%	-14%
Pre-tax	>56 mn	74.6	43.9	30.7	24.0	32.2	-4%	83%	34%	-30%

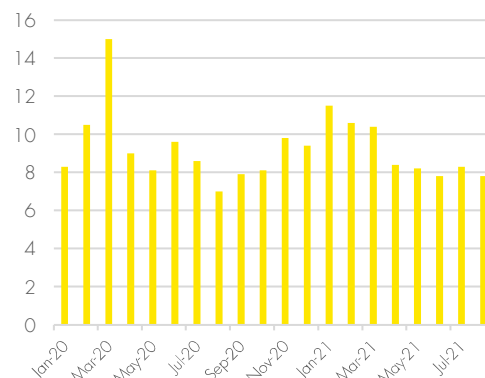
Source: company data, RBI/Raiffeisen Research

Volatility Index



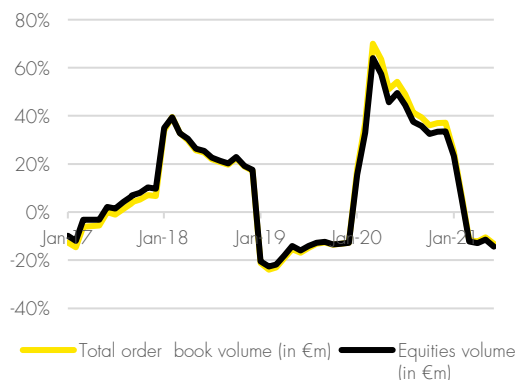
Source: Bloomberg

Börse Stuttgart: monthly trading volume



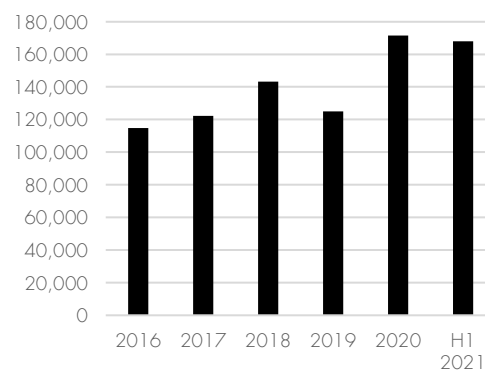
Source: FlatexDegiro

Deutsche Börse: order book, equities vol (yoy)



Source: Deutsche Börse

DB: avg. monthly order book volume (EUR mn)



Source: Deutsche Börse

Markets to remain attractive for the trading sentiment

Earnings outlook beyond 2021

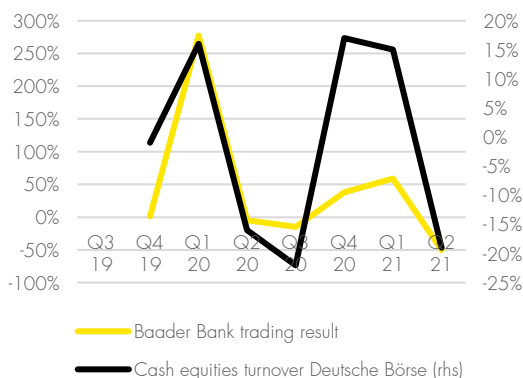
The interest rate environment likely remains ultra-loose at least in the next three years, which should provide further tailwind for the brokerage accounts sentiment. In that context, one of the largest online brokers in Europe, the German listed FlatexDegiro, has recently confirmed its ambitious 2026 growth plan estimating to lift the number of customers by a 30% CAGR to 7-8 mn by 2026 from currently 1.75 mn (June 2021) and the number of transactions to 250-350 mn (in a year with low volatility) vs. currently 53 mn (during H1 2021) and expected 90-110 mn for the FY 2021.

In the monthly statistics, Deutsche Börse has disclosed that the order book turnover grew significantly from EUR 1.5 tn in 2019 to EUR 2.1 tn during 2020 with a flattening trajectory during

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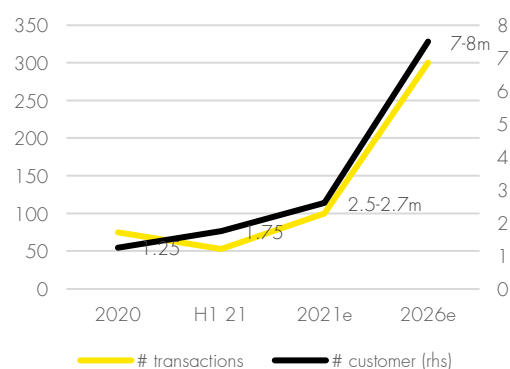
the first 6 months of 2021. According to its mid-term strategy plan, Deutsche Börse guides for a 5% CAGR of organic revenues until 2023, which would still imply a quite attractive market environment for players like Baader Bank.

Baader Bank, DB: qoq trading statistics



Source: Deutsche Börse, Baader Bank, RBI/Raiffeisen Research

Some players are bullish on business outlook



Source: FlatexDegiro

Our mid-term forecasts are based on the assumption of normalising trading volumes going forward which should result in a decelerating growth rate of the trading result line from 25% in 2021 to 5% by 2023. That should be accompanied by the flattish F&CI line whereby its expenses component should remain dependant from new order flow payments and settlement charges. Both trading and F&CI will continue to contribute a vast majority of 90% in total revenues. Growth in nominal personal expense is expected to follow the path of trading result as well keeping the overall C/I ratio at around 60-65% over the next three years. Assuming a 25% tax rate, a gradual accumulation of the Fund for general banking risks and a 30% recurring dividend pay-out ratio we derive to a ROE of 28% by 2023 vs. 39% expected for 2021.

Valuation

We derive our target price of EUR 10.3 as an average of intrinsic (75% weight) and peer-based valuation methods (25% weight) – as depicted below.

Intrinsic valuation method

Dividend Discount Gordon Growth

A DDGG model is our preferred method to value banks in our coverage universe. We employ a 2-stage model. In the first stage we explicitly forecast bank earnings and dividend payments and also account for the return of excess capital to shareholders. The second stage comprises a terminal value determined by a fair value price/book ratio based on assumed sustainable cost of equity, normalised profitability and long-term potential growth rates.

We assume sustainable trading revenues to peak in 2023e followed by a gradual normalisation to 2019 level by 2028e, a cost/income ratio of 60-65%, a 25% tax rate, an equity risk premium of 6.0% and a company beta of 1.2x for our terminal value calculation.

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Dividend Discount Gordon Growth model

in EUR	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	TV
BVPS	3.8	4.9	5.9	6.7	7.6	8.4	9.2	9.9	9.9
EPS growth*	32.8%	20.1%	-2.1%	-7.3%	-5.6%	-4.6%	-3.6%	-2.7%	2.0%
ROE adj.	37.4%	32.9%	26.1%	20.7%	17.2%	14.7%	12.9%	11.6%	11.0%
EPS	1.20	1.44	1.41	1.30	1.23	1.17	1.13	1.10	
DPS	0.37	0.44	0.43	0.40	0.38	0.36	0.35	0.34	
LT risk free rate	0.05%	0.15%	0.25%	0.35%	0.50%	0.90%	1.00%	1.00%	2.20%
Equity risk premium	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Company beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	7.3%	7.4%	7.5%	7.6%	7.7%	8.1%	8.2%	8.2%	9.4%
Target P/B									1.2
Terminal value									12.0
DPS	0.37	0.44	0.43	0.40	0.38	0.36	0.35	0.34	
Discounted DPS/TV	0.37	0.41	0.37	0.32	0.28	0.25	0.22	0.20	6.48
Fair value per share	8.90								

Source: RBI/Raiffeisen Research

Peer-based valuation methods

We have used a sample of ten banks with similar business models mainly operating as market makers and brokers. It is important to stress for us that there is no 100% overlap with selected competitors given the various types of revenue stream splits. In addition, due to the lack of official forecasts, we have not taken into account the relevant multiples of Baaders' main peers on the domestic market like Lang & Schwarz and Berliner Effektingesellschaft/Tradegate AG.

Peer group comparison

	P/E			Div. yield			P/B			ROE		
	1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY	1FY	2FY	3FY
Virtu	6.08	9.05	8.74	4.0%	4.0%	4.0%	1.95	1.75	1.59	41.1%	23.3%	22.3%
Cowen Inc	3.86	5.62	5.99	1.1%	1.5%	1.9%	0.86	0.78	0.69	30.0%	17.5%	15.0%
Jefferies Fin. Group	7.56	12.00	11.07	2.6%	2.9%	3.7%	0.92	0.86	0.88	14.7%	8.6%	9.8%
Tradeweb Markets Inc	52.56	46.24	41.13	0.4%	0.4%	0.4%	3.88	3.64	3.46	8.0%	8.7%	9.2%
Flow Traders	10.91	12.32	10.40	6.6%	6.3%	6.9%	2.79	2.58	2.47	26.6%	23.5%	25.5%
ABC Arbitrage	13.65	12.24	10.29	5.8%	6.5%	8.7%	2.66	2.50	2.32	19.5%	21.1%	23.3%
Swissquote Group Holding	14.98	13.92	13.13	1.5%	1.8%	2.1%	4.91	3.95	3.29	40.3%	33.1%	27.8%
FlatexDegiro	19.69	13.24	10.84				3.81	3.12	2.40	14.5%	24.6%	23.9%
Median	12.28	12.28	10.62	2.6%	2.9%	3.7%	2.72	2.54	2.36	23.1%	22.2%	22.8%
Baader Bank	5.85	4.87	4.98	5.2%	6.3%	6.1%	1.83	1.43	1.19	37.4%	32.9%	26.1%

Source: Bloomberg, RBI/Raiffeisen Research, based on closing prices as of September 15, 2021

Price/Book – ROE Regression: Our peer group displays a relatively low correlation of Price/Book multiples and consensus ROE expectations (R-squared 0.2 on 2021e and 2022e estimates). We therefore apply only 5% weight of the resulting regression equations to derive a fair value.

Price/Book – ROE Regression

	2021e	2022e	2023e	Average
Baader Bank ROE	37.4%	32.9%	26.1%	
BVPS	3.82	4.90	5.87	
PB/-ROE equation				
x	-0.05541	6.154399	4.592627	
y intercept	2.736482	1.165467	1.236919	
Target P/B	2.72	3.19	2.44	
Implied	10.38	15.64	14.31	13.44

Source: Bloomberg, RBI/Raiffeisen Research

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Price/earnings: P/E multiples have been historically used to value banks with solid balance sheets and healthy capital generation as well as comparable dividend policies. We have excluded the two highest peer multiples (thus adding a bit of conservatism to our methodology) to derive our peer-based valuation range and applied our mid-term bottom-line projections. We attach 10% weight to this method.

Price/Earnings

P/E	2021e	2022e	2023e	Average
Baader Bank EPS	1.20	1.44	1.41	
Peer group	12.28	12.28	10.62	
Implied	14.69	17.64	14.93	15.76

Source: Bloomberg, RBI/Raiffeisen Research

Dividend yield: A dividend yield derived fair value assumes the peer average dividend yield as a proxy for the asset to be valued. We consider a 10% weight.

Valuation based on peer dividend yields

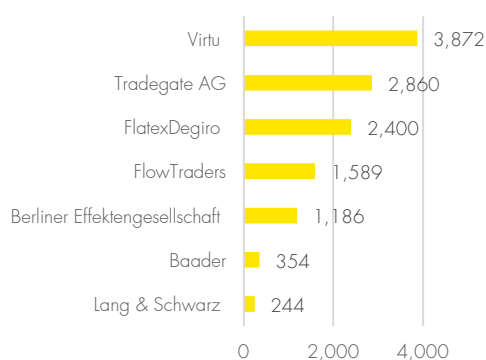
	2021e	2022e	2023e	Average
Baader Bank DPS	0.37	0.44	0.43	
Peer group	2.6%	2.9%	3.7%	
Implied	14.12	14.98	11.68	13.59

Source: Bloomberg, RBI/Raiffeisen Research

Local peers operating (mainly) in Germany

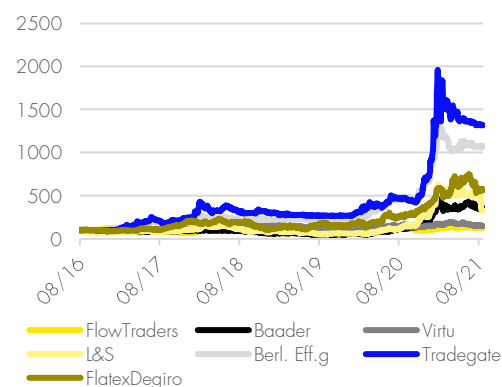
Several of Baader Bank's direct competitors are small and mid-caps listed in Germany. Because of the integrated and highly specialised business model of Baader Bank, there is, however, no 100% overlap with any other competitor.

Baader Bank and peers (MCap in EUR mn)



Source: Bloomberg, based on September 3 closing price

Baader Bank and peers' perf. (restated to 100)



Source: Bloomberg; based on September 3 closing price

Lang und Schwarz

Lang und Schwarz (MCap EUR 244 mn) is a holding company (founded in 1996) with its own trading platform "LS Exchange" (competitor to Baader's gettex) as well as an OTC platform. It operates as a market maker and is also active in fixed income products. In contrast to Baader, one of its main business lines is the origination and sale of structured products. LS also offers services around IT software for third parties. 88% of the shares are free float.

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For the first six months of 2021, L&S reported a record net profit of EUR 48 mn (EUR 13 mn in H1 20) on high demand for structured products and OTC business. Particularly Q1 was strong in terms of trading parameters. Even if the factors caused by the pandemic (high volatility, etc.) normalise during the rest of 2021, L&S still expects an elevated demand for its products/services and in general another strong trading result in H2 (positive dynamics already in Q3).

The bank has recently announced to double the DPS per share for 2021e to EUR 8 from EUR 4 proposed for 2020. Also share buybacks will likely be conducted up to a maximum of 10% of the share capital.

Berliner Effktengesellschaft/Tradegate AG

Berliner Effktengesellschaft (MCap EUR 1.2 bn) is a holding company and a major shareholder in Tradebank AG (Wertpapierbank, separately listed with a MCap of EUR 2.9 bn but with 4% free float) and Tradegate Stock Exchange in Berlin (joint ownership with Deutsche B3rse and Berliner B3rse, 8% market share in Germany). Tradegate AG acts as a market maker and specialist on the Frankfurt SE and has been active since 1986.

In H1 2021, the group reported an increase in net profit by 29% yoy, hence performing less spectacularly than Baader or L&S. This is due to an almost flat trading result yoy but also lower staff costs vs. H1 20. At the beginning of the year, Tradegate AG was quite conservative with regards to the FY 2021 revenue guidance, while the H1 performance has led to a wording upgrade from a "significant increase" to "likely another record year" despite underscoring the difficulties in predicting in which direction capital markets will move.

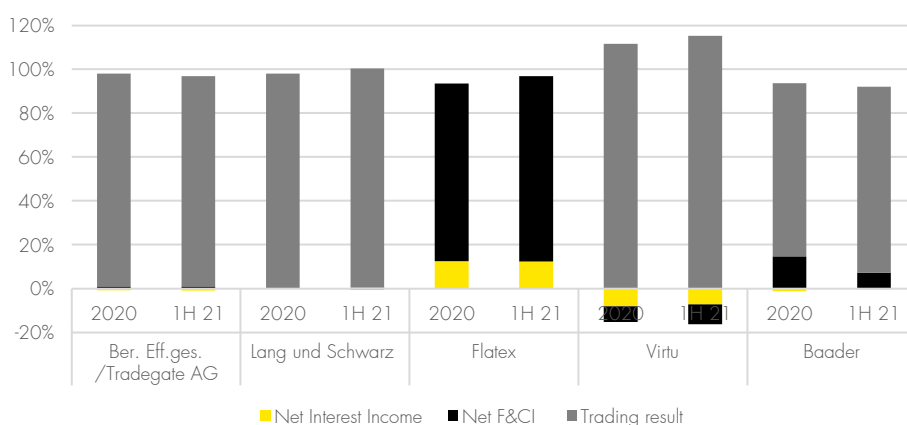
FlatexDegiro

FlatexDegiro is a pure online retail broker, among the largest ones in Europe, especially after the acquisition of Degiro from the Netherlands. FlatexDEGIRO predicts its customer base to increase to 2.0-2.2 mn in FY 2021 (1.75 mn as of June 2021), with an average number of transactions per customer of around 55-65 per year. Thus, the forecast of total number of executed transactions is seen at 90 to 110 mn for 2021. In the longer-term perspective, FlatexDEGIRO aims to reach 7-8 mn customers by 2026. This would result in flatexDEGIRO processing more than 250-350 mn transactions annually, even in years with lower volatility compared to the current situation.

Sino AG

Sino AG (established in 1998, MCap at EUR 215 mn), headquartered in D3sseldorf, is a broker only managing heavy traders, and its core business is High End Brokerage. The mobile and commission-free broker "Trade Republic" is an essential subsidiary of Sino AG, which holds 8.8% of the share capital after selling 5% in May 2021 for EUR 131 mn. Mid-august 2021, Sino has announced a cooperation agreement with Baader Bank for the processing of transactions of heavy traders, for which the technical integration is to be completed by mid-2022.

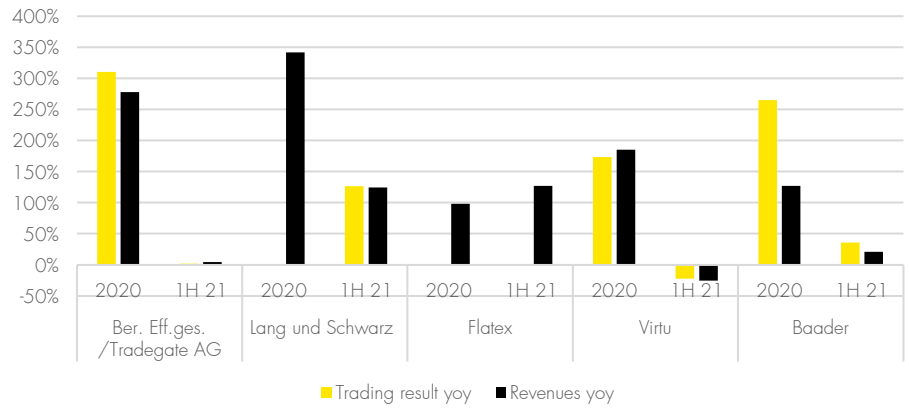
Revenue breakdown of Baader Bank's peers after 2020 / H1 2021



Source: company data, RBI/Raiffeisen RESEARCH

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Revenues/trading results of Baader's peer yoy after 2020 / H1 2021 (yoy)



Source: company data, RBI/Raiffeisen RESEARCH

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<i>Income statement (EUR mn)</i>	<i>12/2018</i>	<i>12/2019</i>	<i>12/2020</i>	<i>12/2021e</i>	<i>12/2022e</i>	<i>12/2023e</i>
Total interest income	0.5	-0.8	-2.6	-1.3	-1.4	-1.4
Total interest expense	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income	0.5	-0.8	-2.6	-1.3	-1.4	-1.4
Net fee & commission	40.5	32.1	31.0	15.1	20.3	21.4
Net trading result	40.9	46.1	168.2	210.3	231.3	242.8
Other banking operations	0.0	0.0	0.0	0.0	0.0	0.0
Total operating income	81.9	77.4	196.6	224.0	250.2	262.8
Losses on loans and adv.	0.0	0.0	0.0	0.0	0.0	0.0
Personnel expenses	-54.7	-46.5	-71.2	-81.9	-90.1	-99.1
Other adm. expenses	-45.4	-34.1	-64.9	-52.9	-58.2	-62.9
Depreciation of PPE	-17.4	-13.1	-20.4	-13.5	-14.2	-14.9
Depreciation of intangible assets	0.0	0.0	0.0	0.0	0.0	0.0
Administrative expenses	-117.5	-93.7	-156.5	-148.3	-162.5	-176.8
Other operating profit/loss	16.1	16.4	16.1	-1.1	1.9	1.8
Earnings from ordinary activities	-19.6	0.0	56.2	74.6	89.6	87.8
Adj. profit from ordinary activities	-19.6	0.0	56.2	74.6	89.6	87.8
Gain/loss on net monetary position	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	-19.6	n.a.	56.2	74.6	89.6	87.8
Taxes on income	-1.6	-0.5	-14.1	-18.7	-22.4	-21.9
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	-21.2	-0.5	42.2	56.0	67.2	65.8
Minority interests held outside the group	-0.3	-0.2	0.0	0.0	0.0	0.0
Net profit after minorities	-21.5	-0.7	42.2	56.0	67.2	65.8
Adjusted net profit	-21.5	-0.7	42.2	56.0	67.2	65.8
<i>Balance sheet (EUR mn)</i>	<i>12/2018</i>	<i>12/2019</i>	<i>12/2020</i>	<i>12/2021e</i>	<i>12/2022e</i>	<i>12/2023e</i>
Cash & central bank	209.1	237.8	488.8	962.2	1,090.9	1,222.8
Financial institutions	99.2	78.6	163.0	179.3	197.2	217.0
Loans & advances to customers	26.8	38.5	47.3	59.1	65.0	71.5
Credit provisions	0.0	0.0	0.0	0.0	0.0	0.0
Trading assets	49.4	37.9	36.8	40.5	44.5	49.0
Other current fin. assets (AFS)	207.7	109.3	45.6	50.2	55.2	60.7
Investments (HTM & strat. partic.)	8.0	7.3	9.6	10.6	11.6	12.8
Property and equipment	81.7	77.4	74.5	82.0	90.1	99.2
Goodwill	17.6	14.2	9.3	10.2	11.3	12.4
Other intangible assets	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	7.5	8.6	7.7	8.5	9.3	10.2
Other assets	6.2	7.8	5.9	6.5	7.1	7.9
Total assets	713.2	617.4	888.5	1,408.9	1,582.4	1,763.3
Due to financial institutions	98.8	61.8	82.6	90.9	99.9	109.9
Customer deposits	487.2	444.1	593.6	1,038.8	1,142.7	1,256.9
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Accruals and def. income	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	51.2	36.7	91.3	100.5	110.5	121.6
Subordinated capital	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests (BS)	1.7	0.8	1.0	1.0	1.0	1.0
Shareholders' equity	74.3	73.9	119.9	177.7	228.2	273.8
Liabilities & shareholders' equity	713.2	617.4	888.5	1,408.9	1,582.4	1,763.3
<i>Other ratios (x)</i>	<i>12/2018</i>	<i>12/2019</i>	<i>12/2020</i>	<i>12/2021e</i>	<i>12/2022e</i>	<i>12/2023e</i>
Loan growth	n.a.	43.7%	22.9%	25.0%	10.0%	10.0%
Deposit growth	n.a.	-8.8%	33.7%	75.0%	10.0%	10.0%
Loans/deposits	5.5%	8.7%	8.0%	5.7%	5.7%	5.7%
Tier 1 ratio	n.a.	12.8%	14.6%	17.3%	22.8%	28.0%
Equity/total assets	10.7%	12.1%	13.6%	12.7%	14.5%	15.6%
NII growth	n.a.	-260.0%	225.0%	-50.0%	5.0%	5.0%
Net F&C growth	n.a.	-20.8%	-3.3%	-51.4%	35.0%	5.0%
NIM on total assets	0.1%	-0.1%	-0.3%	-0.1%	-0.1%	-0.1%
Cost income ratio	143.6%	121.1%	79.6%	66.2%	64.9%	67.3%
NPL/customer loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NPL coverage	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
LLP /customer loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Baader Bank, RBI/Raiffeisen Research estimates

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SWOT Analysis

Strengths/Opportunities

- Shareholder structure allowing for smooth adaption to the changing regulatory environment and competitive markets
- Integrated business model adequate to seize most benefits from the current market environment
- Dividend capacity owing to solid profitability outlook and negligible credit risks with a 5-6% yield
- As a banking partner for FinTechs well positioned to participate in the fast growing segment (incl. digital asset managers, Robo-advisory)
- Diversified operational model (even with non-core activities) enriching the revenue base

Weaknesses/Threats

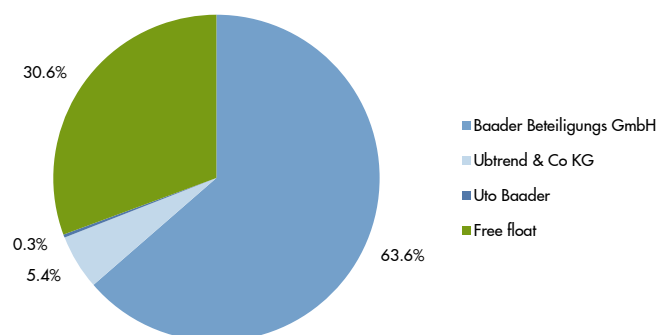
- Relatively high correlation of bank's profitability with the adverse market conditions
- Sharp reduction of market volatilities could be somewhat detrimental to ROE
- Return to monetary tightening cycle could dampen the growth of retail brokerage accounts and impact trading activities
- Unforeseen regulatory risks

Fact Sheet

Company description

Baader Bank Group is a highly specialised German investment bank based in Unterschleißheim near Munich with more than 35 years of experience on the capital markets. The bank runs an integrated business model combining Market Making, Brokerage incl. Capital Markets, Asset Management, Banking and Research and as such offers trading, settlement and banking services. Germany is the core market and through its network of subsidiaries it is also present in the DACH region as well as in London and New York with a various number of international institutional clients.

Shareholder structure



Income statement (EUR mn)	12/2020	12/2021e	12/2022e	12/2023e
Net interest income	-2.6	-1.3	-1.4	-1.4
Net fee & commission	31.0	15.1	20.3	21.4
Losses on loans and adv.	0.0	0.0	0.0	0.0
Earnings before taxes	56.2	74.6	89.6	87.8
Net profit after minorities	42.2	56.0	67.2	65.8
Adjusted net profit after minorities	42.2	56.0	67.2	65.8

Balance sheet	12/2020	12/2021e	12/2022e	12/2023e
Customer loans	47.3	59.1	65.0	71.5
Customer deposits	593.6	1,038.8	1,142.7	1,256.9
Shareholders' equity	119.9	177.7	228.2	273.8
Total equity	120.9	178.7	229.2	274.8

Ratios	12/2020	12/2021e	12/2022e	12/2023e
NPL/customer loans	0.0%	0.0%	0.0%	0.0%
Loans/deposits	8.0%	5.7%	5.7%	5.7%
Cost/income	79.6%	66.2%	64.9%	67.3%

Source: Baader Bank, RBI/Raiffeisen Research estimates

Per share data (EUR mn)	12/2020	12/2021e	12/2022e	12/2023e
EPS reported	0.92	1.20	1.44	1.41
Earnings per share (adj.)	0.92	1.20	1.44	1.41
EPS growth	n.a.	30.6%	20.1%	-2.1%
Book value per share	2.6	3.8	4.9	5.9
Dividend per share	0.25	0.36	0.43	0.42
Payout ratio	27.2%	30.0%	30.0%	30.0%

Valuation (x)	12/2020	12/2021e	12/2022e	12/2023e
PE reported	4.90	5.80	4.83	4.94
Adjusted PE	4.90	5.80	4.83	4.94
Price book value	1.72	1.83	1.42	1.19
Return on equity adjusted	43.5%	37.6%	33.1%	26.2%
Dividend yield	5.56%	5.17%	6.21%	6.08%
Tier 1 ratio	14.6%	17.3%	22.8%	28.0%
Equity/total assets	13.6%	12.7%	14.5%	15.6%
Price/NAV	1.87	1.94	1.50	1.24
Equity/total assets	13.6%	12.7%	14.5%	15.6%

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Publication schedule

Date	Publication
28.10.2021	Q3 Earnings release

Recommendation history

(Initiation date)	Rating	Target Price	Prev. day's close	Upside	Analyst
18.01.2021	No Rating		5.55	%	J. Sikimic

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended
Universe	174	133	10	8	0
Universe %	54%	41%	3%	2%	0%
Investment services and activities and ancillary services	125	109	4	4	0
Investment services and activities and ancillary services %	52%	45%	2%	2%	0%

Source: RBI/Raiffeisen Research, rounding differences may occur

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