

Deutsche Bank AG(DB)

\$6.99 (As of 05/07/20)

Price Target (6-12 Months): **\$7.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

On the NYSE, shares of Deutsche Bank have outperformed the industry over the past six months. First-quarter results reflect stable revenues and lower expenses. Deutsche Bank's efforts to improve financials by offloading unprofitable businesses and continued investments in order to boost business are commendable. Also, it targets to reduce adjusted costs to €19.5 billion by 2020, which is expected to support bottom-line growth. Further, lower CET 1 capital ratio requirement by the ECB is a tailwind. The company's strong and stable funding base, as reflected by rising deposits balance, is a positive factor. Nonetheless, litigation issues related to past misconducts continue and legal costs might deter bottom-line growth. Also, falling fee income and pressure on margins due to low rates in the domestic economy keep hinder top line growth.

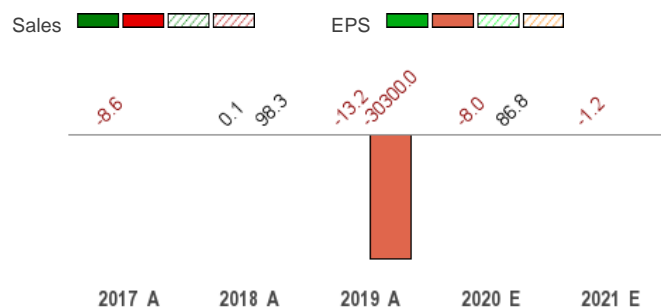
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$11.16 - \$4.99
20 Day Average Volume (sh)	5,812,937
Market Cap	\$14.4 B
YTD Price Change	-10.2%
Beta	1.50
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Banks - Foreign
Zacks Industry Rank	Bottom 25% (191 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	NA
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-27.4%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					23,568 E
2020	7,004 A				23,862 E
2019	7,213 A	6,971 A	5,852 A	5,924 A	25,948 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$0.27 E
2020	\$0.02 A				-\$0.40 E
2019	\$0.09 A	-\$1.86 A	-\$0.46 A	-\$0.80 A	-\$3.04 A

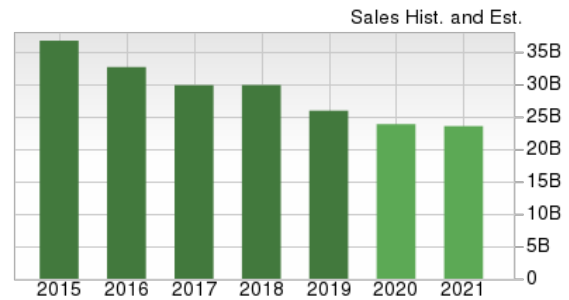
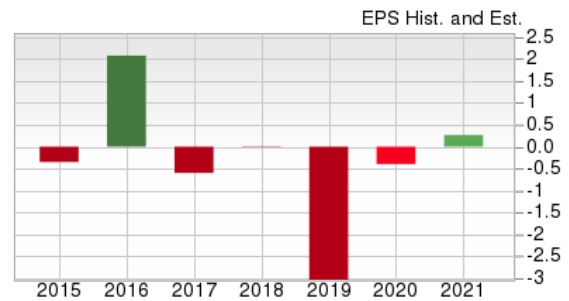
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/07/2020. The reports text is as of 05/08/2020.

Overview

Headquartered in Frankfurt am Main, Deutsche Bank is the largest bank in Germany and one of the largest financial institutions in Europe and the world, as measured by total assets (€1.49 trillion as of Mar 31, 2020). It offers a wide variety of investment, financial and related products and services. Per the restructuring plan announced in July 2019, Deutsche Bank confirmed the following changes to its segmental reporting, with effect from the third quarter of 2019.

- **Corporate Bank** (23% of net revenues in 2019) includes the Global Transaction Bank, which was previously part of the former Corporate & Investment Bank and the German Commercial and Corporate Clients division.
- **Investment Bank** (30%) includes Origination & Advisory and FIC Sales & Trading, which comprises Global Credit Trading, Foreign Exchange, Rates and Emerging Markets Debt businesses.
- **Private Bank** (36%) comprises three business segments. The Private Bank Germany serves private customers and small business clients in Germany. The Private Bank International also serves private and small business clients, as well as commercial and corporate clients in Italy, Spain, Belgium and India. In addition, Private Bank covers Wealth Management clients globally.
- **Asset Management** (10%) operates under the DWS brand. It provides investment solutions to individual investors and institutions with a diversified range of Active, Passive and Alternative Asset Management products and services.
- **Corporate & Other** (0.3%) includes revenues, costs and resources held centrally that are not allocated to the individual business segments.
- **Capital Release Unit** (0.7%) is created to quickly and efficiently dispose of non-strategic or low-return assets, which are no longer consistent with the Bank's strategy, in order to release capital, reduce leverage and related cost and thus create a smaller, simpler and less market-sensitive balance sheet.



In June 2019, Deutsche Bank sold its PCB business in Portugal to ABANCA Corporación Bancaria S.A.



Reasons To Buy:

- ▲ Deutsche Bank's efforts in reducing expenses have started bearing fruits. Notably, adjusted costs (excluding litigation, impairments, policyholder benefits and claims, and restructuring and severance expenses) declined at a CAGR of 4.9% over the last three years (ended 2019), with the trend continuing in first three months of 2020. Further, Deutsche Bank targets to reduce adjusted costs to €17 billion by 2022-end. Though management expects higher regulatory compliance costs in the upcoming quarters, it remains committed to counterbalancing the impact through cost saving measures.
- ▲ Deutsche Bank remains focused on strengthening its capital position. As of Mar 31, 2020, capital ratios stayed strong. Also, in the stress test conducted by The European Banking Authority (EBA), the bank showed progress in its risk profile and capital position. Further, the company remains on track to achieve its targets – CET 1 ratio of at least 12.5% at the end of 2022 and leverage ratio of about 5%.
- ▲ Deposits at Deutsche Bank witnessed a CAGR of 1.3% over the past four years (ended 2019). The rise was recorded mainly due to deposit growth in Private and Commercial Bank segment. Further, the company's loan-to-deposit ratio as of Mar 31, 2020, was 80.9%, reflecting strong and stable funding base. Though deposits declined in the first quarter 2020, we believe that same are poised to grow in an improving economy.

Cost control and several strategic initiatives will support Deutsche Bank's financials. Also, the company's strong capital position and improving deposit balance might aid overall growth.

Reasons To Sell:

- ▼ Due to the nature of its business, Deutsche Bank is involved in litigation, arbitration and regulatory proceedings in Germany and in a number of jurisdictions outside Germany. Such matters are subject to uncertainties. The bank has shouldered significant legal settlement costs in the past which has adversely impacted its financials. In December 2019, Deutsche Bank was slapped with a fine by the Frankfurt prosecutors related to the investigation of German client interactions with offshore entities established by the German bank's Virgin Islands subsidiary — Regula Ltd. Though the company has resolved a number of legal matters and made progress on several others, a number of cases are yet to be resolved. Hence, the company's financials are expected to be hit by higher legal expenses in the near term.
- ▼ Deutsche Bank's net revenues have declined at a CAGR of 8.8% over the last five years (ended 2019). Pressure on margins due to low interest rates, declining fee income along with the bank's involvement in legal hassles is primarily responsible for the falling revenues. Further, challenging business conditions in the domestic economy might deter top-line growth. Notably, net revenues remained stable in first-quarter 2020.
- ▼ As of Mar 31, 2020, Deutsche Bank had total debt of \$136.4 billion, and cash and cash equivalents worth \$121.9 billion. Therefore, with a record of unstable quarterly performance, we find the company at a disadvantageous position if the economic situation worsens further.
- ▼ Regulatory reforms enacted and proposed in response to the persistent weaknesses in the financial sector, together with increased regulatory scrutiny, require Deutsche Bank to maintain increased capital levels and this could significantly affect its businesses. If the bank is unable to meet capital requirements with an adequate buffer, it could experience the effect of these factors on business and results.
- ▼ Shares of Deutsche Bank have outperformed the industry on the NYSE over the past six months. Despite the favorable trend, the company is expected to report a loss of 40 cents in the current year. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

A prolonged low interest rate environment keeps margins under pressure. Also, litigation issues due to past misconducts lead to higher legal costs, and remain a key concern for Deutsche Bank.

Last Earnings Report

Deutsche Bank Q1 Earnings Fall Y/Y, Expenses Decline

Deutsche Bank reported first-quarter 2020 net income of €66 million (\$72.8 million) compared with the year-ago quarter's €201 million. However, the German lender reported adjusted profit before taxes of €303 million (\$334.3 million), up 13% year over year.

Drastic increase in provision for credit losses due to the impacts of the coronavirus outbreak was a major offsetting factor. Also, revenues remained stable on a year-over-year basis. Decline in expenses came as a tailwind.

Revenues Remain Stable, Provisions Flare Up

The bank generated net revenues of €6.35 billion (\$7 billion), stable year over year.

Provision for credit losses was €506 million (\$558.3 million) compared with \$140 million in the year-ago quarter.

Non-interest expenses of €5.64 billion (\$6.22 billion) were down 5% from the prior-year quarter. Excluding restructuring-related charges, the bank reported adjusted costs of €5.5 billion (\$6.07 billion), down 7%.

Segmental Performance

Net revenues at the *Corporate Bank* division of €1.33 billion (\$1.47 billion) declined 1% from the year-ago quarter. Lower revenues in global transaction banking led to the fall.

Investment Bank segment's net revenues totaled €2.34 billion (\$2.58 billion), up 18% year over year. Higher revenues from fixed income, particularly debt origination business, along with rise in origination and advisory resulted in the rise.

Private Bank reported net revenues of €2.16 billion (\$2.38 billion), up 2% year over year. The rise primarily stemmed from higher revenues from international businesses and wealth management unit.

Asset Management segment generated net revenues of €519 million (\$572.7 million), down 1% year over year mainly due to the negative change in fair value of guarantees, mainly driven by lower interest rates.

Corporate & Other unit reported net revenues of €63 million (\$70 million) against negative net revenues of €16 million a year ago.

Capital Release unit reported negative net revenues of €59 million (\$65.1 million) against net revenues of €387 million. Funding and credit valuation adjustments and de-risking costs were partly offset by hedging and risk management gains, and income from the BNP Paribas agreement.

Capital Position

Deutsche Bank's Common Equity Tier 1 capital ratio (fully loaded) came in at 12.8% as of Mar 31, 2020, compared with 13.7% in the year-ago quarter. Leverage ratio, on an adjusted fully-loaded basis, was 4%, up from 3.9%.

Risk-weighted assets increased €17 billion in the March-end quarter to €341 billion (\$376.3 billion) sequentially.

Outlook for 2020

The company expects post-tax return on average tangible shareholders' equity in 2020 to be affected by costs to execute its strategy as well as the impact of the COVID-19 outbreak on the broader economic environment.

Revenues are expected to be slightly lower in 2020, mainly as a result of continued de-risking activities in the Capital Release Unit. Core Bank revenues are expected to be essentially flat in 2020 compared to the previous year. Lowered expectations reflect the likely impact on certain businesses by the recent market dislocations as a result of the COVID-19 outbreak at the end of the first quarter, which has continued into the second quarter, as well as the adverse impacts of the ongoing low interest rate environment.

Provision for credit losses is expected to significantly increase in 2020 due to a continued normalization of provisioning levels, lower recoveries and the impact of the COVID-19 outbreak on Expected Credit Loss estimates. The company expects majority of the provisions to be taken in the first half of 2020, with normalization later in the year.

The lender remains on track to deliver adjusted costs of €19.5 billion in 2020. Transformation-related costs of €1.4 billion are expected to be incurred in 2020.

Also, due to the challenging environment, the bank temporarily suspended its 2020 CET1 capital target of at least 12.5% and leverage ratio target of 4.5%.

Medium-Term Target (2022-end)

For the group, post-tax return on tangible equity (RoTE) of 8% is targeted by 2022, given external headwinds, including interest-rate movements in the euro area. Notably, various measures have been implemented by the bank to nullify the impact of lower interest rates to a greater extent. Loan growth, passing through negative interest rates, further optimization of liquidity reserves and using deposit tiering arrangements initiated by the European Central Bank advantageously are some of the measures.

For the Core Bank, excluding the Capital Release Unit, Deutsche Bank anticipates post-tax RoTE target of above 9% in 2022. Cost income ratio of 70% is expected.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	NA
EPS Surprise	NA
Quarterly EPS	0.02
Annual EPS (TTM)	-3.10

Per management anticipations, the interest-rate environment is likely to affect the returns in the Private Bank and Corporate Bank in the mid-term, partly offset by revenue growth in the Investment Bank and Corporate & Other.

The company aims to reduce adjusted costs to €17 billion by 2022.

CET 1 capital ratio is anticipated to be maintained at 12.5%. Also, leverage ratio is likely to be about 5%.

Recent News

BNP Paribas and Deutsche Bank Receive Approvals - Nov 14, 2019

BNP Paribas and Deutsche Bank announce that the agreement to refer clients and to transfer technology and key staff from Deutsche Bank's Global Prime Finance and Electronic Equities businesses to BNP Paribas has received the necessary approvals and is now unconditional.

Previously, continuing with its restructuring moves, in September 2019, Deutsche Bank has entered a deal with BNP Paribas, per which the former will transfer its prime brokerage business to the latter. The French bank will service Deutsche Bank's Global Prime Finance and Electronic Equities clients.

However, per the agreement, the platform will remain under the German bank till the migration of clients to BNP Paribas is complete. Moreover, amount of assets, staff and technology to be moved from Deutsche Bank to BNP Paribas are yet to be disclosed as the transition will take several stages.

"We are pleased to have signed the master transaction agreement with BNP Paribas on schedule. This is an important milestone for our Capital Release Unit and attests to the strength of our client offering and technology in these products. We are already making progress and are on the right track to implement this transaction, thereby providing a clear path for clients and staff," said Frank Kuhnke, chief operating officer, Deutsche Bank.

Valuation

Deutsche Bank's shares are down 10.2% in the year-to-date period and 10.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 41% and 27% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 39.8% and 21%, respectively.

The S&P 500 Index is down 10.4% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 0.21X trailing 12 months book value, which compares to 0.81X for the Zacks sub-industry, 2.07X for the Zacks sector and 3.82X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 0.58X and as low as 0.16X, with a 5-year median of 0.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$7.5 price target reflects 0.21X book value.

The table below shows summary valuation data for DB

Valuation Multiples - DB					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.21	0.81	2.07	3.82
	5-Year High	0.58	1.71	2.9	4.55
	5-Year Low	0.16	0.73	1.71	2.84
	5-Year Median	0.31	1.35	2.53	3.64
P/EBITDA TTM	Current	6.38	3.48	9.47	11.19
	5-Year High	9.86	6.77	15.56	13.86
	5-Year Low	0.89	3.13	7.83	8.73
	5-Year Median	4.19	5.46	13.07	11.7
P/S F12M	Current	0.62	2.47	4.98	3.25
	5-Year High	1.19	4.38	6.7	3.44
	5-Year Low	0.46	2.33	4.98	2.54
	5-Year Median	0.72	3.68	6.06	3.01

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Barclays PLC (BCS)	Neutral	3
HSBC Holdings plc (HSBC)	Neutral	4
ICICI Bank Limited (IBN)	Neutral	3
Royal Bank Of Canada (RY)	Neutral	4
Standard Chartered PLC (SCBFF)	Neutral	3
UBS Group AG (UBS)	Neutral	3
BanColombia SA (CIB)	Underperform	5
The PNC Financial Services Group Inc (PNC)	Underperform	4

Industry Comparison Industry: Banks - Foreign				Industry Peers		
	DB	X Industry	S&P 500	BCS	IBN	UBS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	F	F	A
Market Cap	14.45 B	18.05 B	19.51 B	22.18 B	28.65 B	35.83 B
# of Analysts	2	2	14	3	4	2
Dividend Yield	0.00%	4.12%	2.15%	0.00%	0.32%	0.00%
Value Score	F	-	-	B	F	A
Cash/Price	20.61	4.43	0.06	24.57	0.37	4.70
EV/EBITDA	-89.98	-2.21	11.77	-12.61	17.13	1.90
PEG Ratio	NA	1.54	2.54	1.09	NA	1.04
Price/Book (P/B)	0.21	0.52	2.67	0.25	1.62	0.62
Price/Cash Flow (P/CF)	NA	4.40	10.44	3.04	44.73	5.84
P/E (F1)	NA	9.53	19.30	19.69	16.86	9.55
Price/Sales (P/S)	0.39	0.96	1.99	0.77	2.26	1.24
Earnings Yield	-5.72%	10.25%	4.91%	5.08%	5.88%	10.42%
Debt/Equity	2.20	0.91	0.75	4.82	1.65	2.90
Cash Flow (\$/share)	-0.94	1.75	7.01	1.68	0.20	1.68
Growth Score	F	-	-	F	C	A
Hist. EPS Growth (3-5 yrs)	NA%	4.71%	10.87%	1.99%	-23.78%	2.26%
Proj. EPS Growth (F1/F0)	87.01%	-32.97%	-9.87%	-79.20%	27.27%	-10.09%
Curr. Cash Flow Growth	-161.61%	3.94%	5.88%	9.46%	-27.80%	-8.95%
Hist. Cash Flow Growth (3-5 yrs)	NA%	4.82%	8.55%	2.46%	-18.27%	5.03%
Current Ratio	0.71	1.07	1.24	1.43	1.04	0.98
Debt/Capital	69.06%	47.78%	44.23%	82.81%	62.23%	74.38%
Net Margin	-16.53%	16.38%	10.68%	9.09%	8.62%	16.42%
Return on Equity	-8.63%	9.47%	16.36%	5.47%	6.22%	8.55%
Sales/Assets	0.02	0.04	0.55	0.02	0.07	0.03
Proj. Sales Growth (F1/F0)	-8.08%	-5.65%	-2.26%	-7.04%	7.79%	28.55%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	2.79%	0.13%	1.52%	3.85%	0.80%	1.98%
1 Week Price Chg	20.17%	3.99%	0.53%	16.06%	7.34%	10.41%
4 Week Price Chg	4.48%	-1.92%	0.73%	4.92%	-2.10%	-2.59%
12 Week Price Chg	-36.57%	-34.62%	-21.09%	-44.04%	-41.35%	-25.89%
52 Week Price Chg	-10.15%	-36.23%	-10.17%	-37.64%	-18.73%	-19.22%
20 Day Average Volume	5,812,937	208,388	2,398,409	4,783,613	8,527,670	3,685,755
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.70%	-1.41%	3.54%
(F1) EPS Est 4 week change	-27.42%	-3.23%	-6.95%	-53.57%	-31.60%	11.41%
(F1) EPS Est 12 week change	-339.39%	-37.05%	-15.68%	-79.69%	-39.66%	-22.64%
(Q1) EPS Est Mthly Chg	NA%	-7.22%	-13.12%	NA	-52.94%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.