Deutsche Bank AG(DB)

$11.02 (As of 02/13/20)

Price Target (6-12 Months): **$12.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 04/05/19)	
	Prior Recommendation: Underperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: F	Momentum: F

Summary

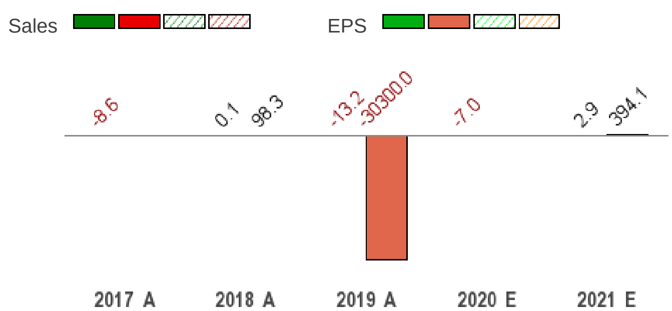
On the NYSE, shares of Deutsche Bank have outperformed the industry over the past six months. Fourth-quarter results reflect decline in revenues and significant restructuring costs, partially offset by lower provisions. Litigation issues related to past misconducts continue, and legal costs might deter bottom-line growth. Moreover, declining fee income and pressure on margins due to low interest rates in the domestic economy, keep the top line under pressure. Nonetheless, Deutsche Bank's efforts to improve financials by offloading unprofitable businesses and continued investments in order to expand its fee income sources are commendable. Also, the company targets to reduce adjusted costs to €19.5 billion by 2020-end, which is expected to support bottom-line expansion. Further, lower CET 1 capital ratio requirement by the ECB is a tailwind.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$11.13 - $6.44**
20 Day Average Volume (sh)	**6,838,683**
Market Cap	**$22.8 B**
YTD Price Change	**41.7%**
Beta	**1.56**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**[Banks - Foreign]**
Zacks Industry Rank	**Bottom 30% (178 out of 255)**
Last EPS Surprise	**NA**
Last Sales Surprise	**NA**
EPS F1 Est- 4 week change	**-13.2%**
Expected Report Date	**04/24/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**64.8**
PEG F1	**NA**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					24,822 E
2020					24,123 E
2019	7,213 A	6,971 A	5,852 A	5,924 A	25,948 A

EPS Estimates

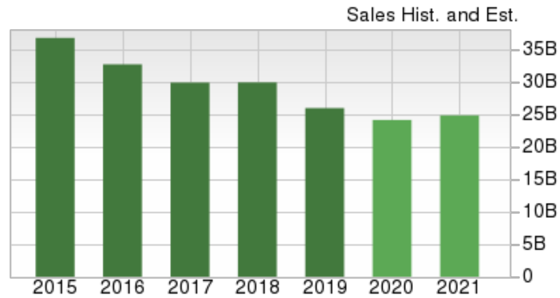
	Q1	Q2	Q3	Q4	Annual*
2021					$0.84 E
2020					$0.17 E
2019	$0.09 A	-$1.86 A	-$0.46 A	-$0.80 A	-$3.04 A

*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 02/13/2020. The reports text is as of 02/14/2020.

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 (€1.3 trillion as of Dec 31, 2019). 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). 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.

> 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.

- Deutsche Bank remains focused on strengthening its capital position. As of Dec 31, 2019, 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 Dec 31, 2019 was 76%, reflecting strong and stable funding base. We believe that deposit balances are poised to grow in an improving economy.

Reasons To Sell:

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.

- 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.

- Deutsche Bank faces margin pressure from a low (and even negative) interest rate environment and a competitive landscape. Further, several other macro headwinds, including the potential impact of the United Kingdom's decision to leave the European Union, remain key concerns for the company. Though the U.S. economy is gradually improving, European economy is yet to stabilize. The European Central Bank ("ECB") has announced a large-scale financial asset purchase program (commonly known as "quantitative easing") in an effort to counter adverse economic conditions. However, we don't foresee any significant favorable change in the same in the near term and these will continue to weigh on the company's performance.

- 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 this favorable trend, the company's current year earnings estimate has been revised 10.5% downward, over the past 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

Last Earnings Report

Deutsche Bank Posts Q4 Loss on Low Revenues, High Costs

Quarter Ending	12/2019
Report Date	Jan 30, 2020
Sales Surprise	NA
EPS Surprise	NA
Quarterly EPS	-0.80
Annual EPS (TTM)	-3.03

Marred by significant restructuring costs, Deutsche Bank reported fourth-quarter 2019 net loss of €1.48 billion ($1.64 billion) compared with net loss of €409 million in the year-ago quarter. Also, the German lender incurred loss before taxes of €1.29 billion ($1.43 billion).

Fourth-quarter results were majorly affected by transformation charges of about €608 million ($673 million) and restructuring and severance expenses of €473 million ($523.8 million). Also, lower revenues were an undermining factor. However, strong capital position and lower provisions were tailwinds.

In full-year 2019, the company reported net loss of €5.27 billion ($5.84 billion) against net income of €341 million in the previous year.

Revenues Decline, Provisions Fall

The bank generated net revenues of €5.35 billion ($5.93 billion), down 4% year over year. Lower revenues across most of the segments, exit from Equities Sales & Trading and a challenging market environment led to this downside.

In 2019, Deutsche Bank reported net revenues of €23.2 billion ($25.7 billion), down 8.5% from 2018.

Net revenues at the Corporate Bank division of €1.29 billion ($1.43 billion) declined 5% from the year-ago quarter. Lower revenues in global transaction banking along with commercial banking led to the fall.

Investment Bank segment's net revenues totaled €1.52 billion ($1.68 billion), up 13% year over year. Higher revenues from fixed income and currency sales & trading resulted in the rise.

Private Bank reported net revenues of €1.99 billion ($2.2 billion), down 4%. The fall primarily stemmed from lower revenues from businesses within Germany and wealth management unit.

Asset Management segment generated net revenues of €671 million ($743.1 million), up 31% year over year, mainly due to higher management fees.

Corporate & Other unit reported negative net revenues of €59 million ($65.3 million) compared with negative net revenues of €8 million a year ago.

Capital Release unit reported negative net revenues of €179 million ($198.2 million) against net revenues of €294 million.

Provision for credit losses decreased 2% from the year-ago quarter to €247 million ($273.6 million).

Non-interest expenses of €6.4 billion ($7.1 billion) were up 13% from the prior-year quarter. Excluding restructuring-related charges, the bank reported adjusted costs of €5.1 billion ($5.65 billion), down 5.6%.

Deutsche Bank's Common Equity Tier 1 capital ratio (fully loaded) came in at 13.6% as of Dec 31, 2019, stable year over year. Leverage ratio, on an adjusted fully-loaded basis, was 4.2%, up from 4.1%.

Risk-weighted assets declined €20 billion in the December quarter to €324 billion ($358.8 billion) sequentially.

Outlook for 2020

Common Equity Tier (CET) 1 capital ratio is expected to remain 12.5%. At the end of 2020, Leverage Ratio (fully loaded) is expected to be 4.5%.

For the Group, the bank is committed to reducing adjusted costs in 2020 to €19.5 billion.

Provisions for credit losses are expected to increase to around 20 bps of loans in 2020 reflecting a continued normalization of credit and lower recoveries.

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.

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

Deutsche Bank Affirms Targets, ECB Reduces Capital Requirement - Dec 10, 2019

At its "Investor Deep Dive", Deutsche Bank's chief executive, Christian Sewing, reported the progress on the bank's transformation strategy. Five months post announcement of its strategy, Sewing had a comprehensive status report. Per the German bank, implementation of the strategy is in line with the plan as well as ahead in various areas.

Sewing noted, "In the past few months we have made significant progress on every dimension of our strategic transformation. We are in line with our plan and even ahead in several areas."

ECB Reduces Capital Requirement

On the other side, Deutsche Bank's Common Equity Tier 1 (CET 1) capital ratio requirement has been reduced by the ECB from 11.84% to 11.59%, effective Jan 1, 2020. This move follows the bank's progress since the first SREP assessment in 2016 and the 2019 Supervisory Review and Evaluation Process (SREP). The decline in ratio attributes to the reduction in the ECB's Pillar 2 requirement from 2.75% to 2.50%, effective Jan 1, 2020.

"We welcome the ECB's decision to reduce Deutsche Bank's capital requirement", said James von Moltke, the chief financial officer. "This reflects the progress we have made and our ongoing commitment to conservative balance sheet management and strong internal controls. Our current CET 1 ratio is comfortably above requirements, and we are committed to maintaining robust capital levels throughout the implementation of our transformation strategy," he further noted.

Deutsche Bank Fined EUR15 Million for Money-Laundering Scandal - Dec 6, 2019

Deutsche Bank has been 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. Further, prosecutors have called off the probe of two bank employees suspected for engaging in tax evasion.

Notably, the bank had sold the subsidiary in March 2018. Previously, in 2018, Deutsche Bank's Frankfurt headquarters were raided by 170 police officers for two days. Further, in July 2019, the investigation was supposed to be stretched by the prosecutors, with planned raids on wealthy former clients following the search of houses of eight people in May 2019.

By this time, the prosecutors had called off investigating the money-laundering case due to lack of suspicion. Deutsche Bank has to pay 15 million euros ($16.5 million) as fines and forfeits due to lack of control in its compliance system.

Per the prosecutor's office, the fines imposed reflect the bank's failure of timely reporting of alleged money-laundering issues associated with Regula, lack of intricate supervision and staff shortage in Deutsche Bank's anti-money-laundering team from 2015 through early 2018.

"With the closure of these proceedings it is clear that the prosecutors have not found any instances of criminal misconduct on the part of Deutsche Bank employees following the raid of our Frankfurt office in November 2018," Deutsche Bank spokesman Joerg Eigendorf said in a statement.

"The investigation that has now been closed due to lack of sufficient suspicion had a heavy impact on Deutsche Bank last year," he added. "It is true that the bank had weaknesses in its control environment in the past. We identified these weaknesses and we have addressed them in a disciplined manner," Eigendorf further noted.

On the contrary, the prosecutor's office will continue its investigation of Regula's German clients suspected of engaging in tax-evasion activities.

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 up 41.7% in the year-to-date period and 25.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.9%, while the Zacks Finance sector is up 1.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.5%, while the sector is up 10.8%.

The S&P 500 Index is up 4.7% in the year-to-date period and 22% in the past year.

The stock is currently trading at 0.32X tailing 12 months book value, which compares to 1.34 for the Zacks sub-industry, 2.86X for the Zacks sector and 4.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.58X and as low as 0.18X, with a 5-year median of 0.33X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $12 price target reflects 0.35X 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	0.32	1.34	2.86	4.35
	5-Year High	0.58	1.71	2.89	4.42
	5-Year Low	0.18	0.92	1.83	2.85
	5-Year Median	0.33	1.35	2.51	3.62
P/EBITDA TTM	Current	9.41	4.44	11.84	14.69
	5-Year High	9.86	6.8	15.53	14.72
	5-Year Low	0.89	4.11	9.92	9.34
	5-Year Median	4.25	5.5	12.99	11.66
P/S F12M	Current	0.94	3.49	6.55	3.57
	5-Year High	1.35	4.4	6.65	3.57
	5-Year Low	0.5	3.12	5.39	2.54
	5-Year Median	0.89	3.69	6.04	3

As of 02/13/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (178 out of 255)

Top Peers

Barclays PLC **(BCS)**	Neutral
BanColombia S.A. **(CIB)**	Neutral
ICICI Bank Limited **(IBN)**	Neutral
The PNC Financial Services Group, Inc **(PNC)**	Neutral
Royal Bank Of Canada **(RY)**	Neutral
Standard Chartered PLC **(SCBFF)**	Neutral
UBS Group AG **(UBS)**	Neutral
HSBC Holdings plc **(HSBC)**	Underperform

Industry Comparison Industry: Banks - Foreign

Industry Peers

	DB Neutral	X Industry	S&P 500	BCS Neutral	IBN Neutral	UBS Neutral
VGM Score	F	-	-	C	F	C
Market Cap	22.78 B	32.94 B	24.56 B	39.62 B	48.74 B	48.35 B
# of Analysts	2	2	13	3	4	2
Dividend Yield	0.00%	3.42%	1.78%	3.15%	0.19%	0.00%
Value Score	F	-	-	B	F	A
Cash/Price	44.28	2.46	0.04	12.50	0.24	2.75
EV/EBITDA	-174.54	-0.79	14.00	-4.78	24.55	8.39
PEG Ratio	NA	1.99	2.10	3.04	NA	2.82
Price/Book (P/B)	0.32	0.94	3.31	0.47	2.77	0.88
Price/Cash Flow (P/CF)	7.26	7.93	13.68	5.87	76.27	7.74
P/E (F1)	65.35	9.66	19.23	7.20	32.28	9.97
Price/Sales (P/S)	0.59	1.73	2.69	1.43	3.98	1.71
Earnings Yield	1.54%	10.19%	5.20%	13.88%	3.11%	10.07%
Debt/Equity	2.27	0.88	0.71	5.04	1.65	3.24
Cash Flow ($/share)	1.52	1.76	6.92	1.56	0.20	1.71
Growth Score	F	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	NA%	4.91%	10.85%	-2.06%	-28.24%	1.75%
Proj. EPS Growth (F1/F0)	105.43%	3.23%	7.17%	1.60%	211.67%	16.23%
Curr. Cash Flow Growth	97.46%	3.86%	8.56%	29.75%	-27.80%	-7.32%
Hist. Cash Flow Growth (3-5 yrs)	-9.35%	3.48%	8.36%	2.14%	-18.27%	5.40%
Current Ratio	1.14	1.08	1.23	1.54	1.04	0.94
Debt/Capital	69.88%	46.82%	42.91%	83.44%	62.23%	76.42%
Net Margin	-15.54%	17.72%	11.81%	11.58%	6.04%	15.20%
Return on Equity	-8.08%	10.88%	16.86%	6.23%	4.21%	7.89%
Sales/Assets	0.02	0.04	0.54	0.02	0.07	0.03
Proj. Sales Growth (F1/F0)	-7.08%	0.12%	3.85%	6.97%	18.50%	33.34%
Momentum Score	F	-	-	B	F	C
Daily Price Chg	1.57%	-0.38%	0.00%	-0.65%	-1.69%	-1.42%
1 Week Price Chg	13.77%	2.39%	2.47%	3.07%	2.47%	4.69%
4 Week Price Chg	29.04%	-1.42%	0.56%	-1.19%	0.80%	0.08%
12 Week Price Chg	49.32%	0.90%	6.96%	5.78%	9.11%	9.44%
52 Week Price Chg	32.13%	-2.50%	16.68%	13.66%	56.53%	4.18%
20 Day Average Volume	6,838,683	95,859	2,020,569	3,111,919	6,824,387	3,202,381
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.78%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.16%	-0.06%	-0.05%	-1.04%	-8.78%	0.00%
(F1) EPS Est 12 week change	-46.77%	-0.70%	-0.17%	3.81%	-11.79%	3.92%
(Q1) EPS Est Mthly Chg	NA%	-0.45%	-0.24%	NA	-8.33%	NA

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.

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