

Deutsche Bank (DBKGn.DE)

Model Update

- We update our estimates for 2014E, 2015E and 2016E, reducing 2014E and 2015E by 9% and 4%, respectively, but increase our 2016E EPS by 1%.
- Changes are primarily driven by an update to methodology of tax treatment of litigation, i.e. non-tax deductible. This has no impact on reported net profit and EPS. The decline in adjusted EPS is partially offset by modest upgrades to our investment bank forecasts, due to stronger-than-expected capital markets, partially offset by lower expectations on equities revenues.
- We reiterate our Buy recommendation and our Price Target of €38.

■ Estimate Change

Buy	1
Price (17 Jul 14)	€26.65
Target price	€38.00
Expected share price return	42.6%
Expected dividend yield	2.3%
Expected total return	44.9%
Market Cap	€36,751M
	US\$49,713M

Price Performance

(RIC: DBKGn.DE, BB: DBK GR)



Deutsche Bank (EUR)

Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Net Income (€M)	1,901.5	1,062.1	4,306.1	5,933.2	7,162.0
Diluted EPS (€)	1.98	1.04	3.50	4.21	5.08
Diluted EPS (Old) (€)	1.98	1.04	3.83	4.38	5.02
PE (x)	13.5	25.7	7.6	6.3	5.2
P/BV (x)	0.5	0.5	0.6	0.5	0.5
DPS (€)	0.75	0.75	0.75	0.75	1.00
Net Div Yield (%)	2.8	2.8	2.8	2.8	3.8
ROE (%)	0.5	1.2	2.7	7.1	10.0

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Valuation Ratios					
P/E adjusted (x)	13.5	25.7	7.6	6.3	5.2
P/E reported (x)	98.1	41.1	20.7	8.0	5.3
P/BV (x)	0.5	0.5	0.6	0.5	0.5
P/Adjusted BV diluted (x)	0.5	0.5	0.5	0.6	0.5
Dividend yield (%)	2.8	2.8	2.8	2.8	3.8
Per Share Data (€)					
EPS adjusted	1.98	1.04	3.50	4.21	5.08
EPS reported	0.27	0.65	1.29	3.33	5.00
BVPS	58.10	53.67	46.39	49.04	53.41
Tangible BVPS	42.80	40.01	36.28	38.93	43.30
Adjusted BVPS diluted	56.26	53.37	51.95	47.96	52.23
DPS	0.75	0.75	0.75	0.75	1.00
Profit & Loss (€m)					
Net interest income	15,975	14,834	15,648	16,431	17,252
Fees and commissions	11,809	12,308	11,161	12,053	13,018
Other operating Income	5,235	3,917	4,730	4,386	4,135
Total operating income	33,018	31,059	31,539	32,870	34,405
Total operating expenses	-28,506	-27,456	-25,030	-23,760	-22,576
Oper. profit bef. provisions	4,512	3,603	6,509	9,110	11,830
Bad debt provisions	-1,721	-2,064	-1,488	-1,172	-1,071
Non-operating/exceptionals	-1,978	-84	-1,673	-200	0
Pre-tax profit	813	1,455	3,347	7,738	10,759
Tax	-500	-775	-1,667	-2,946	-3,602
Extraord./Min. Int./Pref. Div.	-52	-15	-95	-100	-100
Attributable profit	261	665	1,585	4,693	7,056
Adjusted earnings	1,902	1,062	4,306	5,933	7,162
Growth Rates (%)					
EPS adjusted	-45.2	-47.7	237.5	20.3	20.7
Oper. profit bef. prov.	-36.5	-20.2	80.6	40.0	29.9
Balance Sheet (€m)					
Total assets	2,022,275	1,611,400	1,561,574	1,541,574	1,572,406
Avg interest earning assets	1,354,924	1,079,638	1,046,255	1,032,855	1,053,512
Customer loans	402,069	382,171	368,465	363,746	371,021
Gross NPLs	10,335	10,143	8,276	6,207	4,655
Liab. & shar. funds	2,022,275	1,611,400	1,561,574	1,541,574	1,572,406
Total customer deposits	577,210	527,750	492,892	486,579	496,311
Reserve for loan losses	4,692	5,589	4,658	4,141	3,816
Shareholders' equity	54,001	54,719	63,988	67,646	73,668
Profitability/Solvency Ratios (%)					
ROE adjusted	3.5	2.0	7.3	9.0	10.1
Net interest margin	1.18	1.37	1.50	1.59	1.64
Cost/income ratio	86.3	88.4	79.4	72.3	65.6
Cash cost/average assets	1.4	1.5	1.6	1.5	1.4
NPLs/customer loans	2.6	2.7	2.2	1.7	1.3
Reserve for loan losses/NPLs	45.4	55.1	56.3	66.7	82.0
Bad debt prov./avg. cust. loans	0.4	0.5	0.4	0.3	0.3
Loans/deposit ratio	69.7	72.4	74.8	74.8	74.8
Tier 1 capital ratio	15.1	16.9	12.8	13.3	14.3
Total capital ratio	17.1	18.5	16.5	16.9	18.0

Deutsche Bank

Company description

Deutsche Bank is one of the world's largest investment banks. Its main businesses are corporate and investment banking (55% of 2011 revenue), asset & wealth management (11%) and branch banking/brokerage (31%). The group has acquired banks in Italy (Banca d'America e d'Italia in 1986, Banca Popolare di Lecco in 1993), Spain (Banco de Madrid, 1993), Poland (Bank Wspolpracy Regionalnej, 2000) and Germany (Berliner Bank & Norisbank, 2006; Postbank, 2010). It has also bought capital markets businesses around the world (Morgan Grenfell in 1989, Bankers Trust in 1999, Scudder in 2002, and Rued Blass in 2003, UFG in 2006).

Investment strategy

We have a Buy rating on Deutsche Bank shares. The bank has a market leading position in several investment bank products, particularly in FICC sales & trading, which positions it to benefit from i) any industry consolidation as smaller peers restructure, or ii) a cyclical recovery in capital markets activity. Furthermore, asset and RWA deleveraging has mitigated concerns over DBK's capital position, as has a degree of regulatory forbearance. Furthermore, the run-down of the NCOU division should further support capital accretion.

Valuation

We have a €38 price target for Deutsche Bank based on a DDM methodology using a 'normalised' RoTE of c12% and a cost of equity of 11.6%. We factor in a capital shortfall based on a 2015E capital gap to a 4% leverage ratio. However, we forecast this gap to be reduced to €1.7bn following a €8.5bn capital raise.

Risks

The key risks to our investment thesis on Deutsche Bank are: (1) the size of provisions related to the assets, which are dependent on the macro scenario; (2) the realised level of organic capital generation over the coming quarters, additional regulatory requirements or litigation provisions; (3) the pace of the turnaround in the asset & wealth management operation; and (4) the resilience of capital market revenues.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Appendix A-1

Analyst Certification

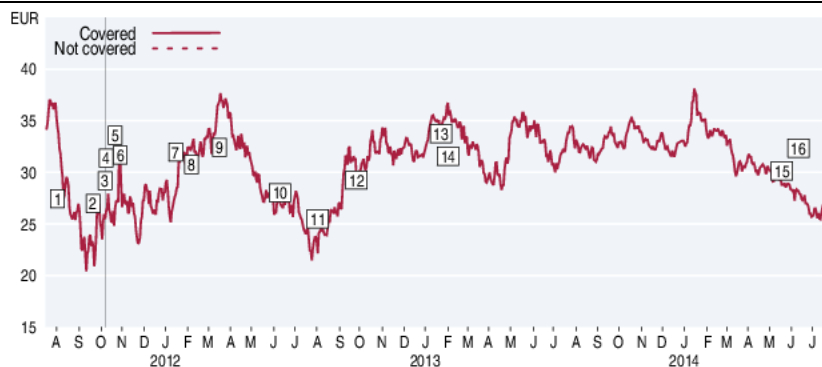
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Deutsche Bank (DBKGn.DE)

Ratings and Target Price History Fundamental Research

Analyst: Kinner Lakhani



	Date	Rating	Target Price	Closing Price
1	2-Aug-11	2H	*41.01	34.41
2	21-Sep-11	2H	*26.71	22.80
3	7-Oct-11	Stock rating system changed		
4	8-Oct-11	*2	26.71	25.49
5	21-Oct-11	2	*25.28	26.54
6	28-Oct-11	2	*31.00	31.67

* Indicates change

	Date	Rating	Target Price	Closing Price
7	16-Jan-12	2	*28.61	27.87
8	7-Feb-12	2	*33.38	32.38
9	16-Mar-12	2	*37.20	36.88
10	11-Jun-12	2	*31.47	27.07
11	2-Aug-12	2	*26.71	22.14
12	26-Sep-12	2	*31.47	29.25

	Date	Rating	Target Price	Closing Price
13	23-Jan-13	2	*37.20	33.76
14	1-Feb-13	*1	*42.92	36.74
15	19-May-14	1	*41.01	28.80
16	11-Jun-14	1	*38.00	28.18

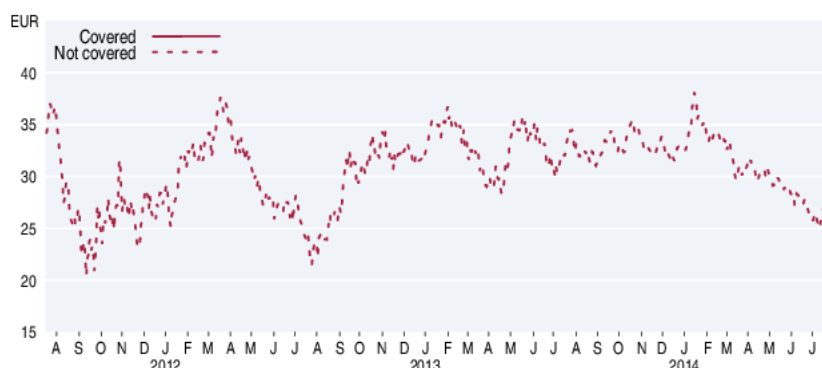
Rating/target price changes above reflect Eastern Standard Time

Deutsche Bank (DBKGn.DE)

Ratings and Target Price History

Best Ideas Research Relative Call (3 Month)

Analyst: Kinner Lakhani



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Data current as of 30 Jun 2014	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	0%	100%	0%
% of companies in each rating category that are investment banking clients	55%	53%	46%	0%	54%	0%

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