

1 June 2006

Raiffeisen International

Reuters: **RIBH.VI** Bloomberg: **RIBH AV** Exchange: **VIE** Ticker: **RIBH**

EPS and target upgrades

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Disposal benefits

Today Raiffeisen International (RI) has signed a contract to sell some of its Ukrainian banking assets to OTP. Based on the year end 2005 equity of the disposed entity the group realises a P/Bx multiple of 4.7x from the sale, which we think is very positive. It does strengthen the equity base of RI and hence pushes back a possible capital increase in our view. Hence we upgrade our EPS forecasts and target price accordingly.

€ 650m disposal in the Ukraine

Today RI signed a contract to sell 100% of its Ukrainian subsidiary JSCB Raiffeisenbank Ukraine to OTP Bank from Hungary. The disposal price is € 650m, which implies a book profit of € 511m. The disposed entity had € 139m book value at end 2005 and a pre-tax profit of € 14m in 2004. The sale is still subject to regulators and anti-trust authorities, which should not be a problem in our view. After closing of this transaction RI will remain the No. 2 bank in the Ukraine due to its takeover of AVAL Bank in 2005.

5.8% EPS upgrades

The deal eliminates restructuring costs, which would have occurred from the merger of the two Ukrainian entities. We believe also that the proceeds will significantly strengthen the shareholder equity with € 393m at least. The latter is dependent on the capital gains tax effect of the disposal, which is unclear yet. Anyway we believe the group does no longer need a € 500m capital increase in 2007, after this disposal. Hence we eliminate the projected capital increase, which implies that our EPS forecasts increase by ca. 5.7% for 2007E and 2008E.

Valuation/Risks

Based on our 2007E SOTP valuation, we derive a new target price of € 80 (€ 75). The change of the target price is entirely due to the increased EPS forecast. Our fair value implies a targeted 2007E P/E multiple of 17.4x, which is ca. 17% ahead of the average of Eastern European banks. We think a premium is justified amid the widespread country exposure and 25% CAGR 2008E of EPS it offers. Downside risks are: 1) Unexpected slowdown of economic growth in Eastern Europe and 2) currency devaluation in Eastern Europe.

Forecasts and ratios

Year End Dec 31	2004A	2005A	2006E	2007E
EPS Adjusted (EUR)	2.13	2.79	3.55	4.59
P/E Adjusted (x)	NA	19.9	18.1	14.0
ROE Stated (%)	14.2	16.5	28.0	16.8
BVPS Stated (EUR)	14.7	19.6	25.3	29.2
P/B Stated (x)	NA	2.8	2.5	2.2

Source: Deutsche Bank estimates, company data

Corporate Activity

Buy

Price at 1 Jun 2006 (EUR)	64.10
Price Target (EUR)	80.00
52-week range (EUR)	78.54 - 45.45

Key changes

Target Price	75.00 to 80.00	↑	6.7%
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-7.2	-6.8	28.2
Dow Jones EURO STOXX Price	-5.7	-4.0	

Stock data

Price Target (EUR)	80.00
Market cap (EUR)	9,152
Shares outstanding (m)	143
Free float (%)	0
Dow Jones EURO STOXX Price	341.5

Key indicators

ROE Stated (EUR)	28.0
Total Loans/Total Deposits (x)	101.9
Net Interest Margin (%)	4.1
Book value/share (EUR)	25.3
Cost-Income Ratio (x)	40.2
Net interest cover (x)	1.6
Tier 1 Ratio (%)	9.3

Deutsche Bank AG/London

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Model updated: 01 June 2006

Company Research

Europe

Austria

Banks

Raiffeisen International

Reuters: RIBH.VI Bloomberg: RIBH AV

Buy

Price as of 01 June **EUR 64.10**

Target price **EUR 80.00**

Company website

http://www.ri.co.at

Company description

Raiffeisen International has a widespread presence in 15 Eastern European countries ranging from Albania to Russia. It has no exposure to the Austrian market, although it belongs to the Austrian Raiffeisen Banking Group. The company offers a comprehensive range of retail and corporate banking services. Raiffeisen International has the strategy to grow the retail business aggressively. Therefore it pursues a significant branch opening program until 2007. In addition the company seeks further takeover opportunities to support the growth strategy.

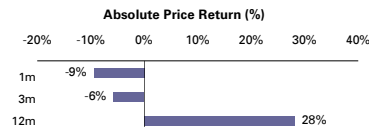
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52-week Range: **EUR 45.45 - 78.54**
 Market Cap (m) **EUR 9,152**
USD 11,731

Company identifiers

Cusip **NA**
 SEDOL **B0704T9**

Year Ending 31 December

	2002	2003	2004	2005	2006E	2007E	2008E
DATA PER SHARE							
EPS (stated) (EUR)	1.04	1.79	1.94	2.79	6.30	4.59	5.40
EPS (DB) (EUR)	1.04	1.85	2.13	2.79	3.55	4.59	5.40
Growth Rate - EPS (DB) (%)	nm	77.9	15.1	31.0	27.2	29.3	17.6
DPS (EUR)	0.13	0.33	0.36	0.45	0.60	0.75	0.90
BVPS (stated) (EUR)	9.18	11.03	14.72	19.62	25.32	29.16	33.66
Investment capital gains p. sh. (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tang. NAV p. sh. (EUR)	8.83	10.68	14.12	15.93	19.37	23.21	27.71
Market Capitalisation Y/E (EUR m)	0	0	0	7,103	9,152	9,152	9,152
Shares in issue (m)	100	100	108	137	143	143	143

VALUATION RATIOS & PROFITABILITY MEASURES

P/E (stated)	0.0	0.0	0.0	17.8	10.2	14.0	11.9
P/E (core DB)	0.0	0.0	0.0	17.8	18.1	14.0	11.9
P/B (stated)	0.0	0.0	0.0	2.8	2.5	2.2	1.9
P/Tangible equity (DB)	0.0	0.0	0.0	3.5	3.3	2.8	2.3
ROE (stated) (%)	11.3	17.7	14.2	16.5	28.0	16.8	17.2
RoTE (core tangible equity) (%)	11.7	19.0	16.3	18.9	20.1	21.5	21.2
ROIC (invested capital) (%)	22.5	18.2	15.5	16.3	15.6	16.7	17.1
Dividend yield (%)	nm	nm	nm	0.9	0.9	1.2	1.4
Dividend cover (x)	8.0	5.4	5.4	6.2	10.5	6.1	6.0
Simple free cash flow yield (%)	nm	nm	nm	-6.4	-0.4	-0.1	2.4

PROFIT & LOSS (EUR m)

Net interest revenue	394	564	804	1,202	1,638	1,954	2,279
Non-interest income	334	455	520	708	919	1,091	1,215
Commissions	135	213	300	407	785	941	1,056
Trading revenue	200	242	220	301	134	150	159
Other revenue	0	0	0	0	0	0	0
Total revenue	728	1,018	1,323	1,910	2,557	3,045	3,494
Total Operating Costs	503	648	824	1,174	1,028	1,761	1,977
Employee costs	219	297	381	552	755	885	1,032
Other costs	284	351	443	622	273	876	945
Pre-Provision profit / (loss)	225	370	500	736	1,529	1,284	1,517
Bad debt expense	50	88	138	167	247	304	368
Operating Profit	175	283	362	569	1,282	980	1,149
Pre-tax associates	0	0	0	0	0	0	0
Pre-tax profit	175	283	362	569	1,282	980	1,149
Tax	39	49	71	109	281	203	239
Minority shareholders	33	49	60	77	101	122	139
Other post tax items	0	-6	-21	0	0	0	0
Stated net profit	104	179	209	382	900	655	771

Reconciliation to DB adjusted core earnings

Goodwill	0	6	21	0	0	0	0
Extraordinary & Other items	0	0	0	0	-393	0	0
Bad Debt Provisioning	0	0	0	0	0	0	0
Investment reval, cap gains / losse	0	0	0	0	0	0	0
DB adj. core earnings	104	185	231	382	506	655	771

KEY BALANCE SHEET ITEMS (EUR m) & CAPITAL RATIOS

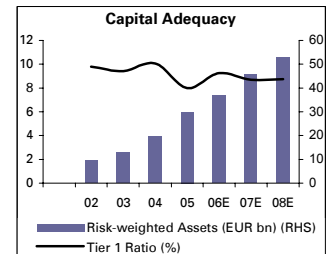
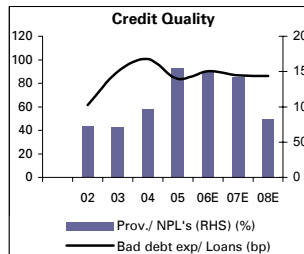
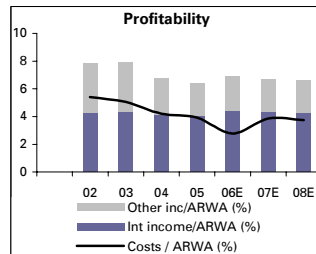
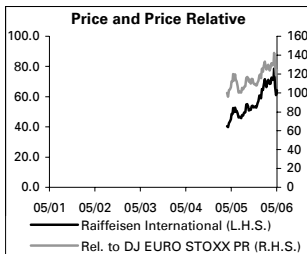
Risk weighted assets	9,283	12,802	19,638	29,914	36,800	45,600	52,700
Interest-earnings assets	12,928	17,524	26,082	35,645	43,716	54,421	66,859
Total loans	8,052	11,435	15,876	24,064	30,634	39,335	45,786
Total deposits	9,365	12,083	18,169	24,890	30,059	38,443	45,379
Stated Shareholder Equity	918	1,103	1,840	2,801	3,615	4,163	4,805
Tangible shareholders equity	883	1,068	1,765	2,274	2,765	3,313	3,955
Tier 1 capital	907	1,204	1,977	2,392	3,407	3,954	4,597
Tier 1 ratio (%)	9.8	9.4	10.1	8.0	9.3	8.7	8.7
o/w core tier 1 capital ratio (%)	9.8	9.4	10.1	8.0	7.9	7.6	7.8
Tangible equity / total assets (%)	6.1	5.3	6.1	5.6	5.6	5.4	5.4

CREDIT QUALITY

Gross NPLs / Total Loans (%)	3.25	3.34	2.38	1.75	1.57	1.35	2.18
Risk Provisions / NPLs (%)	72	71	97	154	151	142	83
Bad debt chg / Avg loans (%)	0.61	0.90	1.01	0.84	0.90	0.87	0.86

GROWTH RATES & KEY RATIOS

Growth in revenues (%)	nm	40	30	44	34	19	15
Growth in costs (%)	nm	29	27	43	-12	71	12
Growth in bad debts (%)	nm	77	57	22	48	23	21
Growth in RWA (%)	nm	38	53	52	23	24	16
Growth in loans (%)	nm	21	40	46	37	28	22
Growth in deposits (%)	nm	29	50	37	21	28	18
Net int. margin (%)	3.05	3.70	3.69	3.89	4.13	3.98	3.76
Cost income ratio (%)	69.1	63.6	62.2	61.5	40.2	57.8	56.6
Total loans / Total deposits (%)	86	95	87	97	102	102	101



Source: Company data, Deutsche Bank estimates

Valuation

SOTP 2007E

Figure 1:

Raiffeisen Int.	EQUITY	NET	RoE 2007E	RoE SUSTAIN	CoE	GROWTH	P/BV	P/E	TOTAL	VALUE
SOTP AT END - 2007E	E m	E m				SUSTAIN	x	x	VALUE	PS
Central Europe	1,537	201	13.1%	13.0%	10.0%	7.5%	2.2	16.8	3,381	23.7
SE Europe	1,131	193	17.1%	17.9%	12.0%	8.5%	2.7	15.8	3,048	21.3
CIS Countries	1,221	261	21.4%	24.0%	13.5%	10.0%	4.0	18.7	4,884	34.2
Total	3,889	655	16.8%	17.9%	11.7%	8.6%	2.9	17.3	11,313	79.2
Dividend										0.75
Fair value							2.94	17.4	11,420	80.0

Source: Deutsche Bank

Based on our SOTP valuation, we derive our new price target of Euro 80 (Euro 75). We use this methodology because it allows valuation of each geographic segment separately. Thereby we use different assumptions for sustainable RoE, cost of equity and growth. We admit that the assumption for sustainable growth is subjective and has a major influence on the valuation.

In light of the Euro 650m disposal of the Ukrainian banking asset we no longer incorporate a Euro 500m capital increase in our projections. That is because the group targets an 8% Tier 1 ratio, which is lower than our existing forecast of 8.7% for the years 2007E and 2008E. Therefore the number of shares of 142.8m remains unchanged for the entire forecast period until 2008E. So far we were projecting a capital increase of 8m new shares for 2007E in order to fund the strong asset growth of RI.

New group forecasts

Figure 2: Raiffeisen International – group forecasts

Euro million	2003	2004	2005	2006E	2007E	2008E
			Aval ->	Impex->		
Net interest income	564	806	1,202	1,638	1,954	2,279
Net commission income	213	298	407	785	941	1,056
Net trading income	242	221	301	134	150	159
Operating income	1,018	1,325	1,910	2,557	3,045	3,494
Operating expenses	(659)	(823)	(1,163)	(1,535)	(1,755)	(1,970)
Other operating result	5	(22)	(11)	507	(6)	(7)
o.w. goodwill	(6)	(21)	-	-	-	-
Gross operating profit	364	480	736	1,529	1,284	1,517
Risk provisions	(88)	(138)	(167)	(247)	(304)	(368)
Pre tax profit	277	342	569	1,282	980	1,149
Pre tax profit adj.	283	363	569	1,282	980	1,149
Tax	(49)	(71)	(109)	(281)	(203)	(239)
Minorities	(49)	(60)	(77)	(101)	(122)	(139)
Net profit	179	211	382	900	655	771
			0	0		
YE risk weighted assets	12,802	19,638	29,914	36,800	45,600	52,700
Avg.risk weighted assets	11,042	16,220	23,805	33,763	41,200	49,150
Avg. allocated equity	1,147	1,535	2,608	3,208	3,889	4,484
Growth YoY						
Risk weighted assets	na	47%	47%	42%	22%	19%
Operating income	na	30%	44%	34%	19%	15%
Operating expenses	na	25%	41%	32%	14%	12%
Gross operating profit	na	32%	53%	108%	-16%	18%
Pre-tax profit	na	24%	66%	125%	-24%	17%
Pre-tax profit adj.	na	28%	57%	125%	-24%	17%
Net profit	na	18%	81%	135%	-27%	18%
Ratios						
NII / RWA	5.10%	4.97%	5.05%	4.85%	4.74%	4.64%
Cost income ratio %	64.7%	62.1%	60.9%	60.0%	57.6%	56.4%
PLL / RWAs	0.79%	0.85%	0.70%	0.73%	0.74%	0.75%
Tier 1 ratio %	10.4%	9.5%	11.0%	9.5%	9.4%	9.1%
Tax rate %	17.7%	20.7%	19.2%	21.9%	20.8%	20.8%
Minorities ratio %	-21.3%	-22.1%	-16.8%	-10.1%	-15.7%	-15.3%
Pre tax RoE	24.1%	22.3%	21.8%	40.0%	25.2%	25.6%
Net RoE	15.6%	13.8%	14.7%	28.1%	16.8%	17.2%

Source: Company data and Deutsche Bank

Appendix 1

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Additional information available upon request

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Raiffeisen International	RIBH.VI	64.10 (EUR) 1 Jun 06	6,8

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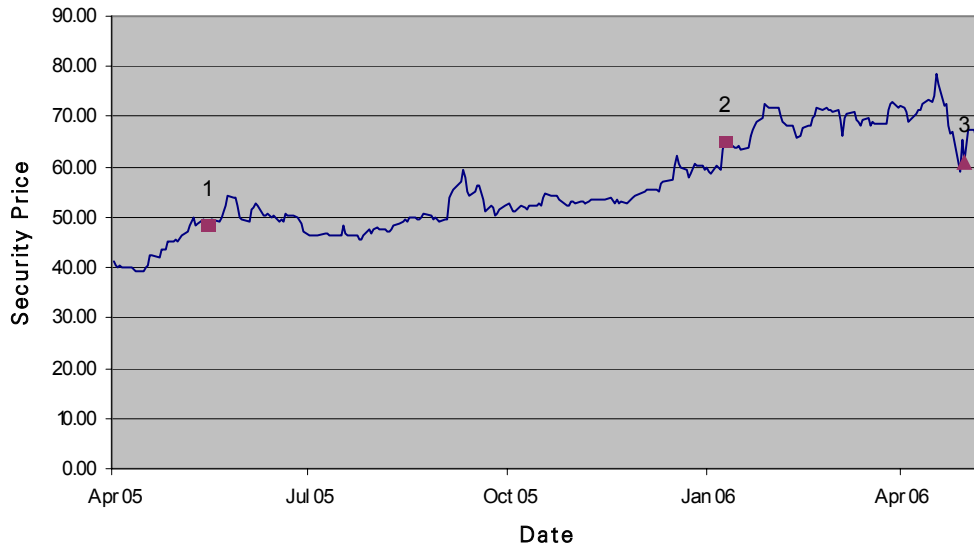
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(as of 6/1/2006)



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- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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- | | |
|---|--|
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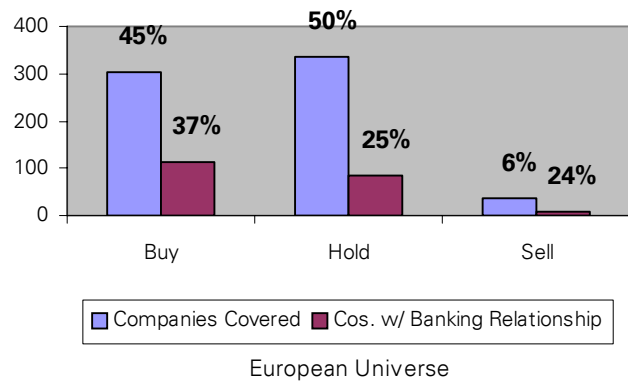
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