

Deutsche Bank

4Q was not the best

Earnings Review

Key takeaways

- Spotty numbers from DB, as promised, boosted by one offs in terms of tax and litigation reversals
- PBT was EUR 699m but the bottom line was a more respectable EUR 1.4bn largely because of the tax. Distributions boosted.
- 4Q tends to be seasonally weaker. Revenue guidance for 2024 boosted to EUR 30bn (2023: EUR 28.9bn)..

Spotty 4Q

DB promised us a spotty 4Q in their 3Q report and on this front, at least, they did not disappoint. Pre-tax profit came in at €699m but net profit was €1.4bn, pointing to a tax gain (in this case €1bn from UK DTAs). We don't particularly like deus ex machina tax gains in the context of higher promised distributions of €675m in share buyback and €900m in dividends, though we appreciate the bank has largely turned the corner in its recovery, as recognised by ratings upgrades recently. There was also a litigation release of €287m to help the numbers. Positively, although quarterly results are very seasonal with DB, 4Q23 is definitely much stronger than the prior year quarter and the bank's revenue guidance for this year is €30bn, certainly higher than 2023. We have an Overweight on the DB 2.129% bond at \$94.2.

Lower FIC

FIC missed expectations with €1.5bn in revenues, as better credit trading, EM (Asia) and Distressed did not offset lower Rates and FX. Origination & Advisory revenues were 56% up on leveraged finance, setting the scene for further recovery too this year. 2024 has began strongly, according to the company. The Corporate Bank continues to recover but Asset Management had a tougher quarter, missing expectations in terms of inflows. Assets under Management rose to €896bn.

Risk rose

The CET1 ratio fell back to 13.7% in the quarter after the high of 3Q – there was €3bn RWA relief from securitisations in 4Q to support this number. DB has maintained its low guidance in terms of cost of risk for next year at 25-30bps. It was 31bps for the year and we see €488m of provisions or 41bps of loans in 4Q on higher Stage 3 provisions and lower impact from model adjustments.

01 February 2024

High Grade Credit
Germany
Banks

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Timestamp: 01 February 2024 02:58AM EST

Valuation & risk

Deutsche Bank (DB)

We still view DB as an attractive credit. The bank has continued to deliver tangible improvements on the back of its strategy into 2023. We viewed the plan favourably from the credit perspective and execution has been good. DB bonds remain sensitive to market volatility but even so, valuation looks respectable across the capital structure. We prefer the senior part of the capital structure (senior preferred / SNP). We are MW the \$4.875% T2 given better value in peers. We would switch from the €4.5% '26 Tier 2s into the €2.625% '26 senior non-preferred bonds, which offer different levels of protection. We are OW the €5.625% and \$7.079% Callable Tier 2 bonds, which we think look too wide of similarly-rated issuers. We highlight the SNP in particular where we see bail-in risk as overstated, especially in USD. DB's CDS has underperformed peers which we do not see as justified.

Downside risks: Unexpected losses. Final execution risks around the bank's new strategic plan, impact of regulatory changes relating to the calculation of RWAs, residual litigation and conduct charges beyond what the bank has already provisioned for, weak performance of the bank's markets business as a result of difficult market environment

Analyst Certification

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Security/Loan pricing

Deutsche Bank / DB

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (Govt+bps)
2.75, Lower Tier 2, EUR, 2025:B	1,250	17-FEB-2025	Baa3/BBB-/BBB	98.85	30-Jan-2024	3.89	74
4.5, Lower Tier 2, USD, 2025:B	1,500	01-APR-2025	Baa3/BBB-/BBB	98.28	30-Jan-2024	6.04	132
4.875, Subordinated, USD, 2032:B	1,000	01-DEC-2032	Baa3/BBB-/BBB	93.98	30-Jan-2024	6.48	245
1.125, Senior, EUR, 2025:B	971	17-MAR-2025	Baa1/BBB/A-	96.85	30-Jan-2024	4.05	95
1.75, Senior, EUR, 2028:B	856	17-JAN-2028	Baa1/BBB/A-	92.82	30-Jan-2024	3.73	149
6.25, Tier1, USD, Perp/2049:B	1,250	29-MAY-2049	Ba2/BB/BB+	89.43	30-Jan-2024	8.53	422
7.125, Tier1, GBP, Perp/2049:B	650	30-APR-2049	Ba2/BB/BB+	94.32	30-Jan-2024	8.55	387
7.5, Junior Subordinated, USD, 2025:B	1,500	29-DEC-2049	Ba2/BB/BB+	96.89	30-Jan-2024	8.87	446
Senior Unsecured, EUR, Y5:CDS	400				31-Jan-2024	4.45	81
Subordinated, EUR, Y5:CDS	1,132				31-Jan-2024	2.33	191
2.129, Senior, USD, 2026:B	2,000	24-Nov-2026	Baa1/BBB/A-	93.93	30-Jan-2024	5.69	124
4.5, Junior Subordinated, EUR, 2026:B	1,250	30-Nov-2026	Ba2/BB/BB+	84.40	30-Jan-2024	7.76	513
.75, Senior, EUR, 2027:B	1,500	17-FEB-2027	Baa1/BBB/A-	93.45	30-Jan-2024	4.15	158
2.625, Senior, EUR, 2026:B	684	12-FEB-2026	Baa1/BBB/A-	97.73	30-Jan-2024	3.81	124
5, Senior, EUR, 2030:B	1,500	05-SEP-2030	Baa1/BBB/A-	103.22	30-Jan-2024	4.33	217
5.625, Subordinated, EUR, 2031:B	1,250	19-MAY-2031	Baa3/BBB-/BBB	100.94	30-Jan-2024	5.16	265
7.079, Subordinated, USD, 2034:B	1,500	10-FEB-2034	Baa3/BBB-/BBB	101.88	30-Jan-2024	6.80	276

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Deutsche Bank / DB

Security	Date ^{R1}	Action	Recommendation	Price
2.75, Lower Tier 2, EUR, 2025:B	31-Jan-2023		Marketweight	
4.5, Lower Tier 2, USD, 2025:B	31-Jan-2023		Marketweight	
4.875, Subordinated, USD, 2032:B	31-Jan-2023		Overweight	
	30-Jan-2024	Downgrade	Marketweight	93.97
1.125, Senior, EUR, 2025:B	31-Jan-2023		Overweight	
1.75, Senior, EUR, 2028:B	31-Jan-2023		Marketweight	
6.25, Tier1, USD, Perp/2049:B	31-Jan-2023		Marketweight	
7.125, Tier1, GBP, Perp/2049:B	31-Jan-2023		Marketweight	
7.5, Junior Subordinated, USD, 2025:B	31-Jan-2023		Marketweight	
Senior Unsecured, EUR, Y5:CDS	31-Jan-2023		Sell Protection	
Subordinated, EUR, Y5:CDS	31-Jan-2023		Sell Protection	
2.129, Senior, USD, 2026:B	31-Jan-2023		Overweight	
4.5, Junior Subordinated, EUR, 2026:B	31-Jan-2023		Marketweight	
.75, Senior, EUR, 2027:B	31-Jan-2023		Overweight	
2.625, Senior, EUR, 2026:B	31-Jan-2023		Overweight	
5, Senior, EUR, 2030:B	27-Mar-2023	Initial	Overweight	91.71
5.625, Subordinated, EUR, 2031:B	21-Nov-2023	Initial	Overweight	98.00
7.079, Subordinated, USD, 2034:B	21-Nov-2023	Initial	Overweight	94.30

Table reflects credit opinion history as of previous business day's close.^{R1}First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

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Neutral: No purchase or sale of CDS is recommended.

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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