



December 2020

Cembra

Market profile

Country	Switzerland
Sector	Bank
Market cap (CHF million)	3'150
52-week high / low (CHF)	124 / 70
Price per share (CHF)	105

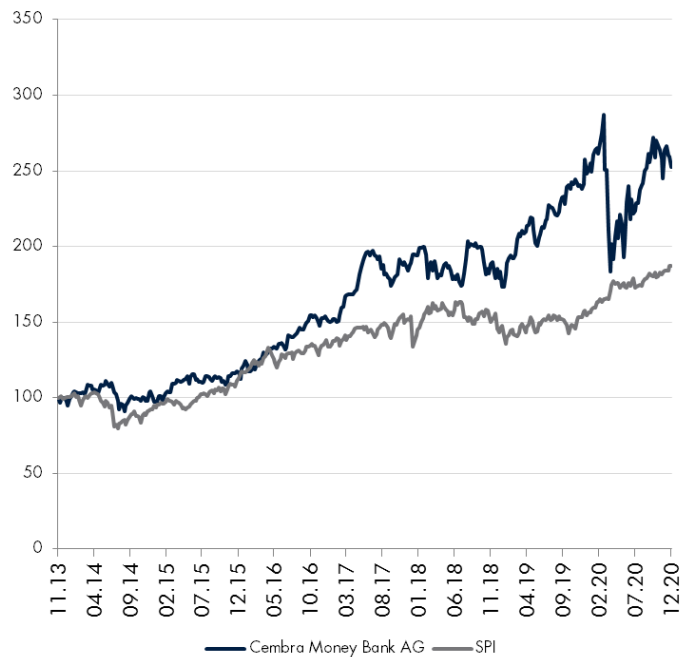
Key metrics (CHF)

	2019	2020e	2021e
EPS	5.53	5.47	6.02
PE	19.5	20.5	18.5
P/Book	2.95	2.75	2.65
Dividend yield	3.50%	3.50%	3.70%

Executive summary

Cembra is a leading Swiss provider of financing solutions and services. The products range includes consumer finance products such as personal loans and auto leases and loans, credit cards and the insurance sold with these products, SME loans, invoice financing as well as deposit and savings products. Cembra has over 1 million customers in Switzerland and employs more than 1'000 people from 36 different countries. In October 2013, the Bank separated from its parent company GE, went public and was rebranded as Cembra Money Bank. In 2019, Cembra Money Bank strengthened its market position by acquiring the consumer finance provider Cashgate. At the start of 2020, the brand name was changed to Cembra. The bank is named after the Swiss cembra pine (*Pinus cembra*), a sturdy and resilient tree with strong roots.

Evolution of stock price with respect to benchmark (rebased)
Source: IAM



Investment case

We consider Cembra as an attractive long term investment for the following reasons:

The company enjoys a leading position in the resilient Swiss consumer finance market.

Cembra benefits from a relatively stable environment, with a very low rate of non-profitable loans.

The credit cards segment presents growth opportunities, both organic and through acquisitions.

The company is well capitalized, with good cash flow generation, and is dedicated to serving high and sustainable dividends.

The company has a strong commitment to ESG.

Company description and history

Cembra is a leading Swiss provider of financing solutions and services. The products range includes consumer finance products such as personal loans and auto leases and loans, credit cards and the insurance sold with these products, SME loans, invoice financing as well as deposit and savings products.

Cembra has over 1 million customers in Switzerland and employs more than 1'000 people from 36 different countries. The company has been listed as an independent Swiss bank on the SIX Exchange since October 2013.

The root of Cembra Money Bank dates back to 1912, when Banque commerciale et agricole E. Uldry & Cie. was founded in Fribourg. This bank later became Bank Prokredit. In 1999, GE Capital merged Bank Prokredit

Fig.1: Cembra's national network
Source: Cembra

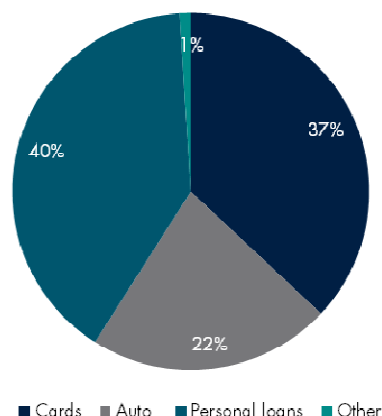
From 1 August 2020 on



with Bank Aufina, which it had acquired in 1997. In October 2013, the Bank separated from its parent company GE, went public and was rebranded as Cembra Money Bank. In 2019, Cembra Money Bank strengthened its market position by acquiring the consumer fi-

nance provider Cashgate. At the start of 2020, the brand name was changed to Cembra. The bank is named after the Swiss cembra pine (*Pinus cembra*), a sturdy and resilient tree with strong roots.

Fig.2: Net revenues by business line
Source: Cembra



Key products

Cembra offers a broad range of financing solutions in Switzerland.

Personal loans: Cembra is a leading provider in the highly competitive personal loans market. The company offers a personalized premium service through 17 branches across Switzerland, through independent intermediaries and online.

Auto loans and leasing: Cembra is a large brand-independent auto loans and leasing provider in Switzerland. Cembra's products are sold via a distribution network of around 4'000 car dealers, who act as intermediaries. A dedicated sales force of 25 field agents, together with the employees at Cembra's four service centers,

provide a personalized, flexible and efficient service.

Credit Cards: Cembra is one of the leading credit card providers in Switzerland, with about 1 million cards in circulation. Cembra offers a range of credit cards through partner programs with Migros, Conforama, TCS and Fnac, as well as Cembra's own credit card. The company recently added Ikea among its cards partners. The cards offer a range of attractive features, such as Migros Cumulus points, cash back, personalized designs and no annual fees.

Insurance products and deposits: Cembra provides insurance products at competitive interest rates for both retail customers and institutional clients.

Invoice financing: Cembra offers invoice financing through its subsidiary Swissbilling AG.

SME financing: at the end of 2019, Cembra started to provide financing solutions for small businesses under the brand Cembra Business.

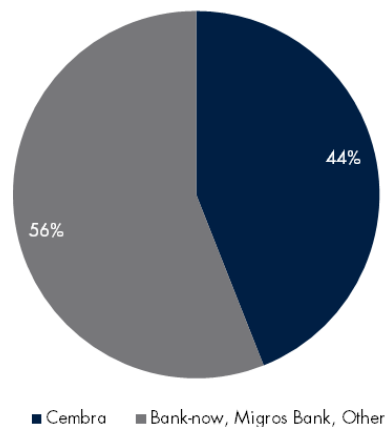
Personal loans business

The company has been providing unsecured loans in Switzerland since it started up in 1912. It is a market leader in Swiss consumer finance with a market share of around 44%. The main competitors are local banks such as Bank-now AG (part of Credit Suisse Group), Migros Bank and the cantonal banks. Cembra also considers the personal loans business as a way to cross sell other products with around 12% of existing personal loan customers taking out an auto leasing/loan product and approximately 8% taking out a credit card. The offering of the personal loans business is focused on providing a personalized and efficient service, including a clear application approach and quick decision-making process. Cembra does not try to compete on price and does not present itself as the lowest cost provider.

Sourcing and customer profile: the sourcing of personal loans is through branches, the internet and independent agents. Cembra has 17 branches spread across Switzerland in premium locations. Independent agents are also used to service segments of the population which the

Fig.3: Market share: Personal loans

Source: Cembra



company would otherwise find hard to access. The agents are typically self-employed and licensed by the Canton. Lastly, the company has developed an online platform to acquire and process applications. This platform should become the main growth engine in the future.

The Swiss consumer loan market expanded at the modest rate of 1% in 2019 to reach a total amount of CHF 8.1 billion. Cembra has not sought to increase market share through lower pricing. Therefore, this segment should grow approximately in line with the Swiss GDP.

Credit quality: Cembra maintains stringent underwriting processes, which are continually monitored and optimized to ensure that credit risk is adequately and responsibly managed. Prior to granting credit, the customer's creditworthiness, credit capacity and, where applicable, collateral are assessed. The credit capacity of consumers is evaluated in accordance with the legal requirements of the Swiss Consumer Credit Act and internal models determine the credit amount based on the customer's risk profile. Segments that are particularly exposed to credit risk are actively restricted beyond the requirements of the Swiss Consumer Credit Act. As a result the loan loss provisions are very stable at a low level of about 1.2% of the total receivables.

SME Business

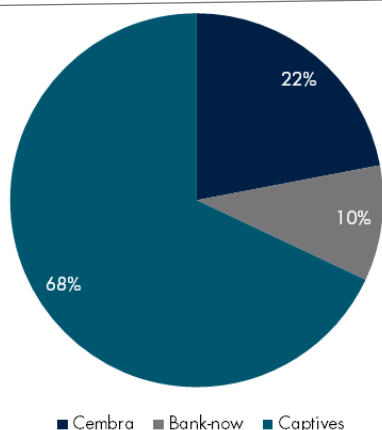
Cembra has identified SME lending as an opportunity. The strategy is to grow lending conservatively within the SME market and focus on businesses with one to ten employees. However, the SME business is currently on hold and Cembra is hesitant to relaunch its SME initiative before 2022. Following the COVID-19 crisis, government aids, with loans at 0% interest rates have temporarily outpriced private finance providers.

Auto leasing and loans

Cembra Money Bank has been providing auto loans in Switzerland since 1953 and was the first to provide auto leases starting in 1976. The company is an independent provider of auto loans and leases serving over 4'000 small, medium and large auto dealers across a diversified range of auto brands. With a market share of 22%, Cembra is the leading independent auto leasing company in Switzerland. The main reason to do business with Cembra is that the bank is more client-oriented and is able to process applications faster than its competitors.

Fig.4: Market share: Auto leasing and loans

Source: Cembra



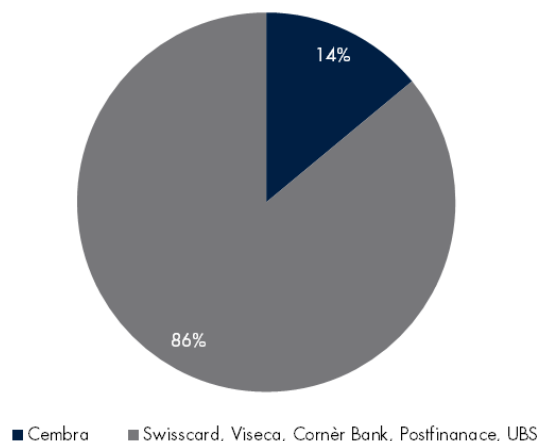
However, there are signs of saturation in the Swiss car market, both in terms of leasing growth and outstanding volumes. The number of new cars registrations has remained stable since 2016 at about 300'000 per year. Looking ahead, we can even expect a gradual contraction as owning a car seems less appealing to young urban people.

Credit cards business

Cembra generates income from its credit card business by charging interest on unpaid bills, on interchange fees as well as from various fees (foreign exchange, cash withdrawals, reminders, card replacements, processing). Cembra issues credit cards through a co-operation with Migros Genossenschafts-Bund, with the Migros Cumulus loyalty cards offered in combination with a MasterCard at no annual credit card fee. Moreover, to differentiate from its competitors, Cembra developed a proprietary transaction-processing network, which allows Migros and other partners to benefit from considerably lower processing fees compared with transactions processes by MasterCard.

Fig.5: Market share: Credit cards

Source: Cembra



The competition is fierce in the Swiss market and Cembra has a market share of 14%. The main competitors are Viseca (part of Aduno group), Swisscard (joint venture of Credit Suisse and American Express), Cornerbank, UBS and Postfinance. Having partnered with the number one retail food chain Migros, a large part of the Swiss population is already covered and there seems to be less need to have a similar partnership. Cembra has exclusivity with Migros and consequently cannot establish a partnership with other retailers (Coop or Aldi). However, the group has recently established a new partnership with Ikea. This partnership is similar to the one with Migros. For Ikea, the key element for choosing Cembra was its ability to offer payment solutions, billing services and



potentially also a leasing solution in the future. This confirms that being a full service company is a key element in the strategic development of the company.

The credit card business is still growing and Cembra reached the millstone of 1 million cards in the first half of 2020. However, this segment may be subject to disruption from fin-tech and Cembra needs to constantly innovate. The company now has a 20% market share in contactless payments. In relation to fin-tech, Cembra has a strategy of smart follower for new technologies and Apple pay has been introduced in March 2020.

Strategy

The goal of the company is to become the provider of choice for those looking for financial solutions in Switzerland. The strategy articulates around three axis: defend the core business, build for the future and increase in size through external growth.

Defend the core business

The focus is on maintaining leading market position in personal loans and auto financing by adapting to the evolving distribution environment and expanding the B2B network of partners. Cembra seeks to provide customers with a holistic experience and to stay in tune with wider market trends by rolling out new product offerings.

Build for the future

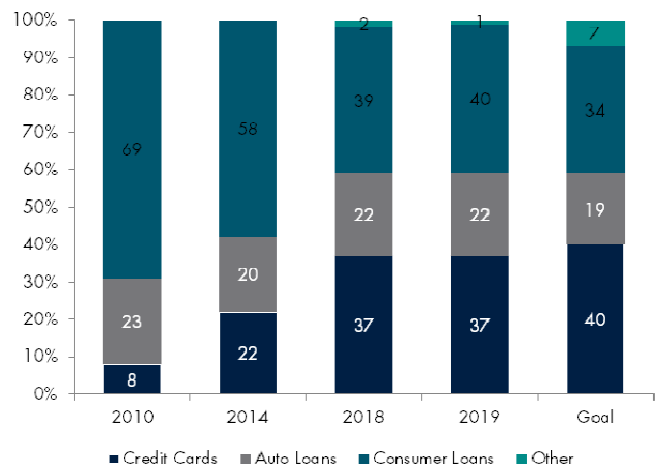
Cembra aims to prepare its business for upcoming challenges, with a focus on systems, processes, people and ultimately how initiatives are executed. One of the key objectives is to transform Cembra into a more customer-centric organization, supported by lean processes and a competitive cost base, which can be achieved by digitizing the value chain. Cembra is also focused on its employees' development and training.

Gain size through external growth

Cembra is looking to bring new business lines and expand its customer base through acquisitions and partnerships, while also remaining in line with the company's core ambition of being the provider of choice for financial solutions in Switzerland.

Fig.6: Evolution of business mix

Source: Cembra



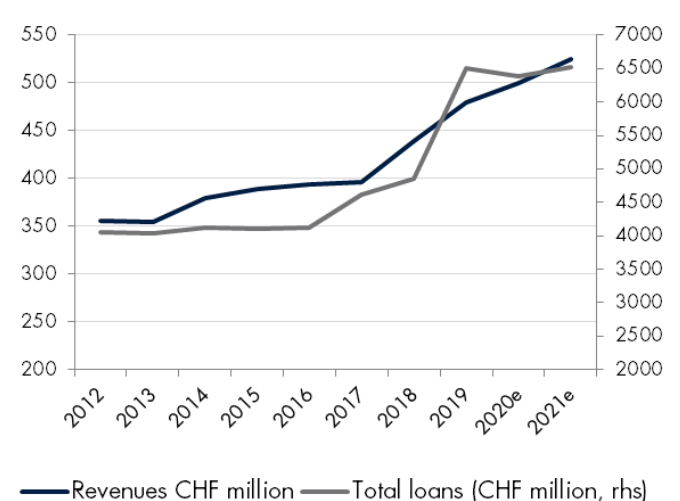
Financial analysis

Revenues

The bulk of revenues come from interest income (70%) with a smaller part of commission and fees income (30%). The evolution of revenue follows the amount of loans underwritten and has showed a steady growth since 2012. In 2020, operations have been affected by the lockdowns, but Cembra does not expect a notable increase in non-performing loans.

Fig.7: Evolution of revenues and total loans

Source: Cembra

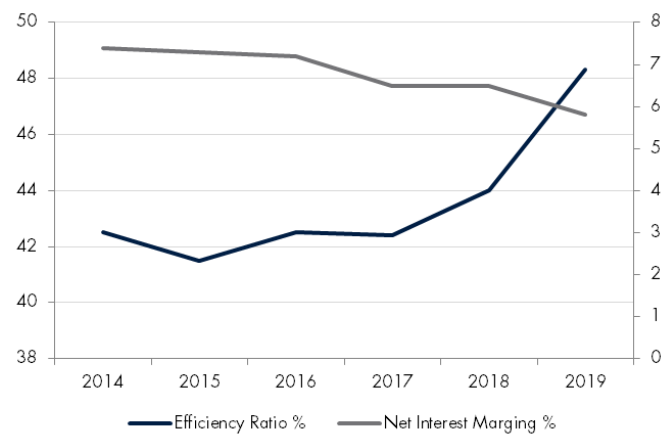


The composition of revenues has evolved and is now much less dependent on consumer loans. In the future, the credit card business should become dominant. The company's goal is also to increase the proportion of fee income to over 30%.

Profitability

The group has a good profitability and although the net interest margin has declined, it is still comfortable in the current interest rate environment. The deterioration in the efficiency ratio is mainly due to the one-off integration of Cashgate, as well as costs for the transitional service agreements with the seller. That said, margins are also under increasing pressure by the heightened competition in the card business as an increasing number of new cards with attractive offerings have been recently announced.

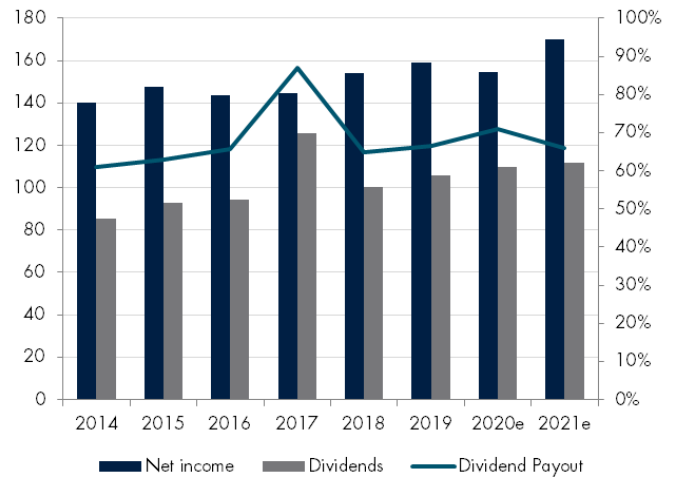
Fig 8.: Efficiency (cost/income) ratio and Net interest margin
Source: Cembra



Capital distribution

Cembra has established a target payout ratio of 60% to 70%. The payout ratio may temporarily be over 70% in 2020 due to the COVID-19 crisis but we do not anticipate a cut in dividend. With an estimated dividend per share of CHF 3.75, the dividend yield will be approximately 3.5% by the end 2020.

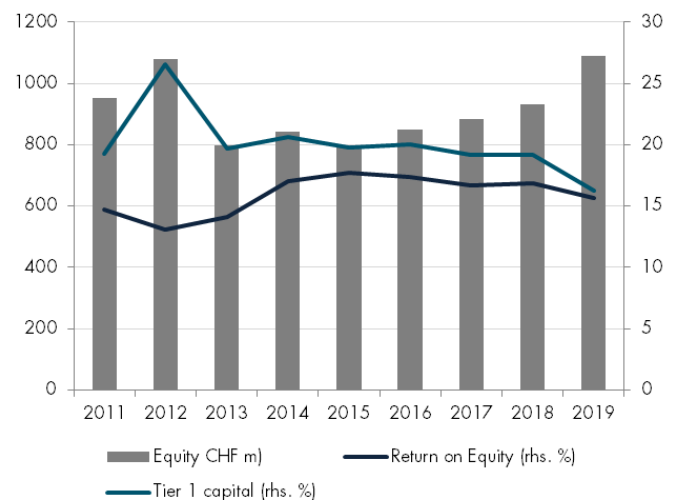
Fig.9: Dividends and dividend payouts
Source: Cembra



Strong balance sheet

The company has a target Tier 1 Capital ratio of at least 17%. If the ratio passes 19%, the company would distribute capital to shareholders. Tier 1 Capital consists of equity and retained earnings, according to Basel III, the minimum ratio is 6%. Apart from its equity, Cembra has a well-balanced and diversified funding profile. The company can borrow at very advantageous rates. On average, its funding cost was 0.44% in 2019.

Fig.10: Equity position and Tier 1 capital
Source: Cembra



ESG commitment

Cembra operates exclusively in Switzerland. Given the very stringent regulatory environment, and as the company is purely involved in financial services, Cembra already meets relatively high ESG standards. Loan applications that do not meet the company's standard are rejected and Cembra does not offer investment funds or financing for international projects.

Cembra claims to be committed to the creation of long term value by actively considering the interest and expectations of its most relevant stakeholders. The company has identified five themes to concentrate its focus on.

Customer orientation addresses responsible consumer finance products and services in Switzerland.

Quality and integrity of products and services covers financing products and services with high product safety, the responsible treatment of customers, as well as access to affordable products and services.

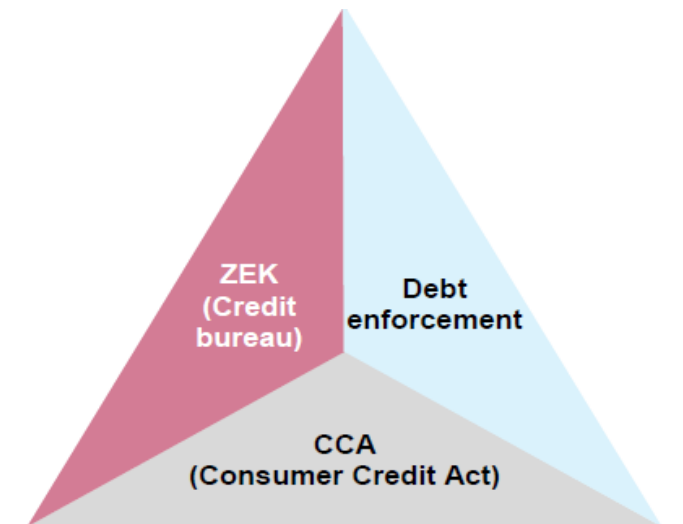
Credit quality is a key issue for Cembra. In Switzerland, the Consumer Credit Act forms the foundation on which consumer credit should be offered, which stipulates:

- 1) a detailed assessment of consumers' disposable income.
- 2) The implementation of a maximum effective annual interest rate of 9.95% .
- 3) A seven-day cooling-off period after the contract is signed and before credit can be granted.

ZEK (Zentralstelle für Kreditinformation) is a non-profit database on individual creditworthiness in Switzerland, to whom all consumer credit providers must report credit information such as running contract exposures, payment structures and pending applications. ZEK must be used in the credit application process with debt commitments considered in budget calculations.

Fig.11: Framework for consumer credit assesment

Source: ZEK, CCA



Finally, there are debt enforcement offices in each canton of Switzerland, which assist lenders in recovering non-performing loans.









People and development comprises recruitment, education and training, work-life balance, diversity management, health promotion, personal development, as well as communicating and embedding Cembra's corporate values.

Environmental stewardship is achieved by optimizing processes and outputs that have an environmental impact. It is addressed both within the Bank and in the area of vehicle financing.

Business integrity covers compliance with laws and regulations, as well as governance, risk management practices and ethical business conduct. It also covers protection of customers' privacy with regard to the processing and transfer of their data.

Fig.12: External ESG recognition

Source: Cembra

	Included in the SXI Switzerland Sustainability 25 Index® by SIX Swiss Stock Exchange since September 2020
	Upgraded to "Low ESG risk" in May 2020; ranked 1 st (lowest ESG risk) among 112 consumer finance companies worldwide and Top 14% ² in the Global universe of Sustainalytics®
	Upgraded to A in April 2020, after upgrade to BBB in June 2019
	Upgraded by two notches in 2019 (C-, Top 30% ³)
	Best Workplaces award in 2019 (Top 5 among companies with 250+ employees in Switzerland)
	Bloomberg gender reporting framework
	First-time rating in September 2019 (Score 33, Top 50%)
	Quality of ESG disclosures rated Environment=3, Social=1, Governance=1 (scale 1 to 10) since September 2020

Investment case

We consider Cembra as an attractive long term investment for the following reasons:

- The company enjoys a leading position in the Swiss consumer finance market.
- Cembra benefits from a relatively stable environment, with a very low rate of non-profitable loans.
- The credit cards segment presents growth opportunities, both organic and through acquisitions.
- The company is well capitalized, with good cash flow generation and is dedicated to serving high and sustainable dividends.

SWOT analysis

Strengths

- Strong market positions, serving more than 1 million customers in Switzerland.
- Stable business model with high visibility on future revenues, stable margins and low cost/income ratio.

- Strong balance sheet with high Tier 1 Capital ratio.
- Commitment to ESG criteria makes Cembra proactive in risk management.

Weaknesses

- Some segments such as car loans may be structurally declining.
- Follower rather than innovator in fin-tech.

Opportunities

- New partners for the credit cards business.
- Expansion in the SME market.
- External growth.

Threats

- Change in regulation regarding personal loans or credit cards.
- Disruption of the credit card ecosystem by fin-tech, block chain.