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Julius Baer

1st Take: Decent operationally, capital build the question

Industry View **In-Line** Stock Rating **Overweight** Price Target **SFr 47.00**

Net new money and topline beat - but higher expenses and 10.2% CET1 unhelpful. PBT ~5% ahead of Cons adjusting for pensions one-off, though marginally light of MSe.

Solid net new money: Net new money picked up significantly in the last two months of 1H16 (from below 3% in the 4m IMS), and at 3.7% it's close to 4-6% management guidance range. Good inflows coming from Asia, Middle East and CEE, along with Switzerland, Germany and Italy, while Latam the slow area, management indicating European tax regularisation effects now largely behind.

Higher expenses than expected as company invests for growth: at CHF 1.003bn (excluding 63m of pension adjustment) expenses were 5% worse than MSe on the back of higher investments - Baer plans to hire >200 new RM (gross) in FY16. Though these investments are positive on the longer term outlook, probably likely to drive slower bottom line in the short term.

Capital at 10.2% fully loaded CET1 (15.9% phased-in): increased goodwill and intangibles mainly due to Kairos acquisition (along with software amortization) impacted capital considerably, with CET1 (fully applied) now at 10.2% against consensus at 11.7% and MSe at 10.9%. Key question for the call will be how secure flat divi is given plan to sub IPO Kairos and divi paid vs transitional capital not fully loaded.

Outlook: Better top-line and NNM is promising, but expect increased costs in 2H16 as investment accelerates, as per company guidance.

Exhibit 1: 1H16 Julius Baer Results

Julius Baer (CHF million unless otherwise stated)	2H14	1H15	2H15	Mse 1H16e	Cons. 1H16e	Actuals 1H16	Actuals vs. Mse	Actuals vs. Cons	1H16 YoY	1H16 HoH
End Group AUM (bn)	291	284	300	306	305	311	2%	2%	10%	4%
Average Group AUM (bn)	283	284	292	302	301	301	0%	0%	6%	3%
Group Net Inflow (bn)	5.2	6.5	5.6	4.8	4.7	5.5	15%	18%	-15%	-2%
Inflow rate (%)	3.8%	4.5%	3.9%	3.2%	3.1%	3.7%	15%	18%	NM	NM
Gross margin (bps)	93	99	88	90	92	92	2	-0	-7	4
Underlying pretax margin (bps)	25	32	26	27	27	28	1	1	-4	2
P&L Underlying										
Group Revenues	1,310	1,408	1,286	1,397	1,389	1,425	2%	3%	1%	11%
Group Expenses (ex non-recurring)	(958)	(954)	(910)	(957)	(987)	(1,003)	5%	2%	5%	10%
of which: Underlying valuation allowance,	(52)	(43)	(11)	(20)	(29)	(19)	NM	-37%	-57%	75%
Group PBT (ex non-recurring/ prov)	352	454	376	440	402	422	-4%	5%	-7%	12%
Tax	(54)	(70)	(59)	(66)	(66)	(83)	25%	25%	18%	41%
Group Net Income (ex prov)	298	384	317	374	335	339	-9%	1%	-12%	7%
EPS	1.36	1.76	1.45	1.53	1.52	1.84	20%	21%	5%	27%
Cost/Income (%)	73%	68%	71%	69%	71%	70%	NM	NM	NM	NM
Cost/Income (%) - Underlying	69%	65%	70%	67%	69%	69%	3%	0%	NM	NM
CET1 ratio (fully applied)	15.8%	13.4%	12.2%	10.2%	11.7%	10.2%				
Total Capital ratio (fully applied)	19.6%	17.0%	17.2%	15.6%	16.3%	15.4%				

Source: Company Data, Morgan Stanley Equity Research. Please note: Group revenues includes 39m Kairos valuation adjustment. Underlying expenses excludes 63m of pension fund valuation changes

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Banks / Switzerland

Stock Rating

Overweight

Industry View

In-Line

Price target

SFr 47.00

Shr price, close (Jul 22, 2016)

SFr 39.93

52-Week Range

SFr 54.40- 35.81

Mkt cap, curr (mn)

SFr 8,729

Net debt (12/16e) (mn)*

SFr (9,651)

EV, curr (mn)*

SFr (450)

* = GAAP or approximated based on GAAP

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Risks: Pressure in private banking on gross margins, FX and market movements, M&A, changes to risk aversion and appetite, regulation and litigation.

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1161	35%	279	39%	24%	570	36%
Equal-weight/Hold	1427	43%	341	47%	24%	710	45%
Not-Rated/Hold	78	2%	8	1%	10%	11	1%
Underweight/Sell	645	19%	94	13%	15%	283	18%
TOTAL	3,311		722			1574	

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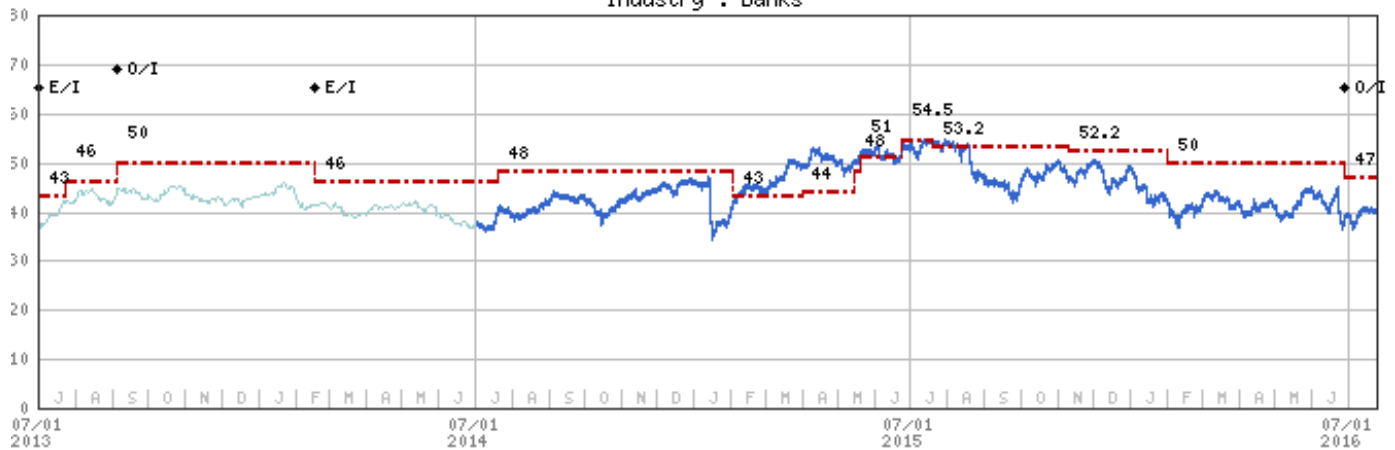
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Julius Baer (BAER.S) - As of 7/24/16 in CHF
Industry : Banks



Stock Rating History: 7/1/13 : E/I; 9/5/13 : O/I; 2/17/14 : E/I; 6/29/16 : O/I

Price Target History: 5/15/13 : 43; 7/23/13 : 46; 9/5/13 : 50; 2/17/14 : 46; 7/21/14 : 48; 2/2/15 : 43; 4/1/15 : 44; 5/15/15 : 48; 5/20/15 : 51; 6/24/15 : 54.5; 7/20/15 : 53.2; 11/10/15 : 52.2; 2/1/16 : 50; 6/29/16 : 47

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
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INDUSTRY COVERAGE: Banks

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/22/2016)
Alvaro Serrano		
Banca Monte dei Paschi di Siena S.p.A. (BMPS.M)	U (07/14/2014)	€0.31
Banca Popolare di Milano S.c.a.r.l. (PMI.M)	E (05/17/2016)	€0.42
Banco Popolare (BAPO.M)	E (05/17/2016)	€2.43
Banco Popular (ES) (POP.MC)	E (06/13/2016)	€1.28
Banco Sabadell (SABE.MC)	U (06/30/2015)	€1.19
Bankia SA (BKIA.MC)	O (09/17/2015)	€0.70
Bankinter (BKT.MC)	U (09/26/2014)	€6.24
BBVA (BBVA.MC)	O (11/24/2014)	€5.25
CaixaBank SA (CABK.MC)	O (01/18/2016)	€2.21
Intesa SanPaolo S.p.A. (ISP.M)	O (01/22/2014)	€1.96
Santander (SAN.MC)	E (11/13/2013)	€3.88
UniCredit S.p.A. (CRDI.M)	E (07/13/2016)	€2.29
Unione di Banche Italiane SCPA (UBI.M)	E (01/22/2014)	€2.74
Antonio Reale		
Mediobanca Banca Di Credito Finanziario (MDBI.M)	E (10/28/2015)	€5.94
Bruce Hamilton		
ABN AMRO Group NV (ABNd.AS)	O (01/04/2016)	€16.56
BNP Paribas (BNPP.PA)	O (04/22/2015)	€43.40
Credit Agricole S.A. (CAGR.PA)	++	€7.90
ING Groep (INGAT.AS)	U (03/31/2016)	€9.94
KBC Group NV (KBC.BR)	O (05/18/2016)	€45.27
Natixis (CNAT.PA)	E (05/18/2016)	€3.46
Societe Generale (SOGN.PA)	E (12/07/2014)	€30.24
Chris Manners, ACA		
Bank of Ireland (BKIR.I)	E (09/18/2014)	€0.20
Barclays Bank (BARC.L)	E (11/20/2015)	152p
Danske Bank (DANSKE.CO)	O (04/21/2015)	DKr 180.50
DNB (DNB.OL)	E (01/26/2016)	NKr 94.75
HSBC (HSBAL)	U (02/08/2016)	494p
Lloyds Banking Group (LLOY.L)	O (08/08/2013)	54p
Nordea (NDA.ST)	E (03/28/2011)	SKr 74.90
Royal Bank of Scotland (RBS.L)	E (06/29/2016)	189p
SEB (SEBa.ST)	O (07/23/2014)	SKr 75.50
Standard Chartered Bank (STAN.L)	U (02/28/2014)	613p
Svenska Handelsbanken (SHBa.ST)	U (09/21/2015)	SKr 103.30
Swedbank (SWEDa.ST)	E (07/23/2014)	SKr 178.90
Fiona Simpson, CFA		
CYBG Plc (CYB.AX)	U (06/29/2016)	A\$4.33
CYBG Plc (CYBGC.L)	U (06/29/2016)	242p
Huw Van Steenis		
Commerzbank AG (CBKG.DE)	U (06/29/2016)	€5.83
Credit Suisse Group AG (CSGN.S)	E (02/05/2016)	SFr 11.38
Deutsche Bank (DBKGn.DE)	E (10/11/2010)	€13.09
Julius Baer (BAER.S)	O (06/29/2016)	SFr 39.93
UBS Group AG (UBSG.S)	E (05/03/2016)	SFr 13.16

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.