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Haitong Bank in a report from April 17 (08:00) keeps Santander Bank Polska at NEUTRAL (FV PLN 161.4).

Valuation Methodology

Valuation: We use a Dividend Discount Model (DDM) with a 50% weighting and a Polish banks' peer multiples' analysis with a 50% weighting to value Santander Bank Polska. Our FV is based on the weighted average of these two methodologies.

Sensitivity: We provide two sensitivity analyses for our fair value estimates wherein we examine two sets of variables: (i) ROEs and perpetuity growth rates; and (ii) equity risk premium and the risk-free rate.

CHF risk adjustment: We estimate a total PLN 30bn cumulative loss for the banking sector stemming from restructuring of the CHF portfolio. We take into account the Polish Bank Association's (ZBP's) expected PLN 60bn loss on the portfolio of CHF mortgages to individuals, based on the assumption that the loan will be switch to PLN at the historical exchange rate and repaid at the CHF LIBOR rates, and we assume 60% of clients will go to court and 80% will win their court case. We are aware that given the large number of assumptions this calculation has a very high margin of error. Subsequently we apply a market share weighted portion of this loss per share to individual banks.

Main assumption changes: We apply a cost of equity of 9.5% (unchanged). We have extended the model horizon by one year to 2023. We assume a terminal ROE at 9.5% (vs 10.5% before). We use a risk-free rate of 3.5% (based on the long-term 10Y Polish Government Bond Yield assumption).

Forecast revisions: We lowered our 2020-21E net profit by 33%/28% to PLN 1.55bn (-34% YoY) and PLN 1.90bn (+23% YoY). We have adjusted earnings for: 1) lowering interest rate assumptions; 2) expected impact of September's CJEU ruling concerning the return of the early repayment of consumer loan fees i.e. change in the approach towards a linear one; 3) higher BFG fees; 4) higher net provisioning in both the corporate and consumer segment due to macroeconomic assumptions caused by the COVID-19 outbreak.

Our net income estimates for 2020-21E are below consensus by 30%/28%, respectively. This is, in our opinion, mainly due to not fully updated consensus for rate cuts and the highly unpredictable effect of the COVID-19 pandemic especially in terms of volumes and risk costs.

Risks to Fair Value

Macro related: Risks of a different macroeconomic scenario, especially in light of the highly unpredictable outcome of the COVID-19 outbreak, both in terms of magnitude and length, including: i) interest rates; ii) asset quality/cost of risk; iii) volume growth in Poland.

Interest rate related: Material difference in size and timing of Central Bank interest rate changes versus our base assumption of flat interest rates at 0.5% through 2021 and increase to 1.25% in 2022.

Funding costs – Competitive rise in deposit rates.

FX rate: Exposure to FX risk of its CHF mortgage portfolio (some 7% of the loan book). Appreciation of CHF may lead to further pressure on its liquidity position.

Lower assets quality: Exposure to segments where the risk is naturally higher, i.e. consumer finance (20% of portfolio) and SME segment (10%) is above the market.

Merger related: Given the acquisition of DB assets in 2018, we see a risk of delivery of strategy costs and synergies. The bank has already increased expected integration costs from PLN 300m to PLN 320m, claiming that the integration synergies should be visible sooner than expected.

Capital market related: The relatively higher revenue exposure to capital market related fees could be at risk with changing market conditions.

Dividend: Dividend scenario might not materialize.

Cost of risk: SCB consumer finance loan book provides above average risk to the retail non-mortgage book cost of risk assumptions.

Regulatory risk

- **CHF mortgages:** The restructuring of foreign currency housing loans in a different way to our base scenario and/or additional costs, i.e. spread bill.
- Any new regulatory requirements concerning minimum adequacy ratios and/or dividends.
- Potential liquidity squeeze in the banking sector (commercial/cooperative segment) and financial institutions (SKOK segment) may lead to a larger contribution to the BFG fund.

Volume growth significantly below/above our expectations.

Valuation:

- Higher Risk Free Rate (lowers valuation).