

Thursday, 28 September 2023 | update

Banks

Banks, Poland

Not as Bad as It Looks

Following 12% underperformance of the WIG Bank index in the last two months, we opt to upgrade our view on Polish banks from underweight to overweight. Even though our overweight stance applies as of this writing, a more attractive opportunity valuation-wise to re-enter the sector may present itself in the first half of October, specifically after the MPC's meeting on Oct. 3-4, when the monetary authority will likely once again surprise the market with a rate cut.

We continue to see the political campaign leading up to Poland's October 15 general election as a key near-term risk for the equity market. In an attempt to gain voters, parties may make policy promises that can directly target the banking sector by interfering with its fundamentals. Moreover, no party has made enough gains so far to suggest enough of a majority to form a government, which means a second general election may be looming as soon as next spring, preceded by another campaign with a potentially even more generous fiscal push.

For now, the September rate cut, and the extension of credit holidays, are already broadly accounted for in the earnings consensus. We find the Polish banking sector's P/BV valuation at 1.1x 2024E and 1.0x 2025E to be still very attractive, especially if we consider ROE at 15%-13% vs. a stronger rate of decline in COE. In addition, we believe banks might deliver upside earnings surprises in the near term owing to lower sensitivity to interest rate cuts, and, in the mid-term, they may benefit from higher interest rates than the current analysts' consensus may be pointing to.

Our top pick among Polish Tier1 banks remains Bank Pekao, poised to stun the market with 2024 results (22% ROE) and c.15% DY. Among smaller banks, we still favor Alior, which should benefit from maturing hedges and interest rate cuts that will add to the quality of the retail loan portfolio.

Rate cuts and credit holidays not a reason to worry

September's rate cut and extended credit holidays may cause downward consensus revisions to the tune of 7% in 2023E and 5% 2025E, but this is already priced into WIG Bank index stocks after the falls of the last two months. As for net interest income effects, we have adjusted our overly conservative 2023/24/25 NII forecasts upwards by 4%/5%/1%, reflecting among others a lower shift of client balances from current to term deposits. Our updated models factor in total rate cuts of 3 p.p. (1.25 p.p. in 2023) as well as a lack of a correction spread for retail loans to offset WIBOR's replacement with WIRON in 2025.

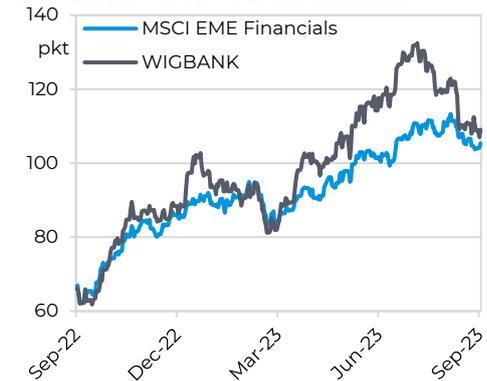
Attractive valuation

The sentiment-dampening effect of Poland's brand new rate cutting cycle is not likely to last much longer as WIG-Banks has been falling for the last two months. That said, we cannot rule out more turbulence in the short term, especially if the MPC tries to surprise the market with another cut in October and as the election campaign enters its final stages. Overweighting Polish banks during an easing cycle may seem counterintuitive, but it is not without precedent (1998, early 2000, 2012). Finally, note that, trading at 1.0x P/BV, the sector has not fully re-rated yet in the wake of the CHF saga (P/BV before the franc debacle broke out was 1.3x). This despite outstanding recurring earnings this year and an improved CHF-provisioning outlook. The profitability of the sector in 2024 and 2025, and the dividend outlook, will improve as CHF provisioning subsides.

company	P/E			P/B			ROE%		
	2023E	2024E	2025E	2023E	2204E	2025E	2023E	2024E	2025E
PKO	10.0	7.2	7.0	1.1	0.9	0.8	11.2	13.8	12.6
PEO	4.7	4.5	6.1	1.0	0.9	0.9	22.7	21.6	15.3
SPL	9.5	9.1	8.3	1.1	1.0	1.0	12.5	11.5	11.9
ING	6.9	6.5	9.3	1.6	1.2	1.1	27.6	21.1	12.7
BNP	7.9	7.2	5.7	0.7	0.6	0.6	9.4	9.3	10.5
MIL	17.5	18.6	4.0	1.0	0.9	0.7	6.3	5.3	20.7
BHW	4.6	5.1	7.6	1.1	1.1	1.1	26.4	21.6	14.0
ALR	3.8	4.2	6.5	0.8	0.6	0.6	23.4	16.6	9.2
BOŚ	6.5	4.7	7.6	0.4	0.3	0.3	5.7	7.3	4.1

WIG-Banks	7,451.18
MSCI EME Financials	103.89
2023E P/E	7.8x
2023E P/B	1.1x

WIG-Banks vs. MSCI EME Financials



name	target price		recommendation	
	new	old	new	old
PKO	44.90	44.30	buy	buy
PEO	141.97	130.47	buy	buy
SPL	413.63	420.00	buy	hold
ING	209.00	210.00	buy	hold
BNP	71.58	72.00	buy	buy
MIL	7.15	5.90	buy	sell
BHW	99.00	91.00	buy	hold
ALR	65.00	64.00	buy	buy
BOŚ	11.36	11.94	buy	buy

name	current* price	target price	upside
PKO	34.01	44.90	+32.02%
PEO	97.82	141.97	+45.13%
SPL	349.40	413.63	+18.38%
ING	178.00	209.00	+17.42%
BNP	60.00	71.58	+19.30%
MIL	5.42	7.15	+31.92%
BHW	79.60	99.00	+24.37%
ALR	48.55	65.00	+33.88%
BOŚ	8.07	11.36	+40.77%

*Prices as of September 27, 2023, 5:00 PM

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EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

Recommendations Issued In the 12 Months Prior To This Publication

Alior Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	hold	buy
Rating date	2023-09-28	2023-06-26	2023-03-27	2022-12-01	2022-09-27
Target price	65.00	64.00	50.00	36.06	33.00
Price on rating	48.55	45.30	34.11	36.06	24.69

Bank Handlowy (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	hold	reduce	hold	hold	buy
Rating date	2023-09-28	2023-06-26	2023-06-01	2023-05-04	2023-03-27	2022-12-01	2022-09-27
Target price	99.00	91.00	80.00	80.00	80.00	72.85	73.00
Price on rating	79.60	86.30	82.60	90.00	79.60	73.80	56.80

Bank Millennium (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	sell	buy	hold	buy	hold	buy
Rating date	2023-09-28	2023-08-01	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27
Target price	7.15	5.90	5.90	4.84	4.84	5.03	4.60
Price on rating	5.42	6.55	5.22	4.90	3.84	4.64	3.52

Bank Pekao (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy	buy
Rating date	2023-09-28	2023-06-26	2023-03-27	2022-12-01	2022-09-27
Target price	141.97	130.47	126.00	100.00	85.05
Price on rating	97.82	108.30	78.90	83.90	64.00

BNP Paribas Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	accumulate	buy	accumulate	buy
Rating date	2023-09-28	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27
Target price	71.58	72.00	58.50	58.50	60.80	65.00
Price on rating	60.00	56.20	53.00	48.30	56.40	48.00

BOŚ Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy
Rating date	2023-09-28	2023-06-26	2023-03-27	2022-11-29
Target price	11.36	11.94	11.60	10.50
Price on rating	8.07	9.25	8.82	8.03

ING BSK (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	buy	accumulate	hold	buy	buy
Rating date	2023-09-28	2023-08-01	2023-06-26	2023-03-27	2022-12-01	2022-09-27	2022-09-02
Target price	209.00	210.00	210.00	177.85	168.76	165.00	182.39
Price on rating	178.00	199.80	173.00	158.20	164.40	139.80	137.40

PKO BP (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	accumulate	buy	buy	buy
Rating date	2023-09-28	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27
Target price	44.90	44.30	35.20	35.20	35.02	30.06
Price on rating	34.01	35.26	31.62	26.72	28.35	22.45

Santander Bank Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	buy	hold	buy	buy	buy
Rating date	2023-09-28	2023-08-01	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27
Target price	413.63	420.00	420.00	338.51	338.51	328.96	300.00
Price on rating	349.40	397.40	372.80	335.20	271.20	273.60	206.20

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