

Monday, 29 April 2024 | update

Banks

Banks, Poland

Freed from desire

We see no upside potential in the Polish banking sector, and so we maintain a neutral stance and advise a selective approach. On the one hand, we still expect excellent profits, and hence great dividends, from most rated lenders. We also do not see any immediate threats for the operating environment that could ruin the picture. That is why we have raised our earnings outlook for rated banks, driven by net interest income upgrades to reflect a 'higher for longer' interest rate environment. On the other hand, we believe that the 'clear blue sky' scenario is already priced in.

The WIG Banks index has rallied 64% since the announcement of last year's general election results, and year to date it is up 25%. In the last 12 months, Polish bank stocks have experienced a massive re-rating from 1.1x P/BV to 1.6x P/BV, a level last seen in 2014. Although the current profitability of the sector at 17% would indicate further re-rating towards 2007/08 levels (P/BV in a range of 1.5x-2.5x), when it comes to earnings the sector is at or close to peak results. Back in 2007/08, the industry's hopes for continued earnings growth were brutally disturbed by a global financial crisis (collapse of Lehman Brothers). This time, the consensus among market analysts is that results will start to deteriorate in the next two years, led by the beginning of a rate cut cycle. Note that the Polish Central Bank is currently keeping rates on hold contrary to the cuts observed widely in the region.

Against this backdrop, we do not see any positive triggers on the horizon that could drive further massive re-rating. On the contrary, we believe that the market is ignoring potential threats like additional taxes (stretched Polish gov't budget), litigation risks (consumer credit sanction), and the coming rate cut cycle.

Recently, the market has also ignored the bad news from the Financial Stability Committee (FSC) that the neutral level of the countercyclical buffer would be raised from 0%. Next, we see a high chance of the systemic risk buffer also being raised. Higher capital requirements, combined with a gradual acceleration in asset growth, will likely force banks to manage their capital positions more carefully, which will likely lead to more careful shareholder distributions.

Some say that the high valuations of Polish banks are justified by high dividend yields, but we do not buy this argument as the yields are actually similar to those of CEE banks but lower than at Western banks, which in both cases are trading at cheaper multiples.

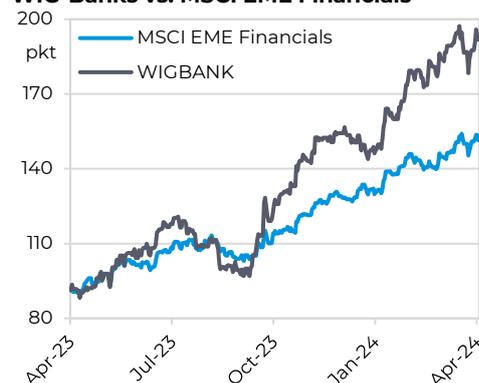
With all of this in mind, we assume the ongoing re-rating, driven by the latest EPS expectations upgrades, is nearing an end. Once it is finished, investors will be exposed to risks with limited room for positive surprises.

We name PKO BP and Bank Millennium as our top Polish banking picks. The earnings potential of both banks is boosted by decreasing CHF provisions, and, in case of PKO BP, an excellent capital position points to potential extra dividends. On the other hand, our least preferred banks right now are Santander and BOŚ Bank, whose valuations are just too demanding.

company	P/E			P/B			ROE%		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
PKO	10.0	7.3	8.3	1.6	1.5	1.3	16.4	20.5	16.7
PEO	7.3	7.4	9.0	1.4	1.3	1.3	19.9	18.7	14.7
SPL	11.3	8.7	10.3	1.8	1.6	1.6	15.9	19.6	15.8
ING	11.1	9.1	8.8	2.3	1.9	1.6	21.4	22.9	19.9
BNP	6.8	6.5	7.7	1.0	0.9	0.8	16.2	14.7	11.1
MIL	27.6	5.9	4.9	1.5	1.2	1.0	5.6	21.8	22.0
BHW	7.9	8.3	10.2	1.4	1.4	1.4	18.4	16.9	13.7
ALR	5.8	6.1	6.7	1.2	1.1	1.0	22.4	18.4	15.2
BOŚ	5.4	6.3	9.9	0.6	0.5	0.5	11.7	9.0	5.3

WIG-Banks	13,776.59
MSCI EME Financials	153.75
2024E P/E	9.4x
2024E P/B	1.6x

WIG-Banks vs. MSCI EME Financials



name	target price		recommendation	
	new	old	new	old
PKO	71.01	55.21	buy	buy
PEO	180.99	160.71	hold	buy
SPL	528.31	486.63	sell	sell
ING	315.00	255.00	hold	hold
BNP	132.15	100.00	buy	buy
MIL	11.35	8.40	buy	hold
BHW	107.00	104.00	sell	hold
ALR	115.00	81.00	buy	hold
BOŚ	14.90	13.00	sell	buy

name	current* price	target price	upside
PKO	61.70	71.01	+15.1%
PEO	173.05	180.99	+4.6%
SPL	562.40	528.31	-6.1%
ING	312.00	315.00	+1.0%
BNP	104.00	132.15	+27.1%
MIL	9.15	11.35	+24.0%
BHW	112.00	107.00	-4.5%
ALR	101.80	115.00	+13.0%
BOŚ	15.70	14.90	-5.1%

*Prices as of April 26, 2024, 5:00 PM

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List of abbreviations and ratios used by mBank:

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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BUY – we expect that the rate of return from an investment will be at least 10%

HOLD – we expect that the rate of return from an investment will range from 0% to +10%

SELL – we expect that an investment will bear a loss

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This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

The production of this recommendation was completed on April 29, 2024, 8:16 AM.

This recommendation was first disseminated on April 29, 2024, 8:35 AM.

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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.

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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	hold	buy	buy	buy
Rating date	2024-04-29	2023-12-01	2023-10-27	2023-09-28	2023-06-26
Target price	115.00	81.00	81.00	65.00	64.00
Price on rating	101.80	77.18	66.00	48.55	45.30

Bank Handlowy (Michał Konarski, Mikołaj Lemańczyk)

Rating	sell	hold	buy	hold	hold	reduce
Rating date	2024-04-29	2023-12-01	2023-09-28	2023-06-26	2023-06-01	2023-05-04
Target price	107.00	104.00	99.00	91.00	80.00	80.00
Price on rating	112.00	96.90	79.60	86.30	82.60	90.00

Bank Millennium (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	hold	buy	sell	buy	hold
Rating date	2024-04-29	2023-12-01	2023-11-02	2023-09-28	2023-08-01	2023-06-26	2023-05-04
Target price	11.35	8.40	7.15	7.15	5.90	5.90	4.84
Price on rating	9.15	7.95	7.32	5.42	6.55	5.22	4.90

Bank Pekao (Michał Konarski, Mikołaj Lemańczyk)

Rating	hold	buy	buy	buy
Rating date	2024-04-29	2023-11-10	2023-09-28	2023-06-26
Target price	180.99	160.71	141.97	130.47
Price on rating	173.05	130.85	97.82	108.30

BNP Paribas Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy	accumulate
Rating date	2024-04-29	2023-12-01	2023-09-28	2023-06-26	2023-05-04
Target price	132.15	100.00	71.58	72.00	58.50
Price on rating	104.00	75.80	60.00	56.20	53.00

BOŚ Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	sell	buy	buy	buy
Rating date	2024-04-29	2023-12-01	2023-09-28	2023-06-26
Target price	14.90	13.00	11.36	11.94
Price on rating	15.70	9.15	8.07	9.25

ING BSK (Michał Konarski, Mikołaj Lemańczyk)

Rating	hold	hold	hold	buy	hold	buy
Rating date	2024-04-29	2023-12-01	2023-11-02	2023-09-28	2023-08-01	2023-06-26
Target price	315.00	255.00	209.00	209.00	210.00	210.00
Price on rating	312.00	242.00	218.50	178.00	199.80	173.00

PKO BP (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy	accumulate
Rating date	2024-04-29	2023-11-13	2023-09-28	2023-06-26	2023-05-04
Target price	71.01	55.21	44.90	44.30	35.20
Price on rating	61.70	43.80	34.01	35.26	31.62

Santander Bank Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	sell	sell	buy	buy	hold	buy	hold
Rating date	2024-04-29	2023-12-01	2023-10-26	2023-09-28	2023-08-01	2023-06-26	2023-05-04
Target price	528.31	486.63	486.63	413.63	420.00	420.00	338.51
Price on rating	562.40	496.80	429.80	349.40	397.40	372.80	335.20

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