

Monday, 26 June 2023 | update

Banks

Banks, Poland

Uphill Climb

We maintain a positive view on the Polish banking sector, which seems to be set for a brighter future. Last December in our strategy note we had predicted that the sentiment towards the sector will come under pressure at the beginning of the year due to upcoming CJEU's rulings on Polish CHF loan cases and an election campaign.

Today, as bad as the CJEU judgments have turned out for Polish banks, at this point 56% of the sector's expected CHF loan losses are already covered by provisions and the remainder of the losses can be easily addressed from strong current earnings. As for the election campaign, there have been no attempts so far at raiding bank profits – on the contrary, the sitting government has proposed a new mortgage subsidy scheme that is going to boost lending volumes. Thirdly, the pressure on banks to raise deposit rates has been wisely tackled by the sector and is currently easing with the shift from current accounts to term deposits slowed down visibly.

Nonetheless, the campaign is not over yet as and political tensions mount ahead of the fall vote, we opt to factor a loan holiday extension into our 2023 forecasts. Moreover, it is too early for the sector's re-rating to the pre-CHF era with many banks holding sizeable CHF loan exposures that can give rise to varying costs in the future.

To sum up, we remain overweight on Polish banks based on strong core earnings (2023-24E ROE at 13%-14%), hefty dividends (2024-25E DY at 6%-7%) and attractive valuations. With CHF related costs now largely brought under control, we shift our top-pick preference from Pekao, which has rallied c.40% since our last call, to PKO BP. Among Tier2 banks, we still prefer Alior, which should benefit from a stronger GDP outlook. We also see over 20% upside in ING, BNP Paribas BPL, and BOŚ Bank after noticeable underperformance vs. WIG-Banks in the last three months.

We are More Optimistic on EPS

Our view on the Polish banking sector's earnings outlook has turned more optimistic. On the one hand, banks still need to raise more provisions against CHF loan losses, but, on the other hand, the prospects in terms of net interest income, cost of risk, and volumes, are brighter now than at the beginning of the year. We have revised upwards our 2024 and 2025 earnings expectations seeing more upside on the back of higher NII and lower cost of risk.

CJEU Ruling: Poisonous but Not Deadly

The CJEU's unfavorable June rulings in two Polish CHF loan related cases will have a negative impact on banks that, however, is already priced in. The resulting additional provisioning in the sector is estimated at c.PLN 36bn, to be split between 2023 and 2024. Despite the heavy burden, we do not expect any of the rated banks to fall short of their respective capital requirements, and we remain skeptical regarding a potential regulatory solution.

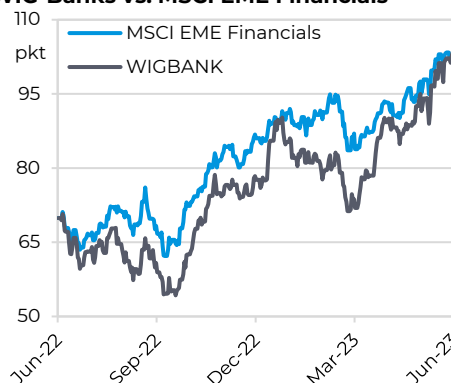
Valuation is Still Attractive

On 12M forward P/E, Polish banks are trading at an over-40% discount to the 10-year average. At the same time, the sector's ROE at 14% is 47% above the historical average and the dividend yield DY at 6% has surged over 45%. The strong current earnings momentum in our view will last for at least two more years, indicating more upside in the sector.

company	P/E			P/B			ROE%		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
PKO	14.3	8.6	7.3	1.2	1.0	0.9	8.4	12.9	13.4
PEO	5.6	5.7	8.0	1.1	1.1	1.1	21.1	19.4	13.3
SPL	9.6	11.2	8.2	1.2	1.2	1.1	13.4	10.7	14.0
ING	7.6	7.3	8.8	1.6	1.3	1.1	24.6	19.1	13.4
BNP	7.6	6.0	5.5	0.7	0.6	0.5	9.2	10.5	10.1
MIL	n.m.	n.m.	4.8	1.1	1.0	0.8	n.m.	n.m.	19.1
BHW	5.1	6.2	9.2	1.2	1.2	1.2	25.9	19.6	12.8
ALR	4.6	4.7	5.7	0.8	0.6	0.6	18.4	14.7	10.4
BOŚ	4.8	5.4	7.4	0.4	0.4	0.3	8.8	7.0	4.8

WIG-Banks	7,671.75
MSCI EME Financials	101.37
2023E P/E	9.3x
2023E P/B	1.2x

WIG-Banks vs. MSCI EME Financials



name	target price		recommendation	
	new	old	new	old
PKO	44.30	35.20	buy	accumulate
PEO	130.47	126.00	buy	buy
SPL	420.00	338.51	buy	hold
ING	210.00	177.85	buy	accumulate
BNP	72.00	58.50	buy	accumulate
MIL	5.90	4.84	buy	hold
BHW	91.00	80.00	hold	hold
ALR	64.00	50.00	buy	buy
BOŚ	11.94	11.60	buy	buy

name	current* price	target price	upside
PKO	35.26	44.30	+25.64%
PEO	108.30	130.47	+20.47%
SPL	372.80	420.00	+12.66%
ING	173.00	210.00	+21.39%
BNP	56.20	72.00	+28.11%
MIL	5.22	5.90	+13.14%
BHW	86.30	91.00	+5.45%
ALR	45.30	64.00	+41.28%
BOŚ	9.25	11.94	+29.08%

*Prices as of June 23, 2023, 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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HOLD – we expect that the rate of return from an investment will range from -10% to +10%
SELL – we expect that an investment will bear a loss greater than 10%
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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.

mBank issued the following recommendations for the companies analyzed herein in the 12 months prior to this publication:

Alior Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	hold	buy	buy
Rating date	2023-06-26	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	64.00	50.00	36.06	33.00	37.98
Price on rating	45.30	34.11	36.06	24.69	24.49

BNP Paribas Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	accumulate	buy	accumulate	buy	buy
Rating date	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	72.00	58.50	58.50	60.80	65.00	89.24
Price on rating	56.20	53.00	48.30	56.40	48.00	55.00

BOS Bank (Michał Konarski, Mikołaj Lemańczyk)

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

Handlowy (Michał Konarski, Mikołaj Lemańczyk)

Rating	hold	hold	reduce	hold	hold	buy	buy
Rating date	2023-06-26	2023-06-01	2023-05-04	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	91.00	80.00	80.00	80.00	72.85	73.00	65.70
Price on rating	86.30	82.60	90.00	79.60	73.80	56.80	50.50

ING BSK (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	accumulate	hold	buy	buy	hold
Rating date	2023-06-26	2023-03-27	2022-12-01	2022-09-27	2022-09-02	2022-07-06
Target price	210.00	177.85	168.76	165.00	182.39	182.39
Price on rating	173.00	158.20	164.40	139.80	137.40	168.00

Millennium (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	buy	hold	buy	buy
Rating date	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	5.90	4.84	4.84	5.03	4.60	5.30
Price on rating	5.22	4.90	3.84	4.64	3.52	3.66

Pekao (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy	buy
Rating date	2023-06-26	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	130.47	126.00	100.00	85.05	99.40
Price on rating	108.30	78.90	83.90	64.00	76.96

PKO BP (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	accumulate	buy	buy	buy	buy
Rating date	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	44.30	35.20	35.20	35.02	30.06	33.92
Price on rating	35.26	31.62	26.72	28.35	22.45	26.17

Santander Bank Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	buy	buy	buy	buy
Rating date	2023-06-26	2023-05-04	2023-03-27	2022-12-01	2022-09-27	2022-07-06
Target price	420.00	338.51	338.51	328.96	300.00	337.84
Price on rating	372.80	335.20	271.20	273.60	206.20	220.20

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