

Wednesday, 28 August 2024 | update

Banks

Banks, CEE

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We believe it is time to upgrade our neutral stance on Polish banks to overweight, in line with our positioning on the CEE banking sector.

In the last six months, Polish bank stocks have clearly underperformed their Western European peers, with the WIG Banks index up 2.7% versus a 14.5% gain on Eurostoxx banks. After a rally at the end of 2023 and into early 2024, WIG-Banks index has been moving in the range of 13,000-14,000 points as analysts clearly stopped raising their earnings expectations for Polish lenders, and investors decided that current valuations are adequate. Today, however, upside catalysts have emerged in the form of an updated in interest rate consensus for 2024, combined with higher-than-expected interest income generated in Q2'24 and increasing lending volumes. Moreover, for the first time in a very long time, valuations seem to be pricing acquisition premiums. Last but not least, although investors can forget about extra distributions from retained earnings (with the exception of PKO BP), base-case dividend yields in 2025-2026 could be as high as 10%. All this will likely boost sentiment for WIG Banks at the end of 2024 as was the case in 2020 (+26%), 2021 (+8%), 2022 (+42%), and 2023 (+54%).

At the same time, a tight budget gives rise to concerns that the Polish government will follow the example of their Hungarian counterpart and resort to raising levies on banks. At the same time, investors have already discounted the planned hikes in countercyclical buffers, the extension of credit holidays, and unfavorable changes to new mortgage subsidies. Finally, higher-than-expected CHF provisions are already factored into our forecasts, so the room for negative surprises is minimized.

We maintain a positive bias towards CEE Banks ex. Poland. Plays like Erste, OTP, and Moneta have outperformed Poland's WIG-Banks in the last six months, but we still see sizable upside potential in Komerční Banka and RBI, albeit for very different reasons. In The former might deliver an upside dividend surprise in 2025 (12% DY, not priced into current consensus). As for RBI, it continues to offer strong profits and upside potential as it moves towards an exit from Russia. It is also worth noting that almost all CEE banks are poised for consensus upgrades, with the exception of OTP, where we see the risk of a very high tax burden in 2024-26.

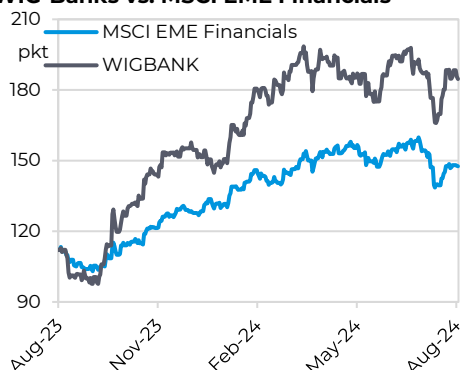
All in all, the banking sector looks attractive. CEE Banks including Poland have good earnings prospects ahead despite high CHF provisions and falling interest rates. We are anticipating double-digit ROEs and high dividend yields in the next three years. Politics remain the single biggest risk amid favorable market conditions, but this is a factor that applies to the stock market at large.

PKO BP, Bank Millennium and Komerční Banka are our Top 3 Picks among rated financials. We also see major upside potential in BNP Paribas Bank Polska (whose valuation is under pressure due to a share overhang), RBI (upside hinged to Russia exit), and Alior Bank (as a potential takeover target).

Company	P/E			P/B			ROE%		
	24E	25E	26E	24E	25E	26E	24E	25E	26E
PKO	8.7	7.7	6.5	1.4	1.3	1.2	16.9	17.6	19.0
PEO	6.8	7.3	7.5	1.3	1.2	1.2	19.6	17.3	15.9
SPL	11.4	9.7	8.5	1.6	1.5	1.5	14.4	16.4	17.6
ING	8.6	8.0	8.1	2.0	1.6	1.4	23.5	22.3	18.7
BNP	6.7	7.2	7.1	1.0	0.9	0.8	16.3	13.2	11.9
MIL	27.1	8.8	5.0	1.4	1.2	1.0	5.5	14.9	22.1
BHW	6.6	6.7	8.2	1.2	1.2	1.2	18.7	17.7	14.4
ALR	5.5	5.5	6.2	1.2	1.0	1.0	23.4	20.1	16.1
BOŚ	12.2	9.0	6.9	0.5	0.5	0.4	4.5	5.6	6.8
EBS	6.9	7.2	6.8	0.9	0.9	0.9	13.4	12.3	12.5
RBI	2.1	2.1	2.4	0.3	0.2	0.2	13.8	12.2	9.8
KOMB	8.6	8.9	8.5	1.1	1.2	1.1	13.4	12.9	13.2
MONET	10.1	9.7	9.5	1.7	1.6	1.5	16.7	16.8	16.6
OTP	5.4	5.8	5.4	1.0	0.9	0.8	20.0	15.7	15.0

WIG-Banks	13,042.34
MSCI EME Financials	147.60
2024E P/E	7.3x
2024E P/B	1.1x

WIG-Banks vs. MSCI EME Financials



Company	Target Price		Recommendation	
	New	Old	New	Old
PKO	78.19	71.01	buy	buy
PEO	185.69	180.99	buy	hold
SPL	574.45	528.31	buy	sell
ING	325.00	315.00	buy	hold
BNP	143.23	132.15	buy	buy
MIL	11.45	11.35	buy	buy
BHW	110.00	107.00	buy	sell
ALR	124.00	115.00	buy	buy
BOŚ	16.00	14.90	buy	sell
EBS AV	58.96	50.50	buy	buy
RBI AV	24.24	24.00	buy	buy
KOMB CP	1,012.03	1,066.29	buy	buy
MONET CP	120.00	120.00	buy	buy
OTP HB	22,314	21,958	buy	buy

Company	Current Price	Target Price	Upside
PKO	56.48	78.19	38.4%
PEO	156.45	185.69	18.7%
SPL	510.80	574.45	12.5%
ING	271.00	325.00	19.9%
BNP	103.00	143.23	39.1%
MIL	8.89	11.45	28.8%
BHW	95.00	110.00	15.8%
ALR	100.50	124.00	23.4%
BOŚ	13.05	16.00	22.6%
EBS AV	48.70	58.96	21.1%
RBI AV	17.42	24.24	39.2%
KOMB CP	766.00	1,012.03	32.1%
MONET CP	107.80	120.00	11.3%
OTP HB	18,550	22,314	20.3%

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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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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	hold	buy	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-10-27	2023-09-28
Target price	124.00	115.00	81.00	81.00	65.00
Price on rating	100.50	101.80	77.18	66.00	48.55

Bank Handlowy (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	sell	hold	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-09-28
Target price	110.00	107.00	104.00	99.00
Price on rating	95.00	112.00	96.90	79.60

Bank Millennium (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	hold	hold	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-11-02	2023-09-28
Target price	11.45	11.35	8.40	7.15	7.15
Price on rating	8.89	9.15	7.95	7.32	5.42

Bank Pekao (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	buy	buy
Rating date	2024-08-28	2024-04-29	2023-11-10	2023-09-28
Target price	185.69	180.99	160.71	141.97
Price on rating	156.45	173.05	130.85	97.82

BNP Paribas Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-09-28
Target price	143.23	132.15	100.00	71.58
Price on rating	103.00	104.00	75.80	60.00

BOŚ Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	sell	buy	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-09-28
Target price	16.00	14.90	13.00	11.36
Price on rating	13.05	15.70	9.15	8.07

Erste Group (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy
Rating date	2024-08-28	2024-05-06	2023-11-23
Target price	58.96	50.50	44.84
Price on rating	48.70	44.67	36.00

ING BSK (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	hold	hold	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-11-02	2023-09-28
Target price	325.00	315.00	255.00	209.00	209.00
Price on rating	271.00	312.00	242.00	218.50	178.00

Komercni Banka (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy
Rating date	2024-08-28	2024-05-06	2023-11-23	2023-10-02
Target price	1012.03	1066.29	961.01	896.72
Price on rating	766.00	786.00	682.50	672.00

Moneta Money Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	hold
Rating date	2024-07-30	2024-05-06	2023-12-01	2023-11-23
Target price	120.00	110.00	100.00	99.00
Price on rating	106.60	96.90	87.30	92.00

OTP Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy
Rating date	2024-08-28	2024-05-06	2023-11-23
Target price	22314.00	21958.00	20387.00
Price on rating	18550.00	18085.00	13970.00

PKO BP (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	buy
Rating date	2024-08-28	2024-04-29	2023-11-13	2023-09-28
Target price	78.19	71.01	55.21	44.90
Price on rating	56.48	61.70	43.80	34.01

RBI (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy
Rating date	2024-08-28	2024-05-06	2023-11-23
Target price	24.24	24.00	23.00
Price on rating	17.42	16.65	15.83

Santander Bank Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	sell	sell	buy	buy
Rating date	2024-08-28	2024-04-29	2023-12-01	2023-10-26	2023-09-28
Target price	574.45	528.31	486.63	486.63	413.63
Price on rating	510.80	562.40	496.80	429.80	349.40

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