

Thursday, 26 October 2023 | update

Santander Bank Polska: buy (reiterated)

SPL PW; SPL1.WA | Banks, Poland

Dividend Unlocked

We maintain our buy call on Santander Bank Polska ("Santander BP") with a higher target price of PLN 486.63 per share.

Following 3Q'23 results, we have upgraded our 2023 and 2025 net interest income forecasts by 8% and 12%, respectively, and we revised higher the expected net F&C income (+1%) and lending volumes (+5%/4%/3% for 23/24/25), while lowering the assumptions as to cost of risk (-3%-5%). We have also shifted the projected costs of extended credit holidays (PLN 644m gross) from 2023 to 2024, although whether the extension bill is passed remains uncertain. The 2025E NII also got an additional boost from the KNF's decision to delay the switch from WIBOR to WIRON from 2025 to 2027. All told, this has led us to make respective upward revisions of 26%, 1%, and 28%, to our net profit forecasts for 2023, 2024, and 2025.

Following on the heels of the KNF's call to allow Santander BP to pay out PLN 2,376m from the net profit for 2022 as dividends to shareholders, we have also adjusted our DPS assumptions. With no update as yet on an additional dividend payment from Aviva investment proceeds, we opt to include an additional distribution (PLN 0.84bn) in the expected dividends for 2024 and 2025. The fact that Santander BP has been allowed to unlock dividends comes as a surprise after the KNF withheld a similar permission from PKO BP. We currently expect Santander BP to declare DPS of PLN 5.4 this year, PLN 46.6 in 2024, and PLN 38.8 in 2025. This translates to implied DY of 5% in 2023, 11% in 2024 and 9% in 2025.

Santander Bank Polska is currently the most expensive bank in our Financials universe, but this is fully justified in our view. That said, better profitability and dividends can be found in Bank Pekao, which remains our top pick in the sector.

Strong results are driving forecast upgrades

Santander BP reported 3Q'23 results 4% ahead of consensus and +9% above our estimates. The beat would have been even greater if we exclude difficult-to-predict CHF effects. Net interest income was the main highlight of 3Q'23, showing a 4% beat vs. consensus. Net interest margin adjusted for credit holidays grew 4 bps Q/Q – a surprise given a lower WIBOR rate in 3Q'23. Lastly, lower-than-expected cost of risk points to high asset quality.

At the 3Q earnings call, Santander BP reiterated its assessment of net interest income sensitivity at between PLN 500m and PLN 700m for each 100bp base rate cut, and said it was expecting lower cost of risk in 2024 versus 2023.

We have incorporated the strong quarterly results, and Santander BPs guidance, into our models, resulting in upward revisions of 1% for 2024 and 28% for 2025 to our net profit forecasts for the Bank.

Higher target price but limited upside

Our updated forecasts, including higher dividends, have led us to raise our 12M target price for SPL to PLN 486.63. SPL is the most expensive bank in our CEE coverage, trading at 1.5x-1.4x 2024-2025 P/BV. We value the Bank even higher given its strong capital position (CAR at 21% as of 3Q'23), superior returns, backed by the unlocked dividend potential (with 18% 2025E ROE) and dividend yield which in next two years may be in the range of 9%-11%. At the same time, following the recent rally, the upside potential of SPL is limited at around 13%.

(PLN m)	2021	2022	2023E	2024E	2025E
net interest income	5,962.4	9,652.3	12,904.0	11,899.8	11,443.2
non-interest income	3,179.2	2,729.2	2,826.1	3,136.3	3,365.6
costs	3,988.3	4,697.7	4,583.7	4,941.9	5,272.5
operating income	5,153.4	7,683.8	11,146.5	10,094.2	9,536.2
net profit	1,111.7	2,799.1	4,751.8	3,959.6	5,503.3
C/I (%)	43.6	37.9	29.1	32.9	35.6
ROE (%)	4.2	10.4	16.1	13.1	17.9
P/E (x)	39.5	15.7	9.2	11.1	8.0
P/B (x)	1.7	1.5	1.4	1.5	1.4
DPS (PLN)	2.16	2.68	23.27	46.55	38.79
dividend yield (%)	0.5	0.6	5.4	10.8	9.0

current price	PLN 429.80
target price	PLN 486.63
mCap	PLN 42.65bn
free float	PLN 13.87bn
ADTV (3M)	PLN 56.0m

*Price as of Oct 25, 2023, 5:00 PM

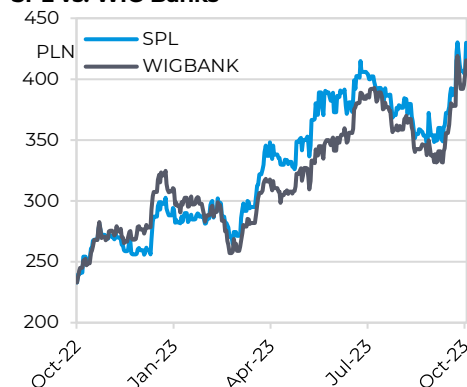
Shareholders

Banco Santander S.A.	68.30%
Others	31.70%

About

Santander is a universal lender with a slight bias toward the corporate sector, though by merging with Consumer Bank the lender substantially increased the share of consumer debt in the loan portfolio. Santander has a solvency ratio of 21%. The main priority of its strategic investor, Banco Santander, is to create value for shareholders by controlling costs and increasing market share to 12%.

SPL vs. WIG Banks



name	target price		recommendation	
	new	old	new	old
Santander	486.63	413.63	buy	buy

name	current price	target price	upside
	Santander	429.80	486.63

forecast update	2023E	2024E	2025E
	total income	+6.9%	-1.0%
pre-tax profit	+16.9%	-1.7%	+19.4%
net profit	+26.2%	+1.3%	+28.0%

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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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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 Santander Bank Polska in the 12 months prior to this publication:

Santander Bank Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	hold	hold	buy	buy
Rating date	2023-09-28	2023-08-01	2023-06-26	2023-05-04	2022-12-01
Target price (PLN)	413.63	420.00	420.00	338.51	328.96
Price on rating day	349.40	397.40	372.80	335.20	273.60

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