

Monday, 13 November 2023 | update

PKO BP: buy (reiterated)

PKO PW; PKO.WA | Banks, Poland

Make This Moment Last

We maintain a buy call on PKO BP with a higher target price of PLN 55.21.

We were positively surprised by the composition of PKO BP's 3Q'23 results, particularly robust net interest income (NII) and low cost of risk. The next surprise came at the 3Q'23 earnings call, when the Bank said it expected flattish NII in 4Q'23 and FY2024, and that CoR management would remain tight. The surprise of the new NII guidance came on the heels of PKO BP revising its NII sensitivity estimate to c.PLN 1bn per 100b.p. base rate change. We remain cautious on the NII front, and we expect a small Y/Y decline on a recurring basis looking at the Czech example which may show that a "higher for longer" scenario can drive pressure on deposit rates.

We have upgraded our 2023-25 recurring NII forecasts for PKO BP to reflect 3Q'23 results, and Poland's new "higher for longer" rate trajectory. We have also shifted estimated loan holiday extension costs (PLN 1.2bn gross) from 2023 to 2024, though the extension bill has yet to be passed. The NII expected in 2025 received an additional boost from the KNF's decision to delay the switch from WIBOR to WIRON from 2025 to 2027. We have also cut our expectations for cost of risk to 50 bps in 2023 and around 60 bps in 2024-25, which should reflect PKO BP's CoR throughout the cycle.

Finally, our additional CHF provisioning forecasts remain intact at PLN 4.6bn in 2023 and PLN 2.6bn in 2024. PKO BP is not done yet with the CHF saga and more lawsuits should be expected. The bank's Management has hinted that we might see some tweaks in the audited results for 4Q'23.

On our updated forecasts, PKO BP's valuation still looks very attractive. On a 2024/25 P/BV of 1.1x-1.0x, PKO is still trading at a discount to the Polish averages while generating above-average ROE. We rank PKO BP just behind Pekao on our pecking order list given lower coverage of CHF exposures and lower DY in the next two years.

There is upside risk to our forecasts

We have made hefty upward revisions to our net profit forecasts for PKO BP (+50% for 2023, +7% for 2024 and +38% for 2025), but we still see more upside in our CHF provisioning assumptions, which are PLN 1.1bn in 4Q'23, PLN 2.6bn in 2024, and in a scrapped credit holiday extension currently expected to set the bank PLN 1.2bn back gross in 2025. A net profit of PLN 8bn in 2025 would be very impressive, but without CHF provisions, PKO BP would likely top PLN 11bn already in 2023.

Dividend guidance

PKO BP intends to appeal the KNF's July rejection of a dividend payment from 2022 earnings. The dividend declaration did come as a surprise. Unfortunately, the chances of a payout still this year are slim given an expected reshuffle within the KNF's ranks and the fact that the end of the year is only 1.5 months away. Instead, we are anticipating a distribution in 2024 at 100% of the profit for 2023, which in terms of DPS would include what the bank wanted to offer in 2023. Dividends will most likely normalize in 2025.

(PLN m)	2021	2022	2023E	2024E	2025E
net interest income	9,882.0	11,424.0	17,713.4	16,346.4	16,337.6
non-interest income	5,483.0	6,015.0	5,894.1	5,947.4	6,052.8
costs	6,449.0	7,999.0	7,605.1	8,179.7	8,773.8
operating income	8,916.0	9,440.0	16,002.3	14,114.1	13,616.7
net profit	4,874.0	3,312.0	6,355.6	6,324.7	8,343.9
C/I (%)	42.0	45.9	32.2	36.7	39.2
ROE (%)	12.6	9.0	15.4	13.3	16.4
P/E (x)	11.2	16.5	8.6	8.7	6.6
P/B (x)	1.5	1.5	1.2	1.1	1.0
DPS (PLN)	0.00	1.83	0.00	5.08	2.53
dividend yield (%)	0.0	4.2	0.0	11.6	5.8

current price	PLN 43.80
target price	PLN 55.21
mCap	PLN 54.75bn
free float	PLN 38.64bn
ADTV (3M)	PLN 214.00m

*Price as of November 10, 2023, 5:00 PM

Shareholders

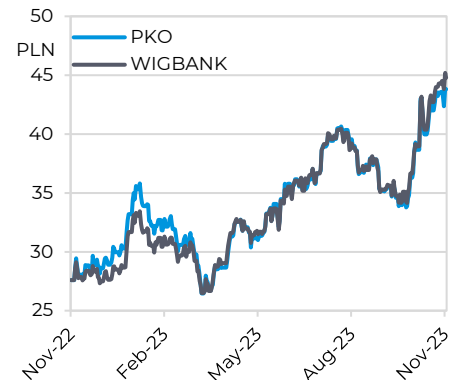
State Treasury	29.43%
NN OFE	9.12%
Allianz OFE	8.33%
Others	53.12%

About

PKO BP has Poland's largest portfolio of retail deposits and loans, and the second-largest (after Pekao) portfolio of corporate loans and deposits. The Bank manages a well-balanced balance sheet, and it has above-average solvency ratios.

PKO BP has a 99.6% stake in Ukraine's Kredobank, which accounts for about 1% of its assets.

PKO vs. WIG Banks



name	target price		recommendation	
	new	old	new	old
PKO BP	55.21	44.90	buy	buy

name	current price	target price	upside
	PKO BP	43.80	55.21

forecast update	2023E	2024E	2025E
total income	+8.8%	+0.6%	+12.3%
pre-tax profit	+33.8%	+6.1%	+32.1%
net profit	+50.2%	+7.2%	+38.3%

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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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mBank issued the following recommendations for PKO BP in the 12 months prior to this publication:

PKO BP (Michał Konarski, Mikołaj Lemańczyk)

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

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