

## The fastest loan growth

### Upgrade to Outperform, TP down to PLN62.0

We upgrade recommendation on BNP Paribas Bank Polska to **Outperform** (vs **Neutral** before) yet revise downward Dec'23 target price to PLN62.0 (from Dec'22 TP of PLN68 before) mostly on lower peer valuation. We are observing reassuring changes at BNP, acceleration of loan growth being one of them. BNP looks cheaper than peers. We believe BNP should be able to report ROE around COE but it trades at 2024E P/BV of 0.5x.

**Will the above market loan growth continue?** BNP grew its 2Q22 loan book to PLN95bn (+14.2% y/y; +3% q/q). Consequently, for the second quarter in a row, BNP was the fastest growing bank in our coverage, faster than ING (+13.5% y/y) and twice faster than the market (+7% y/y). Out of PLN8bn y/y increase in loans, PLN5.6bn came from corporate clients (SME was flattish, agriculture declined but larger exposures increased 22.5% y/y); a key growth driver in retail were mortgages up PLN2.4bn or (+18.9%) y/y. BNP has decisively limited mortgage originations to external clients at the turn of May/Jun'22 – this should have material impact on mortgage volumes in the coming quarters, we believe.

**NII negatively affected by hedging.** Hedging reduced 2Q22 net income by PLN142mn (vs PLN42.4mn positive contribution last year). BNP reported y/y NII growth at 52% below market average of 85%. But for hedging, NII would have grown 80% despite 10pp stronger loan growth than average on the market.

### CHF portfolio will weigh on results in the coming quarters?

BNP booked PLN1.5bn provisions against PLN4.4bn CHF portfolio. This implies coverage of 34%, marginally below average 38% among banks that have reported so far. Our model assumes that BNP will book another PLN1.3bn in provisions. However we note that in the scenario of no remuneration, BNP could face further cost of close to PLN3.0bn.

**Valuation and risks.** BNP trades at 2022E reported P/E of 5.1x, P/BV of 0.7x. Our Dec'23 TP is at PLN62.0 and is a weighted average of DDM pointing to valuation of PLN75.6 and a comparative valuation pointing to PLN63.0 reduced by PLN 7.0 related to anticipated further cost related to CHF portfolio (all per share). Risks we note include: PLN4.4bn CHF mortgage portfolio, regulations (potential windfall taxes), next year parliamentary elections in Poland, macro, dividends and company specific low share turnover and share overhang.

Fig. 1. BNP Paribas Bank Polska: Financial summary and ratios

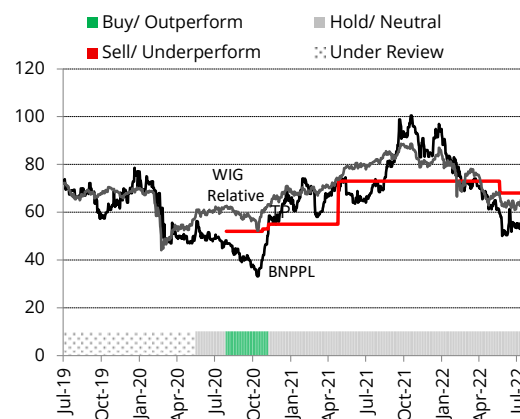
Year to Dec, PLNmn	2020	2021	2022E	2023E	2024E
P/E (adjusted)	10.4x	5.9x	3.7x	3.9x	4.3x
P/E (reported)	12.8x	41.1x	8.5x	4.8x	5.3x
P/BV	0.78x	0.64x	0.64x	0.55x	0.50x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EPS (adjusted) (PLN)	6.1	8.3	13.5	12.8	11.3
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	81.6	77.1	76.8	88.7	98.6
Net Income (adj. PLN mn)	901	1,222	1,987	1,885	1,673
<b>Net Income (PLN mn)</b>	<b>733</b>	<b>176</b>	<b>857</b>	<b>1,499</b>	<b>1,373</b>

Source: Company data, Santander Brokerage Poland estimates

### Recommendation Outperform

Dec'23 Target Price (PLN) 62.0

Current price (PLN, 24 August 2022)	49.2
Market cap. (PLNmn)	7,262
Avg. daily turnover 3M (PLNmn)	0.41
Number of shares (mn)	147.6



The chart measures relative performance against the WIG index.

### Main shareholders\* % of votes

BNP Paribas SA	88.8%
Rabobank	3.4%
EBRD	4.5%

Source: Company data, Santander Brokerage Poland.

\* Be reminded that current freefloat of BNP Paribas Polska is at 11.2%. BNP Paribas SA has declared to the KNF in Sep'18 to increase BNP Paribas Polska freefloat to at least 25% before end of 2023.

### Analyst

Kamil Stolarski, CFA, Head of Equity Research

+48 22 86 586 100 kamil.stolarski@santander.pl

**Fig. 2. Valuation summary (PLN/share)**

Recommendation	Outperform
<b>Dec'23 Target Price (PLN)</b>	<b>62.00</b>
Current price (PLN)	49.20
Prospective upside (%)	26

*\*Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comparative valuation (50%) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	75.6
Discounted dividends (PLN/share)	0.0
Terminal value (PLN/share)	75.6
Terminal ROE (%)	11.23
g (%)	2.00
CoE (%)	10.00
RFR (%)	4.00
Beta (x)	1.20
ERP (%)	5.0

Comparative Valuation PLN/share	63.0
Net Income (PLN mn, next 12 months)	2,324
Applied P/E (x)	4.0
P/E peers (x)	6.1
<b>CHF impact</b>	<b>-7.0</b>

**Fig. 3. DDM Valuation sensitivity (PLN/share)**

ROE->	9.2%	10.2%	11.2%	12.2%	13.2%
<b>0.0%</b>	60.4	67.0	73.6	80.1	86.7
<b>1.0%</b>	59.9	67.2	74.4	81.7	89.0
<b>2.0%</b>	59.2	67.4	75.6	83.7	91.9
<b>3.0%</b>	58.3	67.6	77.0	86.4	95.7
<b>4.0%</b>	57.1	68.0	78.9	89.8	100.7

**Fig. 4. DDM Valuation sensitivity (PLN/share)**

ERP->	3.0%	4.0%	5.0%	6.0%	7.0%
<b>3.0%</b>	156.2	116.5	90.8	73.0	60.0
<b>3.5%</b>	137.3	104.5	82.6	67.1	55.6
<b>4.0%</b>	121.9	94.4	75.6	61.9	51.6
<b>4.5%</b>	109.1	85.8	69.4	57.3	48.1
<b>5.0%</b>	98.3	78.3	63.9	53.1	44.8

**Fig. 5. Our forecast vs Bloomberg consensus**

	Bloomberg consensus			Our assumptions vs cons.		
	2022E	2023E	2024E	2022E	2023E	2024E
Net income	546	1,258	1,516	57%	19%	-9%
DPS (PLN)	0.00	0.00	2.79	n.a.	n.a.	-100%
ROE (%)	11.0	13.6	12.8	1.1 pp	-1.6 pp	-1.8 pp

**Fig. 6. Comparative Valuation sensitivity (PLN/share)**

Fair P/E (x)	1.0x	2.0x	3.0x	4.0x	6.0x	8.0x
vs. peers (%)	-84	-67	-51	-34	-2	31
Sensitivity	15.7	31.5	47.2	63.0	94.5	126.0

**Fig. 7. Ratios, Assumptions and Forecasts**

P&L (PLN mn)	2020	2021	2022E	2023E	2024E
NII	3,060	3,141	4,696	4,964	4,628
F&C	916	1,049	1,175	1,216	1,253
Trading Income	776	687	614	564	564
Total Revenue	4,705	4,809	6,436	6,734	6,450
Cost	2,506	2,544	2,927	2,872	3,025
NLLP	601	266	462	920	725
CHF provisions	-168	-1,045	-498	-300	-300
Pre-tax Profit	1,429	954	1,769	2,537	2,400
Banking tax	-319	-338	-420	-448	-466
Net Income	733	176	857	1,499	1,373
Net Income (adj.)	901	1,222	1,987	1,885	1,673

PLN bn	2020	2021	2022E	2023E	2024E
Total Assets	120	132	143	149	156
Bonds	34	33	30	33	35
Loans	76	86	94	98	102
Loans growth (%)	2	14	9	4	4
Deposits	90	101	112	116	121
Equity	12	11	11	13	15
Mortgage loans	23	27	28	30	31
CHF mortgages	5	5	4	3.9	3.6
Other retail loans	11	11	13	13	14
Corporate loans	47	45	55	57	59

NIM ratios (%)	2020	2021	2022E	2023E	2024E
Asset yield (%)	3.29	2.86	5.91	6.63	6.08
Funding cost (%)	0.56	0.28	2.57	3.37	3.20
NIM (%)	2.79	2.62	3.59	3.58	3.19

Risk ratios (%)	2020	2021	2022E	2023E	2024E
Stage 3 ratio (%)	5.4	3.6	3.2	3.2	3.2
Stage 3 coverage (%)	50.3	57.4	60.8	60.8	60.8
Cost of risk (%)	-0.80	-0.33	-0.51	-0.96	-0.73

Du Pont (%)	2020	2021	2022E	2023E	2024E
NII/assets	2.67	2.50	3.42	3.40	3.04
CoR/assets	-0.52	-0.21	-0.34	-0.63	-0.48
F&C/assets	0.80	0.83	0.86	0.83	0.82
Other rev/assets	0.63	0.49	0.41	0.38	0.37
Costs/assets	-2.18	-2.02	-2.13	-1.97	-1.98
Taxes&other/assets	-0.61	-1.45	-1.03	-0.92	-0.87
ROA	0.79	0.14	1.19	1.10	0.90
Leverage (x)	9.9	10.7	12.1	12.0	11.0
ROE (reported)	7.77	1.51	14.42	13.13	9.93

Capital & dividends	2020	2021	2022E	2023E	2024E
Tier-1 (PLN bn)	11.4	11.3	11.1	12.6	14.0
Tier-2 (PLN bn)	4.3	4.2	4.2	4.2	4.2
TCR (PLN bn)	6.8	7.3	8.0	8.4	8.7
RWA (PLN mn)	84.4	91.7	100.4	104.6	108.9
CT1 ratio (%)	13.6	12.3	11.1	12.1	12.9
CAR ratio (%)	18.6	16.9	15.2	16.0	16.7
Div. payout (%)	0.0	0.0	0.0	0.0	20.0
Dividend (PLN mn)	0	0	0	0	0
No. of shares (mn)	147	147	148	148	148

*e for all tables: Company data, Bloomberg, Santander Brokerage Poland NOTE: historical valuation ratios based on eoY prices*

## 2Q22 net income in line with consensus

- Loans kept growing visibly stronger than on the market (+3% q/q; +14% y/y). Mortgage originations were at PLN1.2bn (-29% q/q; -30% y/y), cash loans originations stood at PLN949mn (+7% q/q; -2% y/y). Deposits outgrew the market.
- CHF provisions stood at PLN140mn, additionally BNP booked PLN24.5mn worth of operating costs related to CHF mortgages
- IPS cost stood at PLN188mn.
- Weak trading income driven by FX swaps and revaluations of equity stakes
- Cost of risk affected by a material twist – BNP released PLN200mn covid provisions in 2Q22 but booked PLN213mn provisions related to potential deterioration in GDP.

**Fig. 8. Quarterly results review**

BNP (PLN mn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22qoq (%)	yoy (%)	2Q22E	vs EPAP cons.	vs cons.		
Net Interest Income	733	759	785	864	1,003	1,149	15	52	1,143	1	1139	1
Fees & commissions	247	250	251	301	301	295	-2	18	300	-2	279	6
Trading Income	190	165	215	118	169	156	-8	-5	180	-13		
Other Net	-19	-23	-35	9	-5	-34	562	46	-5	575		
<b>Total Revenue</b>	<b>1,151</b>	<b>1,150</b>	<b>1,216</b>	<b>1,292</b>	<b>1,468</b>	<b>1,567</b>	<b>7</b>	<b>36</b>	<b>1,618</b>	<b>-3</b>		
Personnel Costs	-293	-291	-300	-300	-313	-317	1	9	-318	0		
General Expenses	-274	-183	-201	-302	-362	-427	18	133	-403	6		
D&A	-98	-100	-97	-104	-99	-107	8	7	-99	8		
<b>Operating Expenses</b>	<b>-665</b>	<b>-575</b>	<b>-599</b>	<b>-705</b>	<b>-775</b>	<b>-851</b>	<b>10</b>	<b>48</b>	<b>-820</b>	<b>4</b>	<b>-836</b>	<b>2</b>
Operating Income	486	575	617	587	693	716	3	24	799	-10		
<b>Net Loan Loss Provisions</b>	<b>-60</b>	<b>-71</b>	<b>-61</b>	<b>-74</b>	<b>-79</b>	<b>-86</b>	<b>8</b>	<b>21</b>	<b>-90</b>	<b>-5</b>	<b>-91</b>	<b>-6</b>
Moratoria	0	0	0	0	0	0						
CHF-provisions	-72	-187	-202	-584	-83	-140	68	-25	-145	-4		
Pre-tax Profit	354	317	354	-71	531	490	-8	54	564	-13		
Corporate Income Tax	-112	-102	-115	-111	-157	-126	-20	23	-142	-11		
Banking tax¹	-78	-84	-85	-91	-96	-107	12	28	-97	10		
<b>Net Income</b>	<b>164</b>	<b>132</b>	<b>154</b>	<b>-274</b>	<b>278</b>	<b>258</b>	<b>-7</b>	<b>95</b>	<b>325</b>	<b>-21</b>	<b>255</b>	<b>1</b>
<b>NI excl. one-offs</b>	<b>236</b>	<b>319</b>	<b>356</b>	<b>311</b>	<b>361</b>	<b>548</b>	<b>52</b>	<b>72</b>	<b>621</b>	<b>-12</b>		

<b>Balance sheet (PLN mn)</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22qoq (%)yoy (%)</b>		<b>2Q22E</b>	<b>vs E</b>	
Net client lending	77	80	83	86	89	92	3	14	90	2
Bonds	34	34	34	33	32	32	-2	-7	31	2
Customer deposits	95	96	99	101	108	109	2	14	109	1
Total assets	122	124	128	132	138	142	3	15	138	3
Equity ex minorities	12.1	12.2	12.2	11.4	11.2	11.2	-1	-8	12	-3

<b>Key Ratios (%)</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22qoq (%)yoy (%)</b>		<b>2Q22E</b>	<b>vs E</b>	
Net Interest Margin	2.55	2.58	2.60	2.78	3.11	3.45	34 bps	88 bps	3.48	-3 bps
Cost to Income	-57.8	-50.0	-49.2	-54.6	-52.8	-54.3	-1.5 pp	-4.4 pp	-50.6	-3.7 pp
Cost of risk [bps]	-32	-36	-30	-35	-36	-38	-2 bps	-2 bps	-40	2 bps
Loans to deposits ratio	81.2	83.2	84.3	85.4	83.0	83.9	0.9 pp	0.7 pp	83.0	0.9 pp
ROE	7.8	10.5	11.7	10.6	12.8	19.5	6.8 pp	9.0 pp	21.8	-2.3 pp
Core Tier 1 consolidated	13.8	13.3	12.9	12.3	11.4	11.0	-0.4 pp	-2.3 pp	11.6	-0.6 pp
CAR consolidated	18.8	18.1	17.6	16.9	15.7	15.2	-0.5 pp	-2.9 pp	15.9	-0.7 pp

Source: Company data, Santander Brokerage Poland estimates

## Forecast changes

We change our forecast for BNP Paribas Polska to reflect reported 2Q22 numbers.  
We make little changes to the balance sheet.

**Fig. 9. BNP Paribas Bank Polska- Forecast changes – Balance sheet**

PLN bn	2022E			PLN bn	2023E			PLN bn
	New	Old	%		New	Old	%	
Total Assets	143	140	2	3	149	146	2	3
Bonds	30	32	-5	-2	33	34	-4	-1
Loans	94	92	2	2	98	96	2	2
Loans growth (%)	9	7			4	4		
Deposits	112	111	1	1	116	115	1	1
Equity	11	12	-5	-1	13	13	-3	0
Mortgage loans	28	28	1	0	30	29	1	0
CHF mortgages	4	4	1	0	4	4	1	0
Other retail loans	13	13	1	0	13	13	1	0

Source: Santander Brokerage Poland estimates

**Fig. 10. BNP Paribas Bank Polska- Forecast changes – P&L**

P&L (PLN mn)	2022E			PLN mn	2023E			PLN mn
	New	Old	%		New	Old	%	
NII	4,696	4,672	1	24	4,964	4,772	4	192
F&C	1,175	1,148	2	27	1,216	1,189	2	28
Trading Income	614	635	-3	-21	564	617	-9	-54
Total Revenue	6,436	6,435	0	1	6,734	6,567	3	166
Cost	2,927	2,691	9	236	2,872	2,837	1	34
NLLP	462	536	-14	-74	920	906	2	14
CHF-provisions	-498	-433			-300	-300		
Pre-tax Profit	1,769	1,753	1	16	2,537	2,419	5	118
Banking tax	-420	-389	8	-31	-448	-405	10	-42
Net Income	857	883	-3	-26	1,499	1,448	4	51

NIM ratios (%)	New	Old	%	New	Old	%
Asset yield (%)	5.91	5.69	0.22	6.63	6.38	0.25
Funding cost (%)	2.57	2.32	0.25	3.37	3.20	0.17
NIM (%)	3.59	3.59	-0.01	3.58	3.49	0.09

Du Pont (%)	New	Old	%	New	Old	%
NII/assets	3.42	3.43	-0.01	3.40	3.33	0.07
CoR/assets	-0.34	-0.39	0.06	-0.63	-0.63	0.00
F&C/assets	0.86	0.84	0.01	0.83	0.83	0.00
Other rev/assets	0.41	0.45	-0.04	0.38	0.42	-0.04
Costs/assets	-2.13	-1.98	-0.15	-1.97	-1.98	0.01
Taxes&other/assets	-1.03	-0.96	-0.07	-0.92	-0.89	-0.03
ROA	1.19	1.40	-0.21	1.10	1.08	0.01
Leverage (x)	12.1	11.7	0.4	12.0	11.3	0.7
ROE (reported)	14.42	16.32	-1.90	13.13	12.21	0.92

Source: Santander Brokerage Poland estimates

# Santander Brokerage Poland

Jana Pawła II Avenue 17  
00-854 Warszawa  
fax. (+48) 22 586 81 09

## Equity Research

Kamil Stolarski, CFA, <i>Head of Equity Research Banks, Insurers, Strategy</i>	tel. (+48) 22 586 81 00	kamil.stolarski@santander.pl
Paweł Puchalski, CFA, <i>Equity Analyst Telecommunications, Metals &amp; Mining, Power</i>	tel. (+48) 22 586 80 95	pawel.puchalski@santander.pl
Tomasz Krukowski, CFA, <i>Equity Analyst Oil&amp;Gas, Pharma &amp; Biotech, CEE Non-Financials</i>	tel. (+48) 22 586 81 55	tomasz.krukowski@santander.pl
Adrian Kyrzcz, <i>Equity Analyst Construction, Real Estate, IT</i>	tel. (+48) 22 586 81 59	adrian.kyrzcz@santander.pl
Tomasz Sokołowski, <i>Equity Analyst Consumer, E-commerce</i>	tel. (+48) 22 586 82 36	tomasz.sokolowski@santander.pl
Michał Sopieli, <i>Equity Analyst Industrials, Chemicals, Quantitative Analysis</i>	tel. (+48) 22 586 82 33	michal.sopiel@santander.pl
Piotr Zielonka, CFA, <i>Equity Analyst Gaming, Strategy</i>	tel. (+48) 22 534 16 10	piotr.zielonka@santander.pl
Marcin Działek, <i>Analyst Technical Analysis</i>	tel. (+48) 22 782 93 09	marcin.dzialek@santander.pl

## Sales & Trading

<b>Kamil Kalembe, <i>Head of Institutional Equities</i></b>	tel. (+48) 22 586 80 84	kamil.kalembe@santander.pl
Mateusz Choromański, CFA, <i>Head of Sales Securities Broker, Investment Advisor</i>	tel. (+48) 22 586 80 82	mateusz.choromanski@santander.pl
Alex Kamiński	tel. (+48) 22 586 80 63	alex.kaminski@santander.pl
Błażej Leśków, <i>Securities Broker</i>	tel. (+48) 22 586 80 83	blazej.leskow@santander.pl
Michał Stępkowski, <i>Securities Broker</i>	tel. (+48) 22 586 85 15	michal.stepkowski@santander.pl
Marek Wardzyński, <i>Securities Broker</i>	tel. (+48) 22 586 80 87	marek.wardzynski@santander.pl
Adam Mizera, <i>Securities Broker</i>	tel. (+48) 22 586 85 14	adam.mizera@santander.pl

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**Outperform** - Total return 10% above benchmark. Upside of approximately  $\geq 15\%$ .

**Neutral** - Total return 0%-10% above benchmark. Upside of approximately 5%-15%.

**Underperform** - Total return below benchmark. Upside of approximately  $< 5\%$ .

NOTE: The relevant benchmark for European Equities (including CEE Equities) is the 1Y German Bund rate + ERP (5.5%).

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Target prices set from January to June are for December 31st of the current year. Target prices set from July to December are for December 31st of the following year.

Periodicity: our recommendations/ target prices for each issuer are going to be reviewed at least once a year and whenever market events so warrant.

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

**The discounted cash flows (DCF) valuation method** is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

**The comparative valuation method** is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

**The mid-cycle multiple valuation** is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases).

Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

**The dividend discount model (DDM) valuation** is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

**Residual income method** is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

**The warranted equity method (WEV)** is based on the formula  $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$  which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

**SOTP valuation** - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

**Liquidation value method** - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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The date and time on the first page of this report indicates the date of the production of the recommendation, and the dissemination of the recommendation takes place on the same day before the start of the session.

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