

## On tenterhooks

## Reiterated Outperform, TP at PLN65.0

We reiterate our Outperform recommendation for BNP Paribas Bank Polska and trim our Dec'23 target price to PLN65.0 (vs PLN66 before). As BNP trades at double digit discount to Polish peers, we are concerned this will remain the case till the risk of stock overhang is resolved.

**Loan growth hiccup?** BNP used to grow loans well ahead of the market. 4Q22 showed 3% q/q decline primarily driven by seasonal 10% q/q decline in working capital loans. 2022E loan growth at BNP was at +4% beat 1% for the market.

**BNP exiting consumer finance business in CEE?** According to Bloomberg (Feb 10<sup>th</sup>, 2023) BNP Paribas is working to gauge buyer interest for its BNP Paribas Personal Finance operations in Bulgaria, Romania, Hungary and the Czech Republic. According to the CEO comment during the analyst call, no divestment in Poland is being considered.

**Payment holidays for farmers?** Agriculture Minister declared on Jan 31<sup>st</sup>, 2023 willingness to launch payment holidays for farmers. On Feb 8<sup>th</sup>, 2023 State Assets Minister Jacek Sasin told public broadcaster TVP1 that PKO BP plans to offer preferential unsecured loans of up to PLN 300k to farmers for farming production purposes. This may complicate BNP leader position in loans to farmers with PLN7.7bn of loans to farmers (27% slice of the Polish market). During the analyst call, the CEO mentioned that the dialogue helped build awareness of Minister Kowalczyk of the impact of such schemes on co-op banks standing.

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

BNP booked PLN1.9bn provisions against PLN4.1bn CHF portfolio so far. This implies coverage of 46.2%, below 49.8% average among banks we cover. Our valuation assumes that BNP will book another PLN1.7bn in provisions, bringing coverage ratio close to 90%. According to BNP 2022 report (p. 105) BNP is booking provisions assuming that AG CJEU opinion will materialize (statutory interest for CHF-borrower, no interest for the bank).

**Valuation and risks.** BNP trades at 2023E reported P/E of 3.2x, P/BV of 0.6x. Our Dec'23 TP is at PLN65.0 and is a weighted average of DDM pointing to valuation of PLN68.5 and a comparative valuation pointing to PLN77.8.0 reduced by PLN8.0, related to anticipated further cost related to CHF portfolio (all per share). Risks, we note, include: PLN4.1bn CHF mortgage portfolio, regulations (potential windfall taxes), macro, elections and company specific low share turnover and stock overhang.

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

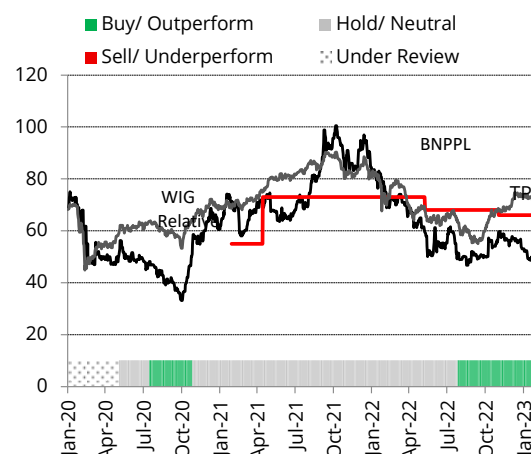
Year to Dec, PLNmn	2021	2022	2023E	2024E	2025E
P/E (adjusted)	6.0x	3.9x	3.2x	3.7x	3.9x
P/E (reported)	41.8x	16.7x	4.9x	6.1x	3.9x
P/BV	0.65x	0.65x	0.58x	0.52x	0.46x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	3.3%
EPS (adjusted) (PLN)	8.3	12.9	15.6	13.6	12.8
DPS (PLN)	0.00	0.00	0.00	0.00	1.63
BVPS (PLN)	77.1	76.4	86.3	96.2	108.7
Net Income (adj. PLN mn)	1,222	1,906	2,294	1,999	1,894
<b>Net Income (PLN mn)</b>	<b>176</b>	<b>441</b>	<b>1,494</b>	<b>1,199</b>	<b>1,894</b>

Source: Company data, Santander Brokerage Poland estimates

## Recommendation Outperform

Dec'23 Target Price (PLN) 65.0

Current price (PLN, 1 March 2023)	49.6
Market cap. (PLNmn)	7,312
Avg. daily turnover 3M (PLNmn)	0.34
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.

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

Recommendation	Outperform
<b>Dec'23 Target Price (PLN)</b>	<b>65.00</b>
Current price (PLN)	49.60
Prospective upside (%)	31

*\*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)	68.5
Discounted dividends (PLN/share)	1.9
Terminal value (PLN/share)	67
Terminal ROE (%)	12.54
g (%)	3.00
CoE 2022-2025 (%)	14.20
CoE terminal (%)	12.20
Beta (x)	1.20
ERP (%)	6.0

Comparative Valuation PLN/share	77.8
Net Income (PLN mn, next 12 months)	2,294
Applied P/E (x)	5.0
P/E peers (x)	6.0
<b>CHF impact</b>	<b>-8.0</b>

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

ROE->	10.5%	11.5%	12.5%	13.5%	14.5%
<b>0.0%</b>	56.6	62.4	68.1	73.8	79.6
<b>1.0%</b>	55.7	62.0	68.3	74.6	80.9
<b>g 2.0%</b>	54.6	61.5	68.5	75.5	82.5
<b>3.0%</b>	53.1	61.0	68.8	76.7	84.5
<b>4.0%</b>	51.3	60.3	69.2	78.1	87.0

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

ERP->	4.0%	5.0%	6.0%	7.0%	8.0%
<b>3.0%</b>	119.6	95.7	79.0	66.7	57.3
<b>3.5%</b>	108.5	88.1	73.5	62.5	54.0
<b>RFR 4.0%</b>	99.1	81.4	68.5	58.7	51.0
<b>4.5%</b>	91.0	75.6	64.1	55.3	48.3
<b>5.0%</b>	84.0	70.4	60.2	52.2	45.8

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

	Bloomberg consensus			Our assumptions vs cons.		
	2023E	2024E	2025E	2023E	2024E	2025E
Net income	497	1,593	1,801	201%	-25%	5%
DPS (PLN)	0.00	0.00	1.09	n.a.	n.a.	50%
ROE (%)	9.5	11.2	11.6	3.0 pp	1.7 pp	0.3 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)	2021	2022	2023E	2024E	2025E
NII	3,141	4,388	4,658	4,434	4,476
F&C	1,049	1,137	1,177	1,212	1,249
Trading Income	687	806	1,116	1,114	1,112
Total Revenue	4,809	6,247	6,940	6,766	6,843
Cost	2,544	3,038	2,823	2,974	3,119
NLLP	266	275	651	676	698
CHF provisions	-1,045	-740	-800	-800	0
Pre-tax Profit	954	1,298	2,667	2,316	3,026
Banking tax	-338	-427	-461	-479	-497
Net Income	176	441	1,494	1,199	1,894
Net Income (adj.)	1,222	1,906	2,294	1,999	1,894

PLN bn	2021	2022	2023E	2024E	2025E
Total Assets	132	152	157	162	169
Bonds	33	40	41	43	46
Loans	86	90	95	98	102
Loans growth (%)	14	4	5	3	4
Deposits	101	120	126	130	135
Equity	11	11	13	14	16
Mortgage loans	27	27	25	25	26
CHF mortgages	5	4	4	3	3
Other retail loans	11	12	12	13	13
Corporate loans	45	53	60	62	65

NIM ratios (%)	2021	2022	2023E	2024E	2025E
Asset yield (%)	2.86	5.45	6.35	4.44	4.09
Funding cost (%)	0.28	2.44	3.48	1.67	1.40
NIM (%)	2.62	3.24	3.17	2.91	2.82

Risk ratios (%)	2021	2022	2023E	2024E	2025E
Stage 3 ratio (%)	3.6	3.3	3.3	3.3	3.3
Stage 3 coverage (%)	57.4	59.6	59.6	59.6	59.6
Cost of risk (%)	-0.33	-0.31	-0.70	-0.70	-0.70

Du Pont (%)	2021	2022	2023E	2024E	2025E
NII/assets	2.50	3.10	3.02	2.78	2.70
CoR/assets	-0.21	-0.19	-0.42	-0.42	-0.42
F&C/assets	0.83	0.80	0.76	0.76	0.75
Other rev/assets	0.49	0.51	0.72	0.70	0.67
Costs/assets	-2.02	-2.15	-1.83	-1.86	-1.88
Taxes&other/assets	-1.45	-1.13	-1.28	-1.20	-0.68
ROA	0.14	0.94	0.97	0.75	1.14
Leverage (x)	10.7	12.5	12.9	11.9	11.0
ROE (reported)	1.51	11.81	12.46	8.91	12.54

Capital & dividends	2021	2022	2023E	2024E	2025E
Tier-1 (PLN bn)	11.3	10.8	12.3	13.5	15.3
Tier-2 (PLN bn)	4.2	4.1	4.1	4.1	4.1
TCR (PLN bn)	7.3	7.6	8.0	8.3	8.6
RWA (PLN mn)	91.7	95.5	100.3	103.5	107.7
CT1 ratio (%)	12.3	11.3	12.2	13.0	14.2
CAR ratio (%)	16.9	15.5	16.3	16.9	18.0
Div. payout (%)	0.0	0.0	0.0	20.0	20.0
Dividend (PLN mn)	0	0	0	0	240
No. of shares (mn)	147	147	147	147	147

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

#### 4Q22 consensus beat on stronger trading and lower CIT

- Loans declined 3% q/q as
  - Corporate working capital loans declined PLN2.5bn (or 10%) q/q,
  - Mortgages declined by PLN0.6bn (or 2% q/q) driven by meagre 4Q22 mortgage originations at PLN23mn (-99% vs PLN1,704mn originated in 4Q21).
- CHF provisions stood at PLN383mn.
- NII was helped by PLN70mn reversal of payment holidays provisions (showed in a separate line in the table below).

**Fig. 8. Quarterly results review**

BNP (PLN mn)	4Q21	3Q22	4Q22	qoq (%)	yoy (%)	4Q22E	vs E	PAP cons.	vs cons.
Net Interest Income	864	1,089	1,147	5	33	1,120	2	1177	-3
Fees & commissions	301	280	262	-7	-13	316	-17	268	-3
Trading Income	118	209	267	28	126	238	12		
Other Net	9	-15	-26	76	-386	-5	413		
<b>Total Revenue</b>	<b>1,292</b>	<b>1,563</b>	<b>1,649</b>	<b>6</b>	<b>28</b>	<b>1,669</b>	<b>-1</b>		
Personnel Costs	-300	-312	-319	2	6	-320	0		
General Expenses	-302	-245	-331	35	10	-273	21		
D&A	-104	-102	-103	2	0	-103	1		
<b>Operating Expenses</b>	<b>-705</b>	<b>-659</b>	<b>-754</b>	<b>14</b>	<b>7</b>	<b>-696</b>	<b>8</b>	<b>-714</b>	<b>6</b>
Operating Income	587	904	896	-1	53	973	-8		
<b>Net Loan Loss Provisions</b>	<b>-74</b>	<b>-54</b>	<b>-56</b>	<b>4</b>	<b>-24</b>	<b>-65</b>	<b>-13</b>	<b>-65</b>	<b>-13</b>
Payment holidays	0	-965	70			70	0	70	0
CHF-provisions	-584	-134	-383	186	-34	-383	0	-383	0
Pre-tax Profit	-71	-249	526			595	-12		
Corporate Income Tax	-111	14	-162			-196	-17		
Banking tax'	-91	-112	-112	0	23	-113	-1		
<b>Net Income</b>	<b>-274</b>	<b>-347</b>	<b>252</b>	<b>-173</b>	<b>-192</b>	<b>287</b>	<b>-12</b>	<b>189</b>	<b>34</b>
<b>NI excl. one-offs</b>	<b>311</b>	<b>600</b>	<b>580</b>	<b>-3</b>	<b>86</b>	<b>670</b>	<b>-13</b>		

Balance sheet (PLN mn)	4Q21	3Q22	4Q22	qoq (%)	yoy (%)	4Q22E	vs E
Net client lending	86	93	90	-3	4	93	-3
Bonds	33	31	40	28	22	29	38
Customer deposits	101	115	120	5	19	116	4
Total assets	132	146	152	4	15	145	4
Equity ex minorities	11.4	10.9	11.3	4	-1	11	-1

Key Ratios (%)	4Q21	3Q22	4Q22	qoq (%)	yoy (%)	4Q22E	vs E
Net Interest Margin	2.78	3.19	3.25	6 bps	47 bps	3.26	-1 bps
Cost to Income	-54.6	-42.1	-45.7	-3.6 pp	8.9 pp	-41.7	-4.0 pp
Cost of risk [bps]	-35	-23	-25	-1 bps	10 bps	-28	3 bps
Loans to deposits ratio	85.4	81.2	75.0	-6.2 pp	-10.3 pp	81.2	-6.2 pp
ROE	10.6	21.8	21.0	-0.8 pp	10.4 pp	24.1	-3.1 pp
Core Tier 1 consolidated	12.3	10.7	11.3	0.6 pp	-1.1 pp	11.2	0.1 pp
CAR consolidated	16.9	14.9	15.6	0.7 pp	-1.4 pp	15.4	0.2 pp

Source: Company data, Santander Brokerage Poland estimates

## Forecast changes

We change our forecast for BNP Paribas Polska to reflect reported 4Q22 numbers and guidance shared during 4Q22 analyst call. We now expect a lower cost of risk and lower NII for 2023E

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

PLN bn	2023E			PLN bn	2024E			PLN bn	2025E			PLN bn
	New	Old	%		New	Old	%		New	Old	%	
Total Assets	157	152	3	5	162	159	2	3	169	166	2	3
Bonds	41	32	28	9	43	35	24	8	46	38	23	9
Loans	95	98	-3	-3	98	102	-4	-4	102	106	-4	-5
Loans growth (%)	5	4			3	4			4	4		
Deposits	126	121	5	6	130	126	4	4	135	131	4	5
Equity	13	12	2	0	14	14	-2	0	16	16	-2	0
Mortgage loans	25	29	-14	-4	25	30	-17	-5	26	31	-17	-5
CHF mortgages	4	4	-8	0	3	4	-8	0	3	4	-8	0
Other retail loans	12	13	-6	-1	13	14	-6	-1	13	14	-6	-1

Source: Santander Brokerage Poland estimates

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

P&L (PLN mn)	2023E			PLN mn	2024E			PLN mn	2025E			PLN mn
	New	Old	%		New	Old	%		New	Old	%	
NII	4,658	5,035	-7	-377	4,434	4,490	-1	-56	4,476	4,459	0	16
F&C	1,177	1,233	-5	-56	1,212	1,270	-5	-58	1,249	1,309	-5	-60
Trading Income	1,116	1,065	5	50	1,114	1,059	5	55	1,112	1,057	5	56
Total Revenue	6,940	7,324	-5	-383	6,766	6,826	-1	-60	6,843	6,831	0	12
Cost	2,823	2,829	0	-6	2,974	2,980	0	-6	3,119	3,125	0	-7
NLLP	651	920	-29	-269	676	723	-7	-47	698	752	-7	-54
CHF-provisions	-800	-300			-800	-300			0	0		
Pre-tax Profit	2,667	3,170	-16	-503	2,316	2,822	-18	-507	3,026	2,953	2	73
Banking tax	-461	-465	-1	4	-479	-484	-1	5	-497	-504	-1	7
Net Income	1,494	1,983	-25	-489	1,199	1,689	-29	-490	1,894	1,829	4	65

NIM ratios (%)	New	Old	%	New	Old	%	New	Old	%
Asset yield (%)	6.35	8.12	-1.76	4.44	5.88	-1.44	4.09	5.45	-1.35
Funding cost (%)	3.48	4.92	-1.44	1.67	3.10	-1.43	1.40	2.83	-1.43
NIM (%)	3.17	3.59	-0.42	2.91	3.05	-0.14	2.82	2.89	-0.07

Du Pont (%)	New	Old	%	New	Old	%	New	Old	%
NII/assets	3.02	3.39	-0.37	2.78	2.89	-0.11	2.70	2.74	-0.05
CoR/assets	-0.42	-0.62	0.20	-0.42	-0.47	0.04	-0.42	-0.46	0.04
F&C/assets	0.76	0.83	-0.07	0.76	0.82	-0.06	0.75	0.81	-0.05
Other rev/assets	0.72	0.71	0.01	0.70	0.69	0.02	0.67	0.65	0.02
Costs/assets	-1.83	-1.90	0.07	-1.86	-1.92	0.05	-1.88	-1.92	0.04
Taxes&other/assets	-1.28	-1.00	-0.28	-1.20	-0.92	-0.28	-0.68	-0.69	0.01
ROA	0.97	1.41	-0.44	0.75	1.09	-0.34	1.14	1.13	0.02
Leverage (x)	12.9	12.9	-0.1	11.9	11.6	0.3	11.0	10.6	0.4
ROE (reported)	12.46	18.16	-5.70	8.91	12.56	-3.65	12.54	11.89	0.65

Source: Santander Brokerage Poland estimates

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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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