# Pekao SA

Santander Biuro Maklerskie

Bloomberg: PEO PW, Reuters: PEO.WA

**CEE Equity Research**

**Banks, Poland**

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# Still seems inexpensive

## Outperform reiterated, TP increased to PLN113 (from PLN110 before)

**We think that Pekao remains cheap. Valuation multiples (2023E P/E of 4.1x, 2023E P/BV of 0.9x and 12.1% DY) outweighed our concerns related to state control, below market loan growth, above market cost pressure and disappointing 50% pay-outs. Therefore we rate Pekao Outperform with a 19% upside potential.**

**Our largest concern related to Pekao is that either burdens imposed during election campaign or rate cuts could make Pekao's share price attractiveness illusionary.**

**Can 2023E net income be record high?** We assume the company could report 2023E net income of PLN5.7bn in the absence of negative one-offs. The one-offs could be triggered by the election campaign and we should have more clarity on them in mid-June.

**Total loans 2% down y/y vs market +1%.** We note a relative weakness in both main segments. Pekao reported 1Q23 retail loans 7.5% lower than a year ago (vs market -5.1%), but this was offset by 3.5% y/y growth in corporate loans (vs 8.6% in the market).

**Personnel cost to increase at a pace close to inflation in 2023** – deputy CEO, Paweł Strączyński, said during the analyst conference. The collective labour agreement (ZUZP) at Pekao automatically increases employees salary with inflation. We find this confusing that after years of restructuring and group lay-offs, Pekao is applying such big salary hikes.

**DPS of PLN3.65 (DY of 3.7%) seems disappointing to us.** For the second year in a row, Pekao decided to pay out 50% of its standalone net income (record day is July 4th). We find it disappointing as it is below the maximum level of 75% allowed by both Pekao's dividend policy and PFSA recommendation. The reason given by the management was MREL requirements once again. We continue to disagree with limiting payouts because of MREL, we think Pekao could comfortably go after the 75% payout.

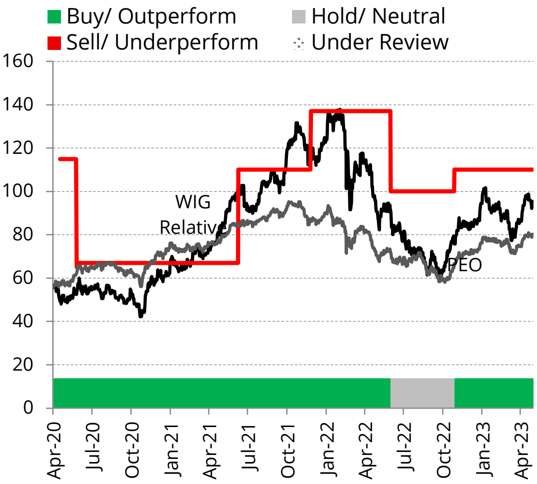
**Valuation and risks.** Our Dec'23 TP is at PLN113.0 (vs PLN110.0 before) and is a weighted average of DDM pointing to valuation of PLN123.1 and a comparative valuation pointing to PLN104.7 (all per share). Among risk factors we point to: Pekao being state-controlled, risk of disappointing dividend payout, potential deterioration in loan portfolio, risk of windfall taxes, risks related to 2023E election campaign.

**Bank Pekao: Financial summary and ratios**

| PLNmn,Year to Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| P/E (adjusted) | 14.7x | 5.0x | 4.3x | 5.4x | 5.8x |
| P/E (reported) | 14.7x | 13.2x | 4.3x | 5.4x | 5.8x |
| P/BV | 1.34x | 1.00x | 0.88x | 0.78x | 0.74x |
| Dividend Yield | 2.6% | 5.0% | 3.9% | 11.6% | 9.3% |
| EPS (adjusted) (PLN) | 8.3 | 17.4 | 21.9 | 17.6 | 16.3 |
| DPS (PLN) | 3.21 | 4.30 | 3.65 | 11.00 | 8.82 |
| BVPS (PLN) | 90.9 | 86.7 | 107.9 | 121.9 | 127.1 |
| Net Income adj. (PLN mn) | 2,175 | 4,579 | 5,753 | 4,629 | 4,267 |
| Net Income (PLN mn) | 2,175 | 1,718 | 5,775 | 4,629 | 4,267 |

*Source: Company data, Santander Brokerage Poland estimates*

| Recommendation | Outperform |
|---|---|
| Dec'23 Target Price (PLN) | 113.0 |
| Current price (PLN, May 8, 2023) | 94.70 |
| Market cap. (PLNmn) | 24,856 |
| Avg. daily turnover (PLNmn/) | 71.3 |
| Number of shares (mn) | 262.5 |



*The chart measures relative performance against the WIG index.*

| Main shareholders | % of votes |
|---|---|
| PZU | 20.0% |
| PFR | 12.8% |
| OFE NN | 6.52% |
| BlackRock | 5.04% |
| OFE Aviva Santander | 5.02% |

*Source: Company data, Santander Brokerage Poland*


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**Fig. 1. Valuation summary (PLN/share)**

| | |
|---|---|
| **Recommendation** | **Outperform** |
| **Dec'23 Target Price (PLN)** | **113.00** |
| Current price (PLN) | 94.70 |
| Prospective upside (%) | 19 |

**Our Dec'23 Target Price is calculated as rounded average of DDM Valuation (50%) and Comp. Valuation (50%) less impact of CHF-mortgage portfolio.*

| **DDM valuation (PLN/share)** | **123.1** |
|---|---|
| Discounted dividends (PLN/share) | 31.4 |
| Terminal value (PLN/share) | 92 |
| Terminal ROE (%) | 13.06 |
| g (%) | 3.00 |
| CoE 2022-2025 (%) | 12.20 |
| CoE terminal (%) | 12.20 |
| Beta (x) | 1.20 |
| ERP (%) | 6.0 |

| **Comp. Valuation PLN/share** | **104.7** |
|---|---|
| Net Income (PLN mn, next 12 months) | 5,499 |
| Applied P/E (x) | 5.0 |
| P/E peers (x) | 5.0 |
| **CHF impact** | **-1.0** |

**Fig. 2. DDM Valuation sensitivity (PLN/share)**

| | **ROE->** | **11.1%** | **12.1%** | **13.1%** | **14.1%** | **15.1%** |
|---|---|---|---|---|---|---|
| | **2.0%** | 105.9 | 114.1 | 122.3 | 130.5 | 138.8 |
| | **2.5%** | 105.4 | 114.0 | 122.7 | 131.3 | 140.0 |
| **g** | **3.0%** | 104.9 | 114.0 | 123.1 | 132.2 | 141.3 |
| | **3.5%** | 104.3 | 113.9 | 123.5 | 133.2 | 142.8 |
| | **4.0%** | 103.6 | 113.8 | 124.0 | 134.3 | 144.5 |

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

| | **ERP->** | **4.0%** | **5.0%** | **6.0%** | **7.0%** | **8.0%** |
|---|---|---|---|---|---|---|
| | **4.0%** | 192.1 | 159.9 | 137.3 | 120.6 | 107.8 |
| | **4.5%** | 177.2 | 149.6 | 129.8 | 114.9 | 103.4 |
| **RFR** | **5.0%** | 164.5 | 140.6 | 123.1 | 109.8 | 99.3 |
| | **5.5%** | 153.5 | 132.7 | 117.1 | 105.1 | 95.6 |
| | **6.0%** | 144.0 | 125.7 | 111.8 | 100.9 | 92.2 |

**Fig. 4. Our forecast vs Bloomberg consensus**

| | **Bloomberg consensus** | | | **Our assumptions vs cons.** | | |
|---|---|---|---|---|---|---|
| | **2023E** | **2024E** | **2025E** | **2023E** | **2024E** | **2025E** |
| Net income | 4,617 | 4,099 | 3,703 | *25%* | *13%* | *15%* |
| DPS (PLN) | 7.62 | 8.92 | 8.76 | *44%* | *-1%* | *-7%* |
| ROE (%) | 18.8 | 14.8 | 13.2 | *3.7 pp* | *0.5 pp* | *-0.1 pp* |

**Fig. 5. Comps Valuation sensitivity (PLN/share)**

| **Fair P/E (x)** | **2.0x** | **3.0x** | **4.0x** | **5.0x** | **7.0x** | **9.0x** |
|---|---|---|---|---|---|---|
| vs. peers (%) | -60 | -40 | -20 | 0 | 40 | 80 |
| Sensitivity | 41.9 | 62.8 | 83.8 | 104.7 | 146.6 | 188.5 |

**Fig. 6. Ratios, Assumptions and Forecasts**

| **P&L (PLN mn)** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| NII | 5,661 | 10,203 | 11,283 | 10,370 | 10,132 |
| F&C | 2,688 | 2,807 | 2,809 | 2,837 | 2,866 |
| Trading Income | 190 | 215 | 291 | 190 | 206 |
| Total Revenue | 8,541 | 12,940 | 14,320 | 13,397 | 13,204 |
| Cost | -4,047 | -4,561 | -4,936 | -5,203 | -5,407 |
| NLLP | -778 | -1,103 | -877 | -1,068 | -1,101 |
| Pre-tax Profit | 3,721 | 3,749 | 8,535 | 7,127 | 6,696 |
| Banking tax | -719 | -866 | -891 | -929 | -955 |
| Net Income | 2,175 | 1,718 | 5,775 | 4,629 | 4,267 |
| Net Income (adj.) | 2,175 | 4,579 | 5,753 | 4,629 | 4,267 |

| **PLN bn** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Total Assets | 251 | 281 | 306 | 326 | 338 |
| Bonds | 56 | 70 | 86 | 98 | 106 |
| Loans | 170 | 169 | 174 | 182 | 185 |
| Loans growth (%) | 12 | -1 | 3 | 4 | 2 |
| Deposits | 203 | 223 | 241 | 252 | 256 |
| Equity | 24 | 23 | 28 | 32 | 33 |
| Mortgage loans | 69 | 65 | 63 | 63 | 63 |
| CHF mortgages | 3 | 3 | 2 | 2 | 2 |
| Other retail loans | 12 | 11 | 11 | 11 | 10 |
| Corporate loans | 97 | 103 | 111 | 120 | 125 |

| **NIM ratios (%)** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Asset yield | 2.58 | 5.32 | 6.54 | 5.05 | 4.59 |
| Funding cost | 0.10 | 1.28 | 2.58 | 1.64 | 1.42 |
| NIM | 2.49 | 4.15 | 4.19 | 3.57 | 3.31 |

| **Risk ratios (%)** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Stage 3 ratio | 5.0 | 6.0 | | | |
| Stage 3 coverage | 71.1 | 71.2 | | | |
| Cost of risk | 0.48 | 1.19 | 0.51 | 0.60 | 0.60 |

| **Du Pont (%)** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| NII/assets | 2.34 | 3.84 | 3.84 | 3.28 | 3.05 |
| CoR/assets | -0.32 | -0.41 | -0.30 | -0.34 | -0.33 |
| F&C/assets | 1.11 | 1.06 | 0.96 | 0.90 | 0.86 |
| Other rev/assets | 0.08 | -0.28 | 0.08 | 0.06 | 0.06 |
| Costs/assets | -1.68 | -1.72 | -1.68 | -1.65 | -1.63 |
| Taxes&other | -0.64 | -0.76 | -0.94 | -0.79 | -0.73 |
| ROA | 0.90 | 1.72 | 1.96 | 1.46 | 1.28 |
| Leverage (x) | 9.8 | 11.4 | 11.5 | 10.5 | 10.2 |
| ROE (reported) | 8.82 | 19.65 | 22.53 | 15.35 | 13.06 |

| **Capital & dividends** | **2021** | **2022** | **2023E** | **2024E** | **2025E** |
|---|---|---|---|---|---|
| Tier-1 (PLN bn) | 22.7 | 23.1 | 22.7 | 22.7 | 22.7 |
| Tier-2 (PLN bn) | 2.8 | 2.7 | 6.4 | 11.5 | 16.5 |
| TCR (PLN bn) | 12.0 | 11.9 | 12.0 | 12.5 | 12.7 |
| RWA (PLN mn) | 150.4 | 148.3 | 149.8 | 156.3 | 159.2 |
| CT1 ratio (%) | 15.1 | 15.6 | 15.2 | 14.6 | 14.3 |
| CAR ratio (%) | 16.9 | 17.4 | 19.5 | 21.9 | 24.7 |
| Div. payout (%) | 51.9 | 50.0 | 50.0 | 50.0 | 50.0 |
| Dividend (PLN mn) | 843 | 1,129 | 958 | 2,888 | 2,315 |
| No. of shares (mn) | 262 | 262 | 262 | 262 | 262 |

*Source for all tables: Company data, Bloomberg, Santander Brokerage Poland estimates NOTE: historical valuation ratios based on eoy*

## 1Q23 11% beat on stronger revenue and lower cost of risk

Bank Pekao reported 1Q23 net income of PLN1,446mn (+63% q/q; +59% y/y), 11% stronger than PAP consensus on:

- NII surprisingly increased q/q and came 3% stronger than expected - driven by stronger NIM
- Pekao released PLN27mn of CHF provisions
- 1Q23 BFG contribution stood at PLN191.7mn

**Fig. 7. Quarterly results review**

| Bank Pekao (PLN m) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | q/q (%) | y/y (%) | 1Q23E | vs E. | PAP cons | vs cons. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Interest Income | 2,069 | 2,567 | 2,827 | 2,740 | 2,774 | 1 | 34 | 2,700 | 3 | 2,704 | 3 |
| Fees and Commissions | 705 | 716 | 714 | 672 | 686 | 2 | -3 | 675 | 2 | 674 | 2 |
| Trading Income | 51 | -20 | 22 | 162 | 159 | -2 | 214 | 100 | 59 | | |
| Other (Net) | -1 | -175 | -105 | -224 | -63 | | | 0 | | | |
| **Total Revenue** | **2,824** | **3,088** | **3,458** | **3,350** | **3,556** | **6** | **26** | **3,475** | **2** | **3,471** | **2** |
| Personnel Costs | -558 | -581 | -569 | -592 | -614 | 4 | 10 | -642 | -4 | | |
| General Expenses | -510 | -861 | -403 | -311 | -552 | 78 | 8 | -535 | 3 | | |
| D&A | -177 | -140 | -161 | -138 | -156 | 13 | -12 | -150 | 4 | | |
| **Operating Expenses** | **-1,245** | **-1,583** | **-1,133** | **-1,041** | **-1,322** | **27** | **6** | **-1,327** | **0** | **-1,332** | **-1** |
| **Operating Income** | **1,578** | **1,505** | **2,326** | **2,309** | **2,235** | **-3** | **42** | **2,148** | **4** | **2,136** | **5** |
| Net Loan Loss Provisions | -134 | -129 | -260 | -178 | -132 | -26 | -2 | -175 | -24 | -202 | -35 |
| Associate income | 1 | 1 | 1 | 2 | 1 | | | 0 | | | |
| Other (Net) | | -402 | -2,429 | -443 | 27 | | | | | | |
| **Pre-tax Profit** | **1,445** | **975** | **-362** | **1,690** | **2,130** | **26** | **47** | **1,973** | **8** | | |
| Corporate Income Tax | -335 | -292 | 41 | -577 | -464 | -19 | 38 | -382 | 22 | | |
| Banking tax' | -202 | -214 | -222 | -228 | -219 | -4 | 9 | -229 | -4 | | |
| Minority interests | -1 | -1 | 0 | 0 | 0 | | | 0 | -315 | | |
| **Net Income** | **907** | **468** | **-544** | **886** | **1,446** | **63** | **59** | **1,363** | **6** | **1,304** | **11** |
| Net income exl. One-offs | 907 | 1,226 | 1,592 | 1,705 | 1,563 | -8 | 72 | 1,363 | 15 | | |

| Balance Sheet (PLN m) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | q/q (%) | y/y (%) | 1Q23E | vs E. |
|---|---|---|---|---|---|---|---|---|---|
| Net client lending | 161.8 | 163.2 | 167.0 | 158.7 | 158.9 | 0 | -2 | 157.0 | 1 |
| Securities | 59.3 | 58.6 | 59.6 | 80.3 | 89.0 | 11 | 50 | 90.0 | -1 |
| Customer deposits | 205.0 | 203.2 | 209.2 | 210.7 | 227.2 | 8 | 11 | 225.7 | 1 |
| Total assets | 271.9 | 277.6 | 279.6 | 281.1 | 292.6 | 4 | 8 | 285.5 | 2 |
| Equity ex minorities | 23.5 | 21.5 | 20.9 | 22.8 | 25.1 | 10 | 7 | 23.9 | 5 |

| Key Ratios | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | q/q (%) | y/y (%) | 1Q23E | vs E. |
|---|---|---|---|---|---|---|---|---|---|
| Net Interest Margin | 3.46 | 4.19 | 4.51 | 4.30 | 4.22 | -7 bps | 76 bps | 4.14 | 8 bps |
| Cost to Income | 44 | 51 | 33 | 31 | 37 | 6 pp | -7 pp | 38 | -1 pp |
| Cost of risk [bps] | 33 | 32 | 63 | 44 | 33 | -10 bps | 0 bps | 44 | -11 bps |
| Loans to deposits ratio | 79 | 80 | 80 | 75 | 70 | -5 pp | -9 pp | 70 | 0 pp |
| ROE | 15.3 | 8.3 | -10.2 | 16.2 | 24.2 | 7.9 pp | 8.8 pp | 23.4 | 0.8 pp |
| Tax rate | 23.2 | 29.9 | 11.3 | 34.1 | 21.8 | -12.3 pp | -1.4 pp | 19.3 | 2.5 pp |

*Source: Company data, Santander Brokerage Poland estimates, PAP consensus. Financial year to December.*

## Forecast changes

With this report we are materially reducing expected cost of risk and account for 1Q23 and 4Q22 reported results. Our previous report on Pekao was published on Dec 2nd, 2022.

**Fig. 8. PEKAO SA– Forecast changes – balance sheet**

| | 2023E | | | | 2024E | | | |
|---|---|---|---|---|---|---|---|---|
| PLN bn | New | Old | % | PLN bn | New | Old | % | PLN bn |
| Total Assets | 306.0 | 302.7 | 1 | 3 | 326.1 | 321.4 | 1 | 5 |
| Bonds | 86.4 | 63.2 | 37 | 23 | 98.1 | 73.2 | 34 | 25 |
| Loans | 174.2 | 185.1 | -6 | -11 | 181.8 | 192.7 | -6 | -11 |
| Loans growth (%) | 3 | 4 | | | 4 | 4 | | |
| Deposits | 241.1 | 228.5 | 6 | 13 | 251.6 | 237.8 | 6 | 14 |
| Equity | 28.3 | 26.3 | 8 | 2 | 32.0 | 29.4 | 9 | 3 |
| Mortgage loans | 63.2 | 65.8 | -4 | -3 | 63.0 | 65.4 | -4 | -2 |
| CHF mortgages | 2.3 | 2.5 | -9 | 0 | 2.1 | 2.3 | -9 | 0 |
| Other retail loans | 10.8 | 10.8 | 0 | 0 | 10.5 | 10.6 | 0 | 0 |
| Corporate loans | 110.7 | 119.6 | -7 | -9 | 119.8 | 129.4 | -7 | -10 |

*Source: Santander Brokerage Poland estimates*

**Fig. 9. PEKAO SA– Forecast changes – P&L**

| | 2023E | | | | 2024E | | | |
|---|---|---|---|---|---|---|---|---|
| P&L (PLN mn) | New | Old | % | PLN mn | New | Old | % | PLN mn |
| NII | 11,283 | 11,204 | 1 | 79 | 10,370 | 9,952 | 4 | 418 |
| F&C | 2,809 | 2,866 | -2 | -57 | 2,837 | 2,894 | -2 | -57 |
| Trading Income | 291 | 83 | 251 | 208 | 190 | 115 | 65 | 75 |
| Total Revenue | 14,320 | 14,153 | 1 | 167 | 13,397 | 12,961 | 3 | 436 |
| Cost | -4,936 | -4,637 | 6 | -299 | -5,203 | -4,690 | 11 | -513 |
| NLLP | -877 | -1,818 | -52 | 941 | -1,068 | -1,511 | -29 | 443 |
| Pre-tax Profit | 8,535 | 7,384 | 16 | 1,151 | 7,127 | 6,760 | 5 | 366 |
| Banking tax | -891 | -919 | -3 | 28 | -929 | -955 | -3 | 26 |
| Net Income | 5,775 | 4,840 | 19 | 936 | 4,629 | 4,317 | 7 | 312 |
| Net Income (adj.) | 5,753 | 5,094 | 13 | 660 | 4,629 | 4,317 | 7 | 312 |

| NIM ratios (%) | New | Old | % | | New | Old | % | |
|---|---|---|---|---|---|---|---|---|
| Asset yield (%) | 6.54 | 7.46 | -0.92 | | 5.05 | 5.30 | -0.25 | |
| Funding cost (%) | 2.58 | 3.53 | -0.95 | | 1.64 | 1.95 | -0.31 | |
| NIM (%) | 4.19 | 4.25 | -0.05 | | 3.57 | 3.54 | 0.03 | |

| Du Pont (%) | New | Old | % | | New | Old | % | |
|---|---|---|---|---|---|---|---|---|
| NII/assets | 3.84 | 3.82 | 0.03 | | 3.28 | 3.19 | 0.09 | |
| CoR/assets | -0.30 | -0.62 | 0.32 | | -0.34 | -0.48 | 0.15 | |
| F&C/assets | 0.96 | 0.98 | -0.02 | | 0.90 | 0.93 | -0.03 | |
| Other rev/assets | 0.08 | 0.01 | 0.07 | | 0.06 | 0.04 | 0.02 | |
| Costs/assets | -1.68 | -1.58 | -0.10 | | -1.65 | -1.50 | -0.14 | |
| Taxes&other | -0.94 | -0.87 | -0.07 | | -0.79 | -0.78 | -0.01 | |
| ROA | 1.96 | 1.74 | 0.22 | | 1.46 | 1.38 | 0.08 | |
| Leverage (x) | 11.5 | 12.0 | -0.5 | | 10.5 | 11.2 | -0.7 | |
| ROE (reported) | 22.53 | 20.86 | 1.67 | | 15.35 | 15.52 | -0.17 | |

*Source: Santander Brokerage Poland estimates*

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NOTE: The relevant benchmark for European Equities (including CEE Equities) is the 1Y German Bund rate +ERP (5.5%).
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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 = (two year forward ROE less sustainable growth rate)/(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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