PKO BP

Bloomberg: PKO PW, Reuters: PKO.WA

CEE Equity Research

Banks Poland
8 March 2024, 08:00 CET

Bonanza to last longer?

Outperform, TP up to PLN67.0 from PLN61.0

PKO BP, just like the entire sector, is benefiting from the strong environment. With this report we are revising up our 2024-2025 EPS assumptions by 22%/23% respectively (comparing to Nov 30th, 2023 update). We leave our assumption for PKO terminal ROE unchanged at 16.8% (well below 2023 adjusted ROE of 26.8%).
We also see the dividend stream stronger than before and expect double digit dividend yields from 2024 onwards.

Higher earnings to come from higher NII? To our surprise polish banks managed to increase NIM despite 2023 100 bps rate cut that took place in Sep/Oct last year. With this report we are postponing our assumption for rate cuts (from mid'24 to beginning of 2025).

Cost of hedging is evaporating faster than we assumed. 4Q23 cost of hedging was at PLN658mn – it should go to zero in two years once the IRS portfolio expires. Such decrease should boost PKO NII performance vs peers.

Higher dividends to come? We assume PKO to pay another DPS of PLN2.53 this year, on top of PLN1.28 already paid in Jan'24. The nearest dividend yield is lower than at peers because of high (PLN5.4bn CHF provisions booked during 2023). There is yet additional upside to PKO dividends coming from PLN10.8bn undivided profits from previous years, we expect newsflow on additional dividends once the new management board discusses possibilities with the PFSA.

2024E PLN2.5bn one-offs? We assume PLN700mn cost of moratoria in 2Q24 and PLN1.8bn of CHF provisions (100% coverage).

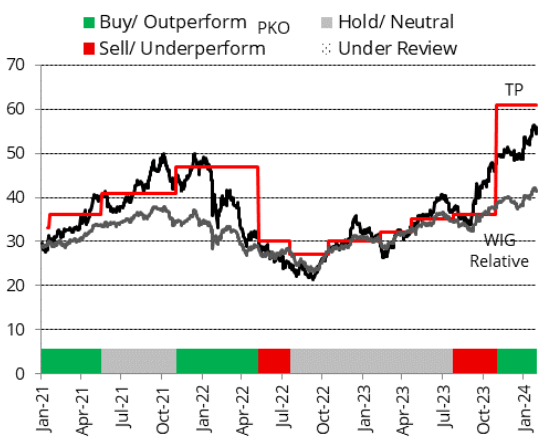
Valuation and risk. We set our Dec'24 TP at PLN67.0 that is a weighted average of DDM pointing to a valuation of PLN63.8 and a comparative valuation pointing to PLN73.0 (all per share) reduced by PLN1.4 related to the anticipated further cost of the CHF portfolio. We note risks related to governance, macro, regulations, CHF-mortgages, dividends and equity flows.

Fig. 1. PKO BP: Financial summary

PLNmn, Year to Dec	2021	2022	2023	2024E	2025E
P/E (adjusted)	11.2x	11.4x	6.4x	5.9x	6.0x
P/E (reported)	11.2x	11.4x	12.0x	7.1x	6.0x
P/BV	1.45x	1.07x	1.48x	1.31x	1.18x
Dividend Yield	6.0%	2.4%	4.7%	10.5%	12.5%
EPS (PLN)	3.90	2.67	8.34	9.12	8.93
DPS (PLN)	1.83	1.28	2.53	5.63	6.70
BVPS (PLN)	30.2	28.4	36.2	40.8	45.2
Net Income (adj. PLN mn)	4,874	3,333	10,421	11,405	11,163
Net Income (PLN mn)	4,874	3,333	5,594	9,380	11,163

Source: Company data, Santander Brokerage Poland estimates

Recommendation	Outperform
Dec'24 Target Price (PLN)	67.0
Current price (PLN, 7 Mar 2024)	53.48
Market cap. (PLNbn)	66.9
Avg. daily turnover (PLNmn)	142.8
Number of shares (mn)	1,250
Previous report issued on Nov 30, 2023 with:	
Recommendation	Outperform
TP (PLN, Dec'24)	61



The chart measures performance against the WIG index.

Main shareholders	% of votes
Republic of Poland Ministry of State Treasury	29.43%
NN OFE	9.25%
Allianz OFE	8.14%

Source: Stooq.pl, Santander Brokerage Poland

Analyst

Kamil Stolarski, PhD, CFA,
head of Equity Research
Equity Analyst

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

Santander

Fig. 2. Valuation summary (PLN/share)

Recommendation	**Outperform**
Dec'24 Target Price (PLN)	**67.00**
Current price (PLN)	53.48
Prospective upside (%)	25

**Our Target Price is calculated as rounded average of DDM Valuation (50% weight) and Comp (50% weight) less estimated impact of CHF-mortgages.*

DDM valuation (PLN/share)	**63.8**
Discounted dividends (PLN/share)	13.7
Terminal value (PLN/share)	50.1
Terminal ROE (%)	16.80
g (%)	3.00
CoE (%)	11.50
RFR (%)	11.50
Beta (x)	1.10
ERP (%)	5.0

Comp. Valuation PLN/share	**73.0**
Net Income (PLN mn, next 12 months)	11,405
Applied P/E (x)	8.0
P/E peers (x)	8.0
CHF impact	**-1.4**

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

	ROE->	**12.8%**	**14.8%**	**16.8%**	**18.8%**	**20.8%**
	1.0%	48.4	54.3	60.1	66.0	71.9
	2.0%	48.8	55.3	61.8	68.3	74.8
g	**3.0%**	49.3	56.6	63.8	71.1	78.3
	4.0%	49.9	58.1	66.4	74.6	82.8
	5.0%	50.7	60.2	69.7	79.2	88.7

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

	ERP->	**3.0%**	**4.0%**	**5.0%**	**6.0%**	**7.0%**
	5.0%	102.9	84.9	72.3	63.0	55.8
	5.5%	93.9	78.7	67.8	59.5	53.1
RFR	**6.0%**	86.4	73.4	63.8	56.5	50.7
	6.5%	80.0	68.7	60.3	53.7	48.5
	7.0%	74.5	64.7	57.1	51.2	46.5

Fig. 5. Our forecast vs Bloomberg consensus

	Bloomberg consensus			**Our assumptions vs cons.**		
	2024E	**2025E**	**2026E**	**2024E**	**2025E**	**2026E**
Net income	8,261	8,185	8,583	*14%*	*36%*	*n.a.*
DPS (PLN)	2.93	4.04	4.72	*-14%*	*39%*	*n.a.*
ROE (%)	15.0	16.6	16.1	*4.5 pp*	*4.2 pp*	*n.a.*

Fig. 6. Comps Valuation sensitivity (PLN/share)

Fair P/E (x)	**1.0x**	**2.0x**	**3.0x**	**8.0x**	**8.0x**	**12.0x**
vs. peers (%)	-88	-75	-63	0	0	50
Sensitivity	9.1	18.2	27.4	73.0	73.0	109.5

Fig. 7. Ratios, Assumptions and Forecasts

P&L (PLN mn)	**2021**	**2022**	**2023**	**2024E**	**2025E**
NII	9,882	14,924	18,318	20,252	20,575
F&C	4,431	4,951	5,429	5,550	5,669
Trading Income	718	310	337	194	192
Total Revenue	15,079	20,383	24,224	26,156	26,596
Cost	-6,174	-7,850	-7,635	-8,442	-8,853
NLLP	-1,345	-1,564	-1,373	-1,518	-1,620
one-offs	0	-5,025	-5,430	-2,500	0
Pre-tax Profit	7,591	6,015	9,885	13,736	16,164
Banking tax	-1,079	-1,266	-1,231	-1,334	-1,444
Net Income	**4,874**	**3,333**	**5,594**	**9,380**	**11,163**
Net Income (adj.)	4,874	3,333	10,421	11,405	11,163

PLN bn	**2021**	**2022**	**2023**	**2024E**	**2025E**
Total Assets	422	435	502	531	572
Bonds	135	136	197	212	231
Loans	238	236	246	260	282
Loans growth (%)	*3*	*-1*	*4*	*6*	*8*
Deposits	322	340	399	423	458
Equity	38	35	45	51	56
Mortgage loans	121	111	115	123	133
CHF mortgages	20	17	13	11	9
Other retail loans	31	32	35	36	38
Corporate loans	86	98	106	111	123

NIM ratios (%)	**2021**	**2022**	**2023**	**2024E**	**2025E**
Asset yield (%)	2.79	4.93	6.23	5.86	5.37
Funding cost (%)	0.22	1.41	2.42	2.03	1.71
NIM (%)	2.60	3.74	4.17	4.13	3.92

Risk ratios (%)	**2021**	**2022**	**2023**	**2024E**	**2025E**
Stage 3 ratio (%)	3.9	3.7	3.5	3.5	3.5
Stage 3 coverage (%)	61.3	61.8	59.5	59.5	59.5
Cost of risk (%)	0.57	0.66	0.57	0.60	0.60

Du Pont (%)	**2021**	**2022**	**2023**	**2024E**	**2025E**
NII/assets	2.45	3.48	3.91	3.92	3.73
CoR/assets	-0.33	-0.37	-0.29	-0.29	-0.29
F&C/assets	1.10	1.16	1.16	1.08	1.03
Other rev/assets	0.20	0.14	0.12	0.08	0.07
Costs/assets	-1.53	-1.83	-1.63	-1.64	-1.61
Taxes&other/assets	-0.67	-1.80	-2.08	-1.33	-0.91
ROA	1.21	0.78	1.19	1.82	2.02
Leverage (x)	10.4	11.7	11.6	10.7	10.3
ROE (reported)	12.55	9.11	13.87	19.50	20.78

Capital & dividends	**2021**	**2022**	**2023**	**2024E**	**2025E**
Tier-1 (PLN bn)	38.2	40.8	42.5	44.9	47.3
Tier-2 (PLN bn)	2.7	2.7	2.7	2.7	2.7
TCR (PLN bn)	17.5	17.4	18.1	19.2	20.8
RWA (PLN mn)	202.3	200.8	209.0	221.4	240.0
CT1 ratio (%)	17.5	18.8	18.8	18.8	18.2
CAR ratio (%)	18.7	20.0	20.0	19.9	19.3
Div. payout (%)	46.9	0.0	75.0	75.0	75.0
Dividend (PLN mn)	0	2,288	1,600	3,163	7,035
No. of shares (mn)	1,250	1,250	1,250	1,250	1,250

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

Quarterly Earnings summary

PKO BP reported 4Q23 net income of PLN680mn, 1% above consensus. The bottom line was close to expectations but:

- NII improved 9% q/q (vs 2% improvement on the market) and was 5% stronger than consensus. The cost of hedging declined by PLN268mn q/q, more than we expected – from PLN926mn in 3Q23 to PLN658mn in 4Q23.
- OpEx came 7% stronger than consensus. Personnel cost increase 19% q/q, 27% y/y which was stronger than what we assumed.
- NLLP came 30% stronger than consensus and 18% stronger than our assumption
- CHF provisions were in line with profit warning at PLN1,989mn

Fig. 8. Results review (year to December)

PKO BP (PLN mn)	4Q22	1Q23	2Q23	3Q23	4Q23	q/q	y/y	4Q23E	vs. E	cons.	vs. cons.
Net Interest Income	4,158	4,187	4,392	4,662	5,077	9	22	4,870	4	4,822	5
Fees & commissions	1,241	1,269	1,298	1,349	1,421	5	15	1,389	2	1,241	14
Trading Income	66	56	23	98	160	63	142	49	229		
Other (Net)	41	20	65	50	5	-90	-88	40	-88		
Total Revenue	**5,506**	**5,532**	**5,778**	**6,159**	**6,663**	**8**	**21**	**6,348**	**5**	6,335	**5**
Personnel Costs	-947	-942	-989	-1,008	-1,201	19	27	-1,117	7		
General Expenses	-538	-786	-494	-502	-626	25	16	-567	10		
D&A	-267	-257	-263	-280	-287	2	7	-310	-7		
Operating Expenses	**-1,752**	**-1,985**	**-1,746**	**-1,790**	**-2,114**	**18**	**21**	**-1,995**	**6**	**-1,978**	**7**
Operating Income	**3,754**	**3,547**	**4,032**	**4,369**	**4,549**	**4**	**21**	**4,353**	**5**		
Net Loan Loss Provisions	-374	-339	-226	-276	-532	93	42	-450	18	-408	30
Other (Net)	-738	-967	-2,474	0	-1,989		169	-1,988		-1,988	0
Associate income	10	23	13	46	17	-63	70	46	-63		
Pre-tax Profit	**2,652**	**2,264**	**1,345**	**4,139**	**2,045**	**-51**	**-23**	**1,961**	**4**		
Corporate Income Tax	-604	-512	-445	-1,057	-1,043	-1	73	-1,000	4		
Minority interests	-2	1	-2	1	-3	-400	50	0			
Banking tax'	-312	-299	-311	-302	-319	6	2	-303	5		
Net Income	**1,732**	**1,454**	**587**	**2,781**	**680**	**-76**	**-61**	**658**	**3**	**672**	**1**
NI excl. one-offs	1,732	2,421	2,550	2,781	2,669	-4	54	2,646	1		

Balance Sheet (PLN bn)	4Q22	1Q23	2Q23E	3Q23	4Q23	q/q	y/y	4Q23E	vs. E
Net client lending	231.7	237.5	236.1	239.7	245.8	3	6	240.0	2
Bonds	135.6	146.0	163.5	175.7	197.5	12	46	177.1	12
Customer deposits	339.6	349.7	366.1	376.5	399.2	6	18	377.3	6
Total assets	430.7	444.0	460.8	472.9	501.5	6	16	475.2	6
Equity ex minorities	35.4	39.3	41.1	45.4	45.2	0	28	46.8	-3

Key Ratios (%)	4Q22	1Q23	2Q23E	3Q23	4Q23	q/q	y/y	4Q23E	vs. E
Net Interest Margin	4.16	4.13	4.15	4.26	4.40	14 bp	173 bps	4.35	6 bp
Cost to Income	-32	-36	-30	-29	-32	-3 pp	0 pp	-31	0 pp
Cost of risk [bps]	-64	-58	-42	-46	-88	-41 bp	-24 bps	-75	-13 bp
Loans to deposits ratio	68	68	68	64	62	-2 pp	-7 pp	64	-2 pp
ROE	20.6	15.6	5.3	25.7	6.0	-19.7 pp	-14.6 pp	5.7	0.3 pp

Source: Company data, Santander Brokerage Poland estimates.

Santander

Forecast changes

Fig. 9. PKO – Forecast changes – P&L

	2023				2024E				2025E			
P&L (PLN mn)	**New**	**Old**	**%**	**PLN mn**	**New**	**Old**	**%**	**PLN mn**	**New**	**Old**	**%**	**PLN mn**
NII	18,318	17,871	3	447	20,252	18,072	12	2,180	20,575	18,316	12	2,259
F&C	5,429	4,907	11	522	5,550	5,029	10	521	5,669	5,155	10	514
Trading Income	337	226	49	111	194	194	0	0	192	192	0	0
Total Revenue	24,224	22,899	6	1,325	26,156	23,170	13	2,986	26,596	23,531	13	3,065
Cost	-7,635	-7,486	2	-149	-8,442	-8,189	3	-253	-8,853	-8,587	3	-266
NLLP	-1,373	-1,230	12	-143	-1,518	-1,508	1	-10	-1,620	-1,610	1	-10
One-offs	-5,430	-4,041	34	-1,389	-2,500	-1,700		-800	0	0		0
Pre-tax Profit	9,885	10,271	-4	-386	13,736	11,813	16	1,923	16,164	13,374	21	2,790
Banking tax	-1,231	-1,215	1	-16	-1,334	-1,268	5	-66	-1,444	-1,377	5	-67
Net Income	5,594	6,370	-12	-776	9,380	7,946	18	1,434	11,163	9,055	23	2,108
Net Income (adj.)	10,421	10,315	1	106	11,405	9,323	22	2,082	11,163	9,055	23	2,108

NIM ratios (%)	**New**	**Old**	**%**		**New**	**Old**	**%**		**New**	**Old**	**%**	
Asset yield (%)	6.23	6.29	-0.06		5.86	5.59	0.27		5.37	5.10	0.27	
Funding cost (%)	2.42	2.46	-0.04		2.03	1.98	0.05		1.71	1.66	0.05	
NIM (%)	4.17	4.19	-0.02		4.13	3.90	0.23		3.92	3.69	0.23	

Source: Company data, Santander Brokerage Poland estimates

Fig. 8. PKO – Forecast changes – Balance sheet

	2023				2024E				2025E			
PLN bn	**New**	**Old**	**%**	**PLN bn**	**New**	**Old**	**%**	**PLN bn**	**New**	**Old**	**%**	**PLN bn**
Total Assets	501.5	475.0	6	27	530.9	503.0	6	28	571.9	542.0	6	30
Bonds	197.5	177.0	12	20	212.3	190.0	12	22	231.4	207.0	12	24
Loans	245.8	241.0	2	5	260.3	255.0	2	5	282.2	277.0	2	5
Loans growth (%)	4	2			6	6			8	9		
Deposits	399.2	377.0	6	22	422.8	400.0	6	23	458.3	435.0	5	23
Equity	45.2	47.0	-4	-2	51.0	52.0	-2	-1	56.5	56.0	1	0
Mortgage loans	114.9	110.0	4	5	123.0	118.0	4	5	132.6	128.0	4	5
CHF mortgages	13.1	13.1	0	0	10.7	10.7	0	0	8.7	8.7	0	0
Other retail loans	35.0	35.0	0	0	36.4	35.5	2	1	37.9	38.0	0	0
Corporate loans	106.1	106.0	0	0	111.4	111.0	0	0	122.6	122.0	0	1

Source: Company data, Santander Brokerage Poland estimates

Santander

Santander Brokerage Poland

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

Equity Research

Kamil Stolarski, PhD, CFA, *Head of Equity Research* tel. (+48) 22 586 81 00 kamil.stolarski@santander.pl
Banks, Insurers, Strategy

Paweł Puchalski, CFA, *Equity Analyst* tel. (+48) 22 586 80 95 pawel.puchalski@santander.pl
Telecommunications, Metals & Mining, Power

Tomasz Krukowski, CFA, *Equity Analyst* tel. (+48) 22 586 81 55 tomasz.krukowski@santander.pl
Oil&Gas, Pharma & Biotech, CEE Non-Financials

Adrian Kyrcz, *Equity Analyst* tel. (+48) 22 586 81 59 adrian.kyrcz@santander.pl
Construction, Real Estate, IT

Tomasz Sokołowski, *Equity Analyst* tel. (+48) 22 586 82 36 tomasz.sokolowski@santander.pl
Consumer, E-commerce

Michał Sopiel, *Equity Analyst* tel. (+48) 22 586 82 33 michal.sopiel@santander.pl
Industrials, Chemicals, Quantitative Analysis

Piotr Zielonka, CFA, *Equity Analyst* tel. (+48) 22 534 16 10 piotr.zielonka@santander.pl
Gaming, Strategy

Marcin Działek, *Analyst* tel. (+48) 22 782 93 09 marcin.dzialek@santander.pl
Technical Analysis

Sales & Trading

Kamil Kalemba, *Head of Institutional Equities* tel. (+48) 22 586 80 84 kamil.kalemba@santander.pl

Mateusz Choromański, CFA, Head of Sales tel. (+48) 22 586 80 82 mateusz.choromanski@santander.pl
Securities Broker, Investment Advisor

Alex Kamiński tel. (+48) 22 586 80 63 alex.kaminski@santander.pl

Błażej Leśków, *Securities Broker* tel. (+48) 22 586 80 83 blazej.leskow@santander.pl

Michał Stępkowski, *Securities Broker* tel. (+48) 22 586 85 15 michal.stepkowski@santander.pl

Marek Wardzyński, *Securities Broker* tel. (+48) 22 586 80 87 marek.wardzynski@santander.pl

Adam Mizera, *ACCA, CFA, Securities Broker* tel. (+48) 22 586 85 14 adam.mizera@santander.pl

DISCLOSURES

All of the views expressed in this report accurately reflect the personal views of the Analyst of Equity Research Team in Santander Brokerage Poland which is a separate organizational unit of Santander Bank Polska S.A. ("Santander Bank Polska"), who is the author of this report.
Santander Brokerage Poland emphasizes that this document is going to be updated at least once a year.

Santander Brokerage Poland acts as a market maker / liquidity provider, on principles specified in the Regulations of the Warsaw Stock Exchange (WSE), for the shares of **Powszechna Kasa Oszczędności Bank Polski SA** and therefore holds financial instruments issued by this issuer / these issuers.

Over the last 12 months Santander Bank Polska has received remuneration for providing non-investment banking services for: **Powszechna Kasa Oszczędności Bank Polski SA.**

The issuer / issuers this report relates to, may hold shares of Santander Bank Polska in the amount of less than 5% of the total issued capital.
Santander Bank Polska Group, its affiliates, representatives or employees may occasionally undertake transactions or may be interested in acquiring securities of companies directly or indirectly related to those being analysed.
Santander Bank Polska or its affiliates may, from time to time, to the extent permitted by law, participate or invest in financing transactions with issuer / issuers this report relates to, perform services for or solicit business from such issuers and/or have a position or effect transactions in the financial instruments issued by these issuers(especially in relation to the services provided by PTE Santander Allianz SA), ad as a result Santander Bank Polska may be indirectly connected with these issuers.
Santander Bank Polska does not rule out that in the period of preparing this report any Affiliate of Santander Bank Polska might purchase shares of the Issuer or any financial instruments being the subject of this report which may cause reaching at least 0,5% of the share capital.
Subject to the above, the Issuer is not bound by any contractual relationship with Santander Bank Polska, which might influence the objectivity of the recommendations contained in this report.
However, it cannot be ruled out that, in the period in which this report is in force, Santander Bank Polska will submit an offer to provide services for the issuer / issuers this report relates to, or will purchase or dispose of financial instruments issued by these issuers or whose value depends on the value of financial instruments issued by these issuers.
With the exception of remuneration from the Santander Brokerage Poland Analysts do not receive any other form of compensation for recommendations made. Remuneration received by the persons who prepare this report may be dependent, in an indirect way, from financial results gained from investment banking transactions, related to financial instruments issued by the Issuer, made by Santander Brokerage Poland or its Affiliates.

Global statistics presenting the rating of the covered companies and the share of companies provided with investment banking in the past 12M are available at: https://www.santander.pl/inwestor/global-statistics
A list of all recommendations on any financial instrument or issuer that were disseminated by Santander Brokerage Poland during the preceding 12 month period can be found on: http://centruminformacji.santander.pl/_fileserver/item/1501616

LIMITATION OF LIABILITY

This report was produced by Santander Brokerage Poland which is a separate organizational unit of Santander Bank Polska S.A. (Santander Bank Polska) with its registered office in Warsaw. Santander Brokerage Poland and brokerage activity conducted by Santander Brokerage Poland is subject to the supervision of the Financial Supervision Commission with its headquarters in Warsaw.
Santander Brokerage Poland is subject to the regulations of the Act on Trading in Financial Instruments dated July 29th 2005 (Journal of Laws of 2018, item 2286 - consolidated text, further amended), Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated July 29th 2005 (Journal of Laws of 2019 item 623 - consolidated text, further amended), Act on Capital Market Supervision dated July 29th 2005 (Journal of Laws of 2019, item 1871 – consolidated text, further amended). This report is addressed to qualified investors and professional clients as defined under the above indicated regulations and to Clients of Santander Brokerage Poland entitled to gain research reports based on the brokerage services agreements.
Santander Brokerage Poland may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments and services contained or referred to in this report may not be suitable for particular investor and it is recommended to consult an independent investment advisor in case of doubts about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to investor's individual circumstances, or otherwise constitutes a personal recommendation to particular investor.
Affiliates of Santander Bank Polska may, from time to time, to the extent permitted by law, participate or invest in financing transactions with the issuer / issuers this report relates to, perform services for or solicit business from such issuers and/or have a position or effect transactions in the financial instruments issued by these issuers. Santander Brokerage Poland may, to the extent permitted by applicable Polish law, UK law and other applicable law or regulation, effect transactions in the Financial instruments before this report is published to recipients.
Santander Brokerage Poland may have issued, and may in the future issue, other research reports that may be inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and Santander Brokerage Poland is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.
Santander Brokerage Poland informs that success in past recommendations is not a guarantee of success in future ones.
Information and opinions contained herein have been compiled or gathered, with due care and diligence, by Santander Brokerage Poland from sources believed to be reliable, however Santander Brokerage Poland cannot ensure their accuracy or completeness. Investor shall be responsible for conducting their own investigation and analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in the Financial instruments forming the subject matter of this report. The information and opinions contained herein are subject to change without any notice.
Santander Brokerage Poland is not responsible for any losses incurred by Investors which were result of investment decisions based on recommendations issued by Santander Brokerage Poland, on condition that they were prepared with due care and diligence.
This report does not constitute an offer or invitation to subscribe for or purchase or carry out transactions in any financial instruments and shall not be considered as an offer to sell or to buy any securities. This report is furnished and presented to you solely for your information and shall not be reproduced or redistributed to any other person. This report nor any copy hereof shall not be disseminated, published or distributed directly or indirectly in the United States of America, Canada, Australia or Japan. Disseminating, publishing or distributing of this report directly or indirectly in the above countries or to any citizen or resident of these countries may be considered breach of the law or regulations related to the financial instruments in force in these countries. Dissemination, publishing or distribution of this report may be restricted by law in other countries. Persons who distribute this report shall make themselves aware of and adhere to any such restrictions. This report may be distributed in the United Kingdom to persons who have professional knowledge about investing in accordance with relevant regulations.
Opinions in this report must not be relied upon as having been authorised or approved by issuer. Santander Brokerage Poland informs that investing assets in financial instruments implies the risk of losing part or all the invested assets.
Santander Brokerage Poland indicates that the price of the financial instruments is influenced by lots of different factors, which are not or cannot be dependent from issuer and its business results. These are factors such as changing economical, law, political or tax condition. More information on financial instruments and risk connected with them can be found on www.santander.pl/inwestor section disclaimers and risk.
The decision to purchase any of the financial instruments should be made only on the basis of the prospectus, offering circular or other documents and materials which are published on general release on the basis of polish law.

Ratings definitions:

Outperform – Total return 10% above benchmark. Upside of approximately ≥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%).

The definition of ratings are indicative. Recommendations may differ from these guidelines when justified due to the market factors, industry trends, company specific event, etc. In such cases, a pertinent clarification for the discrepancy is included in the report.
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.

In the Technical Analysis reports (TA reports), Santander Brokerage Poland does not apply direct investment ratings, and all opinions and elements of analysts' assessment are included in a descriptive form in the study itself.
The period of validity of the TA report is a maximum of 30 days, while the publication of a new TA report for a given financial instrument means that the previously published study is no longer valid.
Due to the short time horizon of the Technical Analysis reports, Santander Brokerage Poland is not going to update them on a regular basis.

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.

In the opinion of Santander Brokerage Poland, this report has been prepared with all due diligence and excludes any conflict of interests which could influence its content. In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.
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.

ANY PERSON WHO ACCEPTS THIS REPORT AGREES TO BE BOUND BY THE FOREGOING DISCLAIMER AND LIMITATIONS.