

Monday, March 04, 2019 | special comment

## PKO BP - 2018 Q4 Earnings Conference Highlights

Rating: hold | target price: PLN 40.92 | current price: PLN 38.62

**PKO PW; PKO.WA | Banks, Poland**

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**The outlook painted by PKO BP's management during today's earnings conference is consistent with our own forecasts. On the one hand, we are slightly more optimistic on net interest income, but on the other hand we have a more pessimistic view on cost of risk. Our current 2019 net income estimate is 3% higher than the consensus estimate, but we still see potential for upward revisions. On the downside, the passing of the FX borrower relief bill poses a risk of the Bank taking a 6% hit against this year's earnings, followed by a 9% setback in 2020. It is worth noting that PKO's voice against the creation of the so-called conversion fund, a financing vehicle for distressed FX-to-PLN mortgage loan conversion, might be taken into consideration by the lawmakers.**

### Key Takeaways:

- The conditions for doing business are good. A slowing economic momentum is offset by new stimulus measures such as the extension of the 500+ child benefits program. The FX bill looms large, and PKO is opposed to the formation of the conversion fund.
- PKO wants to increase market share in consumer and SME lending, but it is satisfied with its share in the mortgage market. Lending to large corporations will depend on multiple factors shaping the profitability of this type of client.
- The Bank stressed that it sells 90% of all retail loans to existing clients. The sales contraction in Q4 was due to seasonality and a lack of installment plans on offer.
- Strong economic growth will drive a sustained increase in retail deposits.
- PKO is eyeing stable NIM growth at a quarterly rate of 1-2bp.
- The Bank is optimistic on fee income growth this year driven by loan and insurance fees while account fees are cut further.
- One-offs in Q4 included a write-off of investment in ZenCard. Mastercard is set to become the seventh shareholder in the BLIK mobile payments app after PKO BP, Santander, mBank, ING, Alior, and Millennium around March/April 2019, resulting in a potential one-time gain. PKO BP has about PLN 30m invested in BLIK.
- PKO will only consider M&A opportunities if they come about without looking.

**List of abbreviations and ratios contained in the report.**

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**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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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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