

Tuesday, February 4, 2020 | update

## ING BSK: sell (downgraded)

ING PW; INGP.WA | Banks, Poland

### Extreme Premium Vis-à-Vis Peers

We downgrade ING BSK ("ING") two notches from hold to sell, and we cut our target price to PLN 170.00 per share. ING BSK is currently trading at respective premiums of 27% and 52% to the average 2020E P/E and P/B ratios of Polish banks, and relative to CEE peers the gaps are even wider at 49% and 52%, respectively. ING is rightfully seen as a safe haven, but what is unfair is that it has not been de-rated along with all other banks as part of the correction over the last few years. Having been spared, today the Bank at 12M forward P/E is valued at 1.6x price-to-book against a WIG-Banks average of 1.0x (the historical average is 1.3x). Neither the Bank's dividend yields (at 2% vs. 9% topmost in the peer group), nor its ROE (12% vs. an 18% peer high) are superior enough to justify today's outperformance. Note also that a major part of ING's record-high premium comes from low liquidity (with 3M ADTV of just PLN 1m) – a product of 85% of free float shares being held by pension funds. Worse still, we still see upside risk in the premium looking at ING's current 2020-2021 earnings consensus, which in our opinion is overestimated by about 4%. Under these circumstances, any share selling by the institutional holders, and any M&A activity, might trigger an abrupt and massive de-rating of ING's multiples. In short, an investment in ING cannot earn as good a return over 2020 as its de-rated peers. As an alternative, we see more compelling opportunities in Bank Handlowy, PZU, and Komercni Banka.

### De-rating creeps

ING BSK's multiples have been de-rating since early 2018, when the bank was trading at 2.2x 12M forward P/B vis-a-vis today's 1.6x. We see a 1.5x ratio on 2020 estimates as more fair based on revised earnings expectations underpinned by a deteriorated profitability outlook for the whole Polish banking sector as it faces regulatory charges and potentially costly litigation.

### Overestimated earnings potential

We expect ING BSK to report 2019 Q4 net income in the amount of PLN 455.6m after a 1% year-over-year rise – an estimate which sits 4% below the average of analysts' expectations implied by the FY2019 consensus. We also see the FY2020-21 consensus as 4% too optimistic.

### Finding alternatives

ING's closest peer in terms of business profile is the Czech Komercni Banka, which is also perceived as a safe haven investment owing to a conservative balance sheet and sound capital adequacy. The difference lies in Komerci's much higher dividend yields and ROE, coupled with much more reasonable valuation. In Poland, we would look to Handlowy among banks and PZU among other financials. Handlowy generates lower ROE than ING (9% vs. 12%) but it pays much more generous dividend yields (7% vs. 2%), plus it uses a similarly conservative balance-sheet approach, and has a foreign entity as the controlling shareholder.

(PLN m)	2017	2018	2019E	2020E	2021E
Net interest income	3,452.8	3,759.3	4,312.9	4,728.8	5,172.8
Noninterest income	1,303.1	1,473.4	1,497.6	1,577.2	1,666.4
Costs	2,122.6	2,326.8	2,496.8	2,618.7	2,721.4
Operating income*	2,633.3	2,905.9	3,313.7	3,687.3	4,117.8
Net income	1,403.1	1,525.9	1,666.1	1,764.5	1,918.5
Costs/Income (%)	44.6	44.5	43.0	41.5	39.8
ROE (%)	12.6	12.1	12.2	12.2	12.2
P/E (x)	18.7	17.2	15.8	14.9	13.7
P/B (x)	2.2	2.0	1.9	1.7	1.6
DPS	0.00	3.20	3.50	3.84	4.07
Dividend Yield (%)	0.0	1.6	1.7	1.9	2.0

\*before provisioning

Current Price	PLN 202.00
Target Price	PLN 170.00
MCap	PLN 26.28bn
Free Float	PLN 6.57bn
ADTV (3M)	PLN 2.8m

### Ownership

ING Bank N.V.	75.00%
Aviva OFE	8.40%
Others	16.60%

### Business Profile

ING BSK offers a well-diversified sales mix to consumers and corporate clients alike. Its loans/-to-deposits ratio is one of the lowest in the Polish bank sector at ca. 90%. The Bank invests surplus capital in debt securities, mainly Polish government bonds. Its deposits are mainly retail, and its loan book is more or less evenly balanced between consumer and corporate..

### ING vs. WIG



Name	Target Price		Recommendation	
	new	old	new	old
ING BSK	170.00	187.77	sell	hold

Name	Current Price	Target Price	Downside
ING BSK	202.00	170.00	-15.8%

Forecast Update	2019E	2020E	2021E
Total Income	-0.2%	0.2%	0.4%
Pre-Tax Income	3.7%	-0.9%	-1.4%
Net income	4.7%	-1.3%	-1.8%

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

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**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.

**mBank issued the following investment recommendations for ING BSK in the 12 months prior to this publication:**

Rating	hold	hold	accumulate	hold	reduce	hold
Rating date	2019-12-05	2019-10-07	2019-09-05	2019-08-02	2019-07-03	2019-02-01
Target price (PLN)	187.77	197.53	197.53	191.80	191.80	191.80
Price on rating day	190.80	194.80	187.40	189.80	203.50	191.40

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