

Monday, 19 May 2025 | update

Santander Bank Polska: sell (downgraded)

SPL PW; SPL1.WA | Banks, Poland

Guten Tag Erste, Adios Santander

We downgrade Santander Bank Polska from 'buy' to 'sell' with the target price lowered to PLN 515.00 per share to reflect lower 2026E earnings, dividend prospects worsened by weaker capital ratios, and the de-rating of SPL stock.

Banco Santander on 5 May 2025 announced that it had reached an agreement to sell a 49% stake in its Polish subsidiary, Santander Bank Polska, to Erste Group, at PLN 584 per share. According to Erste Group, this implies a P/TBV'25E of 1.9x and P/E'26E (adj. for CHF provisions) of 9.1x for the transaction.

The sale comes as no surprise to us – we had flagged Erste's probable interest in Banco Santander's Polish unit in our August 2024 update on CEE Banks. What did take us by surprise was the high valuation of Santander Bank Polska, although, to be fair, this is the price that Erste has agreed to pay to instantly become one of the Top 3 by assets banks in Poland. The acquisition should be EPS accretive from day one for Erste Group shareholders, but the implications for Santander Bank Polska shareholders are more complicated.

It is probably safe to assume that Santander Bank Polska has a challenging two years ahead. The structure of the deal with Erste Group may create a massive share overhang, lead to dividend cuts and trigger changes within the bank in 2026. We also expect the bank to, at most, perform in line with the loan market in 2025 as uncertainty mounts as regards the future of top executives and may take its toll on decision making in larger corporate credit deals.

We have raised our 2025 net income estimate for Santander Bank Polska by 16% on higher net interest income expectations, but we cut the 2026 forecast by 15% to reflect SCB deconsolidation and higher CHF reserves. We are also currently expecting a cut in SPL's dividend payout ratio to 50% starting from 2026. Our updated 2025/26 net profit expectations are 13%/12%, respectively, below the consensus estimates, while the 2027 projections are broadly consistent.

In our view, Santander Bank Polska will remain extremely profitable going forward in terms of Return on Equity. In 2024, ROE adjusted for CHF provisioning came in at 26%, and its likely decline to 20% in 2027 will still rank it among the highest in the market. Nonetheless, lower dividends and capital adequacy ratios, coupled with continued CHF provisioning and ownership transition uncertainty, justifies a de-rating of SPL stock to P/TBV 1.6x in 2027.

We want to emphasize that SPL's valuation in the deal with Erste can be taken as a vote of confidence in the Polish banking sector's prospects and valuation.

What will change at Santander Bank Polska / Erste Bank Polska?

Erste Group is a newcomer to the Polish market (not including brokerage operations), and its deal to acquire Santander Bank Polska (SPL) is structured in such a way as to trigger some changes in the Polish bank. For example, the deal does not include Santander Consumer Bank (SCB), in which Santander Bank Polska currently holds a 60% stake that is set to be bought by Banco Santander. The resulting deconsolidation of SCB may reduce Santander Bank Polska's capital adequacy ratios (SCB has TCR at 45.5%) and its market position to number 4 in terms of loans.

Secondly, Erste calculates that the post-merger IT integration costs will amount to EUR 100m-150m, and, on top of that, we expect rebranding costs at ca. PLN 100m. While we do not expect SCB's deconsolidation to have a major impact on P&L or trigger write-downs for SPL, it will impact the Polish bank's capital position, and, most likely, its dividend payout ratio. Moreover, SPL's 2026 profits will still be weighed down by heavy provisioning related to CHF loans as, in our opinion, the bank lags others when it comes to coverage of these exposures. On the other hand, once CHF reserves and operating costs ease, earnings in 2027 could outperform those of SPL's peers.

(PLN m)	2023	2024	2025E	2026E	2027E
Net interest income	13,115.9	13,873.2	14,694.1	12,673.0	12,322.3
Non-interest income	2,876.4	3,258.5	3,416.2	3,448.4	3,573.7
Costs	4,715.0	5,065.0	5,449.4	5,321.8	5,501.3
Operating income	11,277.3	12,066.6	12,660.9	10,799.6	10,394.8
Net profit	4,831.1	5,212.7	5,389.9	5,879.9	6,641.9
C/I (%)	29.5	29.6	30.1	33.0	34.6
ROE (%)	16.1	16.2	16.4	18.1	19.7
P/E (x)	11.3	10.5	10.1	9.3	8.2
P/B (x)	1.7	1.7	1.6	1.7	1.5
DPS (PLN)	23.25	44.63	46.37	26.37	28.77
Dividend yield (%)	4.35	8.36	8.68	4.94	5.39

Current Price*	PLN 534.20
Target Price	PLN 515.00
mCap	PLN 54,569m
Free Float	PLN 20,627m
ADTV (3M)	PLN 60.6m

*Price as of May 16, 2025, 5:00 PM

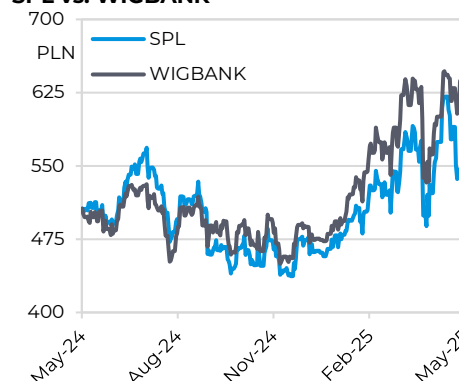
Ownership

Banco Santander S.A.	62.20%
Others	37.80%

About

Santander Bank Polska (Santander) is a universal lender with a slight bias toward the retail sector. Santander has a solvency ratio of 18%. In 2025 Banco Santander, majority owner, announced it will sell its Polish subsidiary to Erste Group. At the same time, it will acquire 60% stake in Santander Consumer Bank from Santander Bank Polska. Santander currently ranks the No. 3-4 bank in Poland depending on the product.

SPL vs. WIGBANK



Company	Target Price		Recommendation	
	new	old	new	old
Santander BPL	515.00	590.60	sell	buy

Company	Current Price	Target Price	Downside
Santander BPL	534.20	515.00	-3.6%

Forecast Upda	2025E	2026E	2027E
Total Income	+3.4%	-6.6%	-
Pre-Tax Profit	+13.9%	-10.7%	-
Net Profit	+15.6%	-14.6%	-

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases); **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 recommendations for Santander Bank Polska in the 12 months prior to this publication:

Santander Bank Polska (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy
Rating date	2024-12-02	2024-08-28
Target price (PLN)	590.60	574.45
Price on rating day	437.20	510.80

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