

Friday, 6 June 2025 | update

## PKO BP: buy (reiterated)

PKO PW; PKO.WA | Banks, Poland

### A Problem-Free Bank

We reiterate our 'buy' rating on PKO BP, with the 12-month target price raised to PLN 89.80 per share.

Based on better-than-expected 2025 first-quarter results, we have revised upwards our forecasts for PKO BP's net interest income and lowered the expectations for cost of risk. As a result, our net profit estimates have been increased by 10% and 11% for 2025 and 2026, respectively, which is broadly in line with the market consensus.

The operating environment is currently very favorable for PKO BP as the bank, unlike its main competitors, does not have to struggle with change of ownership (SPL) or corporate reorganization (PEO), nor is it involved in any M&As (ALR, PEO, PZU), or face a large share overhang (BNP, SPL). Moreover, PKO BP's Management reiterate that the CHF-related provisioning at the bank is going to diminish over the coming periods, which should support profitability in the years ahead. All that means that PKO BP can focus on growing its business and increasing market share.

The key story we continue to see in PKO is organic business growth paired with improvement in profitability. In three years' time, we expect the bank to reach a 20% market share in lending, driven mainly by corporate demand triggered by the green transformation (power plants, electric grids), large transportation projects (the CPK airport and railroad infrastructure project) and defense sector investment. Since most of these undertakings are government driven, we expect large state-owned banks to be the key beneficiaries of the increased demand for financing.

We value PKO at 1.6x 2027E fair P/TBV. Although PKO BP is a state-owned bank, we believe its valuation is justified by 20%-18% ROE and 8% dividend yield. On top of that we, we appreciate the bank's faster-than-average growth and "trouble-free" business. PKO BP remains our top banking pick.

#### Margin Erosion Built Into Expectations

In line with PKO BP's own guidance, we expect net interest margin in 2025 to remain flat at 4.35% (over average assets). That means that margins will fall sharply from quarter to quarter during 2025 considering that the difference between 4Q'23 and 4Q'24 NIM amounted to +60bps.

A low NIM at the end of 2025 will be followed by further contraction of 45 bps in 2026 and a further 22 bps in 2027, on the back of interest rate cuts. We expect that a steady pace of loan growth at 8% Y/Y this year, followed by acceleration in subsequent years, will be enough to offset the margin erosion and to keep net interest income in the next three years broadly flat vs 2024.

#### What Could Spoil the Prospects?

We see no immediate short-term risks on the horizon for PKO BP, but in this report we do address the possible implications of such potential turns as board reshuffles, introduction of windfall tax, cancellation of mandatory reserve remuneration, credit holidays, and a shift to the new benchmark rate, POLSTR.

#### Should PKO BP be Worried about Erste Group Entering Poland?

We do not think this is a concern, although we do expect Erste to push to establish a bigger foothold in Poland's consumer banking sector – a strategic interest area of PKO BP. In addition, Erste can be reasonably expected to devote about a year and a half to post-merger systems integration and raising awareness of the new banking brand among Polish customers – time that competition like PKO Bp can use to capture bigger market share.

(PLN m)	2023	2024	2025E	2026E	2027E
Net interest income	18,318	22,153	23,577	22,400	22,318
Non-interest income	6,088	6,864	7,036	7,237	7,380
Costs	7,909	8,768	9,901	10,359	10,901
Operating income	16,497	20,249	20,713	19,278	18,797
Net profit	5,502	9,304	10,804	12,373	11,882
C/I (%)	32.4	30.2	32.3	35.0	36.7
ROE (%)	13.6	19.1	19.6	20.2	17.7
P/E (x)	16.0	9.5	8.1	7.1	7.4
P/B (x)	1.9	1.7	1.5	1.4	1.3
DPS (PLN)	1.28	2.59	5.48	5.62	5.94
Dividend yield (%)	1.82	3.68	7.78	7.98	8.43

Current Price*	PLN 70.44
Target Price	PLN 89.80
mCap	PLN 88,050m
Free Float	PLN 62,137m
ADTV (3M)	PLN 265.2m

\*Price as of June 05, 2025, 5:00 PM

#### Ownership

State Treasury	29.43%
NN OFE	7.89%
Allianz OFE	6.70%
Others	55.98%

#### About

PKO BP has Poland's largest portfolio of deposits and loans. The Bank manages a well-balanced balance sheet, and it has above-average solvency ratios. The bank also operates in Ukraine, however the share of these assets in total balance sheet is insignificant.

#### PKO vs. WIGBANK



Company	Target Price		Recommendation	
	new	old	new	old
PKO BP	89.80	78.65	buy	buy
Company	Current Price	Target Price	Upside	
PKO BP	70.44	89.80	+27.5%	
Forecast Upda	2025E	2026E	2027E	
Total Income	+7.6%	+5.8%	-	
Pre-Tax Profit	+4.7%	+5.4%	-	
Net Profit	+10.0%	+10.7%	-	

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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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**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 PKO BP in the 12 months prior to this publication:

**PKO BP (Michał Konarski, Mikołaj Lemańczyk)**

Rating	buy	buy
Rating date	2024-12-02	2024-08-28
Target price (PLN)	78.65	78.19
Price on rating day	55.90	56.48

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