

Monday, 9 June 2025 | update

Bank Handlowy: hold (downgraded)

BHW PW; BHW.WA | Banks, Poland

Lean, Specialized, and Ready to Pay Dividends

We raise our 12MTP for Bank Handlowy to 124 PLN, but we downgrade our recommendation to 'hold.'

Following the May 2025 agreement to sell the consumer business to VeloBank, we decided to showcase the financial results of Bank Handlowy's retail division separately to provide greater clarity on the performance of the continuing business. We view Handlowy's corporate division as a tightly managed ship with C/I below 30% and ROE at 17-18% – a much better standing than the retail division's C/I closer to 70% and single-digit ROE expected in next two years.

As the divestment of retail operations will further improve Handlowy's already great capital ratios, the bank wants to offer additional dividends in 2025 and 2026; we would expect a payout ratio close to 100% to also be possible in 2027 thanks to funds set aside in a dividend reserve. For us, this is what sweetens the deal with Velobank, with the cumulative 2025-2027 dividend yield likely to approximate 35-37% without material deterioration in capital ratios.

Regarding the continuing business, Handlowy has stated it expects the exit from retail to enhance its growth capacity. The gap in the P&L is expected to be closed through higher corporate volumes – a strategy we view with skepticism. Handlowy's capital position, loan-to-deposit ratio, and longstanding focus on corporate banking suggest the bank has had the capacity to grow this segment in the real economy for some time, yet has not succeeded.

For this reason, although we appreciate Handlowy's potential and willingness to pay dividends, we are not as optimistic as the bank itself regarding the 2027 ROE target, as evident in our 17.4% estimate vs. Handlowy's 19%, which is reflected in our fair P/BV valuation at 1.8x in 2027 and a hold recommendation. As a final observation, it is worth noting that around 2pp of the ROE forecasts can be attributed to the increased dividends rather than earnings growth.

Dividends as Anchor

We predict Handlowy will pay DPS of PLN 13.73 in 2025, PLN 15.88 in 2026, and PLN 12.40 in 2027. Importantly, the cumulative PLN 11.48 excess of 75% payout consists of dividend capital (PLN 7.41) and cash proceeds from the sale of the retail business (PLN 4.07). The projected cumulative dividend yield for 2025-27 hovers around 35-37%, making it highly attractive relative to peers and positioning Handlowy as the region's leading dividend payer. In our view, this potential dividend stream can serve as an anchor for Handlowy's share price.

Outlook for the Retail Business Was Not Too Promising

The sale of the consumer banking business was good decision in our opinion. Based on pro-forma estimates, the adjusted ROE of the retail business would gradually go down from around 20% in 2024 to under 10% in 2027. Handlowy had struggled to active its shrinking client base, with fees per client on a steady decline and the retail loan portfolio continuing to contract. With this in mind, we were not surprised the deal's price at 0.6-0.5x P/BV.

Operation 'Light Corporate Bank'

After the sale of the consumer business, Handlowy will go on as a corporate bank distinguished by its operational efficiency, with a cost-to-income ratio below 25%, minimal net provisioning, and decent profitability. At the same time, through the sale, Handlowy is offloading assets worth PLN 23bn, which – ceteris paribus – will demote the bank to 10th place in terms of total asset market share within the Polish banking sector. As a result, although Handlowy may be seen as operational platform for global corporate clients operating in Poland, its reduced scale may limit its ability to fully participate in the country's upcoming infrastructure and energy financing opportunities (except potentially as part of a lending consortium).

(PLN m)	2023	2024	2025E	2026E	2027E
Net interest income	3,278.7	3,217.0	2,149.9	1,944.0	1,844.1
Non-interest income	1,273.0	1,296.6	1,260.2	1,208.7	1,224.5
Costs	1,482.8	1,606.8	826.3	836.1	871.5
Operating income	3,068.9	2,906.7	2,583.9	2,316.6	2,197.1
Discontinued operations	0.0	0.0	223.0	64.3	0.0
Net profit	2,256.3	1,760.5	1,802.1	1,724.9	1,563.7
C/I (%)	32.6	35.6	24.2	26.5	28.4
ROE (%)	25.5	18.0	18.1	18.1	17.4
P/E (x)	6.6	8.5	8.3	8.6	9.5
P/B (x)	1.5	1.5	1.5	1.7	1.6
DPS (PLN)	9.00	11.14	13.73	15.88	12.40
Dividend yield (%)	7.9	9.8	12.0	13.9	10.9

Current Price*	PLN 114.00
Target Price	PLN 124.00
mCap	PLN 14,895m
Free Float	PLN 3,724m
ADTV (3M)	PLN 7.4m

*Price as of June 06, 2025, 5:00 PM

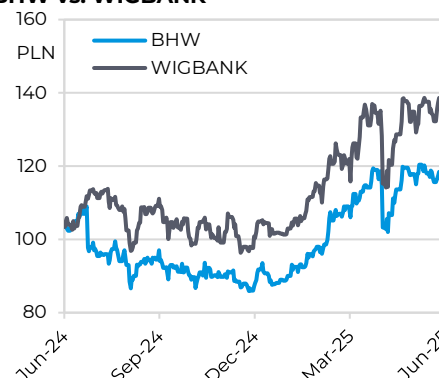
Ownership

Citibank Europe Plc	75.00%
Others	25.00%

About

After selling its retail segment to VeloBank, Bank Handlowy will become focused on offering corporate banking services, achieving best in class C/I and the 10 ranking in terms of asset size. Handlowy should be among the best dividend payers in the European banking sector in coming years.

BHW vs. WIGBANK



Company	Target Price		Recommendation	
	new	old	new	old
Bank Handlowy	124.00	109.00	hold	buy

Company	Current Price	Target Price	Upside
Bank Handlowy	114.00	124.00	+8.8%

Forecast Update	2025E	2026E	2027E
Total Income	-21.2%	-22.9%	-
Pre-Tax Profit	-16.2%	-0.9%	-
Net Profit	-3.8%	+5.4%	-

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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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HOLD – we expect that the rate of return from an investment will range from 0% to +10%
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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 Bank Handlowy in the 12 months prior to this publication:

[Bank Handlowy \(Michał Konarski, Mikołaj Lemańczyk\)](#)

Rating	buy	buy
Rating date	2024-12-02	2024-08-28
Target price (PLN)	109.00	110.00
Price on rating day	86.00	95.00

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