

Friday, 13 June 2025 | update

# Bank Pekao: buy (reiterated)

PEO PW; PEO.WA | Banks, Poland

## From Subsidiary to Integrator

We maintain our 'buy' recommendation for Bank Pekao, with a new 12-month target price of PLN 208.40 per share. Our forecasts and target price do not yet take into account the planned merger with PZU HoldCo.

We believe that the Bank Pekao share price has still potential for growth, supported by robust financial performance, a favorable dividend outlook, and a reasonable valuation. Furthermore, we are of the opinion that the potential PZU Group reorganization, with Bank Pekao taking over PZU HoldCo, should not result in any alterations to our position. The "Danish Compromise" is expected to enable Bank Pekao to significantly boost its surplus capital, thereby enhancing its financing capacity and facilitating potential mergers and acquisitions. It is acknowledged that Bank Pekao stands to benefit from the rising demand for corporate financing associated with major government projects.

Taking all these factors into consideration, we have determined a valuation of Bank Pekao at 2026 P/TBV at 1.5x, i.e., with a slight discount applied to PKO BP at P/TBV at 1.6x. We attribute the discount to PZU Group changes, the terms of which are not yet known. Furthermore, the Bank Pekao takeover of PZU may be subject to legislative changes that require the approval of the new President, Karol Nawrocki. It should be noted that, based on the current market valuation, the deal may have an EPS dilutive effect (EPS neutral at our Pekao target price), which could pose a challenge during the AGM approval process.

Our overall assessment of Bank Pekao is positive, with a buy recommendation. At this juncture, there is no cause for concern regarding the PZU Group changes. Presently, we appreciate the favorable earnings momentum and dividends of Bank Pekao. Despite a slight discount to PKO BP, which is our current top pick in the sector, we still see 16% upside in the valuation of Bank Pekao.

### Quarterly earnings momentum drives our forecasts higher

We expect net interest income to peak in 2025 while net interest margin remains stable. Net interest margin in Q2 2025 should be supported by debt portfolio revaluation (+10 bp). We expect Bank Pekao's market share in lending to increase amid higher financing demand from the corporate sector. Given the strong results of the last two quarters, and the improved outlook for lending, we have raised our 2025 and 2026 net profit forecasts by 20% and 19%. Our forecasts are currently broadly in-line with the consensus.

### Impact of Potential Windfall Profit Tax

We estimate the impact of the potential windfall profit tax (EU methodology) on Bank Pekao at PLN 1.7bn (PLN 6.51 per share); however, the actual amount levied could be higher, depending on whether the merger with PZU is included in the taxable base. Including PZU, the potential WPT rises to PLN 2.1-3.5bn (PLN 4.13-6.96 per share), depending on how PZU's assets are recognized.

### On Track to Meet Strategic Targets

Bank Pekao's recently announced strategy through 2027 appears achievable, although our own forecasts point to higher cost-to-income ratios and lower risk costs. This is because we assume the bank will need to accelerate changes to its IT systems. Moreover, preparations for the PZU takeover may drive up costs. At the same time, we see good asset quality across the sector which should translate to broadly stable cost of risk at Bank Pekao.

| (PLN m)             | 2023   | 2024   | 2025E  | 2026E  | 2027E  |
|---------------------|--------|--------|--------|--------|--------|
| Net interest income | 11,893 | 12,729 | 13,661 | 13,111 | 13,337 |
| Non-interest income | 3,307  | 3,320  | 3,304  | 3,461  | 3,644  |
| Costs               | 4,821  | 5,483  | 6,047  | 6,302  | 6,561  |
| Operating income    | 10,379 | 10,566 | 10,919 | 10,270 | 10,420 |
| Net profit          | 6,659  | 6,376  | 6,811  | 6,347  | 6,451  |
| C/I (%)             | 32.3   | 35.1   | 36.5   | 38.9   | 39.5   |
| ROE (%)             | 25.0   | 20.5   | 20.6   | 17.9   | 16.9   |
| P/E (x)             | 7.1    | 7.4    | 6.9    | 7.4    | 7.3    |
| P/B (x)             | 1.6    | 1.5    | 1.4    | 1.3    | 1.2    |
| DPS (PLN)           | 5.42   | 19.20  | 18.22  | 15.57  | 14.51  |
| Dividend yield (%)  | 3.01   | 10.67  | 10.12  | 8.65   | 8.06   |

|                |             |
|----------------|-------------|
| Current Price* | PLN 180.00  |
| Target Price   | PLN 208.40  |
| mCap           | PLN 47,245m |
| Free Float     | PLN 31,748m |
| ADTV (3M)      | PLN 182.8m  |

\*Price as of June 12, 2025, 5:00 PM

### Ownership

|             |        |
|-------------|--------|
| PZU S.A.    | 20.00% |
| PFR S.A.    | 12.80% |
| NN OFE      | 6.40%  |
| Allianz OFE | 5.39%  |
| Others      | 55.41% |

### About

Pekao is the second largest bank in Poland with strong corporate business. Bank has been always perceived as a dividend player thanks to strong profitability, low risk and above average capital adequacy ratios. Bank Pekao, along with Alior Bank, belongs to PZU group which has a controlling stake in the bank. Pekao plans to use its capital surplus toward organic growth.

### PEO vs. WIGBANK



| Company         | Target Price  |              | Recommendation |        |
|-----------------|---------------|--------------|----------------|--------|
|                 | new           | old          | new            | old    |
| Bank Pekao      | 208.40        | 181.88       | buy            | buy    |
| Company         | Current Price | Target Price | Upside         |        |
|                 | Bank Pekao    | 180.00       | 208.40         | +15.8% |
| Forecast Update |               | 2025E        | 2026E          | 2027E  |
| Total Income    |               | +9.0%        | +7.7%          | -      |
| Pre-Tax Profit  |               | +17.3%       | +16.9%         | -      |
| Net Profit      |               | +19.9%       | +18.7%         | -      |

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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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**BUY** – we expect that the rate of return from an investment will be at least 10%  
**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%  
**SELL** – we expect that an investment will bear a loss

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**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**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 Bank Pekao in the 12 months prior to this publication:**

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

| Rating              | buy        | buy        |
|---------------------|------------|------------|
| Rating date         | 2024-12-02 | 2024-08-28 |
| Target price (PLN)  | 181.88     | 185.69     |
| Price on rating day | 135.65     | 156.45     |

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