

Friday, 31 October 2025 | update

## Bank Pekao: hold (downgraded)

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### Solid Execution, Limited Upside

Bank Pekao shares have gained 10% since our last update in June, and after a small adjustment to our 12M target price to PLN 206.11 per share, we downgrade the bank from 'Buy' to 'Hold.'

Bank Pekao beat market expectations with 3Q'25 net profit, albeit thanks to lower provisioning and bank tax. Notably, overall loan growth in 3Q accelerated to 7.7% Y/Y, fueled by the corporate segment (+9.7% Y/Y). We have updated our FY2025 forecasts accordingly, reflecting balance sheet changes (lower debt securities, corporate deposits), resulting in upward revisions to net interest income, operating costs, and CHF-related provisioning. We do not factor in the planned CIT changes due to uncertainty about the final legislation. We raise our 2026 and 2027 net income forecasts by 5% and 3%, respectively, above consensus estimates, which are not comparable as they already partially incorporate the new CIT regime.

The proposed merger between Pekao and PZU is still uncertain. Poland's main opposition party, PiS, has opposed the transaction, potentially complicating the legislative process already approved by the president. A rejection would likely surprise parts of the market. For more on the potential merger, see our 27 October report on PZU.

We expect Bank Pekao to deliver ROE of 18-17% over the next two years, below levels projected for its Polish peers. With CHF provisioning already lower than competitors', future earnings will benefit less from declining charge-offs. Based on our fair value, PEO trades at 2027 1.4x P/BV and 8.4x P/E, in line with Santander Bank Polska, which offers similar profitability and dividend yield. We also expect a lower dividend payout ratio of 60% in 2026-2027. Unless the merger proceeds, continued strong demand for corporate loans will require a greater focus on capital ratios. Among large Polish banks, we prefer PKO BP over Bank Pekao.

### CIT Hike Scenario

Assuming Poland raises the CIT rate for banks to 30% in 2026 and reduces it to 26% (along with a 10% cut in banking tax) from 2027 (we rule out another cut in 2028), our net profit estimates for Bank Pekao fall by 16% and 9% in 2026 and 2027, respectively, and the TP drops to PLN 188.56, below the bank's current market valuation.

<b>Current Price*</b>	193.80 PLN	<b>Upside</b>
<b>12M Target Price</b>	206.11 PLN	<b>+6.4%</b>

\* Price as of October 30, 2025, 5:00 PM

	rating	target price	issued
<b>new</b>	<b>hold</b>	<b>206.11 PLN</b>	<b>2025-10-31</b>
<b>old</b>	<b>buy</b>	<b>208.40 PLN</b>	<b>2025-06-13</b>
Key Metrics		PEO PW	vs. WIG
Ticker	PEO PW	1M Price Chng	+10.9% +5.0%
ISIN	PLPEKAO000016	YTD Price Chng	+62.1% +20.5%
Outst. Stock (m)	262.5	ADTV 1M	117.6 mln PLN
MC (PLN m)	50,866.7	ADTV 6M	147.1 mln PLN
		P/E 12M fwd	9.0 +12.6%
Free Float	67.2%	P/E 5Y avg	8.0 premium

### Earnings Projections

(PLN m)	2023	2024	2025E	2026E	2027E
NII	11,893	12,729	13,723	13,605	13,713
Total income	15,200	16,049	17,096	17,078	17,323
Costs	-4,821	-5,483	-6,047	-6,302	-6,561
Provisioning	-626	-883	-928	-1,181	-1,284
Net income	6,659	6,376	6,797	6,667	6,643
P/E	7.6	8.0	7.5	7.6	7.7
P/B	1.7	1.6	1.5	1.4	1.3
ROE	25.0%	20.5%	20.6%	18.7%	17.3%
DPS	5.42	19.20	18.22	15.54	15.24
DYield	2.8%	9.9%	9.4%	8.0%	7.9%

Forecast Update (% change)	2025E	2026E	2027E
Net interest income	+0.4%	+3.8%	+2.8%
Fee income	+2.2%	0.0%	-0.3%
Total costs	0.0%	0.0%	0.0%
Provisioning	-1.6%	+9.4%	+13.3%
Net income	-0.2%	+5.0%	+3.0%

#### 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  
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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 Pekao in the 12 months prior to this publication:

**Bank Pekao (Michał Konarski, Mikołaj Lemańczyk)**

Rating	buy	buy
Rating date	2025-06-13	2024-12-02
Target price (PLN)	208.40	181.88
Price on rating day	180.00	135.65

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