



Biuro maklerskie

mBank.pl

Friday, 27 October 2023 | update

Alior Bank: buy (reiterated)

ALR PW; ALR.WA | Banks, Poland

A Boost from CoR Guidance Update

We maintain our buy call on Alior Bank with a higher target price of PLN 81.00 per share.

After 3Q'23 results and a 2023 CoR guidance update to 1.1%, we decided to adjust our estimates accordingly, and we also opt to move the expected costs of a possible credit holiday extension to 2024, and exclude the benchmark rate reform (switch to WIRON) from our 2025 forecasts. This has resulted in a 7.5% higher NII estimate for 2023, an unchanged 2024 target, and a 13% upward revision to 2025E NII. At the same time, we have lowered net provisioning by 21%/26%/27% in 2023/24/25E, respectively. Consequently, our 2023/24/25 net income forecasts receive a respective boost of 17%/6%/47%.

Despite harsher market conditions (higher interest rates), Alior managed to expand its loan book portfolio in 9M'23, and we believe there is more to follow as the Bank is benefiting from the latest subsidized mortgage program. At the same time, thanks to its pricing policy and fixed-income bond portfolio, the yield on assets increased in 3Q'23 despite a substantial drop in the WIBOR rate. At the same time, an unwinding of hedging strategies (we expect positive delta from those in 2024 at PLN 400m) and a more conservative approach to deposit pricing, resulted flattish interest expenses. Therefore, the whole NII trajectory, thanks to NIM and volumes, is higher.

Despite the recent share price rally, Alior's valuation is not demanding in our opinion as the updated CoR outlook, along with the 2025 dividend prospects, should elevate Alior to a higher league, while its high beta status should result in outperformance in more favorable market environment.

NII and CoR fuel forecast upgrades

In 3Q'23, Alior beat market expectations by around 10%, and, more importantly, it upgraded the CoR guidance to 110bps in 2023, a similar level in 2024, and a medium-term level closer to 100bps.

In the recent couple of years, Alior managed to substantially transform its risk profile, and it is currently reaping the first fruits. For example, the default rate in 2019 was around 5.1%, while currently it is at 2.5%, riskier consumer finance lending has been balanced out by an increased share of mortgages (from 21% in 2019 to 29% in 3Q'23), and the corporate segment is registering a gradual decline in NPLs (through portfolio sales, recoveries, and write-offs).

That is why we opt to follow Alior's updated CoR guidance by upgrading our own CoR estimates to 110/117/115bps in 2023/24/25, respectively (previously 140/161/160). Additionally, in 3Q Alior once again set a higher bar for NII trajectory, which, together with the delay in the WIBOR benchmark reform, provided a boost to our NII forecasts, especially for 2025.

Higher ROE, higher valuation

We currently forecast Alior's ROE at 25% in 2023, 15% in 2024, and 12% in 2025 – levels that call for a higher valuation in our view. For our part, we currently value Alior at fair value close to 1.1x P/BV in 2023 and 0.9x P/BV in 2025.

(PLN m)	2021	2022	2023E	2024E	2025E
net interest income	2,798.2	3,559.9	4,673.3	4,372.0	4,247.8
non-interest income	1,007.2	950.9	1,017.6	1,052.7	1,082.1
costs	1,750.9	2,126.7	2,104.1	2,238.7	2,346.6
operating income	2,054.6	2,384.1	3,586.7	3,186.0	2,983.2
net profit	481.9	683.1	1,930.6	1,572.2	1,412.0
C/I (%)	46.0	47.1	37.0	41.3	44.0
ROE (%)	7.7	11.3	25.0	15.4	12.1
P/E (x)	17.7	12.5	4.4	5.4	6.0
P/B (x)	1.4	1.4	0.9	0.8	0.7
DPS (PLN)	0.00	0.00	0.00	0.00	3.65
dividend yield (%)	0.0	0.0	0.0	0.0	5.5%

current price	PLN 66.00
target price	PLN 81.00
mCap	PLN 8.53bn
free float	PLN 3.77bn
ADTV (3M)	PLN 15.00m

*Price as of Oct 26, 2023, 5:00 PM

Shareholders

PZU SA, PZU SFIO UNIVERSUM	31.91%
NN OFE	9.47%
Allianz OFE	8.83%
Generali OFE	5.56%
Others	44.23%

About

Alior Bank is a universal bank with a loan portfolio consisting of 60% retail loans and 40% corporate loans. Over the years, Alior completed a number of M&As. Today Alior is a member of PZU Group where it has an opportunity to capture increasing revenue synergies through bancassurance. Alior is characterized by relatively high lending margins that are offset by relatively large cost of risk.

ALR vs. WIG Banks



name	target price		recommendation	
	new	old	new	old
Alior Bank	81.00	65.00	buy	buy
name	current price	target price	upside	
	66.00	81.00	+22.7%	
forecast update		2023E	2024E	2025E
total income		6.4%	0.5%	9.9%
pre-tax profit		15.1%	5.8%	37.4%
net profit		17.2%	6.2%	47.2%

Analysts:

Michał Konarski
Equity Analyst, Expert
+48 515 025 640
michal.konarski@mbank.pl

Mikołaj Lemańczyk
Equity Analyst, Senior Specialist
+48 501 663 511
mikolaj.lemanczyk@mbank.pl

**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

Recommendations of Biuro maklerskie mBanku:

A recommendation is valid for a period of 12 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:

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

Recommendations are updated at least once every twelve months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for Sygnty. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. This report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. This report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of this report or for any damages incurred as a result of investment decisions taken on the basis of this report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Sygnty, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in this report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

mBank S.A. may have received compensation for services provided to the Issuer in the last 12 months.

mBank S.A. had a brokerage agreement in place with the Issuer in the last 12 months.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

The production of this recommendation was completed on October 27, 2023, 7:56 AM.

This recommendation was first disseminated on October 27, 2023, 8:30 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing this report, in full or in part, or disseminating in any way information contained in this report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: <https://mdm.pl/bm/analizy>

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of this recommendations.

This publication constitutes investment research in the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

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 Alior Bank in the 12 months prior to this publication:

Alior Bank (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy	buy	hold
Rating date	2023-09-28	2023-06-26	2023-03-27	2022-12-01
Target price (PLN)	65.00	64.00	50.00	36.06
Price on rating day	48.55	45.30	34.11	36.06

mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszczyk
director
+48 667 770 837
kamil.klisczyk@mbank.pl
energy, power generation

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Mateusz Krupa, CFA
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Konrad Anuszkiewicz, CFA
+48 510 478 019
konrad.anuszkiewicz@mbank.pl
industrials, mining

Sales and Trading

Traders

Piotr Gawron
director
+48 698 832 853 | +48 22 697 48 95
piotr.gawron@mbank.pl

Andrzej Kowalczyk
+48 789 868 634 | +48 22 697 47 44
andrzej.kowalczyk@mbank.pl

Karol Kułaj
+48 509 602 984 | +48 22 697 49 85
karol.kulaj@mbank.pl

Paweł Cyłkowski
+48 503 684 130 | +48 22 697 47 31
pawel.cylkowski@mbank.pl

Andrzej Sychowski
+48 605 848 003 | +48 22 697 48 46
andrzej.sychowski@mbank.pl

Piotr Brożyna
+48 512 756 702 | +48 22 697 48 47
piotr.brozyna@mbank.pl

Łukasz Płaska
+48 784 449 962 | +48 22 697 47 90
lukasz.plaska@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249 | +48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Maciej Sokołowski
director
maciej.sokolowski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl