

Banks

Key data

Price (DKK)	188
Country	Denmark
Bloomberg	SPKSJF DC
Reuters	SPKSJF.CO
Free float	79.0%
Market cap (DKKm)	3,263
No. of shares (m)	17.4
Next event	Q3: 2-Nov

* Price as at 09:02 CET on 14 August 2023

CEO	Lars Petersson
CFO	Jens Trane

Company description

Sparekassen Sjælland-Fyn A/S provides banking products and services in Denmark. Its products and services include net banking, commercial insurance, mobile banking, rental of commercial lease, financing, insurance and pension.

Ownership structure

Sydbank A/S	5.3%
AP Pension	5.3%
Købstædernes Forsikring	5.2%

Source: Company data (11 August 2023)

Estimate changes

	23E	24E	25E
NII	5.3%	8.1%	6.0%
PPP	7.1%	10.9%	8.3%
EPS (adj.)	9.6%	11.6%	8.6%

Source: Danske Bank Equity Research estimates

Analyst(s)

Asbjørn Nicholas Mørk

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<https://research.danskebank.com>

Important disclosures and certifications are contained from page 11 of this report

Sparekassen Sjælland-Fyn

Excellent operating momentum - and it has only just begun

Sparekassen Sjælland-Fyn delivered a strong Q2 report with rising net interest income, good underlying cost control and continued strong credit quality, but we expect the best is yet to come, as rising interest rates support the ‘Towards New Goals’ strategy. We estimate 13% post-tax ROE for the coming years. The 17.5% CET-1 ratio and 385% LCR add confidence. We raise our fair value range to DKK250-281/share, 33-50% upside.

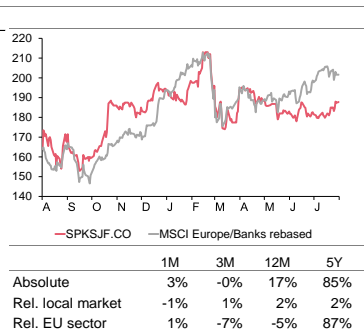
- Rising rates, cost control and a strong strategy continues to deliver.** Sparekassen Sjælland-Fyn’s reported a 23% y/y increase in NII, with strong 4% q/q bank lending volume growth and solid 2% deposit growth. Total income grew 30% y/y to DKK377m while costs rose only 2%. The positive earnings jaws continue as income grows faster than costs. Especially the bank’s very high excess liquidity position is driving NII higher, while the bank has not lifted lending rates fully yet. Looking ahead, the ‘Towards New Goals’ strategy is set to add further momentum to the already strong delivery. The ambitious cost/income target of below 50% by 2026 versus 60% in Q2 23 implies additional earnings upside potential. We estimate 13% average post-tax ROE for 2023-25, materially above the 7% average ROE in 2018-20, despite a lower equity base. We estimate 2023E pre-tax profit of DKK695m, at the upper end of the DKK650m-725m guidance range.
- Strong capital and excellent liquidity positions.** The strong 17.5% CET-1 ratio on standard capital models adds confidence. Also, the bank’s material 385% Liquidity Coverage Ratio leaves it very well positioned with a natural and structural deposit surplus that adds funding stability and generates good NII in the current rate environment, while the DKK9.8bn HTM portfolio drives NII tailwinds into 2024-25. With robust capital positions, the bank announced a DKK100m buyback ambition, with DKK50m initiated on 10 August.
- Credit quality remains very strong.** Despite inflation and potential recession fears, the bank’s credit quality remains very strong. High employment and a diverse lending book of private and SME customers is paying off. Of total lending 93% remains in the FSA’s two best rating categories and we see no real risk of materially higher loan loss provisions.
- Valuation.** SPKSJF trades at a 2024E P/E of 6.3x. We estimate a fair value range of DKK250-281/share (previously DKK225-255/share), 33-50% above the current share price. We raise our fair value range due to higher estimates.

Key financials

Year-end Dec (DKK)	2021	2022	2023E	2024E	2025E
NII (m)	582	660	840	885	887
Lending growth	1.0%	-3.1%	5.0%	3.0%	2.0%
Total revenues (m)	1,263	1,278	1,562	1,628	1,645
Pre-provision profits (PPP) (m)	484	455	685	740	744
PPP growth	31.7%	-6.1%	50.7%	8.0%	0.6%
Loan losses (m)	24.8	16.0	-27.9	-62.1	-63.5
PTP (m)	531	482	695	698	701
EPS (adj.)	22.7	20.1	28.5	29.6	30.8
DPS	6.00	6.00	6.00	6.00	6.00
Dividend yield	3.6%	3.1%	3.2%	3.2%	3.2%
C/I	61.7%	64.4%	56.1%	54.5%	54.8%
PPP/avg. lending	4.03%	3.83%	5.72%	5.94%	5.83%
Loan loss ratio	-0.21%	-0.13%	0.23%	0.50%	0.50%
Equity tier-1 ratio	19.7	21.9	21.9	22.8	23.5
RoNTA	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (adj.) (x)	7.3	9.6	6.6	6.3	6.1
P/NTA	0.86	0.95	0.82	0.74	0.67

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Investment case

In our view, Sparekassen Sjælland-Fyn ticks all the boxes of a potentially attractive investment, diverging from the general earnings pressure that the sector is facing.

The bank has a clear niche strategy from its physical presence, with strong 11% customer inflow in recent years and a better ability than peers in converting customer inflow into both business volumes and AUM growth. Its home market is less competitive, and it benefits from Totalcredit's lower mortgage prices. A Bankdata setup makes it a potential takeover target, but with clear financial targets, management is keen to deliver stand-alone.

After the bank successfully delivered on its 'New Ways' strategy, in H1 22 it announced a new strategy for 2022-25 named 'Towards New Goals'. Strong delivery in recent years adds comfort in management, and if Sparekassen Sjælland-Fyn delivers by 2025, we see strong additional upside.

The new targets are:

- Cost/income ratio below 50% by 2026
- ROE after tax of >10% for the period
- DPS equal to 25% of net profits with share buybacks on top
- A solvency capital ratio of at least 20% (23.9% at Q1 23)
- 4-8% annual growth to total business volumes.

Valuation and methodology for deriving 12M target price

We value Sparekassen Sjælland-Fyn using several valuation approaches, including a Gordon Growth model where we value the bank based on its normalised profitability capacity. We continue to apply 8.5-10.5% cost of capital and 55-75bp of normalised loan loss provisions to determine a fair value range.

Risks

Macroeconomic exposures

Like its peers, Sparekassen Sjælland-Fyn is exposed to macroeconomic developments, including economic activity and interest rate levels.

Higher costs

Management has a clear ambition of lowering costs in the coming years, while at the same time increasing business volumes and income. The bank has been able to lower full-time employees (FTEs) and hence costs in recent quarters, but general wage inflation and competition for key FTEs could drive costs higher.

A deterioration in credit quality

Sparekassen Sjælland-Fyn has grown lending in recent years. Higher growth and new customer inflow could potentially trigger excessive risk taking and as a result higher loan loss provisions. Considering the lending portfolio churn in the past decade to a more residentially dominated lending book, we are not concerned, however.

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NII outlook continues to improve

NII came in at DKK207m in Q2, up 23% versus Q2 22. Higher rates had material positive impact. In addition, bank lending rose as corporate lending improved while especially car loans has driven residential lending higher too. In addition, deposit volumes continues to grow, as savings ratios remain high among residential clients, demonstrating the sound and stable business the bank is running.

With materially rising rates, Sparekassen Sjælland-Fyn is now able to restore long-term prudent deposit margins and the structurally high excess deposit base is yielding a good return.

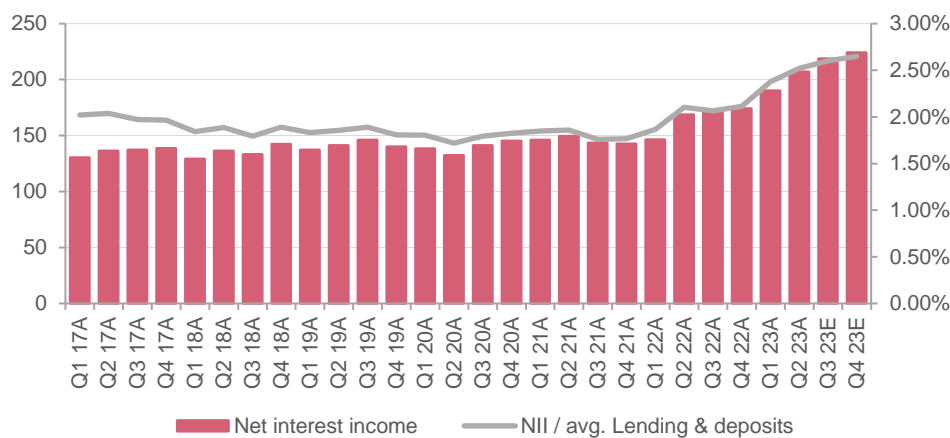
The bank's customer base with fewer large corporate clients, means it has less money-market linked lending products which has until now caused less NII tailwinds than seen in larger peers. On a positive however, delayed phase-in of announced price hikes means that the bank still has solid NII tailwinds to come through in H2 23 and into 2024.

In addition to lending and deposit effects, the bank's liquidity portfolio continues to benefit from rising rates toom. The DKK9.8bn HTM is currently yielding 2% and with 1.5 years duration, it should reprice at least 1% during 2024, adding c. DKK100m to NII.

Total lending volumes including non-balance sheet items was record high at DKK60.6bn.

We estimate NII to grow to DKK840m in 2023E, a material 44% increase versus the DKK582m level in 2021. With scope for more rate hikes on the horizon, the bank's NII momentum could turn out to be even stronger than we currently expect.

Chart 1. Net interest income and margin development (DKKm)



Source: Company data, Danske Bank Equity Research estimates

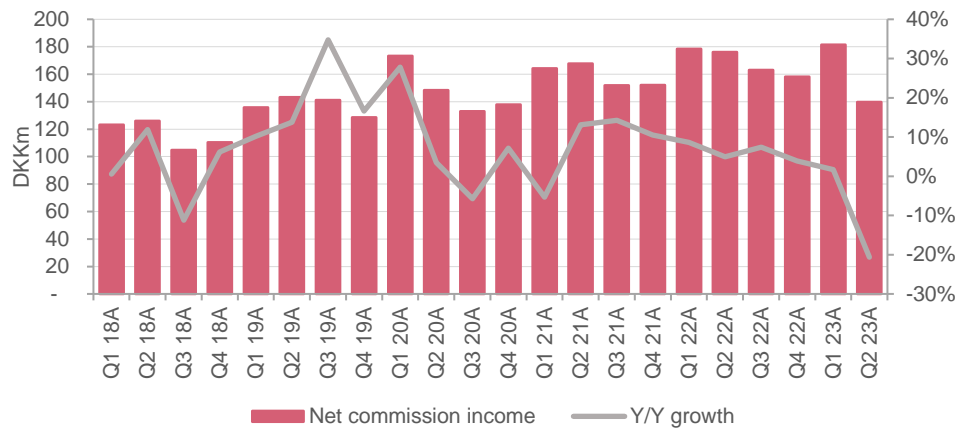
Fee income softer from lower mortgage activity

Fee and commission income came in at DKK140m, including dividend income. This was materially lower than the DKK176m level in Q2 2022 but it was affected by lower mortgage refinancing activity and lower house market activity. Remortgaging fees fell 30% y/y while trading & custody fees fell 15%. Leaving that aside, underlying fee income was relatively stable.

With c.80% of total fee income being driven by volumes rather than activity, fee income should continue to be resilient, even in a potential recession.

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Chart 1. Net fee and commission income, quarterly



Source: Company data, Danske Bank Equity Research

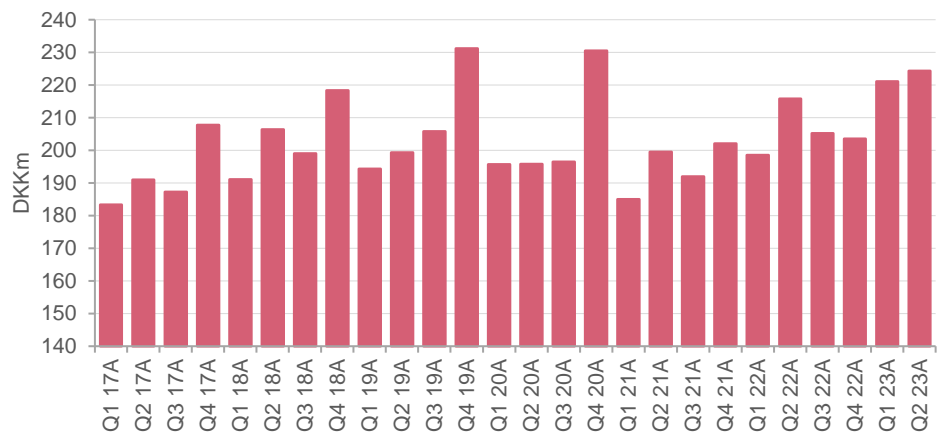
Underlying costs delivery continues in a year with much headwind

Total costs were DKK224m in Q2 23, up 4% y/y. Costs were affected by union agreed wage hikes as well as more FTEs, as the bank is chasing its new 'Towards New Goals' strategy. In addition, depreciation rose as the bank took extra value adjustment on domicile properties after an FSA inspection and hence this should not be extrapolated.

The bank opened a new branch in Gilleleje while a new advisory and tech centre in Copenhagen is being established. Both are driving costs higher too.

In our view, it is important that Sparekassen Sjælland-Fyn clearly delivered on the cost plans in the former 'New Ways' strategy, and we expect this cost focus to continue. We note that management still targets a cost/income ratio of 50% by end-2025 for the fiscal year 2026.

Chart 3. Cost development, quarterly



Source: Company data, Danske Bank Equity Research

Given inflation and rising credit demand, we argue that rising costs are expected. We prefer banks to invest in income growth when prudent, and in this case, we see good arguments for investing further. After all, few banks have done as much as Sparekassen Sjælland-Fyn in recent years when it comes to managing income and costs simultaneously.

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Chart 4. Cost development, annually



Source: Company data, Danske Bank Equity Research estimates

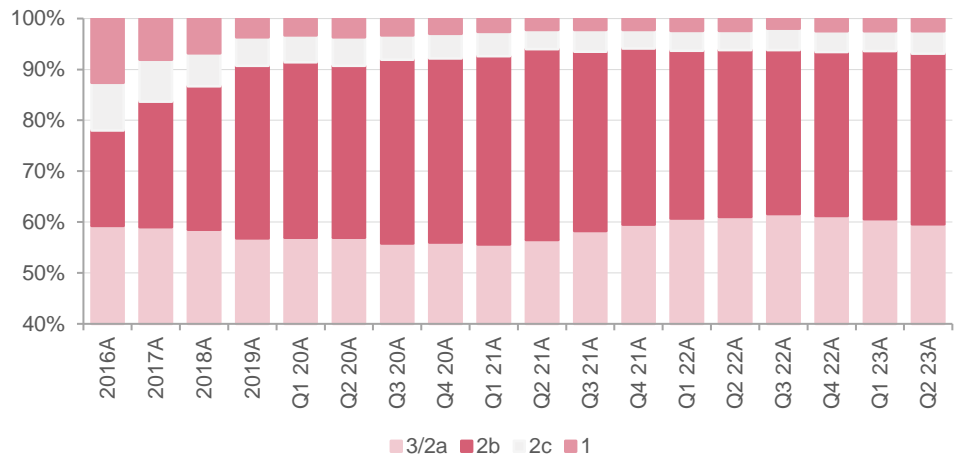
Credit quality continues to look strong

Sparekassen Sjælland-Fyn booked DKK8m (18bp) of loan loss provisions in Q2 23. Realised losses were low and credit quality continues to look strong.

Management assessed provisions were unchanged in order to maintain a prudent buffer towards potential future risks from inflation and rising general living costs for the bank's customers.

Measured on the FSA's rating scale, category '3' and '2a' make up 60% of the total lending book, which is very close to the highest ever recorded, which was in Q3 22. We note that employment remains high in the bank's home markets and the economic activity continues to be supportive.

Chart 5. Lending book composition by Danish FSA criteria



Source: Company data, Danske Bank Equity Research

Capital position very strong, buyback initiated

The CET-1 stood at 17.5% at Q2 23, while the solvency capital ratio was a full 22.6%, well above the target of >20% solvency.

With such a strong capital position and a very solid credit book, we consider it only prudent that management is now looking at capital distribution as well.

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Sparekassen Sjælland-Fyn announced a new DKK100m buyback ambition with the first DKK50m buyback programme initiated on 10 August.

The bank's relatively conservative approach to capital distribution should be seen in the context of the soft capital position the bank was in after the financial crisis. Looking at macro uncertainty for H2 23 and 2024, we view the bank as very well positioned.

2023 guidance solid

Sparekassen Sjælland-Fyn on 26 June raised its guidance to pre-tax profits of DKK650-725m (from DKK550-650m) for 2023. The bank is normally conservative when guiding and we see potential upside to the latest guidance if rates continue to rise and credit quality remains robust, as we expect.

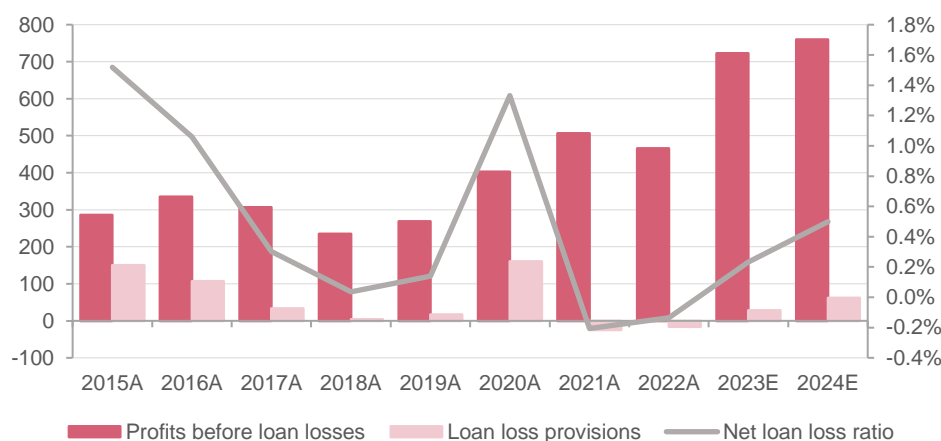
We estimate 2023E pre-tax profits at DKK695m.

Rising core earnings remains key – rising rates add support

In our view, the Sparekassen Sjælland-Fyn investment case revolves around a low valuation combined with substantial improvements to core earnings and profits in the coming years. Very few banks have been able to deliver similar improvements to core operations, and the combined improvement since 2018 is impressive.

With the new strategy for 2025-26, we expect the bank to continue to demonstrate positive jaws on income versus costs. In our view, it is key that management has set its own independent strategy for profitability improvements and does not simply rely on rising rates. That said, we expect rising rates to add income tailwind to the underlying management improvements. The combination of the two is important, and as a result we estimate post-tax ROE of 13% on average for 2023-25E.

Chart 6. Core earnings development (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Fair value range slightly higher

Our capital- and risk-adjusted Gordon Growth model returns a fair value range of DKK250-281/share with a mid-range at DKK265. This is 33-50% above current share price. In the range, we continue to apply a cost of capital range of 10.5-11.5% and 70-90bp of normalised loan losses.

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Figure 1. Sparekassen Sjælland-Fyn Gordon's Growth valuation range

		Normalised loan loss ratio						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
Cost of Equity	9.5%	320	314	308	302	297	291	285
	10.0%	305	300	294	289	283	278	272
	10.5%	292	287	281	276	271	266	260
	11.0%	280	275	270	265	260	255	250
	11.5%	269	264	259	254	250	245	240
	12.0%	259	254	250	245	240	236	231
	12.5%	250	245	241	236	232	227	223

		Upside/downside vs. current share price						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
Cost of Equity	9.5%	70%	67%	64%	61%	58%	55%	52%
	10.0%	62%	59%	56%	54%	51%	48%	45%
	10.5%	55%	52%	50%	47%	44%	41%	39%
	11.0%	49%	46%	44%	41%	38%	36%	33%
	11.5%	43%	40%	38%	35%	33%	30%	28%
	12.0%	38%	35%	33%	30%	28%	25%	23%
	12.5%	33%	30%	28%	26%	23%	21%	19%

Prices as at close on 11 August 2023. Source: Danske Bank Equity Research estimates.

Table 1. Sparekassen Sjælland-Fyn, annual data

DKK m	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Net interest income	541	565	557	582	660	840	885	887
Net commission income	464	549	592	636	676	638	658	673
NII and net fee income	1,005	1,113	1,149	1,218	1,335	1,478	1,543	1,560
Core capital gains	21	-44	16	30	-73	64	65	66
Other income	16	27	21	16	16	20	20	20
Total core income	1,042	1,097	1,186	1,263	1,278	1,562	1,628	1,645
Core banking costs	-815	-830	-818	-779	-823	-877	-888	-901
Profits, associated companies	8	2	35	22	11	38	20	20
Profits before loan losses	235	268	403	506	466	723	760	764
Loan loss provisions	-4	-17	-161	25	16	-28	-62	-64
Core earnings after loan losses	230	251	242	531	482	695	698	701
Net Extraordinary	0	0	0	0	0	0	0	0
Pretax profits	230	251	242	531	482	695	698	701
Tax	-22	-25	-13	-87	-110	-146	-140	-154
Net profits before AT-1 costs	208	227	229	444	372	549	558	547
Minority interests / AT-1	-60	-24	-24	-25	-26	-32	-24	-24
Net profits	148	202	204	419	346	516	534	523
Normalised profits	107	208	167	395	350	488	493	495
EPS, net profits	10.4	11.6	11.8	24.1	19.9	30.1	32.1	32.6
EPS, adj.	7.5	12.0	9.6	22.7	20.1	28.5	29.6	30.8
BV/Share	155	164	172	196	208	233	259	286
NTA/share	148	159	167	191	203	228	254	281
No. of shares, year-end	17.4	17.4	17.4	17.4	17.4	17.1	16.7	16.1
No. of shares, average	14.2	17.4	17.4	17.4	17.4	17.1	16.7	16.1
Tier-1ratio	15.1%	16.2%	18.4%	19.7%	21.9%	21.9%	22.8%	23.5%
CET-1ratio	13.0%	14.0%	16.1%	17.5%	18.9%	19.3%	20.2%	21.0%
RoNAV	6.4%	7.6%	7.2%	13.5%	10.1%	13.9%	13.1%	12.0%
Return on Equity	6.0%	7.3%	7.0%	13.1%	9.8%	13.6%	12.9%	11.7%
Return on Equity, before tax	8.5%	8.8%	8.1%	15.6%	13.3%	17.4%	16.2%	15.3%
Cost/Income ratio	78%	76%	69%	62%	64%	56%	55%	55%
Lending	12,174	12,217	11,951	12,067	11,690	12,275	12,648	12,903
Deposits from customers	18,223	18,700	20,001	19,766	20,673	21,351	21,781	22,220
NII / avg. Lending & deposits	1.84%	1.84%	1.77%	1.82%	2.05%	2.55%	2.60%	2.55%
Loan loss ratio, lending +guarantees	0.03%	0.09%	0.84%	-0.13%	-0.09%	0.16%	0.35%	0.35%
REA	17,639	17,343	16,799	17,017	16,443	17,058	17,575	18,108
Buyback announcement	0	0	0	0	0	100	100	150
Dividend per share	2.5	3.0	0.0	6.0	6.0	6.0	6.0	6.0
Total cash distribution (div +buybacks com	43	52	0	104	104	153	200	246
Total pay-out-ratio (incl. buyback)	29%	26%	0%	25%	45%	39%	47%	47%

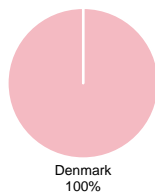
Note: per share data in DKK

Source: Company data, Danske Bank Equity Research estimates

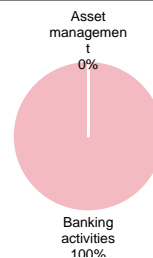
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Company summary

Income breakdown by geographical area



Income breakdown by segment



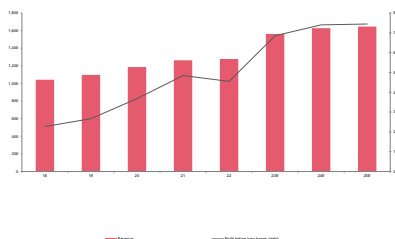
Company information

Sparekassen Sjælland-Fyn
 Isefjord Allé 5, 3200 Holbæk
 Denmark
 www.spks.dk

Main shareholders

Name	Votes (%)	Capital (%)
Sydbank A/S	0.1%	5.3%
AP Pension	0.1%	5.3%
Købstædemes Forsikring	0.1%	5.2%

Revenue and profit before loan losses (DKKm)



Loan loss ratio and profit before loan losses (DKKm)



Source: FactSet, Company data, Danske Bank Equity Research estimates

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Summary tables

INCOME STATEMENT

Year end Dec, DKKm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Net interest income	602	551	542	541	565	557	582	660	840	885
Commissions	418	421	457	464	549	592	636	676	638	658
Total revenues	977	1,043	1,073	1,042	1,097	1,186	1,263	1,278	1,562	1,628
Costs	-694	-710	-769	-815	-830	-818	-779	-823	-877	-888
Pre-provision profits (PPP)	283	333	304	227	267	368	484	455	685	740
Loan losses	-150	-107	-33.4	-4.4	-16.9	-161	24.8	16.0	-27.9	-62.1
Pre-tax profit	136	228	273	230	251	242	531	482	695	698
Net profit	83.9	159	201	148	202	204	419	346	516	534
Net profit (adj.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

DKKk	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Lending	9,763	10,474	11,681	12,174	12,217	11,951	12,067	11,690	12,275	12,648
Other interest bearing assets	6,866	7,209	7,127	8,442	9,573	11,444	11,517	13,784	14,464	14,755
Goodwill	162	150	138	125	91.3	91.3	91.2	91.2	91.2	91.2
Total assets	18,730	19,859	21,487	23,857	25,359	27,266	28,001	29,631	31,324	32,063
Deposits from public	14,633	15,647	16,589	18,223	18,700	20,001	19,766	20,673	21,351	21,781
Wholesale funding	0.0	0.0	0.0	0.0	0.0	199	378	378	383	390
Subordinated debt	465	466	403	454	673	570	670	571	446	455
Equity	1,939	2,058	2,228	2,697	2,851	2,996	3,410	3,621	3,990	4,322
NTA	1,778	1,908	2,090	2,572	2,760	2,905	3,318	3,530	3,899	4,231

PER SHARE DATA

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
No. of shares, fully diluted YE (m)	12.9	12.9	13.2	17.4	17.4	17.4	17.4	17.4	17.1	16.7
No. of shares, fully diluted avg. (m)	12.9	12.9	13.0	14.2	17.4	17.4	17.4	17.4	17.1	16.7
EPS (reported) (DKK)	6.48	12.3	15.4	10.4	11.6	11.8	24.1	19.9	30.1	32.1
EPS (adj.) (DKK)	4.34	10.5	13.2	7.51	12.0	9.58	22.7	20.1	28.5	29.6
DPS (DKK)	3.00	3.10	0.00	2.50	3.00	0.00	6.00	6.00	6.00	6.00
Book value per share (DKK)	150	159	169	155	164	172	196	208	233	259

MARGINS AND GROWTH

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
C/I, adjusted	68.1%	71.7%	78.2%	75.7%	69.0%	61.7%	64.4%	56.1%	54.5%	54.8%
NI/avg. lending	5.4%	4.9%	4.5%	4.6%	4.6%	4.8%	5.6%	7.0%	7.1%	6.9%
Loan loss ratio	1.06%	0.30%	0.04%	0.14%	1.33%	-0.21%	-0.13%	0.23%	0.50%	0.50%
NI growth	-8.5%	-1.6%	-0.3%	4.4%	-1.4%	4.4%	13.4%	27.3%	5.3%	0.2%
Revenue growth	6.7%	2.9%	-2.9%	5.3%	8.1%	6.5%	1.2%	22.3%	4.2%	1.1%
Cost growth	-2.3%	-8.4%	-5.9%	-1.9%	1.5%	4.9%	-5.7%	-6.5%	-1.2%	-1.5%
PPP growth	17.5%	-8.8%	-25.3%	17.3%	38.0%	31.7%	-6.1%	50.7%	8.0%	0.6%
RWA growth	7.7%	7.0%	3.9%	-1.7%	-3.1%	1.3%	-3.4%	3.7%	3.0%	3.0%

PROFITABILITY

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
RoE, reported profits	4.7%	8.0%	9.4%	6.0%	7.3%	7.0%	13.1%	9.8%	13.7%	13.0%
RoNTA, adj. profits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tier-1	10.0%	9.9%	10.7%	13.0%	14.0%	16.1%	17.5%	18.9%	19.3%	20.2%
Equity tier-1	13.0%	12.9%	14.0%	15.1%	16.2%	18.4%	19.7%	21.9%	21.9%	22.8%
RWA	14,721	15,858	16,973	17,639	17,343	16,799	17,017	16,443	17,058	17,575

VALUATION

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Share price (DKK)	97.3	106	114	80.4	89.6	90.0	165	194	188	188
Market cap (DKKk)	1,260	1,376	1,497	1,397	1,557	1,564	2,867	3,362	3,216	3,131
P/E (reported) (x)	15.0	8.6	7.4	7.7	7.7	7.7	6.8	9.7	6.2	5.9
P/E (adj.) (x)	22.4	10.1	8.6	10.7	7.5	9.4	7.3	9.6	6.6	6.3
P/BV (x)	0.65	0.67	0.67	0.52	0.55	0.52	0.84	0.93	0.81	0.72
P/NTA (x)	0.71	0.72	0.72	0.54	0.56	0.54	0.86	0.95	0.82	0.74
Dividend yield	3.1%	2.9%		3.1%	3.3%		3.6%	3.1%	3.2%	3.2%
Total yield (incl. buybacks)	3.1%	2.9%		3.1%	3.3%		3.6%	3.1%	4.7%	6.4%

Source: Company data, Danske Bank Equity Research estimates

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