

Banks

Key data

Price (DKK)	212
Country	Denmark
Bloomberg	SPKSJF DC
Reuters	SPKSJF.CO
Free float	79.0%
Market cap (DKKm)	3,675
No. of shares (m)	17.4
Next event	Q2: 15-Aug

* Price as at 11:53 CET on 6 May 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

Estimate changes

	24E	25E	26E
NII	-3.5%	-2.8%	-2.8%
PPP	-4.5%	-6.0%	-6.1%
EPS (adj.)	-5.7%	-6.7%	-6.9%

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

Strong combo of self-made tailwinds and a strong home market

Sparekassen Sjælland-Fyn reported solid Q1 results with stable net interest income, strong lending growth, and continued customer inflow. Adding a firm grip on costs and continued strong credit quality, the bank reported its best quarterly pre-tax result of DKK226m. Unlike peers, the bank maintains strong NII, further supported by its ‘Towards New Goals’ strategy. We estimate 11-14% post-tax ROE for the coming years. Our fair value range is DKK277-312/share, 31-48% above the current share price.

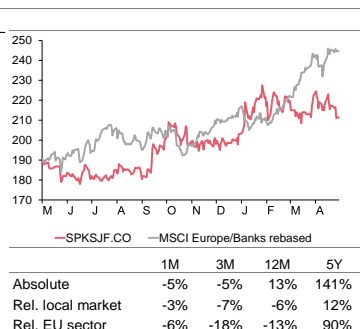
- **Strong customer inflow while others are showing NII weakness.** Sparekassen Sjælland-Fyn’s Q1 24 results showed 25% y/y increase in NII, driven by strong 9% higher lending volumes y/y and stable deposits. Continued attractive customer inflow and a strong home market, which is benefiting from the expansion of Danish pharma group Novo Nordisk, means that Sparekassen Sjælland-Fyn’s NII has been stable, while most peers reported a decline in NII in Q4 23 and Q1 24. We estimate that Sparekassen Sjælland-Fyn should increase NII by 12% in 2024, the highest of all banks in our coverage, driven by volume growth and higher portfolio income.
- **‘Towards New Goals’ strategy brings positive earnings jaws.** Positive jaws for 2024 are driven by income growing faster than costs. The ambitious cost/income target of below 50% by 2026 compares with 57% in 2023, which leaves additional earnings upside potential. We estimate 12% average post-tax ROE for 2024-25, materially above the 7% average ROE in 2018-20. We estimate 2024 pre-tax profit of DKK744m, at the high-end of the DKK650-755m guidance range, mainly due to higher expected NII and low credit provisions. With a comforting capital position, we expect more buybacks during 2024.
- **Credit quality remains robust.** The bank’s credit quality remains strong, and 92% of all lending is categorised within the FSA’s best two classes. We estimate DKK54m (31bps) of net loan loss provisions for 2024.
- **Valuation.** SPKSJF trades at 2024E P/E of 6.7x. We estimate a fair value range of DKK277-312/share (previously DKK275-312), 31-48% above the current share price. We expect the bank to execute DKK100m of buybacks during 2024, as approved by the 2024 AGM.

Key financials

Year-end Dec (DKK)	2022	2023	2024E	2025E	2026E
NII (m)	660	862	963	936	913
Lending growth	-3.1%	8.2%	5.7%	4.1%	3.0%
Total revenues (m)	1,278	1,584	1,705	1,668	1,659
Pre-provision profits (PPP) (m)	455	676	774	718	695
PPP growth	-6.1%	48.7%	14.5%	-7.3%	-3.2%
Loan losses (m)	16.0	-15.6	-53.6	-63.2	-65.2
PTP (m)	482	701	744	675	650
EPS (adj.)	20.1	29.2	31.5	29.7	29.5
DPS	6.00	8.00	9.00	9.00	9.00
Dividend yield	3.1%	4.0%	4.3%	4.3%	4.3%
C/I	64.4%	57.3%	54.6%	56.9%	58.1%
PPP/avg. lending	3.83%	5.56%	5.95%	5.27%	4.92%
Loan loss ratio	-0.13%	0.13%	0.41%	0.46%	0.46%
Equity tier-1 ratio	21.9	18.7	20.7	21.0	21.2
RoNTA	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (adj.) (x)	9.6	6.8	6.7	7.1	7.2
P/NTA	0.95	0.86	0.82	0.76	0.70

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 faced by the sector.

The bank has a 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 Totalkredit's lower mortgage prices. A Bankdata setup makes it a potential takeover target, but with financial targets, management is keen to deliver standalone performance.

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 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% (24.3% at Q3 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 rates.

Higher costs

Management has a clear ambition of lowering costs in the coming years, while 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 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 remains robust but closer to peak

NII was DKK238m in Q1, largely flat versus Q4 23 and slightly better adjusted for interest days.

Volume growth continued to contribute. Bank lending increased as corporate lending improved due to continued SME customer inflow and increased investment need in this customer group. This led to corporate lending increasing 18% y/y. Car loans at attractive rates for electric vehicles has driven growth in residential lending, but at a more moderate 2% growth.

Deposit volumes declined slightly in Q1, but the underlying savings ratio remains high among residential clients, demonstrating the bank’s sound and stable business and the geographical location of the bank’s home market close to Novo Nordisk production facilities with strong local employment as a result.

The bank’s customer base with fewer large corporate clients means that it has less money market-linked lending products, which until mid-2023 caused less NII tailwinds than in larger peers. However, delayed phase-in of announced price hikes means that the bank has solid NII tailwind in 2024.

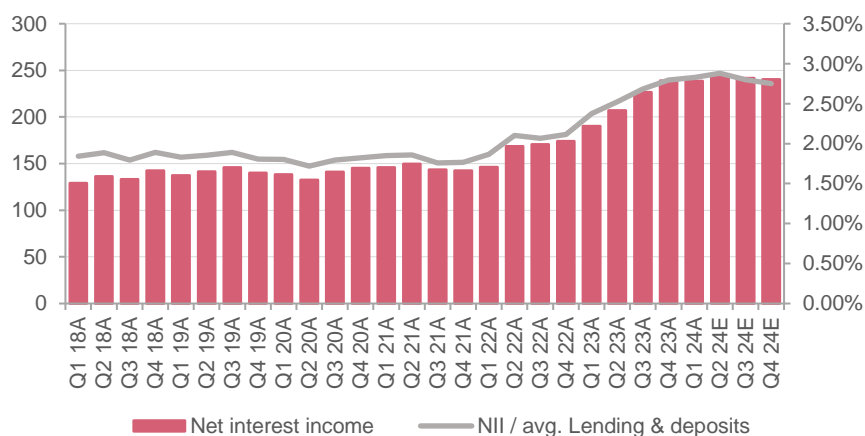
Solid lending growth is driven by customer inflow, which also drives higher deposit volumes. However, the deposit surplus declined to DKK8.2bn, although this also means that Sparekassen Sjælland-Fyn is less exposed to NII pressure from falling interest rates.

In addition to lending and deposit effects, the bank’s liquidity portfolio continues to benefit from rising rates too. The DKK10bn HTM currently yields less than 2% and with 1.5 years duration it should reprice at least 1-2% during 2024-25, adding c. DKK50m to NII in 2024.

The above means that while several Danish peers have reported lower sequential NII in recent quarters, Sparekassen Sjælland-Fyn should be able to keep the NII levels for the time being.

We estimate NII to grow from DKK862m in 2023 to DKK963m in 2024, equal to a material 12% increase versus 2023 and 66% above the DKK582m in 2021.

Chart 1. Net interest income and margin (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Strong underlying fee income

Fee and commission income was DKK174m, including dividend income. This was materially higher than the DKK146m in Q4 23, and slightly lower versus Q1 23 income at DKK181m.

The lower income was caused by lower dividend income from sector shares, which in 2024 will be booked in Q2 rather than in Q1.

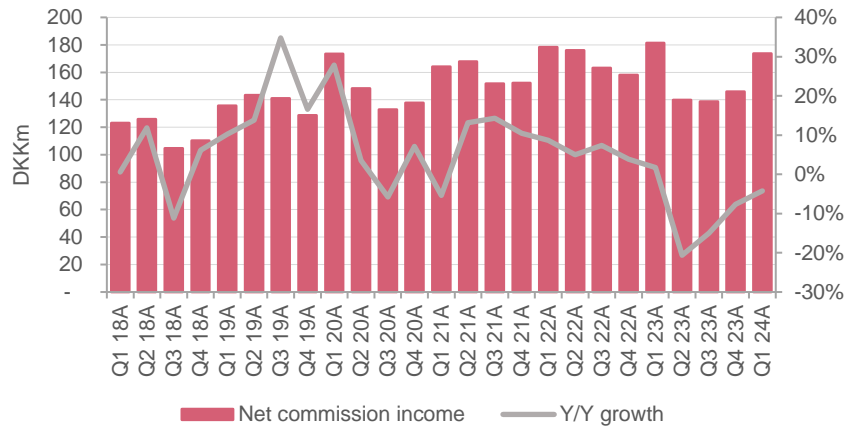
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Leaving that aside, fee income was strong and boosted by AUM and investment fees as well as better than expected housing market activity.

With c. 80% of total fee income driven by volumes rather than activity, fee income should remain resilient, even in a potential recession. In addition, AUM continues to grow driven by benign market trends in Q4 and customer inflow. We also expect mortgage activity to increase in 2024.

Chart 1. Net fee and commission income, quarterly



Source: Company data, Danske Bank Equity Research

Underlying costs delivery, but one-offs in 2023

Total costs were DKK230m in Q1 24, up 4% y/y due to salary inflation and the bank's growth strategy, mitigated by continued cost focus.

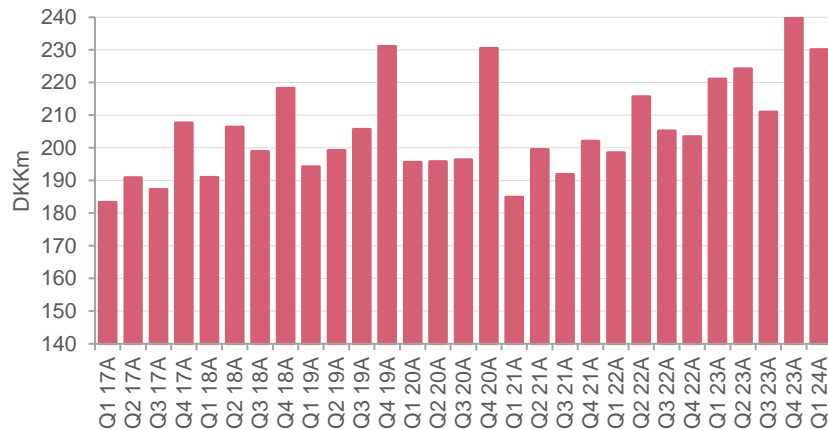
The bank has opened a new branch in Gilleleje and an advisory centre in Taastrup, while a new advisory and tech centre in Copenhagen is being established. Both are driving costs.

However, with cost initiatives taken in November 2023, the bank took out DKK45m of costs annually, and as a result, we expect modest cost growth of 2.5% in 2024 as the bank pursues its new 'Towards new Goals' strategy.

In our view, it is important that Sparekassen Sjælland-Fyn achieved the cost plans in its 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.

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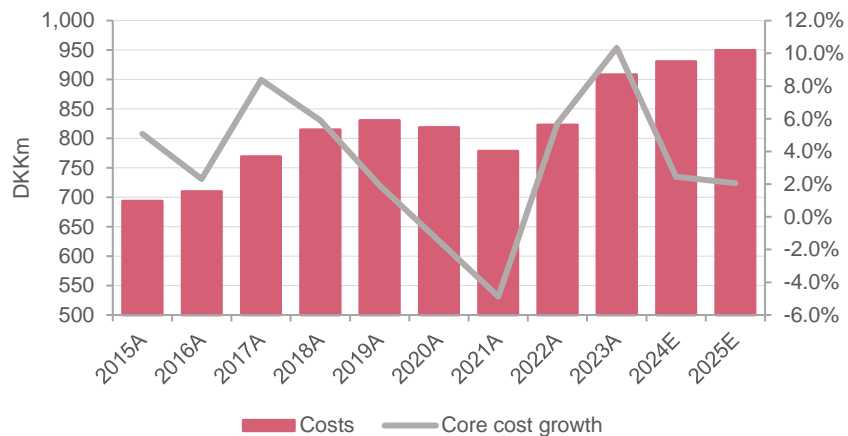
Chart 3. Costs, quarterly



Source: Company data, Danske Bank Equity Research

Given inflation and rising credit demand, we argue that some increase in costs is 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.

Chart 4. Costs, annually



Source: Company data, Danske Bank Equity Research estimates

Credit quality could provide positive surprises ahead

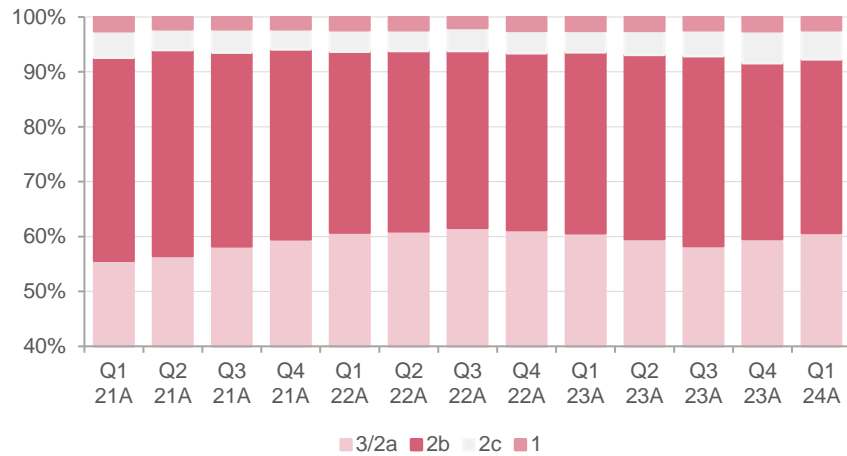
Sparekassen Sjælland-Fyn booked DKK10m (23bps) of loan loss provisions in Q1 24. Realised losses were low and credit quality remains strong.

Management assessed that provisions made up a largely unchanged DKK176m (DKK178m) in order to maintain a prudent buffer towards potential future risks.

Measured on the FSA's rating scale, category '3' and '2a' make up 61% of the total lending book, which is close to the highest recorded in Q3 22. We note that employment remains high in the bank's home markets and the economic activity continues to be supportive.

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Chart 5. Lending book composition by Danish FSA criteria



Source: Company data, Danske Bank Equity Research

Capital position remains strong

The CET-1 ratio was 17.7% at Q1 24, while the solvency capital ratio was 22.9%, above the target of >20% solvency.

With such a strong capital position and a solid credit book, we consider it only prudent that management is now actively increasing capital distribution. We would expect the bank to announce new share buybacks later in 2024.

2024 guidance indicates a potential record year and could even be conservative

Sparekassen Sjælland-Fyn expects pre-tax profits of DKK650-750m for 2024, compared with DKK701m in 2023. We estimate DKK744m, driven by strong 12% NII growth, customer inflow, and strong credit quality.

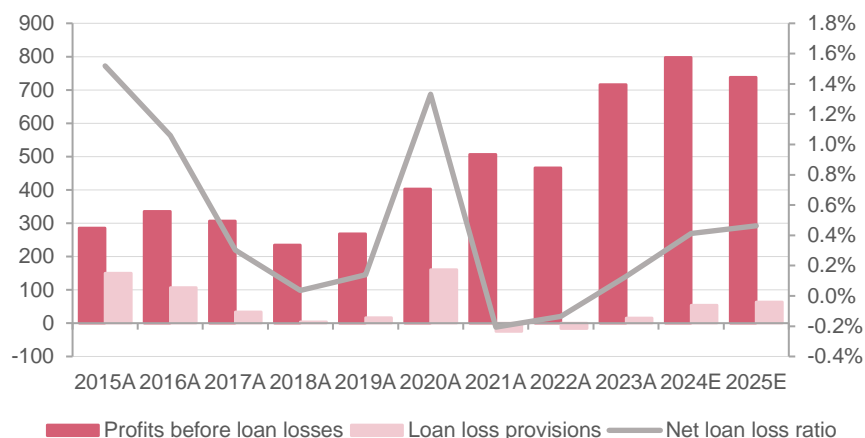
Rising core earnings remains key

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. Few banks have been able to achieve 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 see rising rates adding 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 2024-25.

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Chart 6. Core earnings (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Fair value range largely unchanged

Our capital- and risk-adjusted Gordon Growth model returns a fair value range of DKK277-312/share with a midpoint of DKK294. This is 31-48% above current share price. We continue to apply a cost of capital of 10.5-11.5% and 70-90bp of normalised loan losses.

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%	355	348	342	336	329	323	317
	10.0%	338	332	326	320	314	308	302
	10.5%	323	318	312	306	301	295	289
	11.0%	310	304	299	294	288	283	277
	11.5%	298	292	287	282	277	272	266
	12.0%	286	281	276	271	266	261	256
	12.5%	276	271	266	262	257	252	247

		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%	68%	65%	62%	59%	56%	53%	50%
	10.0%	60%	57%	55%	52%	49%	46%	43%
	10.5%	53%	51%	48%	45%	42%	40%	37%
	11.0%	47%	44%	42%	39%	37%	34%	31%
	11.5%	41%	39%	36%	34%	31%	29%	26%
	12.0%	36%	33%	31%	29%	26%	24%	21%
	12.5%	31%	29%	26%	24%	22%	19%	17%

Source: Danske Bank Equity Research estimates. Priced as at 09:30 CET on 6 May 2024.

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Table 1. Sparekassen Sjælland-Fyn, annual data

DKKm	2018 A	2019 A	2020 A	2021 A	2022 A	2023 A	2024 E	2025 E	2026 E
Net interest income	541	565	557	582	660	862	963	936	913
Net commission income	464	549	592	636	676	606	620	632	646
NII and net fee income	1,005	1,113	1,149	1,218	1,335	1,468	1,584	1,568	1,559
Core capital gains	21	-44	16	30	-73	98	101	80	80
Other income	16	27	21	16	16	18	20	20	20
Total core income	1,042	1,097	1,186	1,263	1,278	1,584	1,705	1,668	1,659
Core banking costs	-815	-830	-818	-779	-823	-908	-930	-949	-964
Profits, associated companies	8	2	35	22	11	40	23	20	20
Profits before loan losses	235	268	403	506	466	716	798	738	715
Loan loss provisions	-4	-17	-161	25	16	-16	-54	-63	-65
Core earnings after loan losses	230	251	242	531	482	701	744	675	650
Net Extraordinary	0	0	0	0	0	0	0	0	0
Pretax profits	230	251	242	531	482	701	744	675	650
Tax	-22	-25	-13	-87	-110	-142	-54	-148	-143
Net profits before AT-1 costs	208	227	229	444	372	558	590	526	507
Minority interests / AT-1	-60	-24	-24	-25	-26	-43	-29	-24	-24
Net profits	148	202	204	419	346	515	561	502	483
Normalised profits	107	208	167	395	350	504	522	476	457
EPS, net profits	10.4	11.6	11.8	24.1	19.9	29.9	33.8	31.4	31.2
EPS, adj.	7.5	12.0	9.6	22.7	20.1	29.2	31.5	29.7	29.5
BV/Share	155	164	172	196	208	238	263	285	307
NTA/share	148	159	167	191	203	232	257	279	301
No. of shares, year-end	17.4	17.4	17.4	17.4	17.4	16.9	16.6	16.0	15.5
No. of shares, average	14.2	17.4	17.4	17.4	17.4	17.3	16.6	16.0	15.5
Tier-1 ratio	15.1%	16.2%	18.4%	19.7%	21.9%	18.7%	20.7%	21.0%	21.2%
CET-1 ratio	13.0%	14.0%	16.1%	17.5%	18.9%	16.4%	18.6%	18.9%	19.1%
RoNAV	6.4%	7.6%	7.2%	13.5%	10.1%	13.8%	13.7%	11.5%	10.6%
Return on Equity	6.0%	7.3%	7.0%	13.1%	9.8%	13.5%	13.4%	11.3%	10.4%
Return on Equity, before tax	8.5%	8.8%	8.1%	15.6%	13.3%	17.4%	17.1%	14.8%	13.7%
Cost/Income ratio	78%	76%	69%	62%	64%	57%	55%	57%	58%
Lending	12,174	12,217	11,951	12,067	11,690	12,645	13,366	13,908	14,330
Deposits from customers	18,223	18,700	20,001	19,766	20,673	21,399	21,591	22,468	22,921
NII / avg. Lending & deposits	184%	184%	177%	182%	2.05%	2.60%	2.79%	2.62%	2.48%
Loan loss ratio, lending +guarantees	0.03%	0.09%	0.84%	-0.13%	-0.09%	0.09%	0.31%	0.35%	0.35%
REA	17,639	17,343	16,799	17,017	16,443	17,105	18,807	19,378	19,965
Buyback announcement	0	0	0	0	0	100	100	150	150
Dividend per share	2.5	3.0	0.0	6.0	6.0	8.0	9.0	9.0	9.0
Total cash distribution (div + buybacks com)	43	52	0	104	104	235	224	294	289
Total pay-out-ratio (incl. buyback)	29%	26%	0%	25%	59%	41%	53%	59%	60%

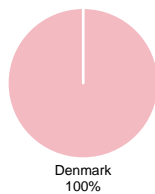
Note: per share data in DKK

Source: Company data, Danske Bank Equity Research estimates

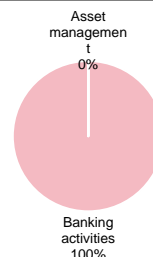
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Company summary

Income breakdown by geographical area



Income breakdown by segment



Company information

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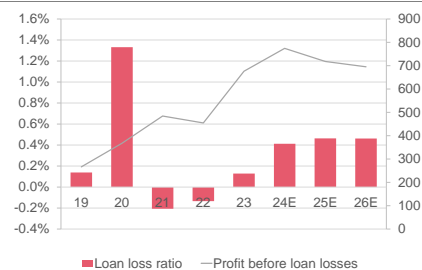
Main shareholders

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)



P/E NTM (x)

EV/sales NTM (x)

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

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Summary tables

INCOME STATEMENT

Year end Dec, DKKm	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Net interest income	551	542	541	565	557	582	660	862	963	936
Commissions	421	457	464	549	592	636	676	606	620	632
Total revenues	1,043	1,073	1,042	1,097	1,186	1,263	1,278	1,584	1,705	1,668
Costs	-710	-769	-815	-830	-818	-779	-823	-908	-930	-949
Pre-provision profits (PPP)	333	304	227	267	368	484	455	676	774	718
Loan losses	-107	-33.4	-4.4	-16.9	-161	24.8	16.0	-15.6	-53.6	-63.2
Pre-tax profit	228	273	230	251	242	531	482	701	744	675
Net profit	159	201	148	202	204	419	346	515	561	502
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	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Lending	10,474	11,681	12,174	12,217	11,951	12,067	11,690	12,645	13,366	13,908
Other interest bearing assets	7,209	7,127	8,442	9,573	11,444	11,517	13,784	14,648	13,530	13,803
Goodwill	150	138	125	91.3	91.3	91.2	91.2	91.2	91.2	91.2
Total assets	19,859	21,487	23,857	25,359	27,266	28,001	29,631	31,700	31,601	32,496
Deposits from public	15,647	16,589	18,223	18,700	20,001	19,766	20,673	21,399	21,591	22,468
Wholesale funding	0.0	0.0	0.0	0.0	199	378	378	612	622	634
Subordinated debt	466	403	454	673	570	670	571	555	564	575
Equity	2,058	2,228	2,697	2,851	2,996	3,410	3,621	4,016	4,359	4,562
NTA	1,908	2,090	2,572	2,760	2,905	3,318	3,530	3,925	4,268	4,471

PER SHARE DATA

	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
No. of shares, fully diluted YE (m)	12.9	13.2	17.4	17.4	17.4	17.4	17.4	16.9	16.6	16.0
No. of shares, fully diluted avg. (m)	12.9	13.0	14.2	17.4	17.4	17.4	17.4	17.3	16.6	16.0
EPS (reported) (DKK)	12.3	15.4	10.4	11.6	11.8	24.1	19.9	29.9	33.8	31.4
EPS (adj.) (DKK)	10.5	13.2	7.51	12.0	9.58	22.7	20.1	29.2	31.5	29.7
DPS (DKK)	3.10	0.00	2.50	3.00	0.00	6.00	6.00	8.00	9.00	9.00
Book value per share (DKK)	159	169	155	164	172	196	208	238	263	285

MARGINS AND GROWTH

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
C/I, adjusted	71.7%	78.2%	75.7%	69.0%	61.7%	64.4%	57.3%	54.6%	56.9%	58.1%
NI/avg. lending	4.9%	4.5%	4.6%	4.6%	4.8%	5.6%	7.1%	7.4%	6.9%	6.5%
Loan loss ratio	0.30%	0.04%	0.14%	1.33%	-0.21%	-0.13%	0.13%	0.41%	0.46%	0.46%
NI growth	-1.6%	-0.3%	4.4%	-1.4%	4.4%	13.4%	30.8%	11.7%	-2.8%	-2.5%
Revenue growth	2.9%	-2.9%	5.3%	8.1%	6.5%	1.2%	24.0%	7.6%	-2.2%	-0.5%
Cost growth	-8.4%	-5.9%	-1.9%	1.5%	4.9%	-5.7%	-10.3%	-2.5%	-2.1%	-1.5%
PPP growth	-8.8%	-25.3%	17.3%	38.0%	31.7%	-6.1%	48.7%	14.5%	-7.3%	-3.2%
RWA growth	7.0%	3.9%	-1.7%	-3.1%	1.3%	-3.4%	4.0%	10.0%	3.0%	3.0%

PROFITABILITY

	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
RoE, reported profits	8.0%	9.4%	6.0%	7.3%	7.0%	13.1%	9.8%	13.4%	13.5%	11.5%
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	9.9%	10.7%	13.0%	14.0%	16.1%	17.5%	18.9%	16.4%	18.6%	18.9%
Equity tier-1	12.9%	14.0%	15.1%	16.2%	18.4%	19.7%	21.9%	18.7%	20.7%	21.0%
RWA	15,858	16,973	17,639	17,343	16,799	17,017	16,443	17,105	18,807	19,378

VALUATION

	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share price (DKK)	106	114	80.4	89.6	90.0	165	194	200	212	212
Market cap (DKKk)	1,376	1,497	1,397	1,557	1,564	2,867	3,362	3,378	3,508	3,385
P/E (reported) (x)	8.6	7.4	7.7	7.7	7.7	6.8	9.7	6.7	6.3	6.7
P/E (adj.) (x)	10.1	8.6	10.7	7.5	9.4	7.3	9.6	6.8	6.7	7.1
P/BV (x)	0.67	0.67	0.52	0.55	0.52	0.84	0.93	0.84	0.80	0.74
P/NTA (x)	0.72	0.72	0.54	0.56	0.54	0.86	0.95	0.86	0.82	0.76
Dividend yield	2.9%		3.1%	3.3%		3.6%	3.1%	4.0%	4.3%	4.3%
Total yield (incl. buybacks)	2.9%		3.1%	3.3%		3.6%	3.1%	6.9%	6.4%	8.7%

Source: Company data, Danske Bank Equity Research estimates

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