Spar Nord



Market: DMXC Large Cap Ticker: SPNO Aktiekurs (DKK): 135.8 Markedsværdi (DKKm): 15,588

Financials

Share information 130,0 11N N 90.0 Nov-23 Mar-24 Jul-24 Sep-24 Spar Nord OMX C25 Ytd: 27.4% 1 year: 31.7% 1 month: 1.8% 54.1% 3 year:

(DKKm)	2022	2023	2024E*
Net interest income	2,011	3,538	
Total income	4,145	5,658	
Total costs	2,338	2,550	
Income before tax	1,730	3,141	
Net income	1,417	2,421	2,100-2,300
Shareholder's equity	11,270	12,777	
Bank deposits	72,169	74,308	
Total assets	123,936	134,896	

	2022	2023	2024E
P/E (x)	9.5	5.4	7.0
P/B(x)	1.14	0.98	1.16
ROE (%)	12.5	19.7	17.1
Dividend/share (ord.)	4.5	10.0	9.8
Dividend yield (%)	4.2	9.3	7.2
Adj. C/I ratio (%)	56.3	46.4	46.8
Total Capital ratio (%)	20.9	22.3	21.1
CET 1 Capital ratio (%)	16.4	17.7	16.8

Company description

Note: We apply the closing price from 11 November 2024

Spar Nord is a leading Danish bank and the fifth-largest bank in Denmark. The bank is headquartered in Aalborg and currently has around 60 branches spread across the country. Serving customers nationwide, the bank offers various financial products, including savings and investment accounts, loans, mortgages, insurance, and wealth management solutions. Founded in 1824, Spar Nord celebrated its 200th anniversary earlier in 2024.

Investment case

Strategy 2023-25: In the annual report for 2022 Spar Nord outlined its 2023-25 strategy under the name - "A Committed Bank" with a vision to offer Denmark's best personal banking services.

Spar Nord has identified four current trends that are expected to define the bank's operations in the coming years. They are:

- 1. Geopolitical and macroeconomic uncertainty
- 2. Demands for individual customer experience
- 3. Competition for human resources and expertise
- 4. Focus on responsibility and sustainability

These trends leads to the following actions to address the threats and opportunities that may arise:

- 1. Creating more value for our customers
- 2. An efficient engine room
- 3. Strengthened local bank model

The strategic direction of the bank leads to the following financial targets for 2023-25 (based on an impairment ratio not expected to exceed 50 bp):

- Return on Equity (after tax): > 11% (2023: 19.7%)
- Cost/Income ratio: < 55 (2023: 45)
- Dividend: 40-60% of profit for the year (2023: 69%)

Current guidance for 2024: After the first upgrade in mid-June Spar Nord upgraded their guidance again in October on the basis of a persistently strong credit quality which again has led to reversal of impairments. Profit after tax is now guided for a level of DKKm 2,100-2,300 (previously DKKm 1,950-2,250) versus DKKm 2,421 realized in 2023.Core earnings before impairments is narrowed in the range of DKKm 2,700-3,000 (previously DKKm 2,600-3,000) for 2024 compared to DKKm 3,108 in 2023.

Upcoming events: FY 2024 - Wednesday 5 February 2025

Key investment reasons

Despite market expectations of further rate cuts, higher interest rates relative to the levels before 2023 will continue to be supportive for net interest income, especially with an increasing loan book. Further, lower interest rates could trigger a new round of mortgage loan refinancing that will boost fee income. Overall, the greater earnings level is the basis for an attractive cash redistribution.

For 2023 Spar Nord paid a dividend of DKK 10 per share and initiated a new buyback program of DKKm 500 bringing the total return to shareholders up to almost 70% of the annual result, or DKKm 1,705. That equals a total yield at an attractive level of around 13.3% measured towards the share price end of 2023. With an expected profit after tax in the range of DKKm 2,100-2,300 and a continuation of the pay-out ratio around 70% Spar Nord should be capable of returning a yield of 9.4-10.3% at the current share price.

Spar Nord is expected to transition to internal-rating-based models going into 2025 which should establish the foundation for a more optimized capital application compared to the standard methods which are applied today.

Key investment risks

There is risk that Spar Nord will find itself stuck in the middle as the bank, on some parameters, might be too large to compete with some of the smaller banks with a more local presence, and on the other hand, be too small to compete well with the scale that some of the larger Nordic banks has as their advantage.

Spar Nord aims to bring their Cost/Income ratio to a level below 55%. At the end of 03 2024 the Cost/Income ratio was at 47% For 2023 the number was 45% due to a record-breaking result, but in the previous year's 2019-22 it was in the range 56%-63%. Although that is more or less in line with its closest peers it is somewhat above the larger Nordic banks with whom Spar Nord is also competing – both in terms of clients and shareholders.

External factors such as recessions and banking crises may affect banks in general and thus also Spar Nord. Recessions are a realistic risk which were also highlighted by Spar Nord themselves in their original 2024 guidance. Bank crises, seen in the beginning of 2023 originating from US banks, could potentially rise again and would affect the sector as a whole.

Table: Historic and surrent guidance (DKKm)

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BANK	Guidance	Average number	Upgrade of	Upgrade of Result		Average number	Initial 2024 guidance		Curre	nt 2024	Growth in 2024 at current		
		of upgrades of	initial 2023		Growth 2023 versus 2022	of upgrades of	minual 2024 guidance		guidance		guidance versus 2023 result		
		2023 guidance	guidance at mid-	2023		2024 guidance	Low	High	Low	High	Low / High		
Spar Nord Bank A/S (CPSE:SPNO)	Profit after tax	3*	48%	2.421	70,9%	2	1.700	2.100	2.100	2.300	-13,3% / -5,0%		

Appendix - Peer group



Peer Group Selection: Spar Nord's peer group consists of other Danish large-cap banks reflecting a somewhat similar business model and market structure. We consider Sydbank to be the closest peer among the four banks.

Estimates and assumptions: Some of the data in the peer group has not been calculated by HC Andersen Capital but is consensus analyst estimates from S&P Capital IQ. HC Andersen Capital assumes no responsibility for the correctness of the numbers in the peer group; however, considers S&P Capital IQ a credible source of information.

Table: Danish Large-Cap Banks

Company	Share MCAP		YtD	1-year	P/B			P/E			ROE			Cost / Income		
	price	(DKKm)	Performance	Performance	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	
Danske Bank A/S (CPSE:DANSKE)	DKK 205,9	172.530	14,1%	24,5%	0,88	0,94	0,92	7,3	7,6	8,0	12,7	12,7	11,1	48,6	47,1	
Jyske Bank A/S (CPSE:JYSK)	DKK 497,4	30.594	2,8%	6,1%	0,73	0,69	0,64	5,4	6,2	7,1	14,4	11,7	11,4	42,5	47,0	
Ringkjøbing Landbobank A/S (CPSE:RILBA)	DKK 1185	30.407	19,5%	23,6%	2,54	2,79	2,58	12,7	13,2	13,2	21,8	21,9	20,9	25,2	25,0	
Spar Nord Bank A/S (CPSE:SPNO)	DKK 135,8	15.588	27,4%	31,7%	0,98	1,16	1,12	5,4	7,0	8,5	19,7	17,1	13,8	45,0	46,8	
Sydbank A/S (CPSE:SYDB)	DKK 352	18.280	19,9%	18,6%	1,07	1,18	1,12	5,0	6,2	7,0	23,6	20,1	18,8	42,7	45,3	
Simple Average			16,7%	20,9%	1,24	1,35	1,28	7,1	8,0	8,8	18,4	16,7	15,2	40,8	42,2	
Median			19,5%	23,6%	0,98	1,16	1,12	5,4	7,0	8,0	19,7	17,1	13,8	42,7	46,8	

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Kilde: S&P Capital IQ, data pr. 11/11/2024