Spar Nord



Market: OMXC Large Cap Ticker: SPNO Aktiekurs (DKK): 125.2 Markedsværdi (DKKm): 14,464.4

Financials

Share information



(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	1,950-2,250
Shareholder's equity	11,270	12,777	
Bank deposits	72,169	74,308	
Total assets	123,936	134,896	

	2022	2023	2024
P/E (x)	9.5	5.4	6.6
P/B(x)	1.14	0.98	1.07
ROE (%)	12.5	19.7	16.9
Dividend/share (ord.)	4.5	10.0	9.7
Dividend yield (%)	4.2	9.3	7.7
Adj. C/I ratio (%)	56.3	46.4	46.8
Total Capital ratio (%)	20.9	22.3	21.6
CET 1 Capital ratio (%)	16.4	17.7	17.1

Valuation multiples

Note: Multiples for 2022 and 2023 are based on historical numbers while 2024 are consensus estimates apart from Capital ratios which are latest realize Source: S&P Capital IQ and Spar Nord

Company description

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 will celebrate its 200th anniversary 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: Spar Nord expects 2024 to be a repeat of 2023. Still, lower interest rates and limited investment appetite will lead to lower net interest income in 2024 versus the record year 2023. Further higher costs are expected concerning staff, IT and one-offs in connection with the bank's 200th anniversary.

In mid-June Spar Nord upgraded the 2024 guidance, and now expects core earnings before impairments in the range of DKKbn 2.6-3.0 (previously DKKbn 2.4-2.9) for 2024 compared to DKKbn 3.1 in 2023. Profit after tax is now guided for a level of DKKbn 1.95-2.25 (previously DKKbn 1.7-2.1) versus around DKKbn 2.4 realized in 2023.

Upcoming events: Q3 2024 - Thursday 31 October 2024

Key investment reasons

Despite Spar Nord's expectations of three rate cuts from Danmark's Nationalbank totalling 0.75%-points, higher interest rates relative to the levels before 2023 can support net interest income in a higher-for-longer rate environment, as higher rates increase income from loans and deposits. 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 1,950-2,250 and a continuation of the pay-out ratio around 70% Spar Nord should be capable of returning a yield of 9.4-10.9% 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 Q2 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 is also highlighted by Spar Nord themselves in their 2024 guidance. Bank crises, seen in the beginning of 2023 originating from US banks, could potentially rise again as would affect the sector as a whole.

Table: Historic and current g	uidance (DKKm)																	
		Result	Number of	Initial 2023 quidance Last 2023 qu		auidonee	Growth 2023 versus Upgrade of initial		Result	Growth 2023	Number of	Initial 2024 guidance		Current 2024		Growth in 2024 at current		
BANK	Guidance	2022	upgrades Illitial 2023 guidance		o guiuance	2022 2023 guidance 2022		2022	2023 guidance at	2023	versus 2022	upgrades of	illitial 2024 guidance		guidance		guidance versus 2023 result	
		2022	of 2023	Low	High	Low	High	Low / High	mid-point	2023	Versus 2022	2024	Low	High	Low	High	Low / High	
Spar Nord Bank A/S (CPSE:SPNO)	Profit after tax	1.417	3*	1.500	1.800	2.350	2.550	65,8% / 80,0%	48%	2.421	70,9%	1	1.700	2.100	1.950	2.250	-19,5% / -7,1%	

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 Refinitiv. HC Andersen Capital assumes no responsibility for the correctness of the numbers in the peer group; however, considers Refinitiv a credible source of information.

Table: Danish Large-Cap Banks

Company	Share MCAP		YtD	1-year	P/B			P/E			ROE			Cost / Income	
Company	price	(DKKm)	Performance	Performance	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E
Danske Bank A/S (CPSE:DANSKE)	DKK 204.9	172,761	13.6%	33.4%	0.88	0.94	0.91	7.3	7.7	7.8	12.7	12.4	11.1	48.6	47.1
Jyske Bank A/S (CPSE:JYSK)	DKK 520	32,027	7.4%	6.5%	0.73	0.71	0.66	5.4	6.6	7.0	14.4	11.4	11.4	42.5	47.0
Ringkjøbing Landbobank A/S (CPSE:RILBA)	DKK 1045	27,016	5.4%	4.0%	2.54	2.45	2.28	12.7	11.8	11.8	21.8	21.6	20.9	25.2	25.0
Spar Nord Bank A/S (CPSE:SPNO)	DKK 125.2	14,464	17.4%	21.7%	0.98	1.07	1.03	5.4	6.6	7.8	19.7	16.9	13.8	45.0	46.8
Sydbank A/S (CPSE:SYDB)	DKK 325.8	17,167	11.0%	-1.4%	1.07	1.11	1.05	5.0	5.8	6.4	23.6	20.1	18.8	42.7	45.3
Simple Average			11.0%	12.8%	1.24	1.25	1.19	7.1	7.7	8.2	18.4	16.5	15.2	40.8	42.2
Median			11.0%	6.5%	0.98	1.07	1.03	5.4	6.6	7.8	19.7	16.9	13.8	42.7	46.8

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Source: S&P Capital IQ, data pr. 10/09/2024