

# Nordea

## Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Vahvoille suorituksille jatkoa" published on 10/20/2023 at 08:30 am EEST

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# Strong performance continues

Nordea released a strong Q3 result on Thursday and we made positive forecast adjustments for the next few years after the report. We still find the valuation of Nordea that is one of the highest quality banks in the Nordic countries attractive (2024 P/E 7.4x and P/B 1.2x) and consider the current share price level a good buying opportunity. We reiterate our EUR 12.5 target price and Buy recommendation.

## Low loan loss provisions led to an earnings overshoot

Nordea's operating income grew by 19% to EUR 2,952 million in Q3 and was in line with our estimate. Net interest income increased by 36% to EUR 1,909 million supported by higher interest rates and exceeded our expectations by 2%. By contrast, commission income was some 3% below our estimate due to lower-than-expected asset management fees. Changes in fair value decreased as expected from the strong levels of the last quarters, but were slightly below our expectations (Q3'23: 225 MEUR vs. Q3'23e: 252 MEUR). A positive surprise in Q3 was loan loss provisions that remained virtually at the level of the previous quarter at EUR -33 million. The loan loss provisions were 4 basis points of the loan portfolio and the level was well below our 9 basis points estimate. With the lower-than-expected loan loss provisions, Nordea's EBIT increased to EUR 1,725 million and exceeded our estimate by some 3%. As expected Nordea made no changes to its full year guidance in the Q3 report (ROE > 15%) and the company will publish updated financial targets in Q4 as previously communicated. A positive aspect of the report was that the company raised its estimate of the impact of rising central bank interest rates on net interest income. The underlying reason for this increase is that interest rates are expected to remain higher for longer than previously estimated. The company now expects central bank interest rates in themselves to strengthen the bank's net interest income by EUR 1.5-1.7 billion this year (was EUR 1.2-1.6 bn), and by another EUR 200-300 million next year (was 100-200 MEUR).

## We raised our forecasts for the next few years

After the stronger-than-expected Q3 report, we raised our 2023-2025 earnings estimates by 1-4% and the increases focus on 2024. The reason for our raised earnings expectations is the 0-2% increase in operating income forecasts due to our clearly raised net interest income estimates. Correspondingly, we lowered our estimates for commission income for the next few years by some 3%. Our earnings estimates have also been supported by our expectations of lower loan loss provisions in the coming years. With current forecasts, we expect the company's operating income to continue growing moderately in 2024 supported by the net interest income and net commission income that will turn to growth but we expect EBIT to decrease by some 4% due to rising loan loss provisions. In 2025, we expect the operating result to decline further by around 2% due to the decreasing interest rate level. Although we expect Nordea's absolute accumulated income will decrease in 2024-2025, Nordea's EPS will develop quite steadily due to share buybacks (2023-2025e: EUR 1.40-1.42).

## Attractive expected return

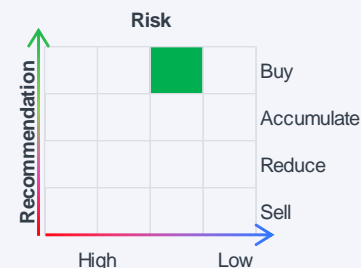
With our 2023-2024 earnings estimates Nordea is valued at a P/E ratio of 7.3x-7.4x and the levels represent a discount of some 30-31% compared to Nordea's historical levels (P/E 10.7x) and a discount of around 2-10% compared to the low-valued banking sector. In the light of the relatively stable earnings and profitability outlook in the coming years, we see a clear upside in Nordea's valuation multiples, which, together with the total profit distribution that will rise to 12-13% in the next few years, keeps the share's expected return at a very good level.

## Recommendation

**Buy**  
(previous Buy)

**EUR 12.50**  
(previous EUR 12.50)

**Share price:**  
10.42



## Key figures

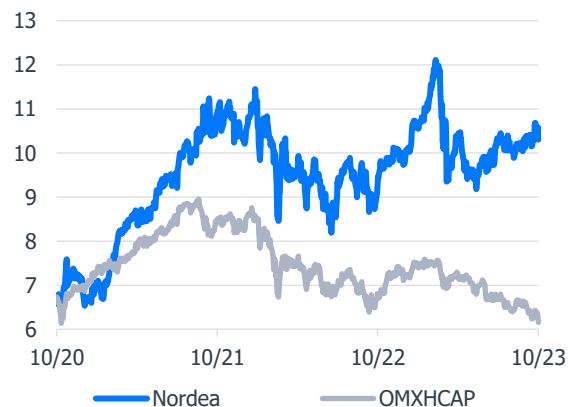
	2022	2023e	2024e	2025e
<b>Total operating income</b>	9 721	11 809	11 984	11 931
<b>growth-%</b>	1 %	21 %	1 %	0 %
<b>Total operating expenses</b>	4 834	5 099	5 233	5 369
<b>Cost/income ratio</b>	50 %	43 %	44 %	45 %
<b>Adjusted operating profit</b>	5 299	6 556	6 301	6 173
<b>Net profit</b>	3 587	5 086	4 852	4 753
<b>EPS (adj.)</b>	1,11	1,42	1,40	1,42
<b>Dividend per share</b>	0,80	0,95	0,98	0,99
<b>Payout ratio</b>	72 %	67 %	70 %	70 %
<b>ROE-%</b>	12 %	17 %	16 %	15 %

<b>P/E (adj.)</b>	9,0	7,3	7,4	7,3
<b>P/B</b>	1,2	1,2	1,1	1,1
<b>Dividend yield</b>	8,0 %	9,1 %	9,4 %	9,5 %

**Guidance** (Unchanged)

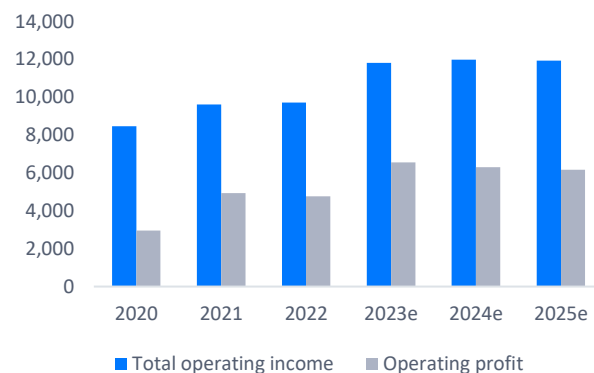
Nordea expects return on equity to be above 15%.

## Share price

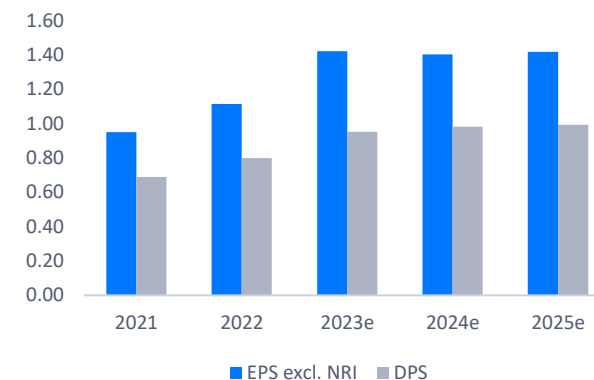


Source: Millistream Market Data AB

## Operating income and EBIT



## EPS and dividend



### Value drivers

- Increased interest rate levels and strong increase in interest income
- Winning market shares
- Growth in asset management
- Retention for improved cost efficiency
- Efficient use of capital and dissolving overcapitalization



### Risk factors

- Risks related to general economic development in the Nordic region
- Decrease in interest rates
- Development of housing and real estate markets
- Regulatory risks
- General capital market development

Valuation	2023e	2024e	2025e
Share price	10,4	10,4	10,4
Number of shares, millions	3 577	3 459	3 351
Market cap	36 652	35 435	34 393
P/E (adj.)	7,3	7,4	7,3
P/B	1,2	1,1	1,1
Dividend yield-%	9,1 %	9,4 %	9,5 %

Source: Inderes

# Low loan loss provisions led to an earnings overshoot

## Net interest income developed stronger than expected but net commission income was below our estimate

Nordea's operating income increased by 19 % to EUR 2,952 million in Q3 and was in line with our EUR 2,957 million estimate. Net interest income grew by 36% to EUR 1,909 million supported by higher interest rates and exceeded our expectation by 2%. The company's net commission income, on the other hand, was some 3% below our estimate due to lower than expected asset management fees. At the end of Q3, AUM amounted to EUR 359.7 billion (-0.9% Q/Q). Changes in fair value decreased as expected from the strong levels of the last quarters, but were, however, slightly below our expectations (Q3'23: 225 MEUR vs. Q3'23e: 252 MEUR) and also below the comparison period.

## Loan loss provisions were clearly lower than expected

Nordea's cost development offered no surprises during

the quarter, and costs increased by 6% from the comparison period to EUR 1,194 million. A positive surprise in Q3 were loan loss provisions that remained practically at the previous quarter's level of EUR -33 million. The loan loss provisions were 4 basis points of the loan portfolio and the level was well below our 9 basis points estimate. The quality of the loan portfolio did not weaken during the quarter and the management judgement buffer was kept unchanged in local currencies (577 MEUR).

With lower than expected loan loss provisions, Nordea's Q3 EBIT rose to EUR 1,725 million and exceeded our estimate by some 3%. The company's tax rate was slightly lower than we expected in Q3, which resulted in an EPS overshoot of 4%. With a strong accumulated income, ROE was 17.9% in Q3. The bank's CET1 ratio was 16.3% at the end of Q3 (Q2'23: 16.0%) and the level exceeded the minimum requirement by 4.3 percentage points.

## Guidance unchanged, the company raised its estimate of the impact of higher interest rates on net interest income

As expected Nordea made no changes to its full year guidance in the Q3 report (ROE > 15%) and the company will publish updated financial targets in Q4 as previously communicated. A positive aspect of the report was that the company raised its estimate of the impact of rising central bank interest rates on net interest income. The underlying reason for this increase is that interest rates are expected to remain higher for longer than previously estimated. The company now expects central bank interest rates in themselves to strengthen the bank's net interest income by EUR 1.5-1.7 billion this year (was EUR 1.2-1.6 bn), and by another EUR 200-300 million next year (was 100-200 MEUR).

Estimates MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus Difference (%)		2023e	
	Comparison	Actualized	Inderes	Consensus	Low	High Act. vs. Inderes	Inderes	
Net interest income	1 407	1 909	1 869	1 874	<sup>1</sup> 856	-1 897	2 %	7 424
Net commission income	775	742	763	748	701	-773	-3 %	3 015
Net result from items at fair value	238	225	252	268	246	-292	-11 %	1 095
Other income	52	76	73	-	-	-	4 %	275
Total operating income	2 472	2 952	2 957	2 969	<sup>2</sup> 920	-3 051	0 %	11 809
Total operating expenses	-1 130	-1 194	-1 198	-1 198	<sup>-1</sup> 159	<sup>-1</sup> -236	0 %	-5 099
Net loan losses	-58	-33	-77	-90	-38	-189	-57 %	-153
Operating profit	1 284	1 725	1 682	1 676	<sup>1</sup> 590	-1 742	3 %	6 556
EPS (reported)	0,27	0,38	0,36	0,36	0,32	-0,38	4 %	1,42

Source: Inderes & Bloomberg  
(consensus)

# We raised our forecasts for the next few years

## We raised our forecasts for the next few years

After the stronger than expected Q3 report, we raised our 2023-2025 earnings estimates by 1-4% and the increases focus on 2024. It should be noted that we already made positive revisions to our estimates (0%...+ 3%) in connection with our pre-comment. The forecast changes presented in the table are relative to our previous update.

The reason for our raised earnings expectations is the 0-2% increase in operating income forecasts due to our clearly raised net interest income estimates. Correspondingly, we lowered our estimates for commission income for the next few years by some 3%. Our earnings estimates have also been supported by our expectations of lower loan loss provisions in the coming years. We raised our forecasts for Nordea's cost level for the next few years slightly, as in January-September, costs were up 5.5% on annual level (Nordea's previous guidance was that costs would increase by some 5% y-o-y in 2023) and we expect general cost pressures to extend to the next year as well.

We expect relatively stable earnings development from Nordea in the coming years. In our estimates, the company's operating income grows moderately in 2024 supported the net interest income and net commission income that will turn to growth but we expect EBIT to decrease by some 4% due to rising loan loss provisions. In 2025, we expect the operating result to decline further by around 2% due to the decreasing interest rate level.

## Buybacks support EPS development

Although we expect Nordea's absolute accumulated income will decrease in 2024-2025, Nordea's EPS will develop quite steadily due to share buybacks. In Q2, Nordea launched a EUR 1.0 billion share buyback program, and in addition we expect two EUR 1.0 billion share buyback programs from the company in 2024-2025. We expect a DPS of EUR 0.95-0.99 from Nordea in 2023-2025, which corresponds to a payout ratio of 67-70%. Our estimates concerning share buybacks and dividends raise Nordea's total distributed profits to around 12-13% in the next few years.

With our current profit and profit distribution forecasts, Nordea's CET1 ratio will strengthen slightly in the coming years (CET1 2025e: 16.8% vs. Q3'23: 16.3%). In its [CMD](#) in 2022, Nordea estimated that its CET1 capital requirement would be around 15-16% in 2025 (incl. a 1.5-2.0 percentage point management judgement buffer) and our current forecasts are slightly above the indicated level. It is noteworthy that the acquisition of Danske's personal customer business in Norway (not currently in the forecasts) to be completed in H2'24 will have a weakening effect of some 0.4-0.5 percentage points on the CET1 ratio.

Estimate revisions MEUR / EUR	2023e Old	2023e New	Change %	2024e Old	2024e New	Change %	2025e Old	2025e New	Change %
Net interest income	7 317	7 424	1 %	7 141	7 498	5 %	7 040	7 295	4 %
Net commission income	3 100	3 015	-3 %	3 243	3 149	-3 %	3 372	3 270	-3 %
Net result from items at fair value	1 142	1 095	-4 %	1 050	1 050	0 %	1 076	1 076	0 %
Total operating income	11 835	11 809	0 %	11 719	11 984	2 %	11 774	11 931	1 %
Total operating expenses	-5 076	-5 099	0 %	-5 166	-5 233	1 %	-5 298	-5 369	1 %
Net loan losses	-231	-153	-34 %	-484	-450	-7 %	-426	-389	-9 %
Operating profit	6 528	6 556	0 %	6 069	6 301	4 %	6 051	6 173	2 %
EPS (reported)	1,41	1,42	1 %	1,35	1,40	4 %	1,38	1,42	2 %
Dividend per share	0,95	0,95	1 %	0,95	0,98	4 %	0,97	0,99	2 %

# Q3 webcast and management interview

Q3 webcast



Management interview



# Attractive expected return

## Earnings-based valuation is low

With our 2023-2024 earnings estimates Nordea is valued at a P/E ratio of 7.3x-7.4x and the levels represent a discount of some 30-31% compared to Nordea's historical levels (P/E 10.7x). The valuation is exceptionally low like for the rest of the Nordic banking sector and the stock markets are currently very skeptical about the earnings outlook of the Nordic banking sector. We feel Nordea is well positioned to keep its performance relatively stable in the coming years, as hedging measures stabilize the development of net interest income and we also expect that the systematic decrease in the risk level of the balance sheet made in the past will bear fruit in the weakening economic cycle in terms of loan losses. In view of the relatively stable earnings outlook, we feel the share valuation is exceptionally attractive.

## The company is also priced at a discount to the low-valued peer group

With our 2023-2024 forecasts, Nordea is also be priced at a discount of some 2-10% compared to the low-valued Nordic peer group. In the long term, Nordea's earnings-based valuation has been very close to the peer group's median and the peer group pricing supports our view of the valuation's attractiveness – especially considering the low pricing of the entire peer group.

Looking at the balance sheet, Nordea is valued at a P/B ratio of 1.18x, which corresponds to a discount of some 2% compared to the median of the peers. It is noteworthy that Nordea's 2023e ROE is higher than the average of the peer group (17% vs. 15%). Considering the pricing of the peer group, a P/B ratio of 1.24x could be justified for the company, which would mean a price level of around EUR 11.2 with our 2023 estimates.

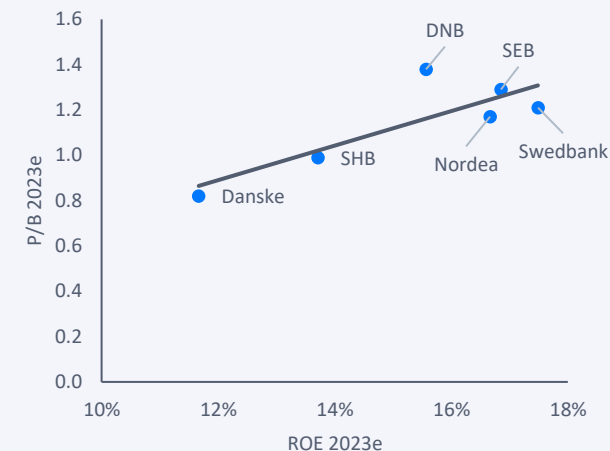
## Fundamentals based P/B

Nordea's acceptable P/B valuation can be examined by making assumptions about a sustainable long-term return on equity (ROE), the cost of equity requirement (CoE) and a sustainable growth factor (g). If we assume that Nordea will sustainably reach a long-term ROE level of about 12-13% (cf. current financial target +13%, average over the last 20 years 12.6%) and apply a CoE requirement of 9.75-10.25% and a growth factor of 2.5%, the acceptable P/B ratio would be around 1.23x-1.45x. With our 2023 estimates, the value of the share would EUR 11.0-13.1 with these multiples.

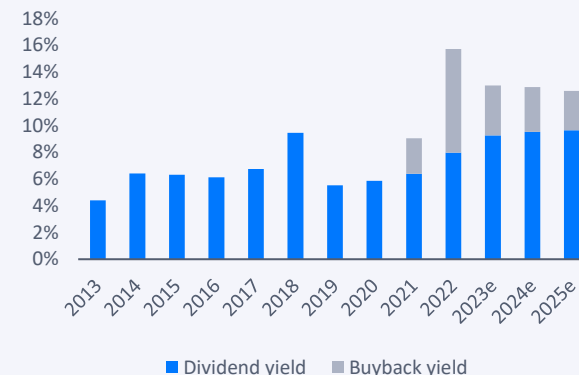
## Profit distribution strongly supports the expected return

With our estimates, Nordea's dividend yield rises to approximately 9 % in the next few years and the total distributed profits that considers share buybacks will rise to 12-13 %. Distributed profits in itself has no impact on the company's value, but we believe that the strong profit distribution in the coming years is a supportive element for the expected return.

ROE and P/B 2023e



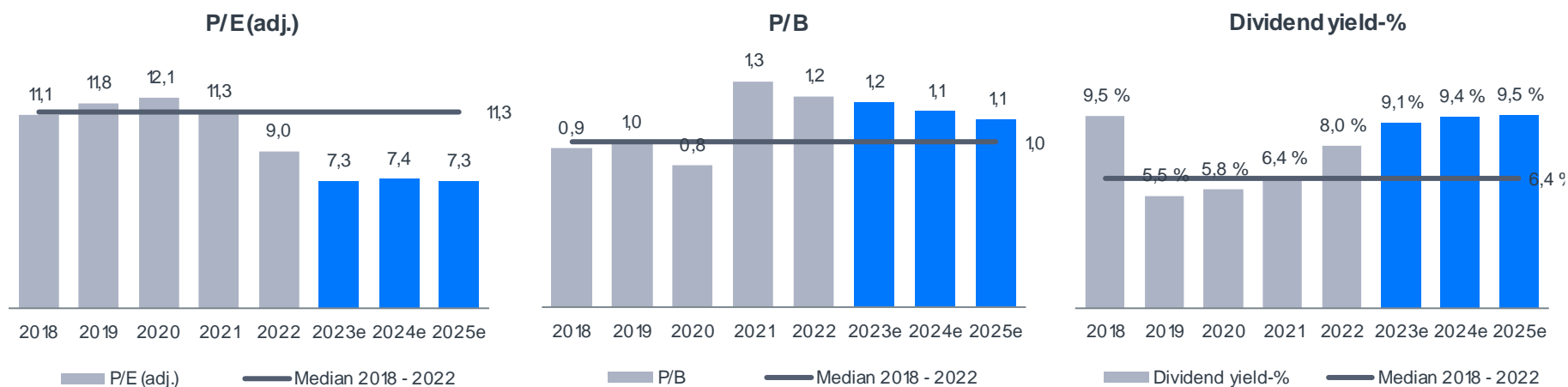
Nordea's total yield



# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	7,30	7,24	6,67	10,8	10,0	10,4	10,4	10,4	10,4
Number of shares, millions	4 037	4 102	4 118	4 025	3 721	3 577	3 459	3 351	3 301
Market cap	29 565	29 322	27 014	42 793	36 650	36 652	35 435	34 393	34 393
P/E (adj.)	11,1	11,8	12,1	11,3	9,0	7,3	7,4	7,3	7,5
P/B	0,9	1,0	0,8	1,3	1,2	1,2	1,1	1,1	1,0
Dividend yield-%	9,5 %	5,5 %	5,8 %	6,4 %	8,0 %	9,1%	9,4 %	9,5 %	9,3 %

Source: Inderes





# Peer group valuation

Peer group valuation Company	Market cap MEUR	P/E		Dividend yield-%		P/B 2023e
		2023e	2024e	2023e	2024e	
Danske Bank	19106	7,3	7,1	8,6	8,9	0,8
DNB	29562	9,1	9,2	6,2	6,6	1,4
Handelsbanken	17758	7,5	8,3	7,7	8,5	1,0
SEB	25248	8,0	8,7	6,3	6,7	1,3
Swedbank	20392	7,0	7,6	7,1	8,8	1,2
<b>Nordea (Inderes)</b>	<b>36652</b>	<b>7,3</b>	<b>7,4</b>	<b>9,1</b>	<b>9,4</b>	<b>1,2</b>
<b>Average</b>		<b>7,8</b>	<b>8,2</b>	<b>7,2</b>	<b>7,9</b>	<b>1,1</b>
<b>Median</b>		<b>7,5</b>	<b>8,3</b>	<b>7,1</b>	<b>8,5</b>	<b>1,2</b>
<b>Diff-% to median</b>		<b>-2 %</b>	<b>-10 %</b>	<b>28 %</b>	<b>11 %</b>	<b>-2 %</b>

Source: Refinitiv / Inderes

# Income statement

Income statement (MEUR)	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Net interest income	4,925	1,308	1,308	1,407	1,641	5,664	1,765	1,831	1,909	1,919	7,424	7,498	7,295	7,042
Net fee and commission income	3,495	829	797	775	785	3,186	765	751	742	757	3,015	3,149	3,270	3,400
Net insurance result	0	35	53	38	47	173	46	68	63	48	225	227	230	232
Net result from items at fair value	1,119	-265	254	238	396	623	345	290	225	235	1,095	1,050	1,076	1,103
Other income	81	17	16	14	28	75	0	15	13	22	50	60	60	60
<b>Total operating income</b>	<b>9,620</b>	<b>1,924</b>	<b>2,428</b>	<b>2,472</b>	<b>2,897</b>	<b>9,721</b>	<b>2,921</b>	<b>2,955</b>	<b>2,952</b>	<b>2,981</b>	<b>11,809</b>	<b>11,984</b>	<b>11,931</b>	<b>11,836</b>
Non-recurring items	0	-537	0	0	0	-537	0	0	0	0	0	0	0	0
<b>Total operating income excl. non-rec. items</b>	<b>9,620</b>	<b>2,461</b>	<b>2,428</b>	<b>2,472</b>	<b>2,897</b>	<b>10,258</b>	<b>2,921</b>	<b>2,955</b>	<b>2,952</b>	<b>2,981</b>	<b>11,809</b>	<b>11,984</b>	<b>11,931</b>	<b>11,836</b>
Staff costs	-2,759	-692	-689	-691	-721	-2,793	-719	-725	-729	-765	-2,938	-3,086	-3,179	-3,275
Other expenses	-1,226	-532	-275	-292	-331	-1,430	-542	-325	-312	-351	-1,530	-1,503	-1,533	-1,564
Depreciation tangible and intangible assets	-664	-146	-158	-147	-160	-611	-161	-155	-153	-163	-632	-644	-656	-668
<b>Total operating expenses</b>	<b>-4,649</b>	<b>-1,370</b>	<b>-1,122</b>	<b>-1,130</b>	<b>-1,212</b>	<b>-4,834</b>	<b>-1,422</b>	<b>-1,205</b>	<b>-1,194</b>	<b>-1,278</b>	<b>-5,099</b>	<b>-5,233</b>	<b>-5,369</b>	<b>-5,507</b>
Non-recurring expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total operating expenses excl. non-rec. expenses</b>	<b>-4,649</b>	<b>-1,370</b>	<b>-1,122</b>	<b>-1,130</b>	<b>-1,212</b>	<b>-4,834</b>	<b>-1,422</b>	<b>-1,205</b>	<b>-1,194</b>	<b>-1,278</b>	<b>-5,099</b>	<b>-5,233</b>	<b>-5,369</b>	<b>-5,507</b>
<b>Profit before loan losses</b>	<b>4,971</b>	<b>554</b>	<b>1,306</b>	<b>1,342</b>	<b>1,685</b>	<b>4,887</b>	<b>1,499</b>	<b>1,750</b>	<b>1,758</b>	<b>1,702</b>	<b>6,709</b>	<b>6,751</b>	<b>6,562</b>	<b>6,329</b>
Net loan losses	-35	-64	56	-58	-59	-125	-19	-32	-33	-69	-153	-450	-389	-399
<b>Operating profit</b>	<b>4,936</b>	<b>490</b>	<b>1,362</b>	<b>1,284</b>	<b>1,626</b>	<b>4,762</b>	<b>1,480</b>	<b>1,718</b>	<b>1,725</b>	<b>1,633</b>	<b>6,556</b>	<b>6,301</b>	<b>6,173</b>	<b>5,930</b>
Total non-recurring items	0	-537	0	0	0	-537	0	0	0	0	0	0	0	0
<b>Operating profit excl. non-rec. items</b>	<b>4,936</b>	<b>1,027</b>	<b>1,362</b>	<b>1,284</b>	<b>1,626</b>	<b>5,299</b>	<b>1,480</b>	<b>1,718</b>	<b>1,725</b>	<b>1,633</b>	<b>6,556</b>	<b>6,301</b>	<b>6,173</b>	<b>5,930</b>
Taxes	-1,105	-231	-308	-283	-353	-1,175	-332	-383	-380	-376	-1,471	-1,449	-1,420	-1,364
<b>Net profit for the period</b>	<b>3,831</b>	<b>259</b>	<b>1,054</b>	<b>1,001</b>	<b>1,273</b>	<b>3,587</b>	<b>1,148</b>	<b>1,335</b>	<b>1,345</b>	<b>1,258</b>	<b>5,086</b>	<b>4,852</b>	<b>4,753</b>	<b>4,566</b>
<b>Net profit excl. non-rec. Items</b>	<b>3,831</b>	<b>858</b>	<b>1,054</b>	<b>1,001</b>	<b>1,273</b>	<b>4,186</b>	<b>1,148</b>	<b>1,335</b>	<b>1,345</b>	<b>1,258</b>	<b>5,086</b>	<b>4,852</b>	<b>4,753</b>	<b>4,566</b>
<b>EPS (reported)</b>	<b>0.95</b>	<b>0.07</b>	<b>0.28</b>	<b>0.27</b>	<b>0.35</b>	<b>0.96</b>	<b>0.32</b>	<b>0.37</b>	<b>0.38</b>	<b>0.36</b>	<b>1.42</b>	<b>1.40</b>	<b>1.42</b>	<b>1.38</b>
<b>EPS (adj.)</b>	<b>0.95</b>	<b>0.22</b>	<b>0.28</b>	<b>0.27</b>	<b>0.35</b>	<b>1.11</b>	<b>0.32</b>	<b>0.37</b>	<b>0.38</b>	<b>0.36</b>	<b>1.42</b>	<b>1.40</b>	<b>1.42</b>	<b>1.38</b>
<b>Dividend per share</b>	<b>0.69</b>					<b>0.80</b>					<b>0.95</b>	<b>0.98</b>	<b>0.99</b>	<b>0.97</b>

# Balance sheet

<b>Balance sheet (EURbn)</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Cash and loans to central banks	48	63	62	63	65
Loans to credit institutions	2	5	5	5	5
Loans to the public	345	346	345	348	359
Intangibles	4	4	4	4	4
Other assets	172	178	177	179	184
<b>Total assets</b>	<b>570</b>	<b>595</b>	<b>593</b>	<b>599</b>	<b>617</b>
Equity	34	31	32	32	32
Deposits by credit institutions	27	33	34	34	36
Deposits and borrowings from the public	206	217	215	217	223
Debt securities in issue	176	180	179	181	186
Subordinated liabilities	7	5	5	5	6
Other liabilities	122	128	128	129	133
<b>Total equity and liabilities</b>	<b>570</b>	<b>595</b>	<b>593</b>	<b>599</b>	<b>617</b>

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Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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## Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
6/9/2023	Buy	12.50 €	9.73 €
7/18/2023	Buy	12.50 €	10.33 €
10/20/2023	Buy	12.50 €	10.42 €



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