

Banks

Key data

Price (EUR)	22.1
Country	Finland
Bloomberg	OMASP.FH
Reuters	OMASP.HE
Free float	25.0%
Market cap (EURm)	733
No. of shares (m)	33.2
Next event	Q4: 5-Feb

* Price as at 10:25 EET on 30 January 2024

CEO	Pasi Sydänlammi
CFO	Sarianna Liiri

Company description

OmaSp is the largest savings bank in Finland with over 200,000 customers in the retail, corporate and agricultural segments. The bank has around 2.5% market share in the Finnish banking market and a nationwide presence in Finland. It has around 45 branches in addition to a wide range of digital service channels. OmaSp was listed on the Nasdaq OMC Main list in December, 2018.

Ownership structure

Etelä-Karjalan Säästöpankkisäätiö	26.2%
Parkanon Säästöpankkisäätiö	9.9%
Liedon Säästöpankkisäätiö	9.4%

Source: Company data

Estimate changes

	23E	24E	25E
NII	0.0%	0.0%	0.0%
PPP	0.0%	0.0%	0.0%
EPS (adj.)	0.0%	0.0%	0.0%

Source: Danske Bank Equity Research estimates

Analyst(s)

Hans Rettedal Christiansen

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Important disclosures and certifications are contained from page 8 of this report

Oma Savings Bank

Focus on NII and cost of risk

Ahead of OmaSp's Q4 report, we expect the same earnings trends as preceding quarters. NII remains strong on higher margins and aggregated credit quality remains good, which continues to drive profitability. For 2024, focus is on the SHB SME transaction, and more details about the IRB model application and new operating model are drivers of the case, in addition to volume growth improving.

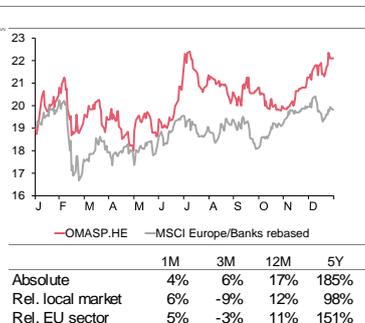
- Q4 preview.** NII remains in focus for Q4 23 and we forecast EUR58m and NIM of 3.25%. We estimate full year NII of EUR198m, up around 2x y/y, driven by higher interest margins. Fee income should remain largely flat this quarter. Further down the P&L focus will be on opex and loan losses. Q4 should show seasonally higher costs, although within the range we have seen in 2023. We do not expect any significant effects of the new operating model that was announced with the Q3 report and concluded on 1 December. We estimate loan losses of EUR2m, implying a 15bps LLR, which is down from Q3 due to less general provisions, but underlying we do not expect any major changes in asset quality. We estimate Q4 EPS of EUR1.2 and ROE of 22%.
- A "soft landing" scenario.** Market expectations are for interest rates to come down in 2024, which is not ideal for bank sentiment. At the same time, it is widely expected that loan losses will pick up, driven by higher interest burden and an economic slowdown. This was the narrative throughout H2 23; however, we believe that the scenario favours banks more than a "hard landing" scenario. Rates should decline, but not to previous lows, and coupled with manageable loan losses, ROEs should remain healthy, and we favour banks that have strong structural growth drivers once volumes pick up. We expect that OmaSp will be able to achieve ROE above 18% over the next couple of years, which remains strong compared with its peers.
- Capital and DPS.** We estimate DPS of EUR0.7 for 2023 (up from EUR0.5 in 2022) based on a 20% payout ratio and 2023E EPS of EUR3.6. In our view, OmaSp's investment case is more about growth rather than returning capital to shareholders, and with an estimated 15.4% CET1 at YE 2023E, we think the bank has ample growth room once the economic activity picks up.
- Valuation.** OmaSp trades at 2024E EPS of 5.6x, which is below its Nordic peers.

Key financials

Year-end Dec (EUR)	2021	2022	2023E	2024E	2025E
NII (m)	80.1	105	198	215	219
Lending growth	26.0%	9.9%	26.1%	12.0%	10.0%
Total revenues (m)	157	144	250	278	288
Pre-provision profits (PPP) (m)	91.3	71.3	162	180	181
PPP growth	53.7%	-21.8%	127.7%	10.8%	0.3%
Loan losses (m)	-7.3	-1.7	-12.0	-13.4	-14.8
PTP (m)	83.3	69.2	150	167	166
EPS (adj.)	2.22	1.85	3.63	4.02	4.00
DPS	0.50	0.40	0.73	1.00	1.00
Dividend yield	2.9%	2.1%	3.3%	4.5%	4.5%
C/I	57.4%	50.6%	35.8%	36.6%	38.6%
PPP/av. lending	2.35%	1.57%	3.02%	2.83%	2.56%
Loan loss ratio	0.19%	0.04%	0.22%	0.21%	0.21%
Equity tier-1 ratio	15.5	13.3	15.4	17.1	18.4
RoNTA	17.5%	14.5%	26.6%	22.4%	18.9%
P/E (adj.) (x)	7.7	10.1	6.1	5.5	5.5
P/NTA	1.27	1.53	1.35	1.13	0.98

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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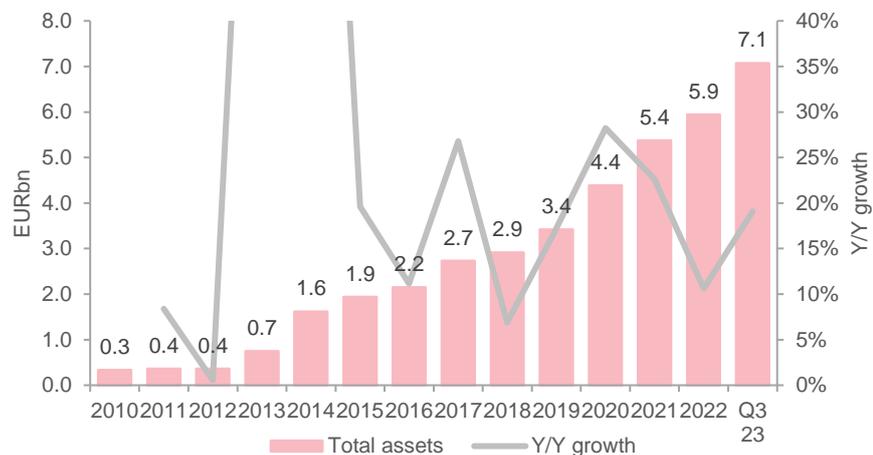
Executive summary

OmaSp is a Finnish bank with operations across Finland, spanning from Uusimaa (Helsinki and Espoo) in the south to North Ostrobothnia (Oulu) in the north. It was listed on the main Helsinki stock exchange (Nasdaq) in late 2018. Its roots go back over 145 years, but its most recent history started in 2009 when two local savings banks joined forces to create Oma Savings Bank (OmaSp). Since then, it has been one of the fastest growing banks in our Nordic bank coverage universe through a series of combinations, acquisitions, and organic growth. Today it provides 200,000 private and corporate customers with a wide range of banking services.

The bank has a strong acquisition track record by combining local savings banks and individual portfolios from competing banks. A key pillar in its strategy is being close to its customers and offering a full spectrum of products through its own internal network and partner networks. This includes mostly lending activities through its own balance sheet, and other fee generating ancillary services. It is a challenger in the Finnish banking market with a regional focus through operations mainly outside the highly competitive large cities in Finland. Based on its loan portfolio, OmaSp has a total market share of around 2% in Finland in both private and corporate segments.

The most recent acquisition of Liedon Savings Bank was the largest in the bank's history and added around EUR1.4bn to the balance sheet. When looking at OmaSp it is important to keep this in mind, as the acquisition has been transformative to both the headline figures and the organisation at large. It has also recently announced that it will acquire Handelsbanken's SME portfolio in Finland, resembling the transaction in 2017 when it purchased S-Pankki's SME operations. The Handelsbanken transaction, if approved, would add EUR460m in lending to the balance sheet, and notably, EUR1.2bn in deposits. In Q3 23 total assets had grown to EUR7,072m, up from EUR1,618m in 2014.

Chart 1. OmaSp's total assets on balance sheet, 2010- H1 23



Source: Company data, Danske Bank Equity Research

Key differentiators from other banks in Finland have been its net interest margins, operating efficiency, and ROE over time. We believe that its regional and customer centric focus also results in a higher net interest margin than its peers. However, the bank also has best-in-class operating efficiency, which is the key to success in the Finnish banking market and to its success over time. This has also driven a growth story, which sets the bank apart from the other Nordic banks in our coverage. OmaSp's growth has been profitable and driven by a strong focus on operational efficiency by keeping its set-up lean. Employees are important to drive lending growth and operating efficiency. We find it unique that many of the employees are also

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shareholders, which adds another level of drive in the bank's employees, we believe. This has driven the overall profitability in the bank.

OmaSp has announced the following financial goals for 2023.

- **Growth.** 10-15% annual growth in total operating income under the current market conditions.
- **Profitability.** Cost/income ratio less than 45%.
- **Comparable return on equity.** Long-term comparable return on equity over 16% (valid from 1 July 2023).
- **Core capital ratio (CET1).** At least 2ppts above the requirement (valid from 1 July 2023).
- **Dividend.** Steady and growing dividend of at least 20% of net profit.

In addition, the bank expects comparable profit before taxes to exceed EUR100m in 2023. Given where interest rates are, and with the positive impact from the Liedon acquisition, we believe that the current targets are well within reach and in Q3 the bank surpassed its PTP ambition for 2023. Profitability has improved significantly over the past few years. Annualising the Q3 23 results imply ROE of around 26%, which is high in a historical and absolute sense. The main growth driver has been NII. In the most recent period, NII was driven by a mix of volumes and margins. However, in a historical context the margin effect on NII has been minimal, while increased lending volumes have stood for most of the growth in NII, which is demonstrated by its impressive growth track record.

The bank currently has a CET1 ratio of 14.8%, up from 14.1%, and well above its capital requirement. The bank currently uses the Standard Approach in its credit risk calculations, but is in the process of applying for an IRB approach for its retail mortgage exposures (in the first application). We estimate that this could lower overall risk weights by around 18% and increase the CET1 ratio around 3%, which will be a key part of the case in 2024. For Q4 we estimate a CET1 of 15.4%, which includes our estimated DPS of EUR0.7 for 2023 implying a 20% payout ratio.

Valuation

We typically value banks in our coverage using a Gordon growth model. However, that will not work well with OmaSp due to its growth and, critically, the growth exceeds our estimated cost of equity. To supplement this, we therefore also use a peer group analysis coupled with scenarios, to get a better idea of where the true value for OmaSp lies.

For our peer group we use a range of Nordic large and small & mid cap banks. Multiples for the sector are currently depressed we believe, and therefore we rely on historical averages and a theoretically justified multiples approach to gauge where OmaSp's fair multiple range should lie. We base our valuation on the various peer groups and P/E multiples ranging from 6-11x.

In our Gordon growth model, we use a cost of equity of 9% to 11%, normalised long-term ROE of 14% to 18%, and a 3% long-term growth rate. As OmaSp is growing at a rate above its peers, we do not believe that this model is well equipped to capture the difference between the business fundamentals. We therefore also use a peer group analysis to triangulate our fair value ranges.

Triangulating all these approaches, together with a scenario analysis, we find a fair value range of EUR30-35/share, implying 8.0x EPS (2025E) and 1.4 BVPS (2025E) at the midpoint.

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Chart 2. Valuation scenarios



Source: FactSet, Danske Bank Equity Research

Risks

There are a number of risks related to the assumptions we have made that underpin our estimates that could have both a positive and a negative impact on our valuation methodology.

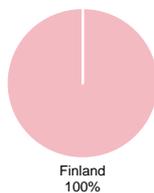
- Growth.** OmaSp has grown strongly over a number of years, which may not continue. There could be a lack of attractive acquisition targets in the market, which would mean that the bank cannot grow as quickly as it previously has. There could also be a negative development in the lending volumes in the market, which is materialising. If the economic development remains weak, or deteriorates further, it could have a negative effect on the growth trajectory.
- Funding.** Deposit rates have remained low. This could change due to increased competition, which would have a negative effect on the net interest margins, if OmaSp is forced to also increase these. Furthermore, there could be higher than anticipated rates for the wholesale funding, which would further squeeze the margin. If the economic backdrop worsens significantly, we could also see liquidity problems that could have a significant negative effect on the availability of funding.
- Loan losses.** Weaker than anticipated macro outlook could have a negative effect on the loan losses in the portfolio, which are currently not reflected in estimates. This could have a significant effect on the ROE achievement.
- Interest rates.** Interest rates could fall or rise by more than we have anticipated. This could have a significant impact on the interest income and, depending on the direction, could raise or lower estimates. Furthermore, if interest rates return to their pre 2020 level, it could have a negative effect on the competitive pressures in Finland, which would lead to a lower than anticipated normalised ROE.
- Governance and regulatory.** AML or other regulatory problems could have a significant negative effect on the bank if they materialise, which could impact the prospective volume growth, customer retention, funding rates and a range of other factors.
- Housing market in Finland.** If house prices fall by more than anticipated, it would have a negative effect on the lending portfolio through loan losses, collateral, availability of funding, and other factors.

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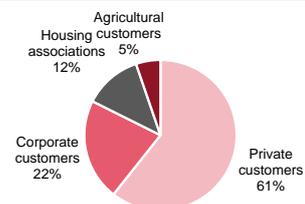
- **Operating costs.** These could increase by more than we have factored in, through either increased regulatory cost, more employees to drive loan growth, or general inflation. There could also be a need to update IT systems or the core banking platform, which we have not factored into our estimates.
- **Capital.** We assume that the bank will, in the long-term, transition to an IRB model, but this may not materialise, which would have a negative effect on the potential free cashflow generation and tie up more capital for growth. There could also be additional regulatory buffers imposed or tougher capital regulations, which would tie up additional capital in growth, or require the bank to build up its capital base by more than anticipated.
- **Regional factors.** There could be negative developments in the regional markets that the bank is exposed to, which may not affect the whole banking market, but would have a negative effect on OmaSp.

Company summary

Income breakdown by geographical area



Income breakdown by segment



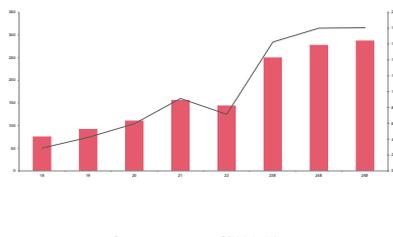
Company information

Oma Savings Bank
Lappeenranta, Valtakatu 32, 53100
Finland
www.omasp.fi

Main shareholders

Name	Votes (%)	Capital (%)
Etelä-Karjalan Säästöpankkisäätiö	26.2%	26.2%
Parkanon Säästöpankkisäätiö	9.9%	9.9%
Liedon Säästöpankkisäätiö	9.4%	9.4%

Revenue and profit before loan losses (EURm)



Loan loss ratio and profit before loan losses (FITDm)



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, EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Net interest income	31.7	36.5	39.3	49.4	57.5	67.8	80.1	105	198	215
Commissions	15.3	17.7	21.2	24.2	25.4	29.3	33.7	39.4	47.3	52.8
Total revenues	54.4	60.3	74.1	76.0	92.6	111	157	144	250	278
Costs	-32.3	-35.5	-41.1	-47.2	-50.3	-51.7	-65.3	-73.1	-87.9	-98.1
Pre-provision profits (PPP)	22.0	24.8	33.0	28.7	42.3	59.4	91.3	71.3	162	180
Loan losses	-3.6	-4.2	-2.6	-3.7	-9.6	-21.6	-7.3	-1.7	-12.0	-13.4
Pre-tax profit	18.4	20.6	30.4	25.0	32.7	37.7	83.3	69.2	150	167
Net profit	14.8	16.0	24.0	20.3	27.5	30.7	66.2	55.4	120	133
Net profit (adj.)	14.8	16.0	24.0	20.3	27.5	30.7	66.2	55.4	120	133

BALANCE SHEET

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Lending	1,530	1,785	2,138	2,527	2,960	3,434	4,326	4,754	5,997	6,719
Other interest bearing assets	365	328	534	350	397	866	930	1,069	1,069	1,069
Goodwill	3.4	4.3	6.5	5.0	9.3	11.2	10.0	8.6	8.6	8.6
Total assets	1,932	2,151	2,727	2,915	3,417	4,382	5,373	5,942	7,184	7,907
Deposits from public	1,473	1,483	1,639	1,758	2,006	2,377	2,898	3,112	3,898	4,569
Wholesale funding	162	353	737	715	938	1,347	1,762	2,087	2,087	2,087
Subordinated debt	24.5	17.6	28.0	25.2	15.5	15.5	15.5	40.0	60.0	60.0
Equity	202	220	241	290	319	353	401	365	541	650
NTA	202	221	241	290	320	353	401	365	541	650

PER SHARE DATA

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
No. of shares, fully diluted YE (m)		25.1	25.1	29.6	29.6	29.6	29.8	30.0	33.2	33.2
No. of shares, fully diluted avg. (m)		25.1	25.1	27.3	29.6	29.6	29.7	29.9	31.6	33.2
EPS (reported) (EUR)		0.64	0.98	0.78	0.93	1.04	2.20	1.85	3.63	4.02
EPS (adj.) (EUR)		0.64	0.96	0.69	0.93	1.04	2.22	1.85	3.63	4.02
DPS (EUR)		0.06	0.08	0.14	0.19	0.24	0.50	0.40	0.73	1.00
Book value per share (EUR)		8.81	9.63	9.81	10.8	11.9	13.5	12.2	16.3	19.6

MARGINS AND GROWTH

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
C/I, adjusted	65.5%	67.9%	64.3%	60.7%	53.2%	57.4%	50.6%	35.8%	36.6%	38.6%
NII/avg. lending	2.2%	2.0%	2.1%	2.1%	2.1%	2.1%	2.3%	3.7%	3.4%	3.1%
Loan loss ratio	0.25%	0.13%	0.16%	0.35%	0.68%	0.19%	0.04%	0.22%	0.21%	0.21%
NII growth	15.2%	7.6%	25.5%	16.6%	17.9%	18.2%	30.9%	88.8%	8.6%	1.8%
Revenue growth	11.0%	22.8%	2.5%	21.9%	20.0%	41.0%	-7.8%	73.4%	11.0%	3.5%
Cost growth	-9.9%	-15.7%	-14.9%	-6.5%	-2.7%	-26.4%	-11.9%	-20.4%	-11.5%	-9.3%
PPP growth	12.7%	32.9%	-12.9%	47.2%	40.5%	53.7%	-21.8%	127.7%	10.8%	0.3%
RWA growth	11.3%	13.6%	14.4%	19.0%	14.2%	17.7%	6.2%	27.5%	8.0%	8.0%

PROFITABILITY

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
RoE, reported profits	8.7%	7.6%	10.4%	7.6%	9.0%	9.1%	17.5%	14.5%	26.6%	22.4%
RoNTA, adj. profits	8.7%	7.6%	10.4%	7.6%	9.0%	9.1%	17.5%	14.5%	26.6%	22.4%
Tier-1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity tier-1	19.4%	18.6%	17.6%	18.4%	16.8%	15.9%	15.5%	13.3%	15.4%	17.1%
RWA	1,036	1,153	1,310	1,499	1,784	2,037	2,398	2,547	3,247	3,507

VALUATION

	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Share price (EUR)				7.00	8.88	10.6	17.1	18.6	22.1	22.1
Market cap (EURm)				207	263	314	509	558	733	733
P/E (reported) (x)				9.0	9.5	10.2	7.8	10.1	6.1	5.5
P/E (adj.) (x)				10.2	9.6	10.2	7.7	10.1	6.1	5.5
P/BV (x)				0.71	0.82	0.89	1.27	1.53	1.35	1.13
P/NTA (x)				0.71	0.82	0.89	1.27	1.53	1.35	1.13
Dividend yield				2.0%	2.1%	2.3%	2.9%	2.1%	3.3%	4.5%
Total yield (incl. buybacks)				2.0%	2.1%	2.3%	2.9%	2.1%	3.3%	4.5%

Source: Company data, Danske Bank Equity Research estimates

Disclosures

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The date and time of first dissemination mean the date and estimated time of the first dissemination of this research report. The estimated time may deviate up to 15 minutes from the effective dissemination time due to technical limitations.

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This report does not have a target price or a buy/sell recommendation but it does include a valuation discussion and a suggested valuation range.

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Report completed: 30 January 2024 at 16:05 CET

Report disseminated: 30 January 2024 at 16:15 CET

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