



ING Groep N.V. (ING)

Updated November 9th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$8.04	5 Year CAGR Estimate:	1.9%	Market Cap:	\$31.2B
Fair Value Price:	\$8.25	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	N/A
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	N/A
Dividend Yield:	N/A	5 Year Price Target	\$8.67	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

ING is a global bank whose main operations take place in Europe. Its products include saving, payments, investments, loans, mortgages, all the various services performed by traditional banks. The company has more than 38 million corporate customers and financial institutions in over 40 countries. It has a market cap of \$31.2 billion and is based in Amsterdam, the Netherlands, where its public listing originates. Shares trade on the NYSE as well.

On November 5th, 2020, ING reported its Q3-2020 results for the period ending September 30th, 2020. For the quarter, EPS was \$0.24, 42.8% lower than Q3 2019, while revenues fell by around 7.3%, to \$5.0 billion. The decline in earnings was attributed mainly to impairment in ING's equity stake in TMB, caused by the deteriorated macro-economic situation in Thailand. Excluding this impairment, income was 2.4% lower compared to last year. The company also incurred a 7.1% increase in operating expenses, primarily due to transitioning its business to the "new normal" as a result of the pandemic.

Previously, the European Central Bank (ECB) had requested that all European banks cut their dividend distributions until January 2021 to preserve liquidity in the banking system. In Q2's earnings call, management had commented that while ING has to comply and suspend distributions, it planned on resuming its dividends post-January 2021's suspension date. Indeed, management now announced a new distribution policy to pay-out 50% of the company's net income in a combination of dividends and stock buybacks. Still, any such capital return remains under ECB's recommendation.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.84	\$1.46	\$1.29	\$1.09	\$0.07	\$1.13	\$1.35	\$1.69	\$1.40	\$1.12	\$0.75	\$0.79
DPS	---	---	---	---	\$0.15	\$0.71	\$0.69	\$0.80	\$0.78	\$0.27	---	\$0.18
Shares¹	4,460	5,161	4,451	3,825	3,849	3,864	3,875	3,882	3,888	3,894	3,896	3,850

Over the past decade, EPS has increased, on average, by around 3%. The company itself is not rapidly growing in terms of constant currency. However, the low growth in terms of EPS has also been affected by the long-term depreciation of the euro against the dollar over this period. We are slightly lowering our expected FY2020 EPS at \$0.75 to reflect Q3's weaker results.

With consistent sales even under COVID-19, we expect the company's earnings to remain rather stable, growing by around 3% in the medium-term. Assuming that dividends return in FY2021 and are half of 50% of ING's EPS, DPS should end up around \$0.18 next year. Considering that the other half could be used to buy back stock under the new policy, EPS growth could accelerate.

ING's dividend policy has been inconsistent and mostly uncorrelated to EPS. The company used to not distribute anything between the Great Financials Crisis and 2014, despite strong earnings. European firms, especially banks, are often too prudent and will prioritize liquidity over shareholder satisfaction. Hence investors should not put high faith in the company's new policy before a couple of dividend declarations occur.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.3	14.8	7.9	11.5	13.5	28	10.5	12	10.6	8.1	10.7	11.0
Avg. Yld.	---	---	---	---	1.1%	3.5%	7.5%	4.2%	5.4%	7.1%	---	2.1%

ING's overprotective capital allocation, lack of growth, and inconsistent shareholder return policy have resulted in shares trading at a significantly smaller valuation multiple than American banks. Over the past decade, the P/E ratio has been, on average, around 13. Since our last report, the company's shares have fallen further, currently trading at around 10.7 times their projected FY2020 EPS. Considering that the company was able to deliver stable profitability (excluding impairments), we retain our medium-term valuation multiple to 11X earnings. Over the past decade, shares have seen wild fluctuations, and so the dividend yield has followed suit, further deteriorating ING's case in terms of being a reliable investment. However, if distributions were to resume according to management's new distribution policy, shares could yield around 2.1%. This yield, coupled with potential stock buybacks, as announced, could potentially increase the demand for shares, sending the stock price higher, along with its valuation. Keep in mind that while such a yield may be seemingly insignificant, it's still quite juicy to the European standards, as negative rates dominate the continent, hence the potential attraction to ING's yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

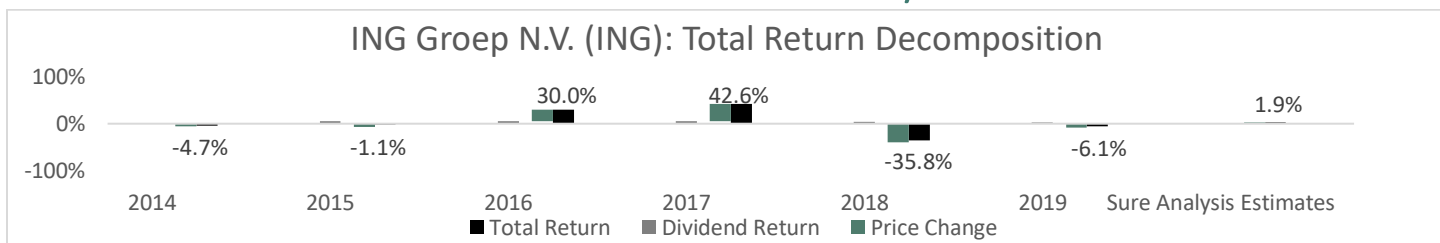
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	214%	63%	51%	47%	56%	24%	---	23%

ING is one of the most reputable banks in Europe, with praised customer service. While the bank has been delivering for customers, the same cannot be said for shareholders who have experience volatile returns with inconsistent distributions. While ING has a strong presence in corporate banking, we believe its operations could be severely impacted by the rise of digital banks such as N26 and Revolut, which have been taking the European fintech market by storm, threatening traditional banks. We consider ING a speculative stock, whose future returns are highly unpredictable. Moreover, American investors should be wary of the company's exposure to FX risks, since its earnings are reported in Euros. Future depreciation of the Euro against the Dollar could negatively affect results, even if the company delivers stable profits.

Final Thoughts & Recommendation

ING's returns have been wildly inconsistent. Being one of the largest European banks, management prioritizes customer retention and liquidity, which has led to less focus on shareholder value creation, hence the low valuation. Future DPS is mostly speculative, even under management's new dividend policy. Despite the current relatively low share price, even amid a resumption of distributions, and buybacks our projected returns come out as low as 1.9% on an annualized basis. In any case, we do warn investors that ING's future performance remains highly uncertain, even under the new shareholder capital return policy in place.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	58607	44266	17289	22470	19789	19434	19715	20851	21614	18987
SG&A Exp.	47416	31265	8837	9651	11209	8437	8660	9185	9854	9445
D&A Exp.	2284	2111	999	1016	920	704	593	589	614	883
Net Profit	3137	6629	4792	6494	1281	5466	5506	6188	5622	4369
Net Margin	5.4%	15.0%	27.7%	28.9%	6.5%	28.1%	27.9%	29.7%	26.0%	23.0%
Free Cash Flow	-6991	19019	-12449	-11695	15485	11346	9007	-6293	7828	14218
Income Tax	1318	1464	1101	1989	1142	2135	1887	2875	2499	1849

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1652933	1649668	1531521	1486671	1201070	1095801	890357	1012400	1011897	995293
Cash, Etc.	86314	99112	74999	77760	60013	23460	19181	26380	57181	59595
Accounts Rec.	----	18635	16341	13792	8327	6809	5907	5432	----	----
Goodwill, Etc.	7145	4609	3490	2542	2013	1713	1569	1762	2104	2147
Total Liabil.	1594283	1589788	1464933	1418058	1133458	1045936	839758	953442	954872	937169
Accounts Pay.	----	15246	14044	10881	6982	5637	4645	4326	----	----
LT Debt	241051	218132	223430	204813	175204	150547	127342	134431	152682	151353
Book Value	57680	54988	61439	58376	57827	49168	49958	58100	56107	57124
D/E Ratio	4.2	4.0	3.6	3.5	3.0	3.1	2.5	2.3	2.7	2.6

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.2%	0.4%	0.3%	0.4%	0.1%	0.5%	0.6%	0.7%	0.6%	0.4%
Return on Equity	5.7%	11.8%	8.2%	10.8%	2.2%	10.2%	11.1%	11.5%	9.8%	7.7%
ROIC	1.1%	2.3%	1.7%	2.3%	0.5%	2.5%	2.9%	3.3%	2.8%	2.1%
Shares Out.	3788	3789	3802	3834	3856	3870	3879	3886	3890	3895
Revenue/Share	\$15.47	\$11.68	\$4.55	\$5.86	\$5.13	\$5.02	\$5.08	\$5.37	\$5.56	\$4.87
FCF/Share	-\$1.85	\$5.02	-\$3.27	-\$3.05	\$4.02	\$2.93	\$2.32	-\$1.62	\$2.01	\$3.65

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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