ING Groep N.V. (ING)

Updated November 8th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.05	**5 Year CAGR Estimate:**	6.2%	**Market Cap:**	$41.6 B
Fair Value Price:	$11.00	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	04/27/23[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	05/16/23
Dividend Yield:	6.0%	**5 Year Price Target**	$11.56	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $41.6 billion and is based in Amsterdam, the Netherlands, where its public listing originates. Shares trade on the NYSE as well. All financials have been converted in $US unless otherwise specified.

On November 3rd, 2022, ING reported its Q3-2022 results for the period ending September 30th, 2022. Total income was $4.4 billion, 5.1% lower year-over-year. The decline was due to two extraordinary items. Firstly, a negative $344 million in net interest income linked to the expected impact regarding new regulations imposed by the Polish government, and a negative $289 million reflecting some timing difference with expected fair value movements.

In line with ING's distribution policy, an interim dividend over 1H2022 of €0.17 ($0.17) per ordinary share was paid on August 15th, 2022 (representing approximately 1/3 of the 1H2022 resilient net profit). The policy aims to pay out 50% of resilient (excluding one-off items) net profit. Further, along with its Q3 results, ING announced it plans to repurchase a maximum total amount of €1.5 billion ($1.5 billion) of its common stock. Any remaining amount of the program after December 31st, 2022, will be paid out in cash to shareholders on Jan. 16th, 2023. We now expect FY2022 EPS of $1.00.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.29	$1.09	$0.07	$1.13	$1.35	$1.69	$1.40	$1.12	$0.77	$1.39	***$1.00***	***$1.05***
DPS	---	---	$0.15	$0.71	$0.69	$0.80	$0.78	$0.76	---	$0.70	***$0.66***[2]	***$0.69***
Shares[3]	4,451	3,825	3,849	3,864	3,875	3,882	3,888	3,894	3,900	3,846	***3,726***	***3,500***

Over the past decade, EPS has fluctuated, struggling to find a stable footing. ING's financials have also been weakened by the long-term depreciation of the euro against the dollar over this period. This has changed between 2020 and 2021, with U.S.-based investors benefiting. Year-to-date, however, the dollar has skyrocketed, again negatively impacting the U.S,-based investors. On the one hand, low rates in Europe persist. In Q3-2022, the net interest margin remained as low as 1.28%. The newly formed risks related to the invasion of Ukraine, which could destabilize European markets, could also negatively affect results in the coming years. On the other hand, deposits and mobile users are growing. The possibility of interest rates increasing in Europe moving forward should also be a positive catalyst to net results. Regardless, FX movements can easily sway results either way. Hence, despite the announced buybacks, we retain our EPS growth estimates at 1%. In line with the company's updated dividend policy to pay-out 50% of its net profit, we also forecast DPS growth of 1% to match our EPS growth estimate. European firms, especially banks, are often prudent and will prioritize liquidity over shareholder capital returns. Hence, investors should not rely too much on ING's dividend policy.

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[1] Estimated dates based on past dividend dates.

[2] Indicative. Assumes 50% payout ratio, in line with ING's dividend policy.

[3] 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	7.9	11.5	13.5	28.0	10.5	12.0	10.6	8.1	10.7	11.0	***11.1***	***11.0***
Avg. Yld.	---	---	1.1%	3.5%	7.5%	4.2%	5.4%	7.1%	---	4.5%	***6.0%***	***6.0%***

ING's overprotective capital allocation, lack of growth, and inconsistent shareholder return policy have resulted in shares trading at a lower valuation multiple than American banks. Over the past decade, the P/E ratio has been, on average, 12.4. The stock is currently trading at 11.1 times our projected FY-2022 EPS. We believe that shares are, more or less, fairly valued following our updated earnings forecast. The bank's ongoing buyback program and relatively hefty yield should sustain the share price. Note that over the past decade, shares have seen wild fluctuations, and so the dividend yield has followed suit, impacting ING's case of being a reliable investment. However, the company's updated dividend policy could change that. We project the stock to yield around 6.0% through 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

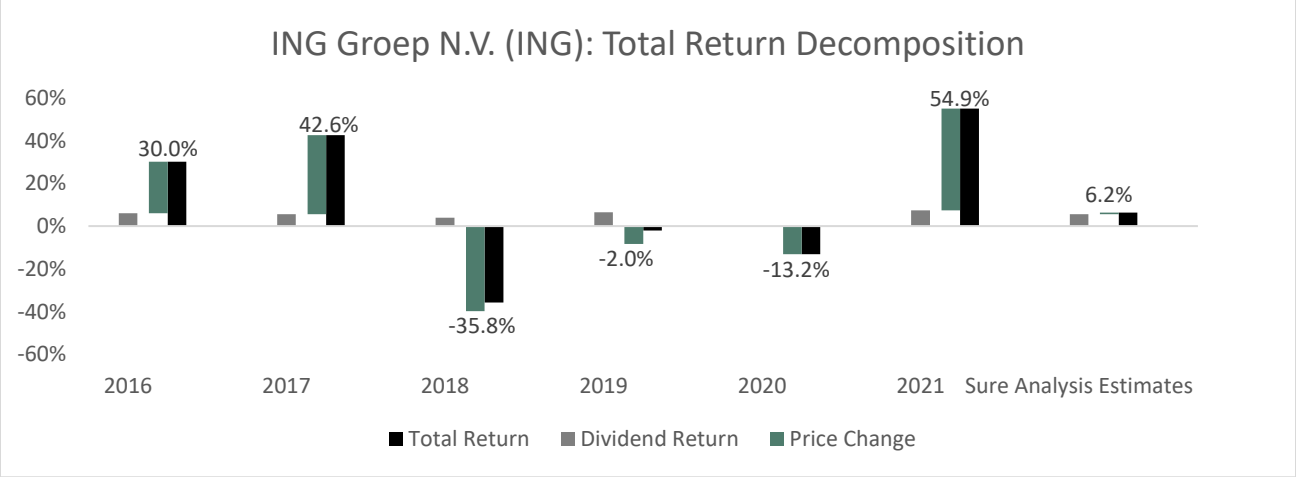
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	214%	63%	51%	47%	56%	68%	---	50%	***66%***	***66%***

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 dividends. 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 over the years. Assuming relatively stable EPS estimates in the medium-term, the new dividend policy enduring, and relatively stable valuation assumptions, we project annualized returns of 6.2% through 2027. As such, we rate shares a hold at their current price levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	22470	19789	19434	19715	20851	21614	18987	19870	21630
SG&A Exp.	9651	11209	8437	8660	9185	9854	9445	8343	7723
D&A Exp.	1016	920	704	593	589	614	883	947	987
Net Profit	6494	1281	5466	5506	6188	5622	4369	2570	5651
Net Margin	28.9%	6.5%	28.1%	27.9%	29.7%	26.0%	23.0%	12.9%	26.1%
Free Cash Flow	-11695	15485	11346	9007	-6293	7828	14218	115,290	-17900
Income Tax	1989	1142	2135	1887	2875	2499	1849	1222	2221

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1486671	1201070	1095801	890357	1012400	1011897	995293	1149000	1077000
Cash, Etc.	77760	60013	23460	19181	26380	57181	59595	136630	122290
Accounts Rec.	13792	8327	6809	5907	5432	----	----	---	---
Goodwill, Etc.	2542	2013	1713	1569	1762	2104	2147	1713	1309
Total Liabil.	1418058	1133458	1045936	839758	953442	954872	937169	1084000	1015000
Accounts Pay.	10881	6982	5637	4645	4326	----	----	---	---
LT Debt	204813	175204	150547	127342	134431	152682	151353	120380	129970
Book Value	58376	57827	49168	49958	58100	56107	57124	63490	61050
LTD/E Ratio	3.5	3.0	3.1	2.5	2.3	2.7	2.6	1.90	2.13

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.4%	0.1%	0.5%	0.6%	0.7%	0.6%	0.4%	0.2%	0.5%
Return on Equity	10.8%	2.2%	10.2%	11.1%	11.5%	9.8%	7.7%	4.3%	8.8%
ROIC	2.3%	0.5%	2.5%	2.9%	3.3%	2.8%	2.1%	1.3%	2.9%
Shares Out.	3834	3856	3870	3879	3886	3890	3895	3901	3891
Revenue/Share	$5.86	$5.13	$5.02	$5.08	$5.37	$5.56	$4.87	$5.09	$5.56
FCF/Share	-$3.05	$4.02	$2.93	$2.32	-$1.62	$2.01	$3.65	$29.55	-$4.60

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

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