ING Groep N.V. (ING)

Updated November 13th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$13.13	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$45.9 B
Fair Value Price:	$14.00	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	04/26/24[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	05/13/24
Dividend Yield:	7.6%	**5 Year Price Target**	$14.71	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**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 $45.9 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 2nd, 2023, ING reported its Q3 results for the period ending September 30th, 2023. Total income was $6.2 billion, 32.4% higher year-over-year in constant currency. This was mainly driven by Retail Banking, reflecting the current interest rate environment, coupled with the continued strong performance of Wholesale Banking.

The net interest margin for the quarter was 1.57%, an improvement from 1.28% last year. Net income was $2.12 billion, up 102.5% year-over-year. The increase reflects higher margins driven by strong total income growth and the company controlling its operating expenses, which grew by just 6.4% compared to last year. In line with ING's distribution policy, an interim dividend over H1-2023 of €0.35 ($0.383) per ordinary share was paid in August. The final dividend with respect to H2-2023 should be paid in May. We now expect FY-2023 EPS of $2.00.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.09	$0.07	$1.13	$1.35	$1.69	$1.40	$1.12	$0.77	$1.40	$1.05	***$2.00***	***$2.10***
DPS	---	$0.15	$0.71	$0.69	$0.80	$0.78	0.76	---	$0.70	$0.60	***$1.00[2]***	***$1.05***
Shares[3]	3825	3850	3865	3875	3883	3889	3895	3900	3846	3727	***3502***	***3300***

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. In 2022, the dollar skyrocketed, again negatively impacting the U.S,-based investors. Year-to-date, the dollar has retreated, which should assist FY-2023 results.

On the one hand, softer rates in Europe persist. In Q3-2023, the net interest margin remained as low as 1.57%, despite rising year-over-year. 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 positive catalysts and recent buybacks ($1.3 billion worth of stock was repurchased during FY-2022), 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

[1] Estimated dates based on past dividend dates.

[2] Indicative amount based on ING's dividend policy and our earnings estimates.

[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.

prudent and will prioritize liquidity over shareholder capital returns. Hence, investors should not rely too much on ING's dividend policy.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.5	13.5	28	10.5	12.0	10.6	8.1	10.7	11.0	10.5	***6.6***	***7.0***
Avg. Yld.	---	1.1%	3.5%	7.5%	4.2%	5.4%	7.1%	---	4.5%	5.4%	***7.6%***	***7.1%***

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, 12.6. The stock is currently trading at 6.6 times our projected FY-2023 EPS. We believe that shares are modestly undervalued following our updated earnings forecast and market landscape. The bank's ongoing buyback program and high 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 over time. We project the stock to yield around 7.6% this year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

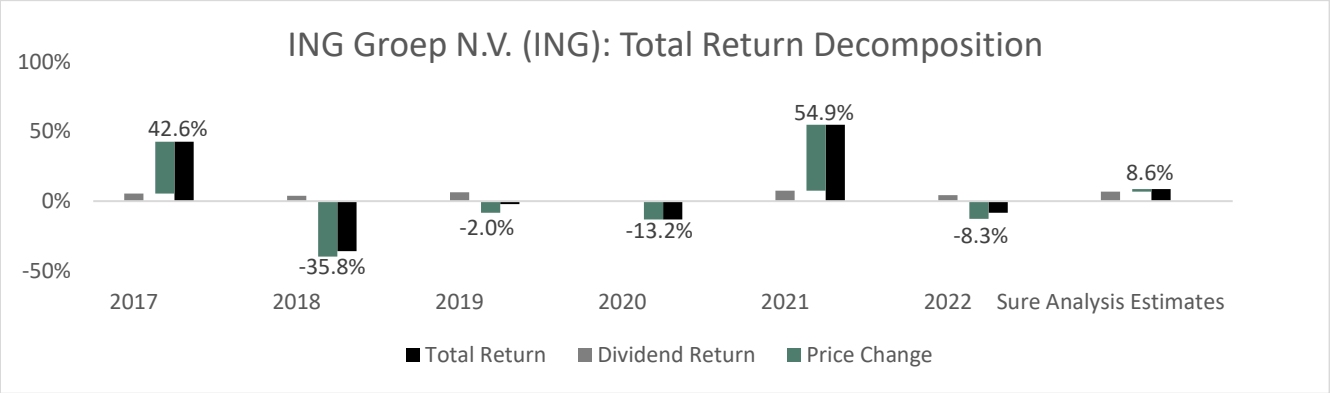
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	214%	63%	51%	47%	56%	68%	---	50%	57%	***50%***	***50%***

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 the possibility of a valuation tailwind, we project annualized returns of 8.6% through 2028. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	19789	19434	19715	20851	21614	18987	19870	21630	19600
SG&A Exp.	11209	8437	8660	9185	9854	9445	8343	7723	7573
D&A Exp.	920	704	593	589	614	883	947	987	750
Net Profit	1281	5466	5506	6188	5622	4369	2570	5651	3875
Net Margin	6.5%	28.1%	27.9%	29.7%	26.0%	23.0%	12.9%	26.1%	19.8%
Free Cash Flow	15485	11346	9007	-6293	7828	14218	115,290	-17900	-11960
Income Tax	1142	2135	1887	2875	2499	1849	1222	2221	1819

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1201070	1095801	890357	1012400	1011897	995293	1149000	1077000	1038000
Cash, Etc.	60013	23460	19181	26380	57181	59595	136630	122290	93570
Accounts Rec.	8327	6809	5907	5432	----	----	---	---	---
Goodwill, Etc.	2013	1713	1569	1762	2104	2147	1713	1309	1181
Total Liabil.	1133458	1045936	839758	953442	954872	937169	1084000	1015000	983830
Accounts Pay.	6982	5637	4645	4326	----	----	---	---	---
LT Debt	175204	150547	127342	134431	152682	151353	120380	129970	126890
Book Value	57827	49168	49958	58100	56107	57124	63490	61050	53520
LTD/E Ratio	3.0	3.1	2.5	2.3	2.7	2.6	1.90	2.13	2.37

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.1%	0.5%	0.6%	0.7%	0.6%	0.4%	0.2%	0.5%	0.4%
Return on Equity	2.2%	10.2%	11.1%	11.5%	9.8%	7.7%	4.3%	8.8%	6.8%
ROIC	0.5%	2.5%	2.9%	3.3%	2.8%	2.1%	1.3%	2.9%	2.1%
Shares Out.	3856	3870	3879	3886	3890	3895	3901	3891	3624
Revenue/Share	$5.13	$5.02	$5.08	$5.37	$5.56	$4.87	$5.09	$5.56	$5.41
FCF/Share	$4.02	$2.93	$2.32	-$1.62	$2.01	$3.65	$29.55	-$4.60	-$3.30

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

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