



# ING Groep N.V. (ING)

Updated February 1<sup>st</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

|                             |         |                                            |         |                                  |                       |
|-----------------------------|---------|--------------------------------------------|---------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$13.32 | <b>5 Year CAGR Estimate:</b>               | 10.4%   | <b>Market Cap:</b>               | \$44.7 B              |
| <b>Fair Value Price:</b>    | \$15.40 | <b>5 Year Growth Estimate:</b>             | 1.0%    | <b>Ex-Dividend Date:</b>         | 04/24/24              |
| <b>% Fair Value:</b>        | 86%     | <b>5 Year Valuation Multiple Estimate:</b> | 2.9%    | <b>Dividend Payment Date:</b>    | 05/03/24 <sup>1</sup> |
| <b>Dividend Yield:</b>      | 8.3%    | <b>5 Year Price Target</b>                 | \$16.19 | <b>Years Of Dividend Growth:</b> | N/A                   |
| <b>Dividend Risk Score:</b> | D       | <b>Retirement Suitability Score:</b>       | B       | <b>Rating:</b>                   | Buy                   |

## 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 \$44.7 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 February 1<sup>st</sup>, 2024, ING reported its Q4 and full-year results for the period ending December 31<sup>st</sup>, 2023. Total income for the quarter was \$5.95 billion, 11.1% higher year-over-year in constant currency. This increase is attributable to better performance in both the Retail and the Wholesale Banking segments. Specifically, net interest income was strongly supported by a sharp recovery of liability margins due to a higher interest rate environment compared to last year. This led to higher interest income in Retail Banking and in the cash management activities in Wholesale Banking.

The net interest margin for the quarter was 1.54%, an improvement from 1.36% last year. Net income was \$1.71 billion, up 43.1% 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 6.5% compared to last year. For the year, EPS came in at \$2.23.

In line with ING's distribution policy, a final dividend over of €0.756 (\$0.83) per ordinary share will be paid in May. This is after ING's interim dividend of €0.35 (\$0.383). Thus, the total dividend per share with respect to FY2023 should amount to about \$1.22, subject to FX movements. We now expect FY-2024 EPS of \$2.20.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016    | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024                      | 2029          |
|---------------------------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|---------------------------|---------------|
| <b>EPS</b>                | \$0.07 | \$1.13 | \$1.35  | \$1.69 | \$1.40 | \$1.12 | \$0.77 | \$1.40 | \$1.05 | \$2.23 | <b>\$2.20</b>             | <b>\$2.31</b> |
| <b>DPS</b>                | \$0.15 | \$0.71 | \$0.69  | \$0.80 | \$0.78 | \$0.76 | ---    | \$0.70 | \$0.60 | \$1.22 | <b>\$1.10<sup>2</sup></b> | <b>\$1.16</b> |
| <b>Shares<sup>3</sup></b> | 3850   | 3865   | 3,875.0 | 3883   | 3889   | 3895   | 3900   | 3846   | 3727   | 3498   | <b>3498</b>               | <b>3300</b>   |

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 surged, again negatively impacting the U.S.-based investors. In 2023, the dollar fluctuated, but ended the year mostly in line with 2022. EPS rose due to strong operating performance as a result of higher interest rates.

On the one hand, below-U.S. rates in Europe persist. Further, while ING's net interest margin rose to 1.54% in Q4-2023, that's not a strong result for a bank. The average NIM margin for U.S. banks these days is close to 3%.

On the other hand, deposits and mobile users are growing. The possibility of interest rates catching up in Europe moving forward should also be a positive catalyst to net results. Regardless, FX movements can easily sway results either way.

<sup>1</sup> The payment for those holding the stock through NYSE will instead be made on 05/10/2024

<sup>2</sup> Indicative amount based on ING's dividend policy and our earnings estimates.

<sup>3</sup> 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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Hence, despite the positive catalysts and recent buybacks (\$4.4 billion worth of stock was repurchased during FY-2023), 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.

## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023  | Now  | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|-------|------|------|
| Avg. P/E  | 13.5 | 28   | 10.5 | 12   | 10.6 | 8.1  | 10.7 | 11.0 | 10.5 | 5.4   | 6.1  | 7.0  |
| Avg. Yld. | 1.1% | 3.5% | 7.5% | 4.2% | 5.4% | 7.1% | ---  | 4.5% | 5.4% | 10.1% | 8.3% | 7.1% |

ING's capital returns have risen notably lately, with the company distributing \$1.39 billion through dividends and \$4.4 billion through share buybacks with respect to FY2023. Yet, its shares are trading at a lower valuation multiple than most American banks. Over the past decade, the P/E ratio has been, on average, 12X. The stock is currently trading at 6.1X our projected FY-2024 EPS. We believe that shares are notably undervalued based on our earnings estimates and banking landscape.

Note that over the past decade, the stock has seen wild swings, and so the dividend yield has followed suit, impacting ING's case of being a reliable investment. However, the company's updated dividend policy, if it endures, could change that over time. We project the stock to yield around 8.3% this year.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

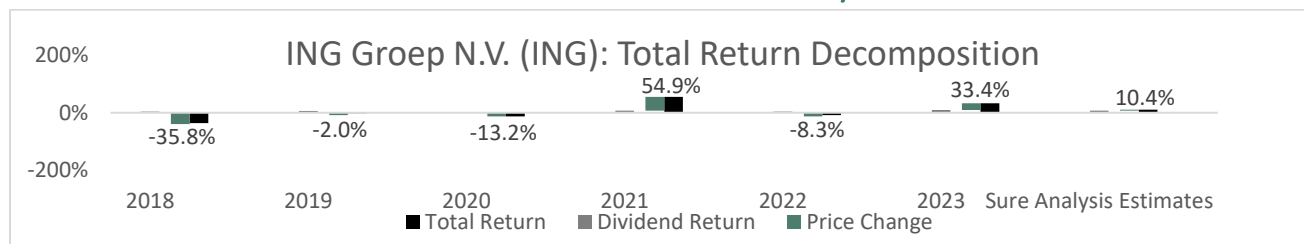
| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 214% | 63%  | 51%  | 47%  | 56%  | 68%  | ---  | 50%  | 57%  | 55%  | 50%  | 50%  |

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. However, assuming a relatively stable EPS outlook in the medium-term, the new dividend policy endures, and the possibility of a valuation tailwind, annualized returns come at 10.4% through 2029. As such, we rate ING stock a cautious buy.

## 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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