

1 August 2024

Commissioned research: Føroya Banki – Solid Q2 and positive outcome of the Danish FSA's investigation of the Faroese and Greenlandic property market

Marketing material commissioned by Føroya Banki

Q2 2024 profit before loan losses came in at DKK 63m, DKK 7m (10%) below our estimate. This was mainly due to fee income being DKK 4m below our estimate, driven by subdued activity during the quarter. Costs were also DKK 3m higher than our estimate, mainly due to higher IT costs, which can be a bit chunky by nature. Both loan losses and market value adjustments were significantly better than our estimate, hence Q2 2024 net profit ended at DKK 87m, DKK 19m (28%) better than our estimate. The main focus today will, however, be the positive outcome of the Danish FSA's investigation of the Faroese and Greenlandic property market, which has triggered an increase in REA of DKK ~200m during Q2 2024. We had penciled in an impact of DKK ~700m from Q3 2024 onwards. Furthermore, we notice that this REA increase is offset by a new agreement with DLR around mortgage guarantees. Clarity on capital position should be a major relief for the market. We hence find it likely that the share could outperform peers today, despite 2025-26 consensus estimates could be trimmed slightly on the back of this report. The 2024 net profit guidance of DKK 225-255m was reiterated. We estimate DKK 252m.

Quarterly highlights

- Net interest income was DKK 90m in line with our estimate. Lending growth and lending margins were a tad better than our estimate, while deposit volume and deposits margins were slightly below our estimate.
- Net fee and commission income came in at DKK 17m, DKK 4m below our estimate. This was mainly due to lower income from guarantee commissions, loan commissions, and other fees. We find it likely to be mainly related to a subdued activity level during the quarter.
- Net insurance income was DKK 10m, DKK 1m better than our estimate.
- Costs were DKK 68m, DKK 3m above our estimate. This was mainly driven by higher IT costs, which can be a bit chunky by nature.
- Asset quality remains solid. The bank booked loan loss reversals of DKK 7m during Q2, DKK 13m better than our estimate.
- The CET1 ratio was 25.6%, 0.8pp better than our estimate led by higher net profit and lower REA than our estimate.

FØROYA BANKI: DEVIATION TABLE

DKKm	Actual		NDA		Deviation		Actual		q/q		Actual		y/y	
	Q2 24	Q2 24E	vs. Actual		Q1 24	growth	Q2 23	growth						
Net interest income	90	90	0	0%	92	-3%	86	4%						
Net fee and commission income	17	21	-4	-19%	19	-12%	19	-10%						
Net insurance income	15	15	0	0%	12	26%	19	-22%						
Other income	10	9	1	11%	11	-10%	11	-7%						
Total Income	132	135	-3	-2%	135	-2%	135	-2%						
Total Expenses	-68	-65	-3	5%	-65	5%	-64	5%						
Profit before loan losses	63	70	-7	-10%	70	-10%	71	-11%						
Loan losses	7	-6	13	-	-23	-	7	-3%						
Operating profit	70	64	6	9%	47	48%	78	-10%						
Market value adjustments	35	20	15	75%	23	54%	15	-						
Non-recurring and industry solutions	0	0	0	-	0	-	-6	-						
Pre tax profit	105	84	21	25%	70	50%	87	21%						
Discontinued operations before tax	0	0	0	-	0	-	0	-						
Taxes	-18	-16	-2	13%	-15	20%	-17	4%						
Net profit	87	68	19	28%	55	58%	70	25%						
CET1 ratio	25.6%	24.8%	0.8 pp		25.0%	0.6 pp	22.1%	3.5 pp						

Source: Company Data and Nordea estimates

SUMMARY TABLE - KEY FIGURES

DKKm	2021	2022	2023	2024E	2025E	2026E
Total revenue	407	447	528	532	497	485
Total costs	236	244	259	261	258	254
LL-ratio	-1.01%	-0.59%	-0.12%	0.46%	0.38%	0.42%
PTP	340	207	379	313	284	261
RoE	12.7%	7.9%	16.8%	13.0%	11.9%	11.4%
RoTBV (adj)	9.2%	7.6%	16.5%	12.7%	11.7%	11.1%
P/E (adj)	6.8	8.9	5.2	5.8	6.4	7.0
P/BV	0.66	0.72	0.85	0.71	0.78	0.76
P/TBV	0.66	0.72	0.85	0.71	0.78	0.76
BIS III CT1-ratio	23.8%	21.6%	25.8%	20.2%	20.3%	20.5%
DPS (ord, DKK)	40.33	26.12	8.36	41.90	16.81	15.46
Dividend Yield	34.30%	28.70%	19.20%	5.08%	28.03%	11.25%
Total payout ratio	1.42	1.64	0.26	1.59	0.70	0.70

Source: Company data and Nordea estimates

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