

Banks

Key data

Price (DKK)	205
Country	Denmark
Bloomberg	SPKSJF DC
Reuters	SPKSJF.CO
Free float	79.0%
Market cap (DKKm)	3,553
No. of shares (m)	17.4
Next event	Q4: 9-Feb

* Price as at close on 8 November 2024

CEO	Lars Petersson
CFO	Jan Justesen

Company description

Sparekassen Sjælland-Fyn A/S provides banking products and services in Denmark. Its products and services include net banking, commercial insurance, mobile banking, rental of commercial lease, financing, insurance and pension.

Ownership structure

Sydbank A/S	5.3%
AP Pension	5.3%
Købstædemes Forsikring	5.2%

Source: Company data (10 November 2024)

Estimate changes

	24E	25E	26E
NII	0.4%	0.9%	0.7%
PPP	4.1%	1.1%	0.8%
EPS (adj.)	2.8%	1.1%	0.9%

Source: Danske Bank Equity Research estimates

Analyst(s)

Asbjørn Nicholas Mørk

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<https://research.danskebank.com>

Important disclosures and certifications are contained from page 11 of this report

Sparekassen Sjælland-Fyn

Income resistance leaves strong momentum

Sparekassen Sjælland-Fyn delivered a solid Q3 report with stable net interest income, solid volume growth, continued customer inflow and strong fee income growth. With cost delivery and strong credit quality, the bank delivered its second best quarterly pre-tax result of DKK220m. The bank's income base looks stable for 2025-26 – a clear positive difference versus Danish peers - and the Towards New Goals strategy is delivering as well. Our fair value range is DKK266-302/share, 30-47% above the current share price.

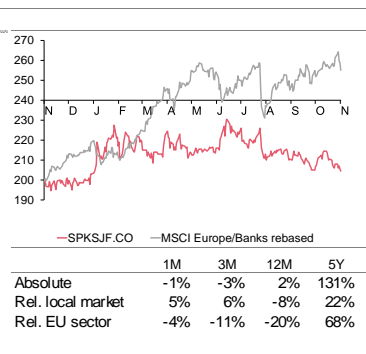
- Strong NII while others are showing NII weakness.** Sparekassen Sjælland-Fyn's Q3 24 saw a 6% y/y increase in NII and flat trends q/q despite much lower rates. This is a remarkably strong delivery in our view, fuelled not only by continued volume growth, but also prudent margin management. The strong customer inflow continues, and boosts income too, while the bank benefits from a strong home market driven by the significant expansion of Danish pharma group Novo Nordisk. With very little money-market based lending, we believe Sparekassen Sjælland-Fyn should be able to show more stable NII than peers and grow NII by a full 11% in 2024E, the highest of all banks in our coverage. Fee income grew 6% y/y, as asset management and housing activity continue to improve.
- Much better income outlook than Danish peers.** The fact that Sparekassen Sjælland-Fyn was able to keep NII flat q/q is remarkable, given its DKK8.8bn deposit surplus. It shows the real strength of this bank. In addition, fee income momentum into 2025-26 is strong. At a time when investors are worried about banks' ability to maintain mid-term profitability, it is worth highlighting that we estimate flat total income for Sparekassen Sjælland-Fyn in both 2025E and 2026E compared to record-high 2024, driven by solid NII and rising fee income.
- Towards New Goals strategy delivers.** Income cannot stand alone, which is why the new strategy that focuses on costs, profitability and capital distribution is key too. With prudent cost control and strong credit quality, we expect Sparekassen Sjælland-Fyn to deliver 13% average ROE for 2025-26E, which P/book(24E) of 0.8 neglects.
- Valuation.** SPKSJF trades at a 2025E P/E of just 6.1x. We estimate a fair value range of DKK266-302/share (previously DKK278-313), 30-47% above the current share price.

Key financials

Year-end Dec (DKK)	2022	2023	2024E	2025E	2026E
NII (m)	660	862	956	928	909
Lending growth	-3.1%	8.2%	3.3%	4.1%	3.0%
Total revenues (m)	1,278	1,584	1,735	1,723	1,721
Pre-provision profits (PPP) (m)	455	676	804	773	756
PPP growth	-6.1%	48.7%	18.9%	-3.8%	-2.2%
Loan losses (m)	16.0	-15.6	-22.4	-44.6	-55.2
PTP (m)	482	701	808	749	721
EPS (adj.)	20.1	29.2	33.9	33.3	33.2
DPS	6.00	8.00	10.0	10.0	10.0
Dividend yield	3.1%	4.0%	4.9%	4.9%	4.9%
C/I	64.4%	57.3%	53.7%	55.1%	56.0%
PPP/avg. lending	3.83%	5.56%	6.26%	5.80%	5.48%
Loan loss ratio	-0.13%	0.13%	0.17%	0.33%	0.40%
Equity tier-1 ratio	21.9	18.7	18.9	19.5	20.0
RoNTA	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (adj.) (x)	9.6	6.8	6.0	6.1	6.2
P/NTA	0.95	0.86	0.78	0.71	0.66

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Investment case

In our view, Sparekassen Sjælland-Fyn ticks all the boxes of a potentially attractive investment, diverging from the general earnings pressure that the sector is facing.

The bank has a clear niche strategy from its physical presence, with strong 11% customer inflow in recent years and a better ability than peers in converting customer inflow into both business volumes and AUM growth. Its home market is less competitive, and it benefits from Totalkredit's lower mortgage prices. A Bankdata setup makes it a potential takeover target, but with clear financial targets, management is keen to deliver stand-alone.

After the bank successfully delivered on its 'New Ways' strategy, in H1 22 it announced a new strategy for 2022-25 named 'Towards New Goals'. Strong delivery in recent years adds comfort in management, and if Sparekassen Sjælland-Fyn delivers by 2025, we see strong additional upside.

The new targets are the following.

- Cost/income ratio below 50% by 2026.
- ROE after tax of >10% for the period.
- DPS equal to 25% of net profits with share buybacks on top.
- A solvency capital ratio of at least 20% (24.3% at Q3 23).
- 4-8% annual growth to total business volumes.

Valuation and methodology for deriving 12M target price

We value Sparekassen Sjælland-Fyn using several valuation approaches, including a Gordon Growth model where we value the bank based on its normalised profitability capacity. We continue to apply 8.5-10.5% cost of capital and 55-75bp of normalised loan loss provisions to determine a fair value range.

Risks

Macroeconomic exposures

Like its peers, Sparekassen Sjælland-Fyn is exposed to macroeconomic developments, including economic activity and interest rate levels.

Higher costs

Management has a clear ambition of lowering costs in the coming years, while at the same time increasing business volumes and income. The bank has been able to lower full-time employees (FTEs) and hence costs in recent quarters, but general wage inflation and competition for key FTEs could drive costs higher.

A deterioration in credit quality

Sparekassen Sjælland-Fyn has grown lending in recent years. Higher growth and new customer inflow could potentially trigger excessive risk taking and as a result higher loan loss provisions. Considering the lending portfolio churn in the past decade to a more residentially dominated lending book, we are not concerned, however.

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NII outlook remains robust but closer to peak

NII came in at DKK241m in Q3, flat versus Q2 and hence a significantly stronger trend than seen at Danish deposit-heavy peers. The net interest margin remained strong as lower lending rates were mitigated by unchanged deposit pricing and volume growth.

The bank’s customer base with fewer large corporate clients means it has less money-market linked lending products. The delayed phase-in of announced price adjustments means that the bank still has solid NII tailwinds to come through.

Volume growth continued to contribute. Lending volumes grew 1.3% q/q while deposits were 1.0% higher.

We still see Sparekassen Sjælland-Fyn benefiting from the sound and stable business the bank is running and the geographic location of the bank’s home market being close to Novo Nordisk production facilities, with strong local employment as a result.

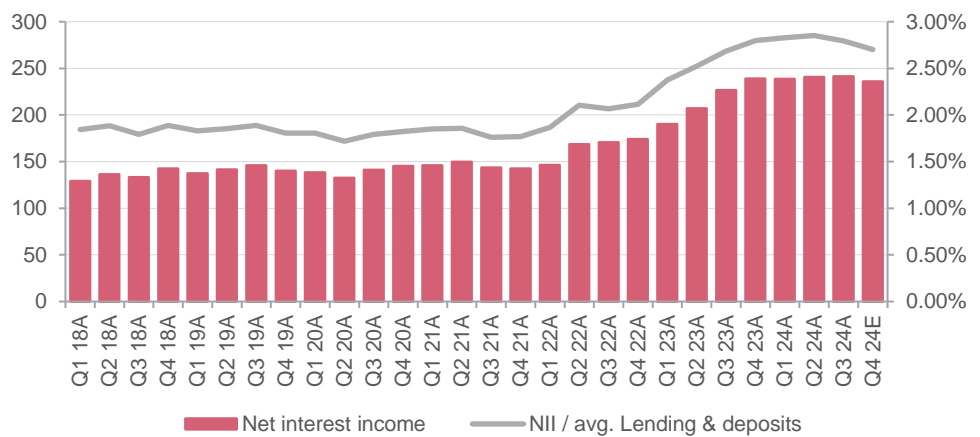
We are pleased to see that solid lending growth is driven by customer inflow, which also drives higher deposit volumes. The deposit surplus stayed high at DKK8.8bn, though this also means that Sparekassen Sjælland-Fyn is exposed to NII pressure from falling interest rates.

In addition to lending and deposit effects, the bank’s liquidity portfolio also continues to benefit from the rising rates seen in 2022 and 2023 as maturity means repricing is still done at higher rates than the average yield. The reinvestment yield is c.50bp higher versus the back-book yield, driving DKK25m of NII tailwinds into 2025.

The above means that while several Danish peers have reported lower sequential NII in recent quarters, Sparekassen Sjælland-Fyn should be able to more or less keep the NII levels for the time being.

We estimate NII to grow from DKK862m in 2023 to DKK956m in 2024E, equal to a material 11% increase versus 2023 and 64% above the DKK582m level in 2021.

Chart 1. Net interest income and margin development (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Strong fee income and outlook

Fee and commission income came in at DKK146m, including dividend income, driving fee income 6% higher y/y.

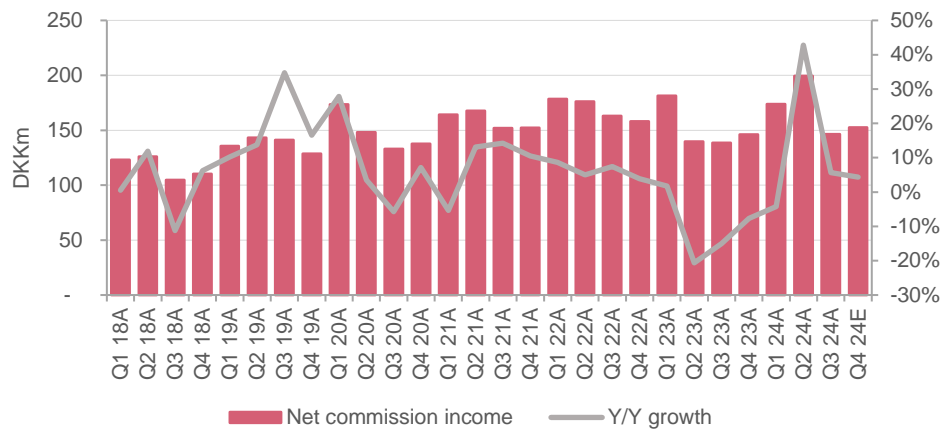
Fee income was boosted by AUM and investment fees as well as better than expected housing market activity.

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With c.80% of total fee income being driven by volumes rather than activity, fee income should continue to be resilient. In addition, AUM continues to grow driven by benign market trends in Q3 and customer inflow. Sparekassen Sjælland-Fyn has also worked intensely on increasing the share of wallet of clients, which seems to succeed. We also expect mortgage activity to increase in 2025 especially driven by higher remortgaging activity and lower rates.

The very high Q2 24 fee income was driven by Q2 24 dividend payment from DLR of DKK31m.

Chart 1. Net fee and commission income, quarterly



Source: Company data, Danske Bank Equity Research estimates

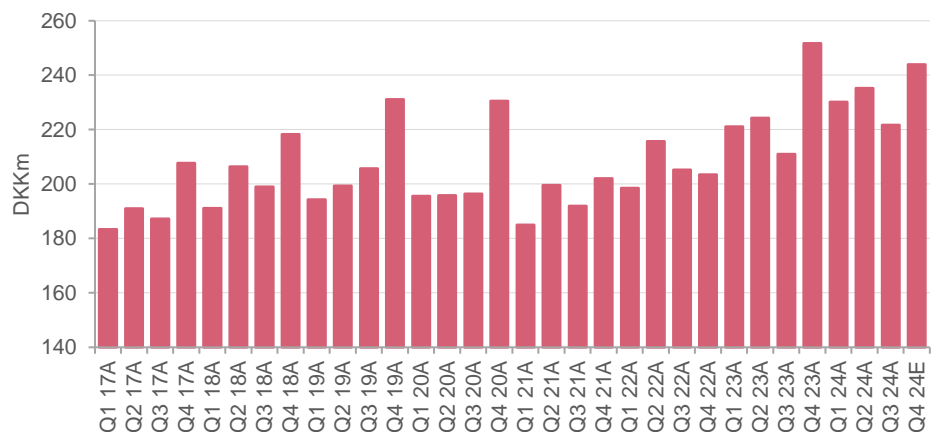
Underlying cost delivery continues

Total costs were DKK222m in Q3 24, up 5% y/y due to salary inflation and the bank's growth strategy, mitigated by continued cost focus. Still, even though 5% cost inflation is not low, it is a result of selective investments and underlying cost management.

The bank states it will continue to work with costs, and we expect to see non-employee costs coming lower, especially on IT.

In our view, it is important that Sparekassen Sjælland-Fyn clearly delivered on the cost plans in the former New Ways strategy, and we expect this cost focus to continue. We note that management still targets a cost/income ratio of 50% by end-2025 for the fiscal year 2026.

Chart 3. Cost development, quarterly

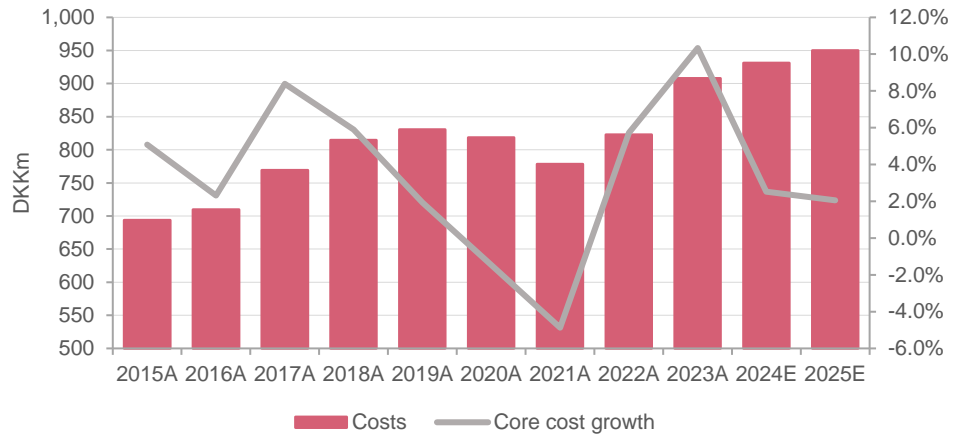


Source: Company data, Danske Bank Equity Research estimates

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Given inflation and rising credit demand, we argue that some rise in costs is expected. We prefer banks to invest in income growth when prudent, and in this case, we see good arguments for investing further. After all, few banks have done as much as Sparekassen Sjælland-Fyn in recent years when it comes to managing income and costs simultaneously.

Chart 4. Cost development, annually



Source: Company data, Danske Bank Equity Research estimates

Higher provisions in Q3, but underlying credit quality very strong

Sparekassen Sjælland-Fyn booked DKK11m (25bp) of loan loss reversals in Q3 24. This was despite management provisions declining to DKK139m from DKK170m in Q2.

The above does not indicate credit quality deterioration, but rather that Sparekassen Sjælland-Fyn has implemented a new Probability of Default (PD) model, which caused extra IFRS 9 provisions in the quarter.

This also impacted the FSA's rating scale, where categories '3' and '2a' now make up 55% of the total lending book, versus 60% in Q2 24. We note that employment remains high in the bank's home markets and the economic activity continues to be supportive.

Chart 5. Lending book composition by Danish FSA criteria



Source: Company data, Danske Bank Equity Research

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Capital position remains strong.

CET-1 stood at 17.2% at Q3 24, while the solvency capital ratio was a full 22.5%, well above the target of >20% solvency. Even after the introduction of CRE risk buffers, the bank maintains a high combined buffer capital surplus.

With such a strong capital position and a very solid credit book, we consider it only prudent if management decides to increase the DPS to DKK10/year ahead on DKK150m of annual buybacks.

2024 guidance indicates a potential record year and could even be conservative

Sparekassen Sjælland-Fyn raised the 2024 guidance on several occasions during the year and now expects pre-tax profits of DKK785-825m for 2024. This compares to the original guidance for 2024 of DKK650-70m and the DKK701m pre-tax result in 2023.

We estimate that Sparekassen Sjælland-Fyn will deliver, and we estimate DKK808m, driven by strong 11% NII growth, customer inflow, strong fee income and excellent credit quality.

Rising core earnings remains key

In our view, the Sparekassen Sjælland-Fyn investment case revolves around a low valuation combined with substantial improvements to core earnings and profits in the coming years. Very few banks have been able to deliver similar improvements to core operations, and the combined improvement since 2018 is impressive.

With the new strategy for 2025-26, we expect the bank to continue to demonstrate positive jaws on income versus costs going forward. In our view, it is key that management has set its own independent strategy for profitability improvements and does not simply rely on market tailwinds. We estimate post-tax ROE of 13% on average for 2024-25E.

Chart 6. Core earnings development (DKKm)



Source: Company data, Danske Bank Equity Research estimates

Fair value range largely unchanged

Our capital- and risk-adjusted Gordon Growth model returns a fair value range of DKK266-302/share with mid-range at DKK283. This is 30-47% above the current share price. In the range, we continue to apply a cost of capital range of 10.5-11.5% and 70-90bp of normalised loan losses.

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Table 1. Sparekassen Sjælland-Fyn Gordon's Growth valuation range

		Normalised loan loss ratio						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
Cost of Equity	9.5%	345	339	333	326	320	314	308
	10.0%	328	322	316	310	305	299	293
	10.5%	313	307	302	296	290	285	279
	11.0%	299	293	288	283	277	272	267
	11.5%	286	281	276	271	266	261	255
	12.0%	274	270	265	260	255	250	245
	12.5%	264	259	254	250	245	240	236

		Upside/downside vs. current share price						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
Cost of Equity	9.5%	69%	66%	63%	60%	57%	54%	51%
	10.0%	60%	58%	55%	52%	49%	46%	43%
	10.5%	53%	50%	47%	45%	42%	39%	37%
	11.0%	46%	43%	41%	38%	36%	33%	30%
	11.5%	40%	37%	35%	32%	30%	27%	25%
	12.0%	34%	32%	29%	27%	25%	22%	20%
	12.5%	29%	27%	24%	22%	20%	18%	15%

Prices as at close on 8 November 2024. Source: Danske Bank Equity Research estimates

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Table 2. Sparekassen Sjælland-Fyn, annual data

DKKm	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Net interest income	541	565	557	582	660	862	956	928	909
Net commission income	464	549	592	636	676	606	672	695	711
Nil and net fee income	1,005	1,113	1,149	1,218	1,335	1,468	1,629	1,623	1,621
Core capital gains	21	-44	16	30	-73	98	87	80	80
Other income	16	27	21	16	16	18	19	20	20
Total core income	1,042	1,097	1,186	1,263	1,278	1,584	1,735	1,723	1,721
Core banking costs	-815	-830	-818	-779	-823	-908	-931	-950	-964
Profits, associated companies	8	2	35	22	11	40	26	20	20
Profits before loan losses	235	268	403	506	466	716	830	793	776
Loan loss provisions	-4	-17	-161	25	16	-16	-22	-45	-55
Core earnings after loan losses	230	251	242	531	482	701	808	749	721
Net Extraordinary	0	0	0	0	0	0	0	0	0
Pretax profits	230	251	242	531	482	701	808	749	721
Tax	-22	-25	-13	-87	-110	-142	-192	-165	-159
Net profits before AT-1 costs	208	227	229	444	372	558	616	584	562
Minority interests / AT-1	-60	-24	-24	-25	-26	-43	-39	-24	-24
Net profits	148	202	204	419	346	515	577	560	538
Normalised profits	107	208	167	395	350	504	559	530	510
EPS, net profits	10.4	11.6	11.8	24.1	19.9	29.9	35.0	35.2	35.0
EPS, adj.	7.5	12.0	9.6	22.7	20.1	29.2	33.9	33.3	33.2
BV/Share	155	164	172	196	208	238	267	293	318
NTA/share	148	159	167	191	203	232	262	287	312
No. of shares, year-end	17.4	17.4	17.4	17.4	17.4	16.9	16.5	15.9	15.4
No. of shares, average	14.2	17.4	17.4	17.4	17.4	17.3	16.5	15.9	15.4
Tier-1 ratio	15.1%	16.2%	18.4%	19.7%	21.9%	18.7%	18.9%	19.5%	20.0%
CET-1 ratio	13.0%	14.0%	16.1%	17.5%	18.9%	16.4%	16.7%	17.3%	17.8%
RoNAV	6.4%	7.6%	7.2%	13.5%	10.1%	13.8%	14.0%	12.6%	11.5%
Return on Equity	6.0%	7.3%	7.0%	13.1%	9.8%	13.5%	13.7%	12.4%	11.3%
Return on Equity, before tax	8.5%	8.8%	8.1%	15.6%	13.3%	17.4%	18.3%	16.1%	14.8%
Cost/Income ratio	78%	76%	69%	62%	64%	57%	54%	55%	56%
Lending	12,174	12,217	11,951	12,067	11,690	12,645	13,065	13,596	14,008
Deposits from customers	18,223	18,700	20,001	19,766	20,673	21,399	21,898	22,787	23,246
Nil / avg. Lending & deposits	1.84%	1.84%	1.77%	1.82%	2.05%	2.60%	2.77%	2.60%	2.47%
Loan loss ratio, lending + guarantees	0.03%	0.09%	0.84%	-0.13%	-0.09%	0.09%	0.13%	0.25%	0.30%
REA	17,639	17,343	16,799	17,017	16,443	17,105	17,987	18,532	19,095
Buyback announcement	0	0	0	0	0	100	100	150	150
Dividend per share	2.5	3.0	0.0	6.0	6.0	8.0	10.0	10.0	10.0
Total cash distribution (div + buybacks com)	43	52	0	104	104	235	265	309	304
Total pay-out-ratio (incl. buyback)	29%	26%	0%	25%	59%	46%	55%	55%	56%

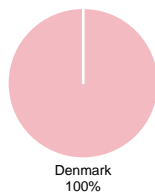
Note: per share data in DKK

Source: Company data, Danske Bank Equity Research estimates

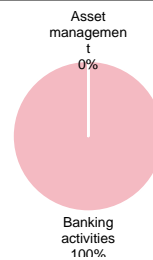
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Company summary

Income breakdown by geographical area



Income breakdown by segment



Company information

Sparekassen Sjælland-Fyn
 Isefjord Allé 5, 3200 Holbæk
 Denmark
 www.spks.dk

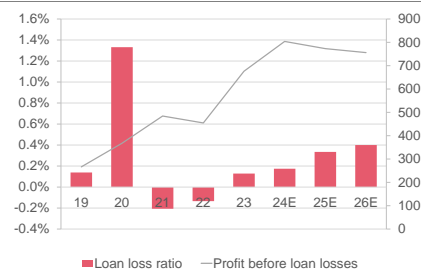
Main shareholders

Name	Votes (%)	Capital (%)
Sydbank A/S	0.1%	5.3%
AP Pension	0.1%	5.3%
Købstædemes Forsikring	0.1%	5.2%

Revenue and profit before loan losses (DKKm)



Loan loss ratio and profit before loan losses (DKKm)



Source: FactSet, Company data, Danske Bank Equity Research estimates

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Summary tables

INCOME STATEMENT

Year end Dec, DKKm	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Net interest income	551	542	541	565	557	582	660	862	956	928
Commissions	421	457	464	549	592	636	676	606	672	695
Total revenues	1,043	1,073	1,042	1,097	1,186	1,263	1,278	1,584	1,735	1,723
Costs	-710	-769	-815	-830	-818	-779	-823	-908	-931	-950
Pre-provision profits (PPP)	333	304	227	267	368	484	455	676	804	773
Loan losses	-107	-33.4	-4.4	-16.9	-161	24.8	16.0	-15.6	-22.4	-44.6
Pre-tax profit	228	273	230	251	242	531	482	701	808	749
Net profit	159	201	148	202	204	419	346	515	577	560
Net profit (adj.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

DKKk	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Lending	10,474	11,681	12,174	12,217	11,951	12,067	11,690	12,645	13,065	13,596
Other interest bearing assets	7,209	7,127	8,442	9,573	11,444	11,517	13,784	14,648	14,271	14,559
Goodwill	150	138	125	91.3	91.3	91.2	91.2	91.2	91.2	91.2
Total assets	19,859	21,487	23,857	25,359	27,266	28,001	29,631	31,700	32,041	32,938
Deposits from public	15,647	16,589	18,223	18,700	20,001	19,766	20,673	21,399	21,898	22,787
Wholesale funding	0.0	0.0	0.0	0.0	199	378	378	612	616	629
Subordinated debt	466	403	454	673	570	670	571	555	558	570
Equity	2,058	2,228	2,697	2,851	2,996	3,410	3,621	4,016	4,409	4,654
NTA	1,908	2,090	2,572	2,760	2,905	3,318	3,530	3,925	4,317	4,562

PER SHARE DATA

	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
No. of shares, fully diluted YE (m)	12.9	13.2	17.4	17.4	17.4	17.4	17.4	16.9	16.5	15.9
No. of shares, fully diluted avg. (r)	12.9	13.0	14.2	17.4	17.4	17.4	17.4	17.3	16.5	15.9
EPS (reported) (DKK)	12.3	15.4	10.4	11.6	11.8	24.1	19.9	29.9	35.0	35.2
EPS (adj.) (DKK)	10.5	13.2	7.51	12.0	9.58	22.7	20.1	29.2	33.9	33.3
DPS (DKK)	3.10	0.00	2.50	3.00	0.00	6.00	6.00	8.00	10.0	10.0
Book value per share (DKK)	159	169	155	164	172	196	208	238	267	293

MARGINS AND GROWTH

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
C/I, adjusted	71.7%	78.2%	75.7%	69.0%	61.7%	64.4%	57.3%	53.7%	55.1%	56.0%
NII/avg. lending	4.9%	4.5%	4.6%	4.6%	4.8%	5.6%	7.1%	7.4%	7.0%	6.6%
Loan loss ratio	0.30%	0.04%	0.14%	1.33%	-0.21%	-0.13%	0.13%	0.17%	0.33%	0.40%
NII growth	-1.6%	-0.3%	4.4%	-1.4%	4.4%	13.4%	30.8%	10.9%	-3.0%	-2.0%
Revenue growth	2.9%	-2.9%	5.3%	8.1%	6.5%	1.2%	24.0%	9.5%	-0.7%	-0.2%
Cost growth	-8.4%	-5.9%	-1.9%	1.5%	4.9%	-5.7%	-10.3%	-2.5%	-2.1%	-1.5%
PPP growth	-8.8%	-25.3%	17.3%	38.0%	31.7%	-6.1%	48.7%	18.9%	-3.8%	-2.2%
RWA growth	7.0%	3.9%	-1.7%	-3.1%	1.3%	-3.4%	4.0%	5.2%	3.0%	3.0%

PROFITABILITY

	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
RoE, reported profits	8.0%	9.4%	6.0%	7.3%	7.0%	13.1%	9.8%	13.4%	13.9%	12.6%
RoNTA, adj. profits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tier-1	9.9%	10.7%	13.0%	14.0%	16.1%	17.5%	18.9%	16.4%	16.7%	17.3%
Equity tier-1	12.9%	14.0%	15.1%	16.2%	18.4%	19.7%	21.9%	18.7%	18.9%	19.5%
RWA	15,858	16,973	17,639	17,343	16,799	17,017	16,443	17,105	17,987	18,532

VALUATION

	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share price (DKK)	106	114	80.4	89.6	90.0	165	194	200	205	205
Market cap (DKKk)	1,376	1,497	1,397	1,557	1,564	2,867	3,362	3,378	3,370	3,252
P/E (reported) (x)	8.6	7.4	7.7	7.7	7.7	6.8	9.7	6.7	5.8	5.8
P/E (adj.) (x)	10.1	8.6	10.7	7.5	9.4	7.3	9.6	6.8	6.0	6.1
P/BV (x)	0.67	0.67	0.52	0.55	0.52	0.84	0.93	0.84	0.76	0.70
P/NTA (x)	0.72	0.72	0.54	0.56	0.54	0.86	0.95	0.86	0.78	0.71
Dividend yield	2.9%		3.1%	3.3%		3.6%	3.1%	4.0%	4.9%	4.9%
Total yield (incl. buy backs)	2.9%		3.1%	3.3%		3.6%	3.1%	6.9%	7.9%	9.5%

Source: Company data, Danske Bank Equity Research estimates

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