

Nedbank Group Limited

Financials

Company Update Report



Trading at historically low price multiples

Analyst recommendation

Counter	Share price	Intrinsic value	Upside/(downside)
NED-ZA	R248.98	R315	27%

As at 14 April 2025

Executive summary

On 4 March 2025, Nedbank released its FY24 results which were characterised by:

- Headline earnings increased 8% driven by non-interest revenue growth and lower impairments.
- Net interest income increased 1% driven by average interest-earning banking assets increasing 5%. The net interest margin decreased from 421 basis points to 405 basis points driven by competition for quality assets, squeeze in deposit spreads and a negative endowment mix impact.
- Non-interest revenue increased by 10% driven by net commission and fee income increasing by 10% and the prior year containing a non-repeatable R1 billion net monetary loss relating to Zimbabwe operations.
- Expenses increased by 8%, primarily due to staff costs increasing 7%, driven by an average annual increase of 6% and more expensive mix of employees.
- Impairments decreased by 17%, driven by an improving macroeconomic environment, the resolution of large counters in the wholesale portfolio, credit policy intervention and collections and origination efforts.
- 2025 financial year management guidance:
 - Net interest income to grow mid-single digits because of strong loan growth in CIB offsetting net interest margin compression relating to wholesale assets growing faster than retail, pricing impact from competition for quality assets and lower interest rates.
 - Non-interest revenue to grow upper single digits due to cross-sell, client gains and ongoing deal flow in CIB.
 - Credit loss ratio to be around the midpoint of the through-the-cycle range of 60 bps to 100 bps.
 - Expenses to grow upper single digits which should result in the cost-to-income ratio increasing.
 - Diluted headline earnings per share to grow mid-single digits.

We maintained our intrinsic value of R315. Our recommendation was changed from a hold to a buy due to a lower share price.

Analyst thesis

- The main investment case for Nedbank is its price trading at lower valuation multiples and the upside to our intrinsic value. We believe the SA banks catalysts (including Nedbank) to improve their price to earnings are South Africa macro related. Improved energy supply, infrastructure, a more accountable government through the Government of National Unity and an improved financial position of the consumer from lower interest rates. However, we acknowledge this might play out slowly as lower interest rates have a lag effect, infrastructure requires planning and time to develop, business confidence needs to build momentum, and statistical metrics are reported in a delay while some strain in the GNU also places this view at risk.
- We expect Nedbank to have obtained most of the endowment benefit from rising interest rates because of not following an interest rate hedging approach. Interest income growth is expected due to loan growth but will be lower as interest rates decrease.
- Nedbank has historically shown lower growth and profitability compared to peers. Management aims to improve profitability with a medium-term target of >17% and long-term target of >18% return on equity. However, we don't see what competitive edge it has to peers except coming from a lower base.



Table 1: FY24 results summary

Metric (billion)	FY23	FY24	Y/y (%)
Net interest income	41 470	41 806	0.8
Non-interest income	27 709	30 412	9.8
Operating expenses	38 059	41 074	7.9
Impairments	9 605	7 997	-16.7
Cost-to-income ratio	53.9	55.9	2.0
Profit for the year	17 000	18 472	8.7
Deposits	1 086 241	1 119 539	3.1
Net loans	891 619	962 184	7.9
Credit loss ratio (bps)	109	87	-22.0
ROE (%)	15.1	15.8	0.7
CET1 (%)	13.5	13.3	-0.2

Sources: FactSet and company financials

Valuation

We value Nedbank's shares by calculating the future earnings per share based on a bear, base and bull case scenario. We then apply a P:E (price to earnings) ratio on the earnings per share for each scenario, enabling us to calculate an intrinsic value for each scenario. These intrinsic values are then weighed according to a probability assigned to each scenario to determine the final probability-weighted intrinsic value. Lower probabilities are applied to the bear and bull cases as these scenarios represent less probable and more extreme case scenarios.

Our intrinsic value is reasonably in-line with FactSet consensus which is R320 per share.

Table 2: P:E valuation

Scenario	Earnings per share	P:E ratio	Intrinsic value	Probability weighting	Upside/down side
Bear	R34	6.0	R202	20%	-19%
Base	R37	8.5	R317	60%	+27%
Bull	R42	10.0	R423	20%	+70%
Weighed			R315	100%	+27%

Source: PSG Wealth research team



Table 3: Qualitative summary

Factor review	Rating	Description
Growth		Expected 3-year revenue CAGR of 6.0% and earnings CAGR of 9.1%.
Valuation		Upside to intrinsic value is 27%.
Dividend yield		The forward dividend yield for Nedbank Group is 9.2%.
Issuance		Shares have slightly decreased in the past five years.
Catalyst		<ul style="list-style-type: none"> • Better-than-expected macro environment leading to sooner-than-expected growth with lower impairments and higher interest rates. • Innovative business model changes including use of tech, leading to increased market share, growth and profitability. • Better-than-expected performing VAF and commercial mortgage sector would favour Nedbank. • Delivering sooner-than-expected on their profitability improvement targets.
Quality of earnings		Being a bank, earnings are closely linked to the economic environment. Impairment provisions are subject to management judgement and can be volatile, causing large differences in earnings. Nedbank compared to peers have lower long-term profitability.
Moat		The banking industry has regulatory hurdles, and brands need to be established to earn consumers' trust. Consumers are reluctant about moving to a new bank, although recently, there have been more entries to the market, with more consumers proving to be open to the idea of changing banks.
Management and governance		Nedbank has a competent senior leadership team with sufficient experience. Recent changes include Daniel Mminele, appointed as chairperson and Jason Quin to replace Mike Brown as CEO.
Balance sheet		Nedbank Group has total assets of R1 419 billion. Total liabilities are R1 292 billion, which results in a liability to asset ratio of 0.91. Non-performing assets to loans were 5%. Common equity tier 1 capital ratio was 13.3% while the liquidity coverage ratio was 135%. Current expected credit loss coverage ratio of 3.32% at historically high levels.
Risks		<ul style="list-style-type: none"> • Increased pressure on consumers leading to material credit losses. • Adverse regulatory changes. • Political and social risks. • Downgrade in SA credit ratings. • Loss in market share due to increased competition from new entries to the market. • Downturn in SA property leading to less loans provided and lower collateral. • Grey listing impact over time. • Lower interest rates resulting in lower net interest income.
Regulation		Banking industry is highly regulated with multiple regulators and having to comply with various Acts of the Law including regulatory capital requirements.
ESG		Nedbank has an average view on its ESG rank.
Momentum price		Price momentum is negative.
Momentum earnings		In the last three months, earnings for the next financial year have been revised downwards by 1.0%.

Sources: PSG Wealth research team, FactSet and company financials

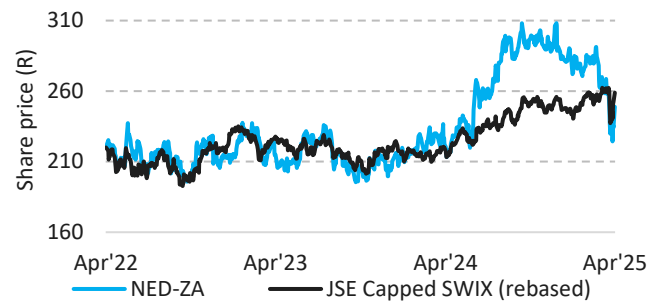


Table 4: Company data

52-week high	R310.49
52-week low	R211.56
Market value (bn)	R121.5
Price momentum	Negative
3m earnings revision	-1.0%
Fiscal year end	2025/12/31

Source: FactSet

Graph 1: Share price history versus benchmark



Source: FactSet

Table 5: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Nedbank Group Limited	-11.6%	-3.2%	-8.8%	-16.1%	12.0%	15.7%	13.1%	119.3%	1.6%
JSE Capped SWIX	5.4%	0.2%	7.6%	2.6%	17.7%	14.3%	17.4%	72.3%	33.1%

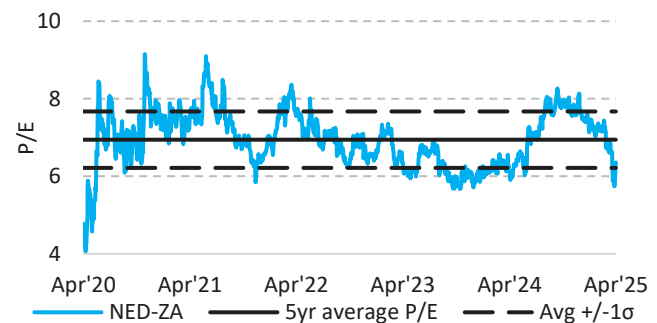
Source: FactSet

Table 6: Valuation multiples

Multiple	Latest:	Last note:
	Apr-2025	Jul-2024
P/E	6.4x	7.0x
P/S	1.6x	1.7x
P/B	0.9x	1.0x
Dividend yield	9.2%	9.0%

Source: FactSet

Graph 2: Price to earnings value



Source: FactSet

Table 7: Key competitors

Company	Code (ZA)	Price (local)	Market cap (R'bn)	Non-interest revenue (R'bn)	Net interest income (R'bn)	Net income (R'bn)	P/BV	P/E	Price % (3m)	Price % (1yr)
Nedbank Group	NED	249.0	121	30	42	17	1.0x	6.4x	-8.8%	12.0%
Capitec Bank Holdings	CPI	3 056.0	355	20	16	11	7.7x	21.2x	3.0%	49.7%
FirstRand	FSR	70.0	393	53	87	38	1.9x	8.7x	-4.9%	15.5%
Standard Bank Group	SBK	222.2	366	58	107	44	1.5x	7.4x	3.3%	28.2%
Absa Group	ABG	170.3	152	39	71	22	0.9x	5.6x	-10.1%	17.4%

Source: FactSet



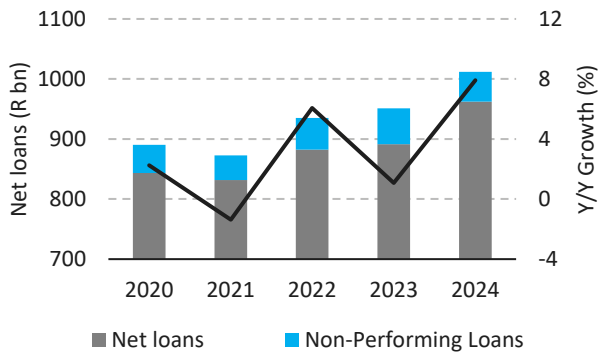
Table 8: Key financials and ratios

Income statement (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR	2025E	2026E
Net revenue	56.2	54.2	57.5	62.4	69.2	72.2		5%	76.4	81.6
Y/Y growth (%)	-	-3.5	6.1	8.6	10.8	4.4			5.8	6.8
Non-interest revenue	26.0	24.1	25.0	26.2	27.7	30.4		3%	32.3	34.6
Y/Y growth (%)	-	-7.1	3.7	4.6	5.9	9.8			6.3	7.0
Net interest income	30.2	30.1	32.5	36.3	41.5	41.8		7%	44.1	47.0
Y/Y growth (%)	-	-0.3	8.0	11.6	14.3	0.8			5.4	6.7
Provision for credit losses	6.1	13.1	6.5	7.4	9.6	8.0		5%	8.5	9.0
Y/Y growth (%)	-	114.2	-50.2	13.0	30.1	-16.7			5.7	6.6
Net profit	12.8	4.5	12.4	15.4	17.0	18.5		8%	18.7	20.6
Y/Y growth (%)	-	-65.2	178.1	24.6	10.2	8.7			1.0	10.6
EPS	25.0	7.2	23.2	29.3	32.4	36.1		8%	38.2	42.2
Y/Y growth (%)	-	-71.3	222.9	26.7	10.4	11.4			5.9	10.3
Balance sheet (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR	2025E	2026E
Net loans	824.8	843.3	831.7	882.2	891.6	962.2		3%	1 005.8	1 076.0
Deposits	904.4	953.7	971.8	1 039.6	1 087.6	1 174.7		5%	1 196.0	1 281.5
Total assets	1 143.3	1 228.1	1 214.9	1 252.9	1 311.4	1 418.5		4%	1 480.7	1 583.9
Total liabilities	1 044.9	1 127.7	1 111.5	1 137.0	1 192.2	1 292.5		4%	-	-
Ratios (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr ave.	2025E	2026E
Net interest margin (%)	3.5	3.4	3.7	3.9	4.2	4.1		3.9	4.1	4.0
Cost-to-income ratio	57.7	59.4	57.8	55.8	53.9	55.9		56.6	57.5	56.9
CET1 (%)	11.5	10.9	12.8	14.0	13.5	13.3		12.9	13.8	13.9
Credit loss ratio (%)	0.8	1.6	0.8	0.9	1.1	0.9		1.0	-	-
Net loans/total assets (%)	72.1	68.7	68.5	70.4	68.0	67.8		68.7	67.9	67.9
Total liabilities/assets (%)	91.4	91.8	91.5	90.7	90.9	91.1		91.2	-	-
ROA (%)	1.1	0.3	0.9	1.2	1.2	1.2		1.0	-	-
ROE (%)	14.2	4.0	12.0	14.1	15.1	15.8		12.2	-	-

Source: FactSet

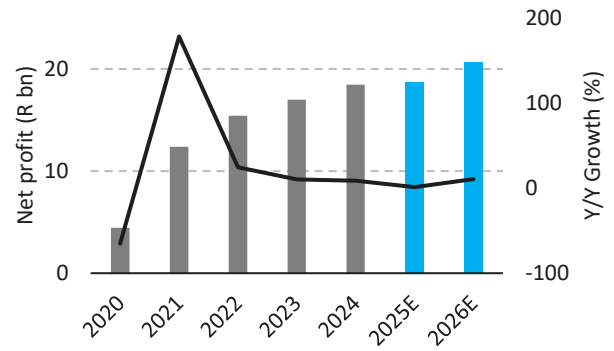


Graph 3: Annual net loans



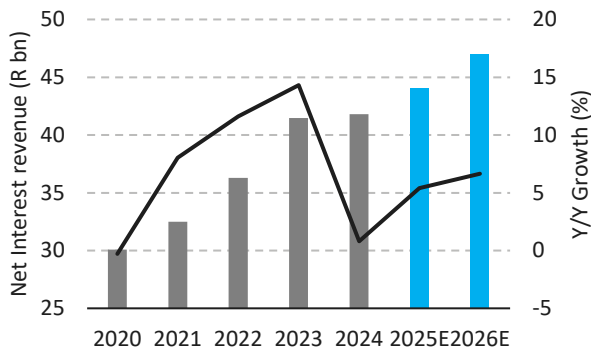
Source: FactSet

Graph 4: Annual net profit



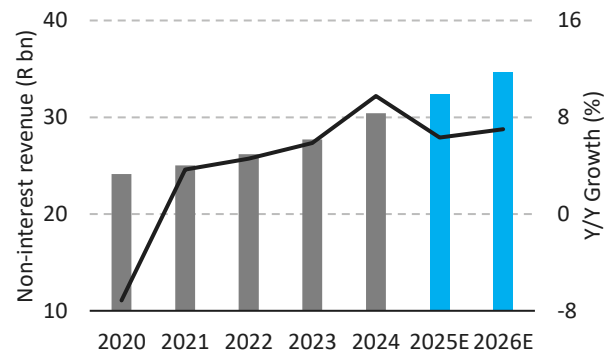
Source: FactSet

Graph 5: Annual net interest income



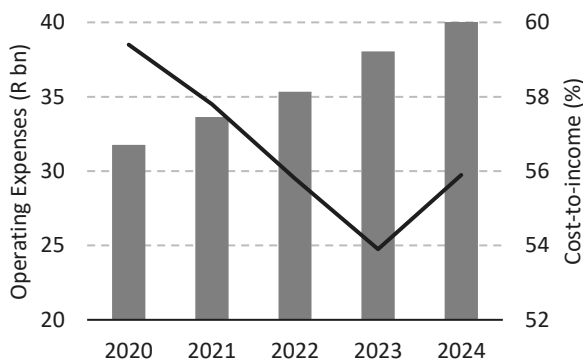
Source: FactSet

Graph 6: Annual non-interest revenue



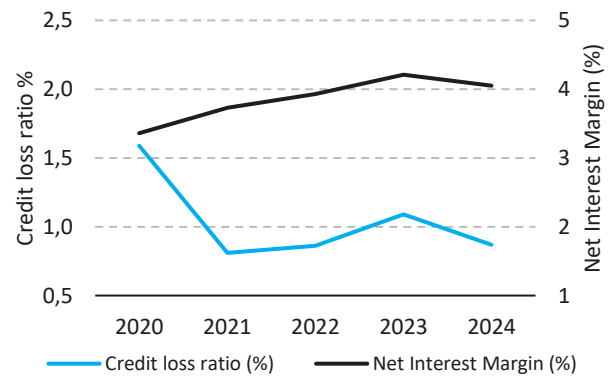
Source: FactSet

Graph 7: Operating expenses and Cost-to-income ratio



Source: FactSet

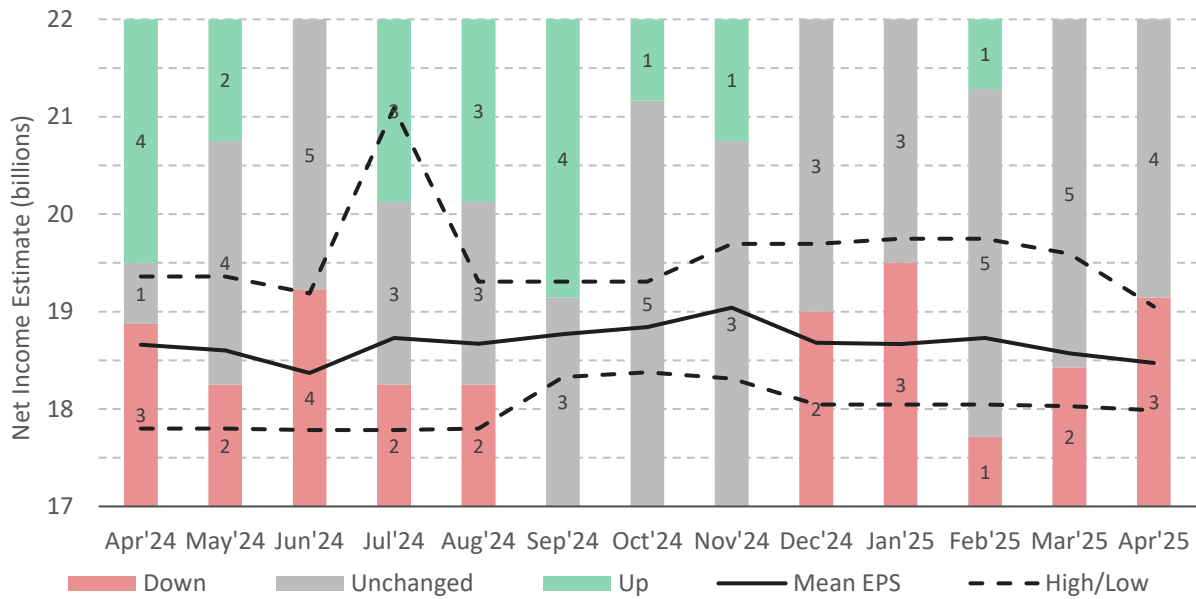
Graph 8: Credit-loss ratio and net-interest margin



Source: FactSet



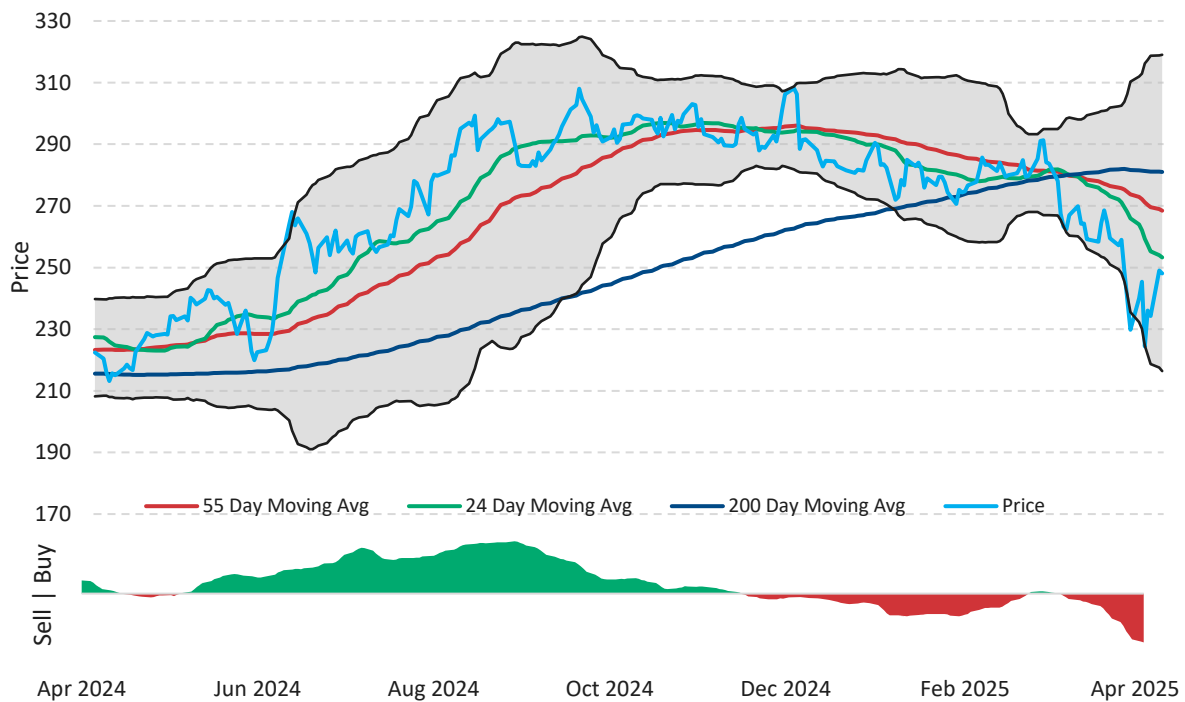
Graph 9: Earnings revision



Source: FactSet

Graph 10: Price momentum

Last: 248.12 | Bollinger Bands: (50,3) [Upper/Lower]: 319.04/216.36



Source: FactSet



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*Share price as at closing.

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