Milan, 18 August 2023

Italian Equity Research – 2Q23 Results

BANCA SISTEMA

OUTPERFORM

Sector: Banks

Price: Eu1.16 - **Target: Eu1.65**

We Expect Weak NII to Gradually Improve, Capital More Solid

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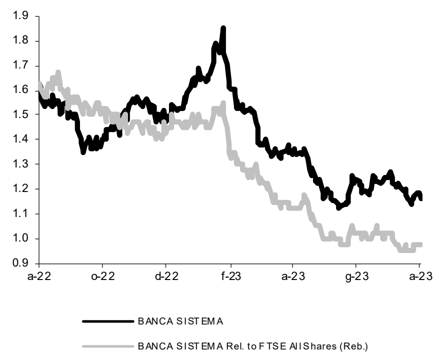
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 1.75 to 1.65
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-11.9%	-0.9%	2.1%

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:			BSTA.MI
Bloomberg code:			BST IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.8%	-0.7%	-28.7%
Relative	-4.3%	-2.6%	-48.7%
12M (H/L)			1.85/1.12
3M Average Volume (th):			145.31

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	93
Total Mkt Cap (Eu mn):	93
Mkt Float - Ord (Eu mn):	50
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	222
TEPS (Eu):	2.76
CET1 Ratio Fully Loaded:	12.3%
Gross NPE Ratio:	9.9%

- **Results broadly in line despite some weakness on NII.** BST posted a positive commercial performance driven by factoring and pawn loans (1H23 factoring turnover +18% YoY, pawn loans +15% YoY), which compensated a decrease in income-backed loans (due also to Eu 35mn in loan disposals in 2Q23) with an improvement of adjusted income margins (from 4.0% in 1H22 to 5.4% in 1H23) thanks to factoring (from 4.3% to 5.9% in 1H23) and pawn loans (from 15.9% to 19%), while income-backed loans suffered and were slightly positive (from 2.3% to 2.6%%) only thanks to the small loan portfolio disposal. NII was weaker than expected due to higher cost of funding, which went up from 0.4% in FY22 to 2.4% as of 1H23. The lower NII contribution was offset by higher fees and trading income. Costs were in line with exp (+6.8% YoY, -3-3% QoQ) as was CoR (19bps). The CET1 ratio stood at 11.9% but should increase by YE (13.3% PF) thanks to HTCS reserve sterilization.
- **Feedback from conference call.** The higher duration of the income-backed loan portfolio (at fixed rate) vis-à-vis growing cost of funding (exp at 2.9% by YE) is adversely affecting NII, which is expected to be pretty flat in 2H23 vs 1H23 thanks to margins growing at other divisions. Costs are expected to remain flat in 2H23 while CoR should not show any particular deterioration. The BoD has approved the disposal of Eu 666mn in the HTC govies portfolio by YE with an embedded cap gain (Eu 5.4mn as at end of July) that should provide further liquidity and capital buffers. The package of reforms of Basel III regulations should lead to the neutralization of HTCS reserves on the govies portfolio by YE (duration 19.8 months) and free up additional capital that could be used to increase the payout ratio or finance further growth in core businesses. New bplan to be presented at the beginning of next year.
- **Change in estimates.** We have revised our EPS 23 estimates downward by -11% due to weaker NII and higher costs, partially compensated by higher trading income and fees. As for 2024 and 2025, we have merely fine-tuned our EPS estimates (-0.9% and +2.1% respectively) as we expect gradual improvements in margins and a continuing positive commercial performance that could further improve thanks to a higher capital base.
- **Outperform confirmed, T.P. Eu 1.65 from Eu 1.75.** We think management has rightly increased retail funding via higher duration (term deposits), which has a temporary negative impact on profitability due to the negative spread on the income-backed loans business. We think the worst should be over in terms of profitability with a gradual recovery expected as early as 2H23. The higher capital base expected by YE will be a positive starting point to finance the new 3Y plan which we expect to focus on factoring and pawnbroking with a lower focus on income-backed loans. Stock trading at P/TE 0.42x with expected ROTE 24 at 8.7%.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	108	106	101	109	114
Net Operating Profit (Eu mn)	47	46	34	41	45
Net Profit Adj (Eu mn)	23	22	17	20	22
EPS New Adj (Eu)	0.289	0.274	0.208	0.254	0.279
EPS Old Adj (Eu)	0.289	0.274	0.236	0.257	0.273
DPS (Eu)	0.072	0.065	0.052	0.064	0.070
P/E Adj	4.0	4.2	5.6	4.6	4.2
Div. Yield	6.2%	5.6%	4.5%	5.5%	6.0%
P/TE	0.42	0.44	0.42	0.40	0.37
ROTE	10.4%	10.4%	7.5%	8.7%	9.0%