BANCA SISTEMA

OUTPERFORM

Sector: Banks

Price: Eu1.12 - **Target: Eu1.50**

3Q23 preview. New business plan the main catalyst

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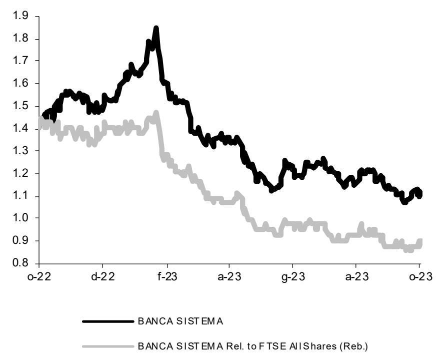
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 1.65 to 1.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-7.3%	-4.7%	-0.7%

Next Event
Results Out on 10th November

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:			BSTA.MI
Bloomberg code:			BST IM
Performance	**1M**	**3M**	**12M**
Absolute	-3.0%	-10.7%	-20.4%
Relative	3.5%	-5.2%	-44.0%
12M (H/L)			1.85/1.07
3M Average Volume (th):			111.12

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	90
Total Mkt Cap (Eu mn):	90
Mkt Float - Ord (Eu mn):	48
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	221
TEPS (Eu):	2.74
CET1 Ratio Fully Loaded:	12.3%
Gross NPE Ratio:	9.9%

- **Weak quarter driven by lower NII:** 3Q23 is expected slightly down, still suffering from NII margin compression on funding costs that are taking their toll on the income-backed loan portfolio, marked up on fixed interest rates. However, new contracts have higher rates with the rollover going through, which prompt us to consider some benefits in the coming quarters, as well as positive hints in the near future if rates go down. In any case, the P&L can count on positive factoring volumes and turnover up 13% YoY.
- **Lower OpEx:** on the cost front, there is a positive impact from summer seasonality, which should bring total costs (OPex + D&A) to around €15m, leading to operating profit of approx. €6m. Below the operating line, we see the quarter remaining solid from a default rate perspective, with CoR at ca. 12bps (-8bps QoQ). Net income is projected lower YoY (-42%) and QoQ (-13%) to €3.3mn.
- **Regulatory capital:** as far as regulatory capital is concerned, we see the CET1r increasing by a handful of bp to 12% due to the decrease in the negative HTCS reserve. Our estimate does not include the positive impact from the application of CRR (we estimate some +100bps) and the possible positive impact that would come from the IPO of Kruso Kapital, i.e., the pawn-broking division that Banca Sistema will IPO, leveraging on the strong margins of this kind of business. We believe that the Group may use this IPO to go to a higher level, and possibly replicate this business model across European Southern countries such as Spain or Greece. This would be an aggressive way to diversify the business model and embed higher margins, even if we are aware of the difficulties of such listings. On the balance sheet, we see visible growth in retail deposits at the expense of corporate deposits, which are mostly restricted and have higher yields, which is one of the reasons for the high cost of funding.
- **Change in estimates:** Banca Sistema will present a new business plan by 1H24. For the time being, we are slightly trimming our forecasts for 2023 and to a lesser extent for 2024. We have revised our EPS estimates by 7% for 2023 due to weak NII, partially compensated by lower costs and lower provisions. We think the main catalyst will be presentation of the new business plan, which will provide more visibility on 2024 results and the main goals. For this reason, we slightly revise 2024 EPS (-4.7%) and maintain our 2025 estimate (-0.7%) substantially unchanged.
- **Outperform confirmed, T.P. €1.5 from €1.65:** pending presentation of the business plan, given the slight cut to estimates and the use of a risk-free rate of 4.5%, we are trimming the target price to €1.5. We stick to our Outperform rating on the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	108	106	95	106	114
Net Operating Profit (Eu mn)	47	46	31	40	45
Net Profit Adj (Eu mn)	23	22	16	19	22
EPS New Adj (Eu)	0.289	0.274	0.193	0.242	0.277
EPS Old Adj (Eu)	0.289	0.274	0.208	0.254	0.279
DPS (Eu)	0.072	0.065	0.048	0.061	0.069
P/E Adj	3.9	4.1	5.8	4.6	4.0
Div. Yield	6.5%	5.8%	4.3%	5.4%	6.2%
P/TE	0.40	0.42	0.41	0.39	0.36
ROTE	10.4%	10.4%	7.0%	8.4%	9.0%