

BANCO BPM

Sector: Banks

BUY

Price: Eu4.43 - Target: Eu6.20

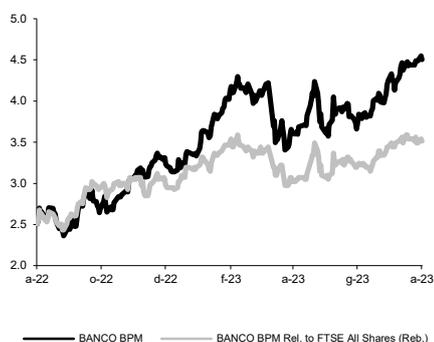
FY23 Guidance Raised Further, Strong Capital to Allow Higher Payout

 Christian Carrese +39-02-77115.485
 christian.carrese@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 5.80 to 6.20		
	2023E	2024E	2025E
Chg in Adj EPS	6.5%	0.6%	4.1%

BANCO BPM - 12M Performance



Stock Data

Reuters code:	BAMI.MI
Bloomberg code:	BAMI IM

Performance	1M	3M	12M
Absolute	5.9%	22.1%	79.5%
Relative	2.3%	14.9%	51.8%
12M (H/L)	4.55/2.36		
3M Average Volume (th):	11,894.29		

Shareholder Data

No. of Ord shares (mn):	1,515
Total no. of shares (mn):	1,515
Mkt Cap Ord (Eu mn):	6,820
Total Mkt Cap (Eu mn):	6,820
Mkt Float - Ord (Eu mn):	5,630
Mkt Float (in %):	82.6%
Main Shareholder:	
Credit Agricole	9.2%

Balance Sheet Data

Tangible Equity (Eu mn):	11,960
TEPS (Eu):	7.89
CET1 Ratio Fully Loaded:	14.9%
Gross NPE Ratio:	4.2%

- 2Q results beat expectations.** NII beat forecasts (+2% vs. est. or +9%/+53% QoQ/YoY) thanks to a further customer spread widening (+45bp QoQ), fees were flattish QoQ while trading income was slightly negative due to the impact of certificates. Costs were better than expected (-2.4% vs. est., +0.4% YoY) confirming the positive cost control (additional 69 branches closed in May), while cost of risk trends remained healthy (45bp vs. exp. 58bp and Eu200mn overlays) thanks to no major deterioration in default rates (0.93%). Capital was very solid (14.2% vs. exp. 13.7%) thanks to RWA optimisation and earnings generation with further room for improvements (Danish compromise, capital gain from payment business reorganisation). Dividend accrual in line with current payout guidance (50%).
- 2023 guidance raised, room for further on 2024 and capital distribution policy.** Management again raised FY23 EPS guidance from ~Eu0.75 to >Eu0.80 on the back of stronger NII (2023 guidance raised to ~Eu3.25bn) but left 2024 EPS guidance unchanged for the time being (Eu0.90) pending the business plan update expected by YE. We believe the current solid capital position would justify a higher payout ratio (currently 50%) and also the introduction of a buyback mechanism on the back of a further improvement in asset quality (gross NPE ratio at 3.8%).
- Conference call feedback.** Management is confident of retaining high NII even in a declining interest rate scenario, the negative contribution of certificates to trading income is expected to last (certificates value expected to remain pretty stable at Eu5bn), fees in 2H23 should be flat vs. 1H23, with the current capital position expected to improve further thanks to some capital gains on the payments business, while headwinds from the internal model update are expected to be absolutely manageable. As for the use of excess capital, no M&A (only room in product factories i.e. AM business), focus on capital distribution to shareholders (cash dividend + possible buyback) and IT investments to make the cost base even more sustainable in the medium term. New business plan update by November 2023.
- Change in estimates.** We are lifting our 2023 EPS estimates by +6.5%, driven by higher NII and a lower cost of risk, which more than offset the negative contribution from trading income. As for 2024/25, we are fine-tuning our EPS estimates by +0.4%/+4.5% respectively on the back of a net positive contribution from higher NII and lower trading income. We are also raising our DPS estimates to factor in a higher payout ratio (60% for 2023 and 70% for 2024). We are not including any assumption of a buyback for the time being, although we see room for such a move from a capital point of view.
- BUY confirmed; target raised from Eu5.8 to Eu6.2.** We think the strong turnaround implemented by management since the merger (2016-2023: gross NPE ratio from 24.1% to 3.8%, net profit from Eu-1.6bn to Eu1.2bn, CET1 ratio from 11% to 14.8%) will allow more pleasing capital distribution, with the possibility of a share buyback (not in our estimates) which would create value for shareholders given the P/TE valuation remains low. The stock is still undervalued (P/TE 0.57x, 2023/25 ROTE above 10%) with a double-digit dividend yield.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	4,511	4,706	5,359	5,444	5,484
Net Operating Profit (Eu mn)	1,995	2,166	2,732	2,803	2,823
Net Profit Adj (Eu mn)	501	700	1,204	1,333	1,390
EPS New Adj (Eu)	0.331	0.462	0.795	0.880	0.918
EPS Old Adj (Eu)	0.331	0.462	0.746	0.875	0.882
DPS (Eu)	0.190	0.230	0.480	0.620	0.650
P/E Adj	13.6	9.7	5.7	5.1	4.9
Div. Yield	4.2%	5.1%	10.7%	13.8%	14.4%
P/TE	0.57	0.59	0.57	0.55	0.53
ROTE	4.2%	6.1%	10.1%	10.8%	10.9%