

BANCO BPM

Sector: Banks

BUY

Price: Eu4.13 - Target: Eu5.80

Supportive Top Line, E-Payments JV Next Short-Term Trigger

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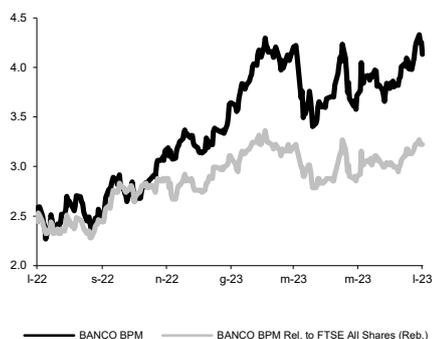
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

Results Out: Aug 2nd

BANCO BPM - 12M Performance



Stock Data

Reuters code:	BAMI.MI
Bloomberg code:	BAMI IM

Performance	1M	3M	12M
Absolute	7.5%	12.0%	69.3%
Relative	6.1%	11.6%	40.5%
12M (H/L)	4.33/2.27		
3M Average Volume (th):	13,109.94		

Shareholder Data

No. of Ord shares (mn):	1,515
Total no. of shares (mn):	1,515
Mkt Cap Ord (Eu mn):	6,258
Total Mkt Cap (Eu mn):	6,258
Mkt Float - Ord (Eu mn):	5,166
Mkt Float (in %):	82.6%
Main Shareholder:	
Credit Agricole	9.2%

Balance Sheet Data

Tangible Equity (Eu mn):	12,054
TEPS (Eu):	7.96
CET1 Ratio Fully Loaded:	13.8%
Gross NPE Ratio:	4.2%

■ **2Q23 results preview (Aug 2nd).** We expect the bank to report no increase in loans but a further widening of the customer spread thanks to low deposit beta. Fees should have fallen slightly QoQ, partly due to the cancellation of some fees linked to negative interest rates (c.Eu50mn per annum) and some client activity on Italian sovereign bonds. Trading income should have been slightly positive, while operating costs should have increased by +2.9% YoY, with the cost of risk estimated at 58bp (vs. 51bp in 1Q23), leading to net profit of Eu329mn. As for the fully-loaded CET1 ratio, we don't expect any regulatory headwinds in the quarter, while profits in the period, combined with limited RWA inflation, should have enabled the bank to close with a ratio of 13.7%. As for asset quality, we don't expect a pick-up in default rates, so the gross NPE ratio is estimated at c.4% (4.2% in 1Q23).

■ **Short-term trigger: payment business partnership.** During the 1Q23 presentation management stated that the project to enhance the payments business would be finalised by the time of the 2Q23 results presentation. The partnership will cover POS management (merchant acquiring) and credit card distribution (issuing) and should ensure BAMI an upfront capital gain (depending on the duration of the distribution agreement), which will be partially offset, in terms of the capital impact, by the deduction of the stake which BAMI will hold in the JV. Management said it wants to preserve the current fee run-rate (the net 2022 contribution of the payments business to BAMI's pre-tax profit was Eu140mn). As a result, we expect a positive impact on the CET1 ratio (in 3Q or 4Q) which should enhance visibility on FY23 guidance for a fully-loaded CET1 ratio (including the Danish compromise) of 14%.

■ **Medium-term trigger: higher shareholder remuneration.** The bank should present an update of the business plan in November when interest rate and GDP trends are likely to be clearer. We believe the current earnings trend, along with reorganisation of the bancassurance business (i.e. authorisation of the Danish compromise) and limited regulatory headwinds, should ensure a solid capital base for BAMI to allow the bank to raise shareholder remuneration (higher payout ratio vs. the current 50%, potential introduction of a share buyback programme).

■ **BUY confirmed; target Eu5.80.** We believe current revenue trends, coupled with the absence of any deterioration in asset quality, could provide more visibility on sustainably higher profitability and increased shareholder remuneration. Our target price does not include any speculative appeal, although we cannot rule out the possibility that bigger banks could view BAMI as potential prey in order to gain market share in Italy in general, and the country's richest regions in particular. The stock is trading at 0.5x TE with a 2023/24 ROTE of 10% on average.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	4,511	4,706	5,303	5,433	5,438
Net Operating Profit (Eu mn)	1,995	2,166	2,676	2,792	2,777
Net Profit Adj (Eu mn)	501	700	1,131	1,325	1,336
EPS New Adj (Eu)	0.331	0.462	0.746	0.875	0.882
EPS Old Adj (Eu)	0.331	0.462	0.746	0.875	0.882
DPS (Eu)	0.190	0.230	0.370	0.470	0.500
P/E Adj	12.5	8.9	5.5	4.7	4.7
Div. Yield	4.6%	5.6%	9.0%	11.4%	12.1%
P/TE	0.53	0.54	0.52	0.49	0.47
ROTE	4.2%	6.1%	9.4%	10.5%	10.1%