

# BANCA MPS

Sector: Banks

## OUTPERFORM

Price: Eu3.56 - Target: Eu4.10

### Per Aspera ad Astra (Take 2)

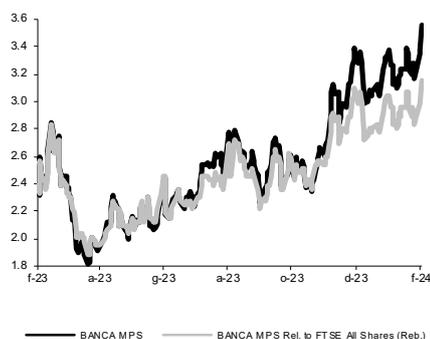
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| Stock Rating       |                   |       |
|--------------------|-------------------|-------|
| Rating:            | Unchanged         |       |
| Target Price (Eu): | from 3.50 to 4.10 |       |
|                    | 2024E             | 2025E |
| Chg in Adj EPS     | 19.3%             | 18.8% |

#### Next Event

General meeting next 11 April

#### BANCA MPS - 12M Performance



| Stock Data              |           |       |       |
|-------------------------|-----------|-------|-------|
| Reuters code:           | BMPS.MI   |       |       |
| Bloomberg code:         | BMPS IM   |       |       |
| Performance             | 1M        | 3M    | 12M   |
| Absolute                | 6.8%      | 37.6% | 49.0% |
| Relative                | 4.9%      | 28.1% | 36.2% |
| 12M (H/L)               | 3.56/1.81 |       |       |
| 3M Average Volume (th): | 27,835.18 |       |       |

| Shareholder Data                    |       |
|-------------------------------------|-------|
| No. of Ord shares (mn):             | 1,260 |
| Total no. of shares (mn):           | 1,260 |
| Mkt Cap Ord (Eu mn):                | 4,484 |
| Total Mkt Cap (Eu mn):              | 4,484 |
| Mkt Float - Ord (Eu mn):            | 2,725 |
| Mkt Float (in %):                   | 60.8% |
| Main Shareholder:                   |       |
| MEF (ministero dell'economia e dell | 39.2% |

| Balance Sheet Data       |        |
|--------------------------|--------|
| Tangible Equity (Eu mn): | 10,596 |
| TEPS (Eu):               | 8.41   |
| CET1 Ratio Fully Loaded: | 18.3%  |
| Gross NPE Ratio:         | 4.0%   |

**U-turn in BMPS equity story now taking hold: based on a fully-loaded CET1r of >18%, the group is offering yields of 7% on 2023 and 15% on 2024: we argue this is not too shabby for a bank that had been expected to resume dividend payments in 2025 and has not made any payout for years. Another plus is that operating trends are positive, with pre-provision profit of €0.5bn, +19% higher than estimates. On top of this, there is a possibility that these numbers could suggest the Government may opt to delay its exit strategy and try to maximise the cash-in on its investment. We remain positive on the stock, raising our target price to €4.1/share.**

- **Resumption of dividends:** in our view, 4Q23 numbers were excellent, even net of non-recurring items. The return to dividend payments is an extremely important sign, as it demonstrates management's confidence in the strength of the capital position compared to legal liabilities.
- **P&L:** BMPS reported a 4Q23 bottom line of Eu1.1bn vs. our estimate of €0.3bn thanks to the recovery of almost half a billion euros in legal liabilities and positive taxes for €0.3bn on the back of DTA recovery. The operational component was remarkably good, with revenues +5% A/E due to almost €1bn in Fees and operating profit of €0.5bn, +19% A/E.
- **Payout vs Capital ratios** were better than expected, even factoring in cash dividends on 2023: the CET1r was 18.1% (almost 19% before dividends), probably a record among EU banks. The bank has opted to pay a DPS of €0.25, implying a 7% yield. It has a 750bp buffer on T1 capital. As for 2024 the cash dividend is expected to be 50% of the pre-tax ex-one off. This implies a c.15% yield on 2024.
- **Asset quality:** as expected, the 4Q23 cost of risk was up to 70bp, (57bp in FY23 vs. 55bp in FY22), gross NPEs were stable in the quarter at €3.5bn, with NPE coverage at 49% (some +1pp vs. FY22). The FY cost of risk came out at 57bp, roughly in line with guidance. NPL coverage was 68% (+3% YoY) while UTP coverage was 37% (flattish YoY) hit by some retail mortgage flows with lower expected loss.
- **Legal risks:** in 4Q23 there was a massive downgrading (€-1.6bn Q/Q) of extraordinary litigations and out-of-court claims, now at €0.9bn plus €0.5bn related to the Alken case, for which a positive 2<sup>nd</sup> degree ruling was issued in Dec-23.
- **OUTPERFORM; target up to €4.1/s:** While s/t volatility could be taken for granted given the stock is skyrocketing on results and the Government may decide again to dilute its stake, we argue that the payment of dividends may delay another placement. In any case, the potential investor demand resulting from the new payout policy may suggest renewed interest in the equity story of the Siena-based bank. We have upgraded our estimates on the base of the 4Q23 operating profit beat, taking into consideration the fact that release of legal risk provisions and DTAs writeback may add volatility to the bottom line.

| Key Figures & Ratios         | 2021A | 2022A  | 2023A | 2024E | 2025E |
|------------------------------|-------|--------|-------|-------|-------|
| Total income (Eu mn)         | 2,982 | 3,089  | 3,797 | 3,688 | 3,615 |
| Net Operating Profit (Eu mn) | 876   | 81     | 1,954 | 1,780 | 1,713 |
| Net Profit Adj (Eu mn)       | 353   | -189   | 1,323 | 1,269 | 1,196 |
| EPS New Adj (Eu)             | 0.352 | -0.150 | 1.050 | 1.007 | 0.949 |
| EPS Old Adj (Eu)             | 0.352 | -0.150 | 0.909 | 0.844 | 0.799 |
| DPS (Eu)                     | 0.000 | 0.000  | 0.250 | 0.510 | 0.485 |
| P/E Adj                      | 10.1  | nm     | 3.4   | 3.5   | 3.7   |
| Div. Yield                   | 0.0%  | 0.0%   | 7.0%  | 14.3% | 13.6% |
| P/TE                         | 0.60  | 0.58   | 0.46  | 0.42  | 0.39  |
| ROTE                         | 5.9%  | -2.5%  | 13.4% | 12.0% | 10.4% |