Milan, 09 November 2023

Italian Equity Research – 3Q23 Results

BANCA MPS

OUTPERFORM

Sector: Banks

Price: Eu2.67 - **Target: Eu3.50**

3Q in line; legal risks cut

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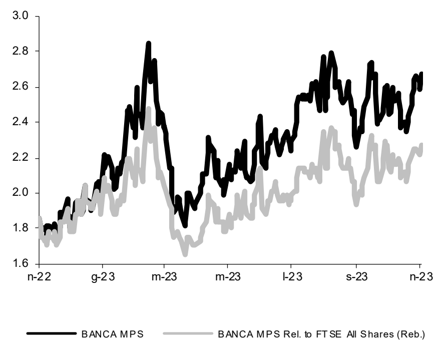
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

27 Nov. court ruling on Profumo/Viola case

BANCA MPS - 12M Performance



Stock Data			
Reuters code:			BMPS.MI
Bloomberg code:			BMPS IM
Performance	**1M**	**3M**	**12M**
Absolute	2.5%	8.2%	43.9%
Relative	0.2%	6.9%	25.6%
12M (H/L)			2.85/1.76
3M Average Volume (th):			17,582.39

Shareholder Data	
No. of Ord shares (mn):	1,260
Total no. of shares (mn):	1,260
Mkt Cap Ord (Eu mn):	3,367
Total Mkt Cap (Eu mn):	3,367
Mkt Float - Ord (Eu mn):	1,212
Mkt Float (in %):	36.0%
Main Shareholder:	
MEF (ministero dell'economia e dell	64.0%

Balance Sheet Data	
Tangible Equity (Eu mn):	8,891
TEPS (Eu):	7.06
CET1 Ratio Fully Loaded:	17.0%
Gross NPE Ratio:	4.1%

- **Strong results in 3Q23.** BMPS reported strong results in 3Q23 with net profit of €310mn, technically beating both our "aggressive" estimates (€274mn) and consensus (volatile, below €250mn) on taxes. The main P&L lines are very close to our projections with NII at €605mn (vs. our estimate of Eu604mn), boosted by higher rates and CoF under control, net fees of €317mn (our estimate was €318mn), suffering from the high-rates environment (lower fees from AuM), and OpEx of €444mn (vs. our estimate of €449mn), down both QoQ (due to summer seasonality) and YoY (due to completion of the restructuring plan). LLPs were higher than expected at €104mn in the quarter (+9.5% A/E), implying CoR (annualized) of ca. 53bps. Pre-tax profit came to €307mn (our estimate was €324mn) but was positively impacted by DTAs that led to a net profit being recorded. The bottom line is 13% higher than expected due to our estimate of -€50mn in fiscal items vs €3m reported. No impact from the windfall tax on the 2023 P&L is assumed as the Bank will propose to the General Meeting of Shareholders the option of allocating no less than €313m (2.5x of the tax amount) to non-distributable reserves.
- **Capital Ratios and AQ.** In the quarter, a further strengthening of the capital position is evident from the FL CET1r of 16.7% (pro forma, due to the accrual of the quarterly profit), up over 80bps in the quarter due to strong capital generation and the no-payout policy pursued by the bank. In August, BMPS signed an agreement to dispose of an NPE portfolio booked at ca. €230mn, which will be deconsolidated by YE. The stock of PF gross impaired loans now stands at Eu3.4bn, stable QoQ and slightly up from YE22, with a gross NPE ratio PF at 4.1% (4.2% FY22 and 4% in 1H23) and net at 2.2% (flat YTD and 2.1% in 1H23).
- **€1.2bn liability from legal claims downgraded to "remote"**. Following the 11 October Supreme Court ruling on Vigni/Mussari, the bank proceeded to downgrade certain legal proceedings and out-of-court claims related to financial information disseminated in 2008-2015 from "possible" to "remote", considerably reducing the total claims by €1.2bn from €4.1bn to €2.9bn (see page 6 for details). Legal risk provision writebacks look likely at this time, especially in the event of a positive second instance verdict in the Profumo/Viola case (27 Nov.).
- **Payout.** BMPS unveiled very strong capital ratios, benefitting from the current zero payout policy. During the CCall, management stated that they are considering moving the first set of dividends to 2024 (payable in 2025). We argue that given capital generation and the possibility of reversal of the provisions for legal risk, BMPS may easily bring a cash dividend forward to 2023 (payable in 2024). This would clearly give a strong signal to investors, who may re-weight the legal risk issue at BMPS and reconsider the Group equity story U-turn.
- **OUTPERFORM, TP €3.5/s.** Given that 3Q23 operating trends are very much aligned to our expectations, we are leaving our estimates broadly unchanged, sticking to our OUTPERFORM rating and €3.5/s target price.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	2,982	3,089	3,778	3,619	3,555
Net Operating Profit (Eu mn)	876	81	1,851	1,676	1,616
Net Profit Adj (Eu mn)	353	-189	1,145	1,064	1,007
EPS New Adj (Eu)	0.352	-0.150	0.909	0.844	0.799
EPS Old Adj (Eu)	0.352	-0.150	0.909	0.844	0.799
DPS (Eu)	0.000	0.000	0.000	0.242	0.229
P/E Adj	7.6	nm	2.9	3.2	3.3
Div. Yield	0.0%	0.0%	0.0%	9.1%	8.6%
P/TE	0.45	0.44	0.38	0.35	0.33
ROTE	5.9%	-2.5%	12.9%	11.1%	9.8%