

BANCA MPS

Sector: Banks

Per aspera ad astra

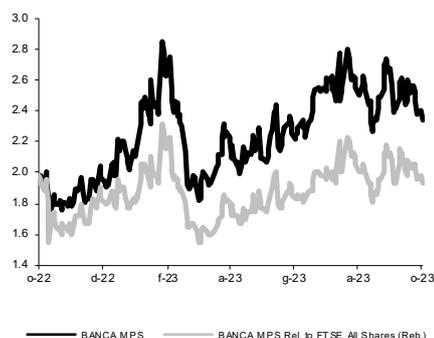
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Stock Rating			
Rating:	OUTPERFORM (New Coverage)		
Target Price (Eu):	3.50 (New Coverage)		
	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

Results Out 8 Nov. 2023

BANCA MPS - 12M Performance



Stock Data			
Reuters code:	BMPS.MI		
Bloomberg code:	BMPS IM		
Performance	1M	3M	12M
Absolute	-12.4%	-7.1%	18.1%
Relative	-8.9%	-1.3%	-2.2%
12M (H/L)	2.85/1.62		
3M Average Volume (th):	18,269.50		

Shareholder Data	
No. of Ord shares (mn):	1,260
Total no. of shares (mn):	1,260
Mkt Cap Ord (Eu mn):	2,951
Total Mkt Cap (Eu mn):	2,951
Mkt Float - Ord (Eu mn):	1,063
Mkt Float (in %):	36.0%
Main Shareholder:	
MEF (ministero dell'economia e dell	64.0%

Balance Sheet Data	
Tangible Equity (Eu mn):	8,825
TEPS (Eu):	7.01
CET1 Ratio Fully Loaded:	17.5%
Gross NPE Ratio:	4.1%

OUTPERFORM

Price: Eu2.34 - Target: Eu3.50

We initiate coverage of BMPS with an OUTPERFORM rating and target price of €3.5. Downside risks look limited: the stock is trading at 0.3x t-NAV, outstanding legacy issues look covered by existing provisions and some €3bn of 2023-2025 capital generation. Conversely, there may be significant upside, especially considering potential M&A appeal.

In early 2022, the appointment of Mr Lovaglio as CEO of BMPS, coupled with a capital strengthening operation, laid the foundations for a new business plan that has already started to bear fruit; this was clear in 1H23 results, which showed that visibility on longer-term targets was already improving. Valuation-wise, BMPS is still trading at a fraction of its peers, not yet reflecting the restructuring achieved so far. Further positive newsflow on legacy issues (legal liabilities) may be in the pipeline: as a result, investors could become more confident on starting to reassess the feasibility of the Group's turnaround. The earlier-than-scheduled return to a standard payout policy may reassure the market and help restore confidence in the progress of the equity story.

■ **2023 performance vs re-rating:** the perception of BMPS as too much of a risky bet in the Italian banking arena has hobbled its share price performance for years, with the stock trading at a fraction of the fundamental multiples of its peers. In our view, 1H23 results provided the first tangible signs of a U-turn, capitalising on the major de-risking work carried out over the last few years. Nevertheless, a stock re-rating is yet to materialise, other than in a very marginal manner.

■ **2023, the year of the U-turn:** 1H23 NII and OpEx were much better than forecast, with LLPs in line, boosting management's confidence on short-term targets, leading to a set of 2023 projections that largely bring forward most of the 2026 targets. Among the 1H23 results, we stress the achievement of a strong and growing capital base bolstered by the current payout policy, which is set to "zero" for 2023 and 2024: an above-projection CET1 ratio gives the Group considerable capital flexibility, i.e., the dividend payout may be brought forward by 1 year (on 2024 results, payable in 2025) or even more. This flexibility may also be supported by the outcome of the 2023 stress tests: BMPS delivered a very strong performance with an "exit" 2025E adverse scenario CET1r of 12%, higher than the EU and IT average.

■ **Legal Risks look manageable / priced in:** Some legacy issues surrounding the stock valuation remain, clouding any appraisal of the Group's turnaround potential. These issues may be addressed in 2H23. In general terms, the legal environment now appears to be more manageable: this is not only based on flattish claims, but also on 7 (YTD) favourable rulings from various courts in Italy. More importantly, further key court rulings are expected by year-end. This may soothe the perceptions of legal risk, the last remaining justification for BMPS's lower trading multiples.

■ **Business plan update: capital flexibility...an earlier return to dividends?** As noted above, the restructuring gained pace right after the capital raise and bore some fruit in 1H23, enhancing visibility on plan targets. While it may be too early for a far-reaching update on the plan, we would argue that some key macro assumptions underpinning the plan need to be refreshed, with BMPS taking a very conservative stance in terms of market interest rates in particular. With zero payout and €1bn net profit vs €50bn RWAs, BMPS may be in a comfortable position, with strong flexibility in terms of capital deployment; shareholder remuneration would be a strategically important signal for the market. It would also force a fresh look at BMPS from a fundamental standpoint, and not only in terms of speculation related to its privatisation and legacy issues.

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	1,150	1,067	1,011
EPS New Adj (Eu)	0.352	-0.150	0.913	0.847	0.802
EPS Old Adj (Eu)	0.352	-0.150	0.913	0.847	0.802
DPS (Eu)	0.000	0.000	0.000	0.243	0.229
P/E Adj	6.7	nm	2.6	2.8	2.9
Div. Yield	0.0%	0.0%	0.0%	10.4%	9.8%
P/TE	0.39	0.38	0.33	0.31	0.29
ROTE	5.9%	-2.5%	13.0%	11.2%	9.9%