

BANCA SISTEMA

Sector: Banks

OUTPERFORM

Price: Eu1.17 - Target: Eu1.40

Proactive loans rebalancing in 3Q23

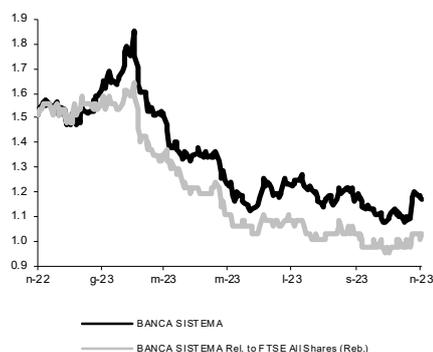
Fabrizio Bernardi +39-02-77115.387
 fabrizio.bernardi@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 1.50 to 1.40		
	2023E	2024E	2025E
Chg in Adj EPS	4.4%	-22.6%	0.2%

Next Event: New Business Plan (1H24)

BANCA SISTEMA - 12M Performance



Stock Data

Reuters code:	BSTA.MI		
Bloomberg code:	BST IM		
Performance	1M	3M	12M
Absolute	7.5%	0.9%	-22.1%
Relative	6.7%	1.4%	-37.3%
12M (H/L)	1.85/1.07		
3M Average Volume (th):	94.19		

Shareholder Data

No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	94
Total Mkt Cap (Eu mn):	94
Mkt Float - Ord (Eu mn):	51
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data

Tangible Equity (Eu mn):	221
TEPS (Eu):	2.75
CET1 Ratio Fully Loaded:	12.3%
Gross NPE Ratio:	9.9%

- 3Q beat:** BSIST reported €3.9m net profit in 3Q23, beating our projections in terms of Revenues (+4% A/E), Operating Profit (+8%) and bottom line (+19%). Y/Y Results were actually expected a little *weakish* on NII compression with growing funding cost hitting the top line and, especially, the CQ portfolio, which is still suffering. On the contrary, Factoring and Pawn loans are progressing at a steady pace on both improving margins and volumes. Given strong cost control, the 3Q23 GOP moved close to €7m, +8% A/E -39% Y/Y. With better-than-expected loan losses backed by an improving asset quality situation (NPEs' coverage +100bp to 32.7% net of Municipality in conservatorship, NPLs at 91%), the pre-tax came in at €6m, 21% ahead of our projections, while the net profit of €3.9m was +20% A/E. Last but not least, CET1r increased Q/Q to 12.3%, driven by organic capital generation and the reduction of HTCS reserve.
- Funding costs take the toll:** As expected, results were hit by a further reduction in NII, compressed by higher funding costs, which topped 2.3% in retail funding from 2% in 2Q23, 3.1% in wholesale (2.8%) and 2.7% in general at Group level (from 2.4% in 2Q23). NII compression may go further in the next quarters: during the ConfCall, management stated that funding costs are also expected to top 2.9% (as a peak) in 2024. From a divisional standpoint, on the (positive) interest income front, higher Factoring LPIs from legal action were very strong (9M23 €27m, more than 2x YoY), due to the double upgrade of the reference rate (from 8% to 12%), the accrual of €40 per invoice and from some €5m of extra collections. Given the evolution in the regulation, we expect a further improvement going forward. There are also, among other revenues, brilliant results from the govies' portfolio and income-backed loan/factoring disposals (€6m vs €3m in 9M22).
- Interest bearing assets:** Balance sheet wise, BSIST is running at full steam: loans were up 4% to €3bn driven by an outstanding performance in Factoring (€1.7bn, €3.6bn turnover +13% Y/Y) and also Pawn loans (€117m), while CQ lending (€0.8bn from €0.9bn in 2Q23) is still on the downside being the group very selective in this business given the higher cost of funding. The securities portfolio went slightly down to €1.1bn (€0.6bn HtCS 18m duration and €0.5bn HtC 11 months) and it is 100% made of IT Govies.
- Balance sheet strength:** CET1r increased Q/Q, driven by the net income for the period, a marginal improvement in RWAs and the reduction of HTCS reserve. In detail the CET1r came in at 12.3% and considering the expected neutralization due to the CRR, it goes up to 13.6%. On the asset quality side, Gross/Net NPEs exposures went down (€287m/223m from €298m/235m) with CoR that was fairly low at 18bp in 9M, mainly on lower UtP and Past Due.
- OUTPERFORM confirmed; TP €1.4/s:** Funding costs are finally peaking with BSIST proactively rebalancing its lending book leveraging on those business (Factoring & Pawn lending) that guarantee adequate risk/reward return in the current interest rates environment. A further step in this direction may be represented by the IPO of Kruso Kapital and possible self-financed external expansion in the business abroad. Furthermore, BSIST looks very cautious on its Op.Ex base and CoR seems under control, technically even below our expectations. Pending the presentation of the new business plan (by 1H24), we have therefore rebalanced our estimates in terms of revenues mix, while reducing also the cost of risk. With this in mind, we are trimming the target price to €1.4/s and stick to our OUTPERFORM rating.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	108	106	94	97	110
Net Operating Profit (Eu mn)	47	46	31	31	43
Net Profit Adj (Eu mn)	23	22	16	15	22
EPS New Adj (Eu)	0.289	0.274	0.201	0.188	0.278
EPS Old Adj (Eu)	0.289	0.274	0.193	0.242	0.277
DPS (Eu)	0.072	0.065	0.050	0.047	0.069
P/E Adj	4.1	4.3	5.8	6.3	4.2
Div. Yield	6.1%	5.5%	4.3%	4.0%	5.9%
P/TE	0.42	0.45	0.43	0.41	0.39
ROTE	10.4%	10.4%	7.3%	6.6%	9.1%