Intermonte

Milan, 14 February 2024

Italian Equity Research – 4Q23 Results

BANCA SISTEMA

OUTPERFORM

Sector: Banks

Price: Eu1.19 - **Target: 1.40**

That Was the Year That Was...

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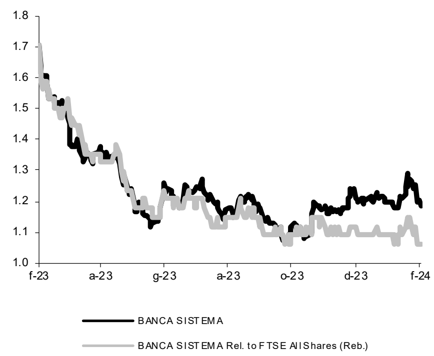
Stock Rating		
Rating:		Unchanged
Target Price (Eu):		Unchanged
	2024E	**2025E**
Chg in Adj EPS	9.4%	2.8%

Next Event

General Meeting for Fy2023 results approval

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:			BSTA.MI
Bloomberg code:			BST IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.2%	0.5%	-30.6%
Relative	-3.2%	-7.3%	-42.6%
12M (H/L)			1.64/1.07
3M Average Volume (th):			138.20

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	95
Total Mkt Cap (Eu mn):	95
Mkt Float - Ord (Eu mn):	51
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	240
TEPS (Eu):	2.99
CET1 Ratio Fully Loaded:	12.9%
Gross NPE Ratio:	9.9%

- **In a difficult interest rate environment, which took its toll on 2023, Banca Sistema proactively shifted focus to businesses that enable active repricing, namely Factoring & Pawnbroking: new volumes in these divisions recently accelerated YoY thanks to some big tickets. The first tangible signs were seen in 4Q23, with group NII up QoQ, a positive sign. Nevertheless, the income-backed loans (CQ) division is also in the spotlight: repricing is bearing fruit with improving new volumes HoH. On top of this, the bank posted strong Trading in 4Q23, more than offsetting one-off costs due to the Kruso IPO and Pawnbroking M&A in Portugal. Gains on Ecobonus look likely in the coming quarters, supporting the bottom line. Tough times may linger for a few quarters, but the worst seems to be over.**
- **NII: cutting to the chase…NII went up QoQ.** Gross adj. interest margins improved in all divisions, CQ included. Clearly, net of funding costs CQ is still barely profitable, but this is just a matter of time: proactive repricing should lead to a U-turn across the board once interest rates start decreasing.
- **Trading vs. one-off OpEx:** costs rose YoY and QoQ, hit by the Kruso IPO and M&A in Portugal. Banca Sistema wisely offset this burden with one-offs (Trading proceeds), leading to a marginal bottom line hit. Going forward, we should see more trading gains on Ecobonus and cannot rule out a rebuilding of sovereign exposure at a certain point (€-450mn QoQ in 4Q23).
- **Volumes rebalancing**: considering the weakness of the CQ division, Banca Sistema is rebalancing focus to Factoring and Pawnbroking: the former hit a turnover high in 2023 (€5.6bn, + 26% YoY) while the latter, much smaller, is still growing at a steady pace: outstanding Pawnbroking loans were €121mn, +14% YoY. It is worth saying that new CQ volumes grew HoH thanks to shrewd repricing.
- **Balance sheet strength improving**: CEt1r increased by c.65bp QoQ, driven by net income, a marginal improvement in RWAs and a reduction in the HTCS reserve. In detail, CET1r closed at 12.9%; considering the expected neutralisation of negative reserves, this would rise to 13.7%.
- **Funding costs: the key issue, but losing its sting**. Repricing is easier in Factoring and Pawnbroking than CQ, where the average yield is growing but at a slower rate than the average product duration. Progress is being made, however: adj. yields for all products improved in 4Q23 and more is expected in 2024 once the average CQ yield starts to rise on the repricing of new volumes. At this stage the best-case scenario looks like a mild "regression" in Euribor rates vs. a sharp decline.
- **Asset quality:** gross/net NPEs fell slightly QoQ (€297mn/232mn from €298mn/235mn) with the FY23 cost of risk fairly low at 17bp, mainly on lower NPLs. NPE coverage was fairly flat YoY (22%), the NPL coverage ratio improved slightly YoY (28.3%). In 2023 the bank further increased its NPL coverage ratio (excl. a municipality in administration) from 88% to 93%.
- **Payout policy: raising payouts is the new normal for banks**. Banca Sistema is no exception: despite the dent in the bottom line from interest rates and the CQ division, the payout increased, allowing confirmation of a flattish DPS YoY at €0.065.
- **Change in estimates:** pending presentation of a new business plan we are fine-tuning estimates in order to factor in a different revenue mix, leading to mid-single-digit growth YoY in both 2024 and 2025. We also consider higher OpEx on the renewal of the labour contract, a larger FTE base, IT digitalisation, and marketing for funding expansion.
- **OUTP. TP €1.40 confirmed:** BSIST is proactively rebalancing its asset base to enable more active repricing. 2024 seems to be a transitional year: the new business plan should be a catalyst to manage rising funding costs and a different business mix, anticipating benefits from a drop in interest rates**.**

Key Figures & Ratios	2021A	2022A	2023A	2024E	2025E
Total income (Eu mn)	108	106	104	103	115
Net Operating Profit (Eu mn)	47	46	36	34	44
Net Profit Adj (Eu mn)	23	22	17	17	23
EPS New Adj (Eu)	0.289	0.274	0.213	0.205	0.285
EPS Old Adj (Eu)	0.289	0.274	0.201	0.188	0.278
DPS (Eu)	0.072	0.065	0.065	0.066	0.071
P/E Adj	4.1	4.3	5.6	5.8	4.2
Div. Yield	6.1%	5.5%	5.5%	5.5%	6.0%
P/TE	0.43	0.45	0.41	0.40	0.37
ROTE	10.4%	10.4%	7.4%	6.9%	9.0%