

BANCA MPS

Sector: Banks

OUTPERFORM

Price: Eu4.71 - Target: Eu6.30

Renaissance...and Waiting for More

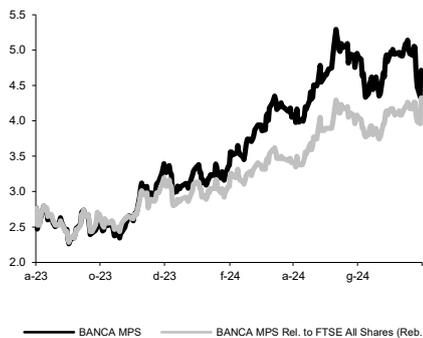
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 5.80 to 6.30		
	2024E	2025E	2026E
Chg in Pretax Profit	0.7%	7.3%	19.0%

Next Event

BANCA MPS - 12M Performance



Stock Data

Reuters code:	BMPS.MI		
Bloomberg code:	BMPS IM		
Performance	1M	3M	12M
Absolute	-2.5%	2.2%	86.3%
Relative	5.8%	10.5%	77.8%
12M (H/L)	5.29/2.26		
3M Average Volume (th):	18,485.31		

Shareholder Data

No. of Ord shares (mn):	1,260
Total no. of shares (mn):	1,260
Mkt Cap Ord (Eu mn):	5,939
Total Mkt Cap (Eu mn):	5,939
Mkt Float - Ord (Eu mn):	3,609
Mkt Float (in %):	60.8%
Main Shareholder:	
MEF (ministero dell'economia e dell	39.2%

Balance Sheet Data

Tangible Equity (Eu mn):	10,122
TEPS (Eu):	8.04
CET1 Ratio Fully Loaded:	18.1%
Gross NPE Ratio:	4.3%

BMPS has finally turned into a capital-generating machine. Now the Group is entering the **AURA** of its Italian high-payout peers with a 75% cash DPS that is coupled to a >18% CET1R from now on: whatever the yield, there is no bank in Europe with a 18% CET1R distributing 75% of pre-tax in CASH. The capital position gives the Group a strong “angle” to handle any capital management move in terms of both M&A and additional payout. Now that CET1R is coupled to a better payout, BMPS has the way to highlight the Group’s changed risk profile, which was once penalized for legacy asset quality issues and, in particular, for legal issues. The new business plan targets are mainly based on growing net fees in order to offset slowing NII but do not look that challenging, also considering OpEx under control and slowing CoR. The free capital position coupled to existing/emerging DTAs makes BMPS technically a potential buyer of assets and this may be done to internalize commissions that are now paid out....but that may take a little time. We raise our 2025-2026 estimates (2024 already aligned) and change the TP to Eu6.3/s. We stick to our Outperform rating. **Please note that the change in EPS includes DTAs reduction. Focus on Pretax Profit, from which payout is calculated.**

- **Guidance:** 2024E is not far off what we have, while 2025-2026 (pre-tax) gives us more upside. As a reference: €1.3bn pre-tax, 75% payout (25% in 2023) which means a €950m cash dividend coupled to an 18% CET1R (without on/off balance DTAs). BMPS is guiding for pre-tax of €1.4bn with growing net fees offsetting weakening NII even if supported by higher volumes. By 2026, BMPS expects the CET1R flattish around 18% (vs 2024) based on net capital generation and meagre generation of RWAs.
- **Capital & M&A:** the Group is clearly CET1R-long with a CET1R > 18% ... and counting. Management has given no indication on any “capital management move” but any strategic optionality will be pursued for value-accretive alternatives in the light of the €2bn existing capital buffer and future DTA acknowledgment. We guesstimate this is not a S/T issue, but it seems to be a story that is already written. The plan targets are thus done on a stand-alone basis... however, the idea of this business plan to focus on fees is self-explanatory when looking at product companies.
- **2Q24** turned in a nice set of results, albeit flattish Q/Q, and very much in line with our estimates (see tables below). Below the operating line is €0.5bn of DTA recognition that takes the bottom line to €0.8bn, clearly much better than our estimates, which already included €0.1bn in tax credits. The S/T effect of DTAs carried over to the balance is NEUTRAL on capital ratios and in fact CET1r remains around 18% Q/Q.
- **Banca MPS, OUTPERFORM, TP Eu6.3 (from Eu5.8):** we are updating our estimates to include the new operating targets released with 2Q24 results. We estimate a higher top line with a different mix of revenues (quite resilient NII and strong growth of fee income), slightly higher OpEx, and lower CoR, leading to +0.7%/+7.3%/+19% pre-tax profit for FY24/25/26. We also include a lower impact from DTAs for FY25/26, which is why stated and restated EPS are seen decreasing.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	3,089	3,797	3,855	3,791	3,853
Net Operating Profit (Eu mn)	81	1,954	1,978	1,866	1,901
Net Profit Adj (Eu mn)	-422	1,302	1,091	1,045	1,082
EPS New Adj (Eu)	-0.335	1.034	0.866	0.829	0.859
EPS Old Adj (Eu)	-0.150	1.050	1.007	0.949	0.923
DPS (Eu)	0.000	0.250	0.771	0.781	0.823
P/E Adj	nm	4.6	5.4	5.7	5.5
Div. Yield	0.0%	5.3%	16.4%	16.6%	17.5%
P/TE	0.77	0.61	0.59	0.57	0.55
ROTE	-5.5%	13.3%	10.8%	10.0%	10.0%

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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