

BANCA SISTEMA

Sector: Banks

OUTPERFORM

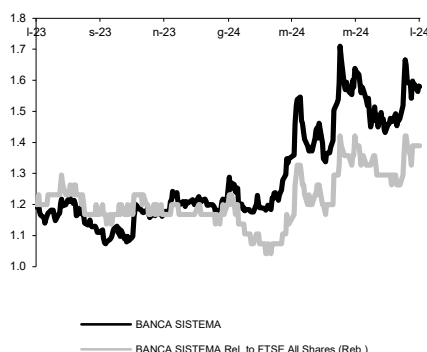
Price: Eu1.58 - Target: Eu2.18

2Q24 results give visibility to improving trends

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:	BSTA.MI		
Bloomberg code:	BST IM		
Performance	1M	3M	12M
Absolute	10.3%	17.2%	31.7%
Relative	8.6%	17.2%	18.1%
12M (H/L)	1.71/1.07		
3M Average Volume (th):	459.60		

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	127
Total Mkt Cap (Eu mn):	127
Mkt Float - Ord (Eu mn):	69
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	241
TEPS (Eu):	2.99
CET1 Ratio Fully Loaded:	13.0%
Gross NPE Ratio:	8.7%

2Q24 showed the company's proactive efforts to enhance the business, even if results were penalized by interest rate trends. The main issue for the bank remains the CQ business (income-backed loans), which is still unprofitable due to high funding costs. We believe the bank is at a plateau and, as soon as rates decrease net income will receive a boost (see the first graph on page 3). Having said that, the other divisions are performing well, and management has a clear view on what it needs to do to get through this adverse period (i.e. trading of Superbonus credits, which is boosting total income). We believe 1H24 suffered a tough comparison but the worst seems to be over.

■ **2Q24 Results:** results were broadly in line with our estimates, both on the top and bottom line (+3% A/E and -3% A/E respectively). NII suffered from higher cost of funding YoY (3.6% vs. 2.84% in 4Q23) due to higher average deposits, offset in part by greater interest income (mostly factoring and guaranteed loans), while fees were higher than expected, but also lower QoQ. The surprise was on trading, up QoQ and YoY on Superbonus credits trading. The top line, combined with OpEx in line with estimates, lead to operating profit of Eu10.6mn (+43% YoY and 10.6% QoQ). A 33bp cost of risk (+10bp A/E) and the DGS contribution led to pre-tax profit of Eu3.6mn and net income of Eu1.8mn.

■ **Business lines:** the bank's three BUs are vastly different, both in terms of profitability and strategy. CQ is still burning profitability (Eu-8.1mn in the first half), but management is acting proactively, trying to offset older loans with new contracts at a higher margin (selective approach), and not seeking aggressive market share gains. With this approach, combined with funding costs that have probably now peaked, the outlook seems positive. Factoring, on the other hand, is already highly profitable, although it is slowing a little in terms of loans outstanding. Finally, pawnbroking is growing steadily and with high margins.

■ **Dividend policy and M&A:** on remuneration, management confirmed its stance of re-investing the majority of the capital generated back into the business. A key aim is to maintain a managerial buffer on capital ratios (c.150-200bp at YE26), to be used for accretive acquisitions, invested in short-term assets or, in general, reinvested in the business. The remainder of this could be used to increase shareholder remuneration. There is no M&A in sight; if any deal were to be considered it would be with a view to potential accretion.

■ **OUTPERFORM Confirmed; TP Eu2.18 (Unch.):** as the company is moving forward to enhance future profitability, we think our FY24/25/26 estimates are challenging, but achievable given management's commitment, and consistent with our recommendation. We are leaving our estimates and TP untouched, reflecting our positive view on the stock.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	106	104	114	124	132
Net Operating Profit (Eu mn)	46	36	40	45	52
Net Profit Adj (Eu mn)	22	17	21	25	29
EPS New Adj (Eu)	0.274	0.213	0.264	0.308	0.365
EPS Old Adj (Eu)	0.274	0.213	0.264	0.308	0.365
DPS (Eu)	0.065	0.065	0.069	0.077	0.091
P/E Adj	5.8	7.4	6.0	5.1	4.3
Div. Yield	4.1%	4.1%	4.4%	4.9%	5.8%
P/TE	0.60	0.55	0.53	0.49	0.46
ROTE	10.4%	7.4%	8.8%	9.6%	10.6%

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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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