

BANCA SISTEMA

Sector: Banks

OUTPERFORM

Price: Eu1.71 - Target: Eu2.00

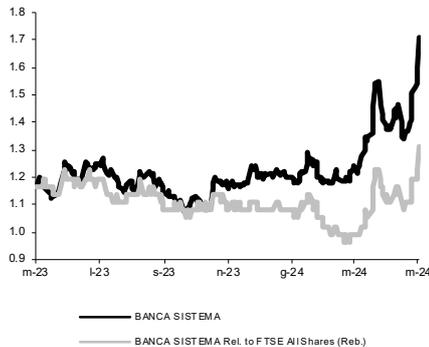
Turning weaknesses into Opportunities

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 1.72 to 2.00		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	15.0%	

Next Event

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:	BSTA.MI		
Bloomberg code:	BST IM		
Performance	1M	3M	12M
Absolute	24.6%	44.4%	46.7%
Relative	18.7%	33.3%	18.4%
12M (H/L)	1.71/1.07		
3M Average Volume (th):	445.30		

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	138
Total Mkt Cap (Eu mn):	138
Mkt Float - Ord (Eu mn):	74
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	240
TEPS (Eu):	2.98
CET1 Ratio Fully Loaded:	12.9%
Gross NPE Ratio:	9.9%

In a difficult interest rate environment, 2024 may look like a transitional year, especially with a new business plan set to be presented on 20 May. Most banks foresee 3 rate cuts for a cumulative -75bp. Embedding this into estimates, BSIST's Achilles heel may soon be fixed: an area that has barely been profitable to date (income-backed loans - CQ), driving down the Group's margins, could be on the verge of getting back into the black. We also expect that the new strategy may also see Pawnbroking accelerate, organically and via external growth. Gains on Ecobonus look likely in the coming quarters, supporting the bottom line. As we mentioned in our previous reports, tough times may linger for a few quarters, but the worst seems to be over. We reiterate our positive stance on a Group that is moving steadily to tackle its temporary weaknesses with new strategic initiatives: we deem management's proactive approach to changing markets to be a key point the market should factor in for a niche player at this stage.

- **What the new plan may tackle** – BSIST is strengthening its focus on capital absorption, so we expect streamlining RWAs to become a new management mantra; having said that, we do not expect huge changes in the payout, with a “standard” cash dividends policy. As a reminder, management has highlighted their RWAs are thoroughly BoI compliant.
- **CQ turnaround around the corner, Factoring and Pawnbroking on the upswing:** as BSIST anticipated, funding costs went up in 1Q24 to 3.6% (2.8% in 4Q23 with wholesale at 3.6% +40bp QoQ). This is still affecting the CQ business, which looks barely profitable. After a positive 1Q24, Factoring stock was down to €1.8bn (€1.4bn turnover +28% YoY – 71% PA accounts), while CQ is now flattish QoQ at €0.8bn (€56mn turnover) and Pawnbroking at €123mn (+12% YoY with €55mn turnover). 1Q24 was clearly a low quarter, hit by the seasonal strong volumes of 4Q23, but the focus is the CQ turnaround, with the stock now moving up after the decrease that has been experienced since interest rates started increasing.
- **Balance sheet strength improving:** CET1r came in at 12.7%, some 20bp lower QoQ incl. €10mn “HtCS”, negative reserves from Govies and increase RWA on the expansion in Factoring to corporates (total RWA to €1,476mn from €1,428mn); considering the expected neutralisation of negative reserves, this would rise to 13.4%. As for 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%), while the NPL coverage ratio improved slightly YoY (28.3%). In 2023 the bank further increased its NPL coverage ratio (excluding a municipality in administration) from 88% to 93%.
- **1Q24 trends at a glance:** Banca Sistema presented a good set of 1Q results, with net profit of €4.4mn vs. our €3.8mn forecast. Estimates were mainly beaten on revenues, with all items exceeding expectations, so the improvement was broad-based. Below the operating line, the group benefited from lower credit adjustments thanks to resilient asset quality related to its organic secured business. Moreover, the capital position remains excellent, with a CET1 ratio of 12.7%. We welcome the positive 1Q24 numbers, although the main focus remains on the presentation of the new business plan.
- **Change in estimates, OUTPERFORM confirmed; target to €2.0:** As we highlighted in the past BSIST is moving proactively to get exposure to assets that can be repriced faster and more easily, pending the drop in interest rates that would bring CQ back into the black. The new business plan may provide more colour on these trends, but we still appreciate the forward-looking management of the business, so we remain positive on the stock. Pending the catalyst of a new business plan, we are rolling over our estimates to 2026 in order to factor in a different rates scenario, which should improve the profitability of CQ. We move up our target price up to €2/s.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	106	104	105	115	131
Net Operating Profit (Eu mn)	46	36	32	40	55
Net Profit Adj (Eu mn)	22	17	16	21	31
EPS New Adj (Eu)	0.274	0.213	0.201	0.265	0.389
EPS Old Adj (Eu)	0.274	0.213	0.201	0.229	
DPS (Eu)	0.065	0.065	0.068	0.066	0.097
P/E Adj	6.2	8.0	8.5	6.5	4.4
Div. Yield	3.8%	3.8%	4.0%	3.9%	5.7%
P/TE	0.65	0.59	0.57	0.54	0.50
ROTE	10.4%	7.4%	6.7%	8.4%	11.4%

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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)

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Frequency of research: quarterly.

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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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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