

BANCA SISTEMA

Sector: Banks

OUTPERFORM

Price: Eu1.55 - Target: Eu2.00

Flat Out

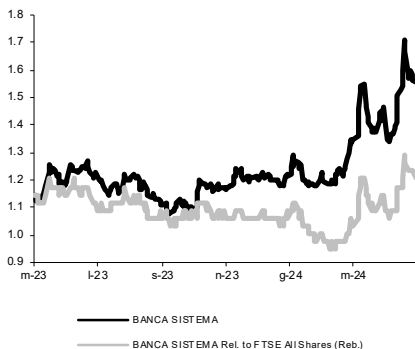
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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

31/07/2024 2Q24 results/Conf.Call

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:	BSTA.MI		
Bloomberg code:	BST IM		
Performance	1M	3M	12M
Absolute	6.3%	26.3%	34.7%
Relative	4.7%	20.2%	6.3%
12M (H/L)	1.71/1.07		
3M Average Volume (th):	483.26		

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	125
Total Mkt Cap (Eu mn):	125
Mkt Float - Ord (Eu mn):	67
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:	8.7%

Banca Sistema (BSIST) unveiled an updated business plan with 2026 targets that are slightly ahead of our forecasts: bottom line growth was indicated up >2x in 3 years to €34m vs. our >€31m estimate. We believe the new targets are within reach. In brief, 2 divisions (Factoring and Pawnbroking) are expected to grow rapidly, and one (CQ) is still burdened by high funding costs. We are awaiting a sharp U-turn in this division thanks to 1) falling interest rates 2) stock turnover 3) a wider retail offer. Having said that, what really stands out is the strategy: we like the trade-off between a very affordable payout policy of 25% (bear in mind the CEO has 25% of the capital) and the use of capital to boost organic business, while keeping a strong CET1r with a potential healthy buffer arising. M&A and a better shareholders' remuneration policy are real options. We fully back this strategy and management's proactivity in reshaping the business, and so remain positive on the stock.

- **CQ – first the worst...** Salary/Pension-backed lending (CQ) is now weighing down the Group, as it has a fixed 3/4Y (average) duration with yield and repricing takes time. According to BSIST the division will be loss making until 2026, albeit to a lesser extent than previously (from €11m to €4m). We believe lower funding costs should eventually lead to better trends, especially considering the division is now transforming its equity story. The sooner the book can be refreshed through new business production, the faster the recovery will come. Bear in mind this is a secured business, but under a transformation into a more diversified retail business unit offering a wider set of products.
- **...second the best - Factoring:** this is the real growth driver, where BSIST may go *flat out*. Over 70% of BSIST's exposure in this business is towards public sector administration, meaning it is also effectively a secured business because guaranteed by the P.A.
- **Last and least (for now)...Pawnbroking:** this is a tiny but fast-growing division (Kruso Kapital - KK) that BSIST is seeking to use to offset CQ losses. The market fails to perceive that, once again, this is secured lending, i.e. a covered business. We back management's efforts to diversify its business into secured lending in which most banks are not involved.
- **RWA – Other banks' actions** have triggered some concerns over risk weighting. We sense that BSIST's RWAs calculations are prudent, with management very confident on capital ratios (2026E 13.3%/13.8% CET1r). The DPS policy looks conservative, laying the foundations for growth, both organic and external financed by a larger capital buffer of 150bp-200bp (not in our assumptions). A better payout is also an option.
- **It's the funding costs:** BSIST projects a funding costs trajectory that is, in our view, conservative with Euribor rates going down (as other banks do) with rates on term-deposits going relatively above market rates (2023/2026). This may give room for improving the CQ contribution from what has been planned.
- **OUTPERFORM; €2.0 TP confirmed:** BSIST is moving proactively to reprice its lending exposure faster, pending the decrease in rates that would ease CQ back into the black. We appreciate the forward-looking management of the business, and so remain positive on the stock. We have already updated our estimates and rolled the valuation over to 2026.

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	0.265	0.389
DPS (Eu)	0.065	0.065	0.068	0.066	0.097
P/E Adj	5.7	7.3	7.7	5.9	4.0
Div. Yield	4.2%	4.2%	4.4%	4.3%	6.3%
P/TE	0.59	0.54	0.52	0.49	0.46
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)

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.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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

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

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Emitente	%	Long/Short
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