Intermonte

Milan, 18 October 2024

Italian Equity Research – 3Q24 Preview

BANCO BPM

OUTPERFORM

Sector: Banks

Price: Eu6.43 - **Target: Eu7.90**

Strong quarter highlights an even sounder future

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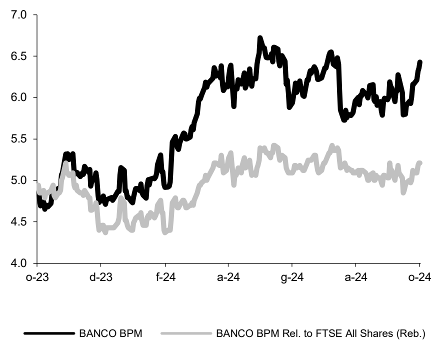
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.60 to 7.90
	2024E	**2025E**	**2026E**
Chg in Adj EPS	2.8%	5.4%	5.4%

Next Event
Results Out on 6th November

BANCO BPM - 12M Performance



Stock Data			
Reuters code:			BAMI.MI
Bloomberg code:			BAMI IM
Performance	**1M**	**3M**	**12M**
Absolute	6.9%	1.7%	30.9%
Relative	3.3%	0.2%	7.6%
12M (H/L)			6.72/4.65
3M Average Volume (th):			8,016.27

Shareholder Data	
No. of Ord shares (mn):	1,515
Total no. of shares (mn):	1,515
Mkt Cap Ord (Eu mn):	9,740
Total Mkt Cap (Eu mn):	9,740
Mkt Float - Ord (Eu mn):	8,040
Mkt Float (in %):	82.6%
Main Shareholder:	
Credit Agricole	9.2%

Balance Sheet Data	
Tangible Equity (Eu mn):	12,694
TEPS (Eu):	8.38
CET1 Ratio Fully Loaded:	15.5%
Gross NPE Ratio:	3.5%

Banco BPM is about to deliver another positive quarter, which appears broadly unaffected by seasonality. Our positive view on the stock remains intact, fuelled by high and sustainable profitability (>11% restated ROTE for FY24/25/26), strong organic capital generation and a focus on OpEx optimization, all combined with a generous payout policy (2024 cash dividend of €1.2bn, with a hefty €600mn interim to be paid in November, subject to BoD approval). We see no M&A on which BancoBPM would act as a buyer, but it could be a potential target for CA. We confirm our OUTPERFORM recommendation and move our TP to €7.9/s.

- **3Q24 preview.** We expect a solid quarter, with negligible impact from seasonality. On revenues, we expect +2% growth QoQ (+1.6% YoY), mostly from positive trading (€15mn). NII is suffering a little due to falling rates (-1.1% QoQ), while fees fell -4.2%, impacted by summer holidays, landing at €1,389mn of total Income. OpEx are seen broadly flat QoQ, rising 5% YoY due to the increase in salaries. We see higher LLPs, related to the sale through securitization of a portfolio of non-core RE assets, leading to a pretax profit of €551mn. After tax, we booked the €500mn positive item for the digital payment transaction, leading to stated net profit of €837mn. NB: only €200mn out of total €500mn, regarding the payments' transaction, counts for payout calculations.
- **M&A.** We see no domestic deal with BAMI as a buyer, as it is focused on stand-alone growth. On the other hand, the UCG-CBK deal could speed-up cross border consolidation; given that CA owns ca. 9.2% of BAMI, this could be a logical conclusion. In our view, the strong buffer that BAMI holds could act as a shield by lifting the valuation in any takeover.
- **Change in Estimates.** We are revising our estimates to reflect a different mix of P&L items, with limited changes to adj. net profit. We see higher NII and fees, as well as some difficulties in trading and insurance, leading to changes in total revenues of +0.9%/+1.0%/-0.3% for FY24/25/26. We forecast higher OpEx (+1.9%/+0.1%/-0.5%) as well, due to inflation and to pay rises stemming from renewal of the national labour contract. We are also trimming our estimates on provisions for LLPs (-3.7%/-6.3%/-9.3%) and risk due to a macro-scenario that appears to be remaining positive in terms of AQ and default rates. We *guesstimate* a €300mn (from the previous €215mn) one-off cost, booked in the last quarter, for the voluntary exit of ~1,600 FTEs, partially offset by ~800 new hires. As stated above, the digital payment deal is worth €500mn. Those adjustments lead to restated EPS changes of +2.8%/+5.4%/+5.4% for FY24/25/26.
- **Valuation:** we confirm our view on BAMI, due to its strong and sustainable Adj. profitability, and generous payout policy. Due to our estimates' changes, we move our TP, based on a FY25/26 average (Gordon Growth Model) to €7.90/s. Stock is trading at 0.74/0.72x its TE for FY25/26. At target would trade at 0.93/0.90x.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Total income (Eu mn)	4,674	5,341	5,563	5,455	5,447
Net Operating Profit (Eu mn)	2,144	2,770	2,888	2,811	2,804
Net Profit Adj (Eu mn)	684	1,278	1,485	1,531	1,529
EPS New Adj (Eu)	0.451	0.843	0.980	1.010	1.009
EPS Old Adj (Eu)	0.451	0.843	0.954	0.958	0.958
DPS (Eu)	0.230	0.560	0.792	0.702	0.706
P/E Adj	14.2	7.6	6.6	6.4	6.4
Div. Yield	3.6%	8.7%	12.3%	10.9%	11.0%
P/TE	0.83	0.76	0.77	0.74	0.72
ROTE	5.8%	10.0%	11.7%	11.6%	11.2%

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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&PMIB40 Index, most of those on the MIDEX 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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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (61 in total) is as follows:

BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short