

Banking Sector

2Q24 previews

2Q24E? (*a nightmare in the guise of*) a daydream

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Italian Equity Market

2Q24 looks like being another good quarter with a strong NII contribution YoY, low CoR, no peculiar risk provisions (IRF & DGS going progressively to zero) and stable OpEx. But what comes next? The rollover of the quarters says things may get worse because the YoY comp is ...worsening. Euribor rates are high-for-longer and this may help banks and especially domestic ones to post good results, including in 2Q24, which is why we have remained positive on most of the banks so far. We have fine-tuned/updated our 2024-2026 estimates but we do not see much room for huge EPS upside in terms of valuations, given 2025/2026 earnings. Once again, we believe that the further upside potential is related to the balance sheet strength and hence CoE to potentially go down. We keep playing the WM view: ISP, MB and Credem are our best picks on a banking scene that sees Euribor rates going down and banks managing clients' funds to move into WM, so we reiterate our view: we are inclined to stick with banks that have the greatest exposure, as of today, to this business.

- **2Q24E looks to be an easy comp.** 2Q24 looks like it will provide a positive set of results but this looks to be already priced in. 2Q24 is benefitting from high-for-longer Euribor rates (i.e. NII up YoY). Some banks (ISP, the best in the row) are already being proactive on WM products, moving clients' liquidity into high-value products pending interest rate cuts, likely to happen in 2H24. CoR is not expected to deteriorate. However, the combined effect of rates, payout & potential M&A remains supportive for the sector. With interest rates at this level, any M&A combination is, at the least, delayed. We marginally increase our estimates for most of the banks, with BPER and Credem being on the top of the upgrade. Bearing in mind a 50bp decrease in rates by the end of the year, our bias remains for banks that are more exposed to WM thus ISP, MB and Credem.
- **What to expect in 2Q24.** We expect a sound quarter with NII still up YoY (down low-single digit QoQ) and low cost of risk on a healthy asset quality situation. The YoY NII comparison is still favourable given the trends in Euribor rates but will lose impetus going forward in the next quarters; incidentally, the stock of loans is still decreasing on lack of demand for new lending, especially corporate, on excessively high market rates. OpEx are seen flattish right now but may ramp up in 2H24, assuming banks match their targets and may use earnings to cut FTE costs (BPER?).
- **Payout.** With banks having paid most of their cash dividends between April/May 2024 and proceeding with share buy-backs (UCG, ISP and MB), we assume one of the key issues will be the next payout season.
- **Resilient macro trend.** Latest Bol data (May 2024) suggest that Italian banks' commercial spread is hanging tough and the small rise in funding costs is, from now, offset by higher yields on NNM. The other side of the coin is that volumes are clearly suffering. NPLs are steady, coverage flattish. Banks' Govies still down.
- **M&A.** After the renewal of a few BoDs we stand by our view: with the Euribor rate remaining high-for-longer, we do not think consolidation is likely in the short term.
- **Valuations.** Decreasing rates and banks' risk-averse strategy may imply a weakening of 2H24 NII, which is already in our estimates. Banks may count on support from dividends and SBBs, which could stabilize their valuations, together with a good incoming 2Q24. We upgraded our CoE valuation in 1Q24, factoring in a lower market premium based on banks' stronger balance sheets. We remain positive on WM-exposed stocks (ISP, MB, Credem) as we were in the 1H24 strategy, and to banks exposed to M&A improvement (BAMI, BMPS, BPSO). As we stated in the past, we remain NEUTRAL on UCG, BPER as we believe they are possible natural bidders of banking assets.

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- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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