

BANCA SISTEMA

BUY

Sector: Banks

Price: Eu1.54 - Target: Eu2.60

Profitability is set to turn the corner

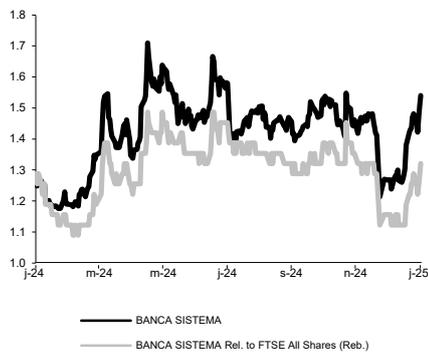
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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	-2.7%	0.0%	0.0%

Next Event

 Results Out on Feb. 7th

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:	BSTA.MI		
Bloomberg code:	BST IM		
Performance	1M	3M	12M
Absolute	21.5%	2.0%	19.6%
Relative	15.0%	-4.5%	1.9%
12M (H/L)	1.71/1.18		
3M Average Volume (th):	292.72		

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	124
Total Mkt Cap (Eu mn):	124
Mkt Float - Ord (Eu mn):	67
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	261
TEPS (Eu):	3.24
CET1 Ratio Fully Loaded:	14.4%
Gross NPE Ratio:	8.7%

Banca Sistema is set to report FY24 results on Feb. 7th, marking the end of quite a transitional year. We think BST is well positioned for the future years, with a profitability trend that will improve greatly, undoubtedly helped by lower interest rates. As we stated in our Daily News item on 23 December, after a Bol inspection on past-due loans, BST faced a temporary distribution ban, as did BFF, on both bonuses and dividends, but that had a limited impact on the stock due to its growth footprint. Our estimates currently do not incorporate these effects as we prefer to await the capital plan to be presented by the bank, but we provide some PF data that take account of the Bol inspection and the recent favourable EU court ruling, which will potentially have a huge positive impact on BST's regulatory capital. We reiterate our BUY recommendation and our €2.6 TP.

- **4Q24 preview.** We expect a positive quarter for the top line, with favourable NII trends mostly related to the factoring business and CoF starting to ease, fees growing QoQ, and trading income slightly lower than in 3Q due to a lower contribution from Ecobonus trading. On the OpEx side, we see the usual seasonality mostly related to staff (we think management will continue to account for variable compensation, even if not distributable), and admin. costs. That said, we land at operating profit of ca. €12mn for the quarter, €44.3mn for the year. On provisions, 4Q, as usual, is used for some prudential items, especially considering that the DGS was brought forward to 1H24. All in all, we see net profit at €5.6mn for 4Q and €17.9 for FY24.
- **Bol inspection and EU court ruling on a municipality under conservatorship.** As we reported in our [Dec. 23rd](#) Daily News item, BST faced the consequences of the Bol inspection, which caused, as calculated by the bank on a preliminary basis, an increase in factoring-related past-due exposures, and in the related RWAs. The result was a decrease in the TCR from 15.5% to 12.3%, which had already grown to 13.4% as at end-9M24. Bol requested a new, 3Y capital plan and banned BST from distributing bonuses and dividends. On Jan. 16th, as we reported in our [Daily News item](#), BST received a favourable ruling on receivables due from a municipality under conservatorship, which stipulated that the Italian state must ensure payment within three months. The payment obligations amount to €61mn of principal, for which Banca Sistema has already booked €8mn of provisions, plus late-payment interest estimated at €43. We provide pro forma data on page 4.
- **Change in estimates.** We have slightly revised our estimates to include slightly higher NII, mainly due to factoring, some increase in staff costs, and some more precautionary provisions. This has prompted us to decrease both pre-tax profit and net profit by -2.7%, with a marginal impact on the CET1 ratio.
- **Valuation.** We think that BST is at a turning point in terms of profitability. Rates are decreasing and the bank can only seize the positive side of that. That said, as we state in this report, BST could potentially benefit from a favourable EU ruling, which could boost regulatory capital. The stock is now trading at 0.50/0.47/0.43x its TE, at target it would trade at 0.87/0.80/0.74x.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	106	104	116	130	135
Net Operating Profit (Eu mn)	46	36	44	52	56
Net Profit Adj (Eu mn)	22	17	18	29	32
EPS New Adj (Eu)	0.274	0.213	0.225	0.361	0.403
EPS Old Adj (Eu)	0.274	0.213	0.232	0.361	0.403
DPS (Eu)	0.065	0.065	0.071	0.090	0.101
P/E Adj	5.6	7.2	6.8	4.3	3.8
Div. Yield	4.2%	4.2%	4.6%	5.9%	6.5%
P/TE	0.59	0.54	0.51	0.48	0.44
ROTE	10.4%	7.4%	7.5%	11.1%	11.5%

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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 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:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	50.70 %
OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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