Milan, 29 October 2024

Italian Equity Research – 3Q24 Preview

BANCA SISTEMA

OUTPERFORM

Sector: Banks

Price: Eu1.48 - **Target: Eu2.40**

3Q24 Preview: A positive quarter and even better future

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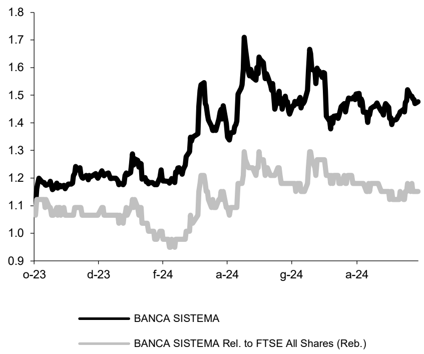
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 2.18 to 2.40
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-17.5%	11.4%	4.7%

Next Event
Results Out on Nov. 8th

BANCA SISTEMA - 12M Performance



Stock Data			
Reuters code:			BSTA.MI
Bloomberg code:			BST IM
Performance	**1M**	**3M**	**12M**
Absolute	0.4%	-7.1%	36.2%
Relative	-0.3%	-10.1%	8.2%
12M (H/L)			1.71/1.09
3M Average Volume (th):			165.53

Shareholder Data	
No. of Ord shares (mn):	80
Total no. of shares (mn):	80
Mkt Cap Ord (Eu mn):	119
Total Mkt Cap (Eu mn):	119
Mkt Float - Ord (Eu mn):	64
Mkt Float (in %):	54.0%
Main Shareholder:	
SGBS	23.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	241
TEPS (Eu):	2.99
CET1 Ratio Fully Loaded:	12.9%
Gross NPE Ratio:	8.7%

Banca Sistema is reporting 3Q results on 8th November. We forecast a positive quarter in terms of profitability, which is not impacted by any one-offs, extraordinaries, or protection scheme payments. BST is currently pushing hard to offset the negative results of income-backed loans with a more selective approach on new business, through the sale of Ecobonus credits, and the positive prospects for factoring and pawn loans. In our view, the business remains solid, despite a few difficulties in prior quarters related to the high-interest rate environment. In our view, the investment case remains solid, also due to falling rates, which could help the income-backed loans business regain profitability, and the proactive approach by BST management. We stick to our recommendation and raise our TP to €2.40/s.

We made a restatement in our model, moving the DGS contribution to Risk provisions from extraordinaries. This move explains the negative change in Adj. EPS.

- **3Q24 Preview:** we expect a general increase in net profit both QoQ and YoY.
  On revenues, mostly due to the increase in Ecobonus trading activity, that should lead to a strong €13.5mn trading income, while we see a decrease in NII, related to the said trading activity and to the CoF. We then see revenues decreasing a bit QoQ to €27.4mn.
  On OpEx side, we forecast some seasonality, both on staff and admin. costs, leading to a total item of €17.0mn, and an Operating Profit of €10.4mn.
  Provisions are seen decreasing QoQ, due to the exceptionality of the last quarter's items, leading to a pretax profit of €8.5mn and Net profit of €5.3mn.
- **Change in estimates:** we are revising our estimates, mainly to include a different mix of top-line items.
  We forecast lower NII and higher trading, due to Ecobonus portfolio sales, and some lower fees in FY24. Total income changes by -2.5%/+2.4%/+0.9%.
  On the OpEx front, we see some lower staff costs for the 3-year period, leading to operating profit changes of -2.8%/+7.9%/+3.5%.
  We also forecast lower LLPs, and we have made a restatement in our model, moving the DGS contribution from extraordinaries to risk provisions, which explains the fall in FY24 adj. EPS.
  After slightly raising our FY24 tax rate, we land at stated EPS changes of -0.5%/+11.4%/+4.7% for FY24/25/26.
- **OUTPERFORM; TP €2.40 (from €2.18):** given the positive quarter that BST is going to report, and the brighter outlook for the next years, we stick to our OUTPERFORM recommendation, in order to highlight our view. We also move our TP to €2.4. stock is now trading at 0.49/0.46/0.42x its TE. At target it would trade at 0.80/0.74/0.69x.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Total income (Eu mn)	106	104	111	126	133
Net Operating Profit (Eu mn)	46	36	39	49	54
Net Profit Adj (Eu mn)	22	17	18	28	31
EPS New Adj (Eu)	0.274	0.213	0.218	0.343	0.382
EPS Old Adj (Eu)	0.274	0.213	0.264	0.308	0.365
DPS (Eu)	0.065	0.065	0.069	0.086	0.095
P/E Adj	5.4	6.9	6.8	4.3	3.9
Div. Yield	4.4%	4.4%	4.7%	5.8%	6.5%
P/TE	0.56	0.51	0.49	0.46	0.42
ROTE	10.4%	7.4%	7.3%	10.6%	11.0%

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- 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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OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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OUTPERFORM:	34.43 %
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UNDERPERFORM	00.00 %
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Emittente	%	Long/Short

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