

BANCA SISTEMA

Sector: Banks

OUTPERFORM

Price: Eu1.51 - Target: Eu1.90

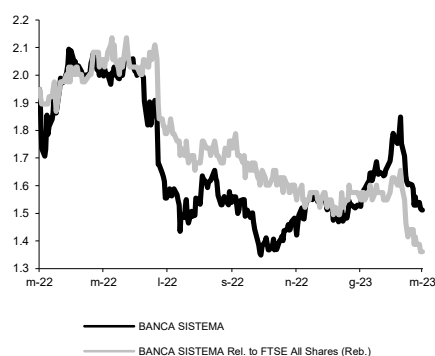
Repricing Will Take Time but Valuation Still Supportive

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Stock Rating

| | | |
|--------------------|-------------------|--------|
| Rating: | Unchanged | |
| Target Price (Eu): | from 2.35 to 1.90 | |
| | 2023E | 2024E |
| Chg in Adj EPS | -28.4% | -32.3% |

BANCA SISTEMA - 12M Performance



Stock Data

| | |
|-----------------|---------|
| Reuters code: | BSTA.MI |
| Bloomberg code: | BST IM |

| Performance | 1M | 3M | 12M |
|-------------------------|--------|-----------|--------|
| Absolute | -15.5% | -2.2% | -22.5% |
| Relative | -16.6% | -13.3% | -33.1% |
| 12M (H/L) | | 2.10/1.35 | |
| 3M Average Volume (th): | | 151.72 | |

Shareholder Data

| | |
|---------------------------|-------|
| No. of Ord shares (mn): | 80 |
| Total no. of shares (mn): | 80 |
| Mkt Cap Ord (Eu mn): | 122 |
| Total Mkt Cap (Eu mn): | 122 |
| Mkt Float - Ord (Eu mn): | 66 |
| Mkt Float (in %): | 54.0% |
| Main Shareholder: | |
| SGBS | 23.1% |

Balance Sheet Data

| | |
|--------------------------|-------|
| Tangible Equity (Eu mn): | 224 |
| TEPS (Eu): | 2.79 |
| CET1 Ratio Fully Loaded: | 12.5% |
| Gross NPE Ratio: | 9.9% |

- Some margin squeeze in the short term.** BST reported lower-than-expected net profit in 4Q22 (Eu4.2mn vs. our Eu5.9mn estimate) linked to weak NII which suffered from the higher cost of funding and slower repricing of the loan book. Positive items included the drop in operating costs (-8.8% YoY or -7.4% vs. est.) and a slightly better cost of risk at 27bp. CET1 ratio went up by +50bp QoQ thanks to a decrease in credit RWA driven by factoring (mainly lower exposure to corporates and reduced past-due loans).
- Cautious 2023 outlook.** During the conference call management gave reassuring messages on asset quality, which is not expected to deteriorate, while NII should suffer due to a higher cost of funding (from 0.4% to >2%) and a slow repricing in the income-backed loans (CQ) business, which would more than offset better margins in factoring (i.e. LPI from 8% to 10.5% since January 2023) and the pawnbroking business. TLTRO is expected to be reimbursed by the end of 2023 and should free up some collateral to allow alternative funding sources to be secured. The current level of capital could be improved after the Trilogue process on Basle III is completed, with potential benefits from the sterilisation of HTCS reserves (lower deductions). The BoD has given the go-ahead to start the listing process for Kruso Kapital (a company specialising in pawnbroking, in which BST owns 75% of the share capital) which is expected to be concluded by YE23 subject to market conditions.
- Change in estimates.** We are revising our 2023/24 EPS downwards by -30% on average, as we want to incorporate a tougher scenario on the cost of funding and some delays to the repricing of the CQ portfolio. Factoring could spring a positive surprise, as the combined impact of higher LPI and faster repricing could boost NII more than we currently forecast. We don't expect any major capital headwinds, with the dividend policy likely to be confirmed (25% payout).
- OUTPERFORM confirmed; target from Eu2.35 to Eu1.90.** We think the market has already priced in an extremely severe cut in EPS estimates for 2023, but the valuation still looks attractive as the stock is trading at 0.55x TE with an expected 2023 ROTE of 9%. The Kruso listing could be a way to obtain a listed company through which BST could grow its pawnbroking business, including through acquisitions. The capital position could benefit from some regulatory tailwinds that could help the bank to drive faster growth in factoring turnover.

| Key Figures & Ratios | 2020A | 2021A | 2022A | 2023E | 2024E |
|------------------------------|-------|-------|-------|-------|-------|
| Total income (Eu mn) | 101 | 108 | 106 | 104 | 108 |
| Net Operating Profit (Eu mn) | 48 | 47 | 46 | 41 | 45 |
| Net Profit Adj (Eu mn) | 25 | 23 | 22 | 20 | 21 |
| EPS New Adj (Eu) | 0.309 | 0.289 | 0.274 | 0.248 | 0.266 |
| EPS Old Adj (Eu) | 0.309 | 0.289 | 0.299 | 0.347 | 0.393 |
| DPS (Eu) | 0.173 | 0.072 | 0.065 | 0.062 | 0.066 |
| P/E Adj | 4.9 | 5.2 | 5.5 | 6.1 | 5.7 |
| Div. Yield | 11.4% | 4.8% | 4.3% | 4.1% | 4.4% |
| P/TE | 0.73 | 0.55 | 0.58 | 0.54 | 0.51 |
| ROTE | 15.0% | 10.4% | 10.4% | 8.9% | 9.0% |