

BANCO BPM

Sector: Banks

BUY

Price: Eu4.29 - Target: Eu5.40

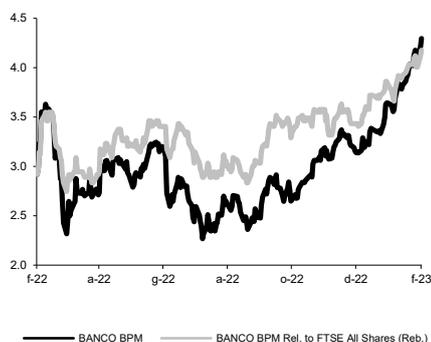
Strong NII Makes 2023 Net Profit Guidance Look Conservative

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Stock Rating

Rating:	Unchanged	
Target Price (Eu):	from 5.20 to 5.40	
	2023E	2024E
Chg in Adj EPS	3.1%	0.9%

BANCO BPM - 12M Performance



Stock Data

Reuters code:	BAMI.MI
Bloomberg code:	BAMI IM

Performance	1M	3M	12M
Absolute	18.0%	34.7%	47.2%
Relative	10.2%	19.3%	44.8%
12M (H/L)	4.29/2.27		
3M Average Volume (th):	11,281.14		

Shareholder Data

No. of Ord shares (mn):	1,515
Total no. of shares (mn):	1,515
Mkt Cap Ord (Eu mn):	6,508
Total Mkt Cap (Eu mn):	6,508
Mkt Float - Ord (Eu mn):	5,372
Mkt Float (in %):	82.6%
Main Shareholder:	
Credit Agricole	9.2%

Balance Sheet Data

Tangible Equity (Eu mn):	11,902
TEPS (Eu):	7.86
CET1 Ratio Fully Loaded:	13.4%
Gross NPE Ratio:	4.2%

- 4Q results beat estimates thanks to strong NII and no increase in CoR.** Net interest income grew by +43% YoY thanks to a much better customer spread (294bp vs. 192bp in 3Q22), Eu80mn of benefits from TLTRO and positive income from the financial portfolio. Fees were weak (-7.9% YoY), with management fees suffering from market performances and lower product placements. Trading was negative, due in part to the MtM on Nexi (Eu-10.9mn) and negative adjustments on derivatives (Eu-8.5mn), among other factors. Costs were broadly in line with estimates while the cost of risk was better (68bp vs. 74bp expected) but more than offset by higher risk provisions and write-downs on the real estate portfolio. The fully-loaded CET1 ratio rose to 12.8% (from 12.05%) thanks to some RWA optimisation, earnings and the removal of the calendar provision deduction (the ratio including the Danish compromise is 13.3%). EPS at Eu0.46, DPS Eu0.23 (payout ratio 50%).
- 2023 EPS guidance confirmed, but now looks eminently beatable.** The better NII trend pushed management to revise 2023 NII guidance upwards, from over Eu2.5bn to over Eu2.7bn. Taking into account the better asset quality trend (gross NPE ratio at 4.2%, well ahead of the 4.8% target set for 2024) and no deterioration in the default rate (0.9%), we think the 2023 EPS guidance, confirmed at over Eu0.60, looks conservative, as we don't expect a sharp rise in the cost of risk in 2023.
- Room to increase shareholder remuneration.** A solid 13.3% fully-loaded CET1 ratio (including the Danish compromise which should be approved by YE23) and higher capital generation, should allow the bank to pay higher dividends in the future. Payout ratio guidance was confirmed at 50% for the time being, with no buyback, but we see room for the bank to increase the payout ratio and introduce a buyback component on the 2023 fiscal year (i.e. from 2024 onwards).
- Change in estimates.** We are revising our 2023/2024 EPS estimates upwards by +3.1%/+0.9% on the back of higher NII, which more than offsets the expected reduction in trading income, flattish fees and higher costs, as indicated in management's guidance. We are leaving our cost of risk estimates unchanged, although they seem conservative considering the current underlying level (66bp in our estimates for 2023 vs. the current core cost of risk of 52bp).
- BUY confirmed; target raised from Eu5.2 to Eu5.4.** The restructuring process is now complete, and the bank can combine the benefits of higher interest rates with better operating leverage thanks to the cost optimisation drive carried out over the last 5 years. There are no signs of deterioration in asset quality for the time being, which coupled with a much better gross NPE ratio should prevent the bank from experiencing a sharp upturn in the cost of risk even in a recessionary scenario. We see potential upside on remuneration policy if the improvements witnessed in 2022 continue in 2023. The stock is still trading at 0.55x TE with an expected ROTE of 8% and better visibility on capital, especially in light of recent management statements that the bank is not interested in M&A that could jeopardise the progress made over the last 5 years.

Key Figures & Ratios	2020A	2021A	2022A	2023E	2024E
Total income (Eu mn)	4,152	4,511	4,706	5,040	5,192
Net Operating Profit (Eu mn)	1,722	1,995	2,166	2,423	2,561
Net Profit Adj (Eu mn)	100	501	700	949	1,177
EPS New Adj (Eu)	0.066	0.331	0.462	0.626	0.776
EPS Old Adj (Eu)	0.066	0.331	0.451	0.607	0.769
DPS (Eu)	0.060	0.190	0.230	0.350	0.470
P/E Adj	65.1	13.0	9.3	6.9	5.5
Div. Yield	1.4%	4.4%	5.4%	8.1%	10.9%
P/TE	0.59	0.55	0.57	0.55	0.53
ROTE	0.9%	4.2%	6.1%	8.0%	9.5%