

# BANCO BPM

**BUY**

Sector: Banks

Price: Eu3.76 - Target: Eu5.80

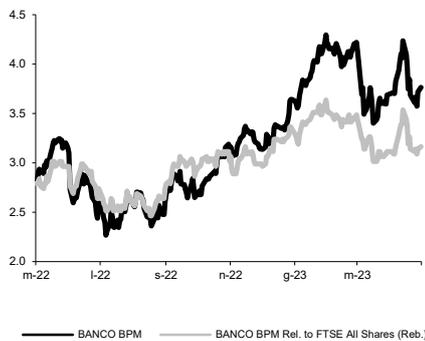
## Better Remuneration Thanks to Improved Profitability

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### Stock Rating

<b>Rating:</b>	from OUTPERFORM to BUY		
<b>Target Price (Eu):</b>	from 4.80 to 5.80		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	25.1%	20.2%	

### BANCO BPM - 12M Performance



### Stock Data

Reuters code:	BAMI.MI		
Bloomberg code:	BAMI IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	2.1%	-10.6%	30.4%
Relative	1.4%	-11.2%	15.0%
12M (H/L)	4.29/2.27		
3M Average Volume (th):	14,866.31		

### Shareholder Data

No. of Ord shares (mn):	1,515
Total no. of shares (mn):	1,515
Mkt Cap Ord (Eu mn):	5,703
Total Mkt Cap (Eu mn):	5,703
Mkt Float - Ord (Eu mn):	4,708
Mkt Float (in %):	82.6%
Main Shareholder:	
Credit Agricole	9.2%

### Balance Sheet Data

Tangible Equity (Eu mn):	12,054
TEPS (Eu):	7.96
CET1 Ratio Fully Loaded:	13.8%
Gross NPE Ratio:	4.2%

- 1Q23 results in a nutshell: solid core revenues (NII but also fees) and much better capital.** NII grew by 45% YoY (+2.6% QoQ) thanks to a widening of the commercial spread (357bps vs 294bps in 4Q22), with core net performing loans pretty flat QoQ. Fees were flat YoY (better than peers) or +7% QoQ thanks to commercial banking fees (+5.3% YoY), which compensated lower management fees (-5.9% YoY but +12.8% QoQ) thanks to higher product placements (Eu 4.2bn vs Eu 3.1bn in 4Q22). Costs were in line while CoR was slightly better (51bps vs 58bps), with overlays stable at Eu 160mn and a further improvement in the NPE coverage ratio (51.4% vs 50.6%). CET1 ratio evolution was very positive (from 12.83% in 4Q22 to 13.57% in 1Q23) and will be further boosted by the Danish Compromise (+58bps) once applied (YE23).
- Guidance revised upward.** On the back of higher interest rates (NII guidance for 2023 revised upward from >Eu 2.7bn to >Eu 3bn) and better operating results, management revised 2023 and 2024 net profit guidance upward from Eu>900mn (EPS >Eu 0.60) and Eu 1140mn (EPS Eu 0.75) respectively to Eu 1140mn (EPS Eu 0.75) and Eu 1360mn (EPS Eu 0.90). As for capital distribution, cumulative 2023/24 dividends set at Eu 1.25bn (Eu 570mn for 2023 and Eu 680mn for 2024), equivalent to 22% of current mkt cap. Business plan update scheduled for 2H23 (more likely in 4Q when the interest rate scenario will be clearer).
- Feedback from conference call.** The capital position could be further improved thanks to the Danish compromise, which will more than offset the cost of the exercise of the call option on Vera Assicurazioni and Vera Vita; the new project to strengthen the payment business together with the JV in the P&C business with ACA should help to further boost capital ratios and more than offset the negative impact from the updating of AIRB models. DTA could release further capital in the coming years. As for NII, FY23 new guidance (>Eu 3bn) is based on avg 3M Euribor at 3.3%, while NII in 2024 should be slightly higher than 2023, driven by repricing and slightly higher avg. 3M Euribor. The new bplan will provide more clarity on the bank's ability to distribute excess capital. No M&A in sight: better option is to create value on a stand-alone basis.
- Change in estimates.** We have revised our '23/'24 EPS upwards by 25% and 20% respectively, the FL CET1 ratio by 40bps on average for 2023 and 2024, and 2023 DPS by +5%. The main drivers of estimate upgrades are better NII and slightly lower expected CoR.
- BUY (from Outperform), T.P. raised to Eu 5.8 (from Eu 4.8).** We think 1Q results confirm the bank's ability to deliver solid core revenues together with good cost control. CoR set to remain below the last 6Y average thanks to low NPE inflows and a much better gross NPE ratio than in the past. Higher capital and better profitability gives management better options to remunerate shareholders: dividends and/or buyback will be part of the next bplan update. Stock trading at P/TE of 0.47x with ROTe '23 and '24 equal to 9.4% and 10.5% respectively.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	4,511	4,706	5,303	5,433	5,438
Net Operating Profit (Eu mn)	1,995	2,166	2,676	2,792	2,777
Net Profit Adj (Eu mn)	501	700	1,131	1,325	1,337
EPS New Adj (Eu)	0.331	0.462	0.746	0.875	0.882
EPS Old Adj (Eu)	0.331	0.462	0.597	0.728	
DPS (Eu)	0.190	0.230	0.370	0.470	0.500
P/E Adj	11.4	8.1	5.0	4.3	4.3
Div. Yield	5.0%	6.1%	9.8%	12.5%	13.3%
P/TE	0.48	0.50	0.47	0.45	0.43
ROTE	4.2%	6.1%	9.4%	10.5%	10.1%