

BFF BANK

Sector: Banks

OUTPERFORM

Price: Eu9.88 - Target: Eu11.40

Positive Earnings Momentum

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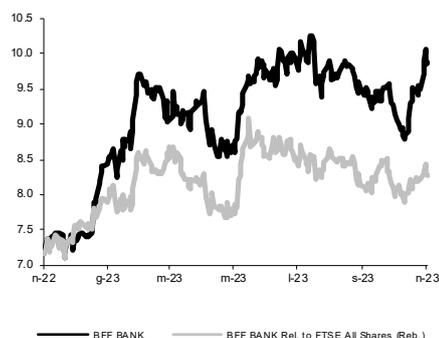
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	-2.8%	-6.2%	-9.4%

Next Event

28 Nov. Intermonte - Paris Conference

BFF BANK - 12M Performance



Stock Data

 Reuters code: BFF.MI
 Bloomberg code: BFF IM

Performance	1M	3M	12M
Absolute	8.0%	1.3%	37.9%
Relative	3.7%	-4.0%	18.5%
12M (H/L)	10.26/7.09		
3M Average Volume (th):	376.15		

Shareholder Data

No. of Ord shares (mn):	187
Total no. of shares (mn):	187
Mkt Cap Ord (Eu mn):	1,846
Total Mkt Cap (Eu mn):	1,846
Mkt Float - Ord (Eu mn):	1,731
Mkt Float (in %):	93.8%
Main Shareholder:	
Belingeri	5.6%

Balance Sheet Data

Tangible Equity (Eu mn):	714
TEPS (Eu):	3.82
CET1 Ratio Fully Loaded:	14.1%
Gross NPE Ratio:	2.7%

■ **Earnings update:** We are revisiting BFF's estimates right after the release of 3Q23 results that were strong (+40% Q/Q, +7% Y/Y) but, overall in line with expectations. BFF is poised to benefit from the current rates environment as its assets re-price later than liabilities, which implies a coming increase in 2024 top line. On top of this, recent changes in the LPI regulation are expected to further boost profitability going forward. We stand by our OUTPERFORM rating at €11.40/s TP.

■ **3Q23 results** were very close to our expectations, both at top and bottom line. Revenues were €87mn (+10% Q/Q), €270mn in 9M23. OpEx came to -€42mn (-13% Q/Q), -€131mn in 9M23. Net profit was €39mn (+40% Q/Q), €115mn in 9M23. BFF's loan portfolio is up 12% to €5.3bn, while the securities portfolio is now down to €5.3bn (-22% Y/Y) o/w €4.2bn floating. Worth highlighting BFF's flattish C/IR at 44%, with the Group continuing to invest, and despite an inflationary environment. As for the balance sheet, BFF's strong AQ profile is confirmed with a net NPL ratio (ex-IT Municipalities) at 0.1% (91% of net impaired loans to the PA) with coverage at 76% (6bp CoR in 9M23). The capital position remains very solid, with CET1 at 15.5%, implying excess capital (vs. target of 12%) of >€100m (some 6% of Mkt cap), after the September dividend payment.

■ **Divisional performance.** Divisional results were mostly driven by the strong performance of the Factoring business, which accounted for ca. 53% of 3Q23 adjusted total net revenues due to a 13% spike in NII to €45m. The second contributor to the group was the Payment division (19% of the tot. net revenues in 3Q23), which reported €19m, thanks mainly to a positive trend in volumes. The Securities Services division registered a decrease in revenues, which came to €7.2mn (both YoY and QoQ, but +8% Y/Y pro forma excluding Arca), and deposits to €2.3bn (down €1bn Y/Y p.f. ex-Arca), but management is moving proactively to secure new clients like pension funds, which will boost the business going forward (deposits already increased in Oct.23 to €2.7bn).

■ **More to come.** Following the EU Commission proposal, the latest update to the Late-Payments regulation (amending 2011/7/EU Directive) is expected to become more favourable to BFF (in case of approval). On one hand, the late payment interest rate is expected to further boost BFF's P&L going forward: after the last 2 rate-hikes, the Statutory rate will set at 12.5% from Jan.24 vs. 12.0% so far, increasing both the current yield and deferred profitability (as a reminder, LPI's recovery rate accrual to 50% from 45% from Jan.23, even if actual collection rate is higher, with the remaining part accounted on a cash basis). An EU Commission proposal (to be greenlighted by EU Parliament/Council) would 1) allow the accrual of late interest after 30 days (vs 60 previously for healthcare bills), 2) increase from "at least" €40 to "at least" €50 the recovery cost per bill. These new rules not only boost LPI profits (50% is up-fronted) but also the embedded profits that BFF puts off-balance sheet and are accounted on a cash basis (3Q23 €605m).

■ **OUTPERFORM; target price €11.4.** BFF is poised to benefit from the ongoing rates environment coupled with a possibly more favorable regulation, triggering a sound payout policy. We confirm our rating and valuation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	272	380	420	445	485
Net Operating Profit (Eu mn)	93	197	229	241	275
Net Profit Adj (Eu mn)	125	146	185	200	230
EPS New Adj (Eu)	0.678	0.788	0.988	1.071	1.228
EPS Old Adj (Eu)	0.678	0.788	1.025	1.151	1.367
DPS (Eu)	0.678	0.788	0.899	0.953	1.069
P/E Adj	14.6	12.5	10.0	9.2	8.0
Div. Yield	6.9%	8.0%	9.1%	9.6%	10.8%
P/TE	3.62	2.66	2.59	2.53	2.42
ROTE	24.9%	21.2%	25.9%	27.5%	30.1%