

# BFF BANK

Sector: Banks

**BUY**

Price: Eu8.24 - Target: Eu10.20

## Asset Re-Pricing Needs Time, but Upside Risk Seen on TCR

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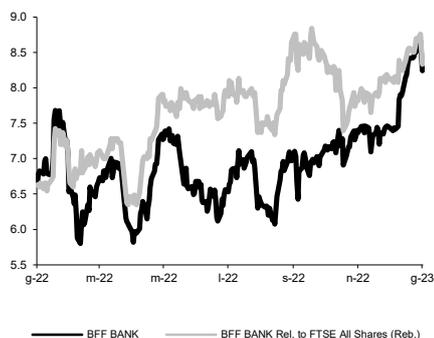
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 9.50 to 10.20		
	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Chg in Adj EPS</b>	-4.7%	-2.1%	-3.6%

### Next Event

 Results Out 9<sup>th</sup> February

### BFF BANK - 12M Performance



### Stock Data

Reuters code:	BFF.MI
Bloomberg code:	BFF IM

Performance	1M	3M	12M
Absolute	10.5%	14.8%	24.3%
Relative	2.1%	-0.9%	25.3%
12M (H/L)	8.66/5.80		
3M Average Volume (th):	673.74		

### Shareholder Data

No. of Ord shares (mn):	185
Total no. of shares (mn):	185
Mkt Cap Ord (Eu mn):	1,522
Total Mkt Cap (Eu mn):	1,522
Mkt Float - Ord (Eu mn):	1,427
Mkt Float (in %):	93.8%
Main Shareholder:	
Belingeri	5.6%

### Balance Sheet Data

Tangible Equity (Eu mn):	619
TEPS (Eu):	3.34
CET1 Ratio Fully Loaded:	12.8%
Gross NPE Ratio:	1.0%

■ **4Q22 results preview (results out on 9 February):** we only expect NII to have benefited partially from rising interest rates, as the bank is likely to have been unable to pass through the overall ECB rate hikes consistently, given that the re-pricing of assets may need more time to be completely absorbed. As for net fees, we believe performance in the two main segments will have been resilient despite the exit of Arca in November. Net banking income is therefore expected to have come to Eu96mn (+10% QoQ). As for operating costs, we expect the bank to confirm its strong attention on the cost base, resulting in quarterly stabilisation. Net income is expected to have come to Eu44mn, with a CET1/TCR ratio of 13.2%/18.5%, a healthy ~350bp MDA buffer over the 15% TCR target.

■ **Change in estimates:** we are updating our FY22 estimates in order to take the aforementioned time-lag on NII into account, only partially offset by lower operating costs. Overall, we have revised our FY22E adj. net income downwards by 5%, reaching an absolute figure of Eu147mn that will be fully distributed to shareholders. Considering the Eu68.5mn distributed as an interim dividend in August, we therefore calculate a dividend of Eu78mn (5% yield) to be paid after the next AGM (spring 2023). As for 2023E, we are revising our estimates slightly downwards (-2%), but remain a touch above the CMD target.

■ **European Court of Justice sentence.** As pointed out in the last conference call, the European Court of Justice has confirmed that according to the LPI directive, BFF does have the right to charge at least Eu40 per overdue invoice irrespective of the invoiced amount and the time overdue. Unlike LPIs, BFF currently only records this item on a cash basis. The potential impact on the P&L could be tangible, as in 2021 the “recovery costs” item amounted to Eu50mn (1.2mn invoices multiplied by the Eu40 charge), and assuming 45% accrual, the gross impact would be Eu20-25mn per year, whereas in 9M22 BFF only collected Eu5mn, resulting in a ~Eu10mn potential positive impact on the bottom line (+5% FY23E EPS upside risk). On the capital front, as the stock of off-balance-sheet “recovery costs” stood at Eu237mn, there could be a potential positive impact on capital of Eu75mn (>250bp), which would grant the bank more room to continue to distribute all the net income generated before hitting the 15% TCR floor. In the conference call, the CEO explained that until the end of 2022 the company would maintain its previous accounting methodology, with any changes to come at a later date, upon agreement with regulators/auditors. We do not know if and when the company will adopt accrual methodology even for this item, but believe this represents the main upside risk on the stock.

■ **BUY reiterated; target Eu10.2.** We continue to consider BFF to be one of the most attractive stocks within our coverage thanks to its strong shareholder remuneration (both in terms of visibility and consistency) and business model. NII trends are certainly worth keeping an eye on in the coming quarters, even though the LPI re-fixing mechanism should underpin the figure. We note that BFF is due to present a new business plan in 2Q23. We reiterate our positive view on the stock with a target price of Eu10.2, an increase due to the model rolling over to 2023.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Total income (Eu mn)	209	272	355	415	445
Net Operating Profit (Eu mn)	117	93	183	244	269
Net Profit Adj (Eu mn)	91	125	147	181	199
EPS New Adj (Eu)	0.534	0.678	0.791	0.978	1.074
EPS Old Adj (Eu)	0.534	0.678	0.830	1.000	1.113
DPS (Eu)	0.415	0.678	0.791	0.978	1.074
P/E Adj	15.4	12.1	10.4	8.4	7.7
Div. Yield	5.0%	8.2%	9.6%	11.9%	13.0%
P/TE	3.30	3.02	2.59	2.47	2.42
ROTE	21.4%	24.9%	24.8%	29.3%	31.5%