Intermonte

Milan, 06 November 2024

**Italian Equity Research – 3Q24 Results**

# BP SONDRIO

# OUTPERFORM

*Sector: Banks*

Price: Eu7.20 - **Target: Eu8.70**

## 3Q24 results beat and a "prudent" guidance upgrade

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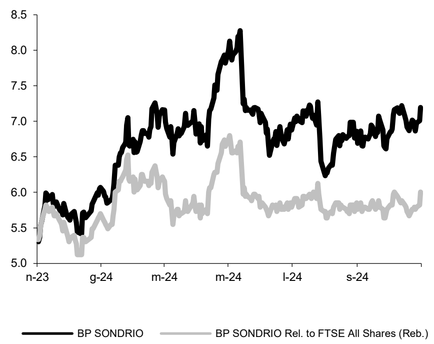
| Stock Rating | | | |
|---|---|---|---|
| **Rating:** | | | Unchanged |
| **Target Price (Eu):** | | | Unchanged |
| | **2024E** | **2025E** | **2026E** |
| **Chg in Adj EPS** | 8.6% | 3.6% | 3.4% |

**BP SONDRIO - 12M Performance**




| Stock Data | | | |
|---|---|---|---|
| Reuters code: | | | BPSI.MI |
| Bloomberg code: | | | BPSO IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | 6.5% | 14.4% | 36.5% |
| Relative | 4.2% | 4.9% | 16.9% |
| 12M (H/L) | | | 8.28/5.30 |
| 3M Average Volume (th): | | | 1,172.23 |

| Shareholder Data | |
|---|---|
| No. of Ord shares (mn): | 453 |
| Total no. of shares (mn): | 453 |
| Mkt Cap Ord (Eu mn): | 3,262 |
| Total Mkt Cap (Eu mn): | 3,262 |
| Mkt Float - Ord (Eu mn): | 2,489 |
| Mkt Float (in %): | 76.3% |
| Main Shareholder: | |
| Unipol Group | 19.7% |

| Balance Sheet Data | |
|---|---|
| Tangible Equity (Eu mn): | 4,019 |
| TEPS (Eu): | 8.87 |
| CET1 Ratio Fully Loaded: | 16.5% |
| Gross NPE Ratio: | 3.7% |

**BpSondrio unveiled a 3Q24 results beat that allowed the Group to improve its S/T guidance, while an update of its business plan has to be expected soon. Results were supported by a stronger than expected capital situation. The payout policy remains fairly conservative with no M&A with in sight and capital retention to finance organic growth. We stick to our positive stance on the stock**.

- **3Q24 Results:** Positive results that came above estimates both above and below the operating line. Revenues were +8.1% higher than our estimate. NII benefitted from both a flattish (at 3.19%) customer spread and high coupons of the bond portfolio, fee trend relied on the strong exposure to Bancassurance and AM, and trading income was €15mn higher than expected.
  OpEx basically flat QoQ, with the usual seasonality offset by the pay rise on renewal of the sector employment contract, leading to a market-leading cost/income ratio of 38.2%, and to operating income of €273mn (+5.9% QoQ, +10.3% A/E). CoR came in way lower than expected, as well as the general provisions, due to the bank's solid AQ and to the stable default rate (1.2%). Net profit at €168mn, +28.6% higher than our forecast. CET1 ratio obviously benefitted from the strong profitability, growing 54bps in the quarter.
- **Change in Estimates:** We are revising our top-line estimates, mostly for FY24, to reflect NII that appears to further benefit from both continuing high interest rates and cost of funding that is stable and under control. We have revised our fee income forecast to include a better-than-expected contribution from Bancassurance and AM. We have also cut our previous risk provision item, while maintaining those for LLPs. For FY25/26, we see a sharp decrease in NII, derived from the recent repayment of the last tranche of TLTRO and the bank's sensitivity to rate cuts. Net profit therefore changes by +8.6%/+3.6%/+3.4% for FY24/25/26.
- **Guidance & Capital:** BPSO, alongside the release, upgraded its FY24 guidance in terms of both NII and Net Profit. FY24 NII is now seen above €1bn (vs. our estimate of ~€1.06bn) while on profitability it sees ROE>15%, which translates into net profit of €530/540mn (vs our estimate of €552mn with a 14% ROE) due to bank internal metrics. We also think that BPSO is really CET1 long, and that this should lead to a payout ratio upgrade (currently 55%) or to some bolt-on acquisitions, maybe in the AM area, even if the company is not of the same idea.
- **Valuation:** Given BPSO's strong results and guidance update, which have led us to revise our top line and bottom line estimates, we confirm our positive view on the stock, sticking by our OUTPERFORM recommendation and our TP of €8.70. The stock is now trading at 0.81/0.77/0.74x its FY24/25/26 TE, 5.90/7.38/8.05x its adj. EPS. At target it would trade at 0.98/0.94/0.90x its TE.

| Key Figures & Ratios | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| Total income (Eu mn) | 1,155 | 1,567 | 1,717 | 1,585 | 1,550 |
| Net Operating Profit (Eu mn) | 509 | 872 | 1,029 | 854 | 803 |
| Net Profit Adj (Eu mn) | 251 | 461 | 552 | 442 | 405 |
| EPS New Adj (Eu) | 0.554 | 1.017 | 1.219 | 0.975 | 0.894 |
| EPS Old Adj (Eu) | 0.554 | 1.017 | 1.122 | 0.941 | 0.865 |
| DPS (Eu) | 0.280 | 0.559 | 0.670 | 0.536 | 0.492 |
| P/E Adj | 13.0 | 7.1 | 5.9 | 7.4 | 8.0 |
| Div. Yield | 3.9% | 7.8% | 9.3% | 7.5% | 6.8% |
| P/TE | 0.97 | 0.86 | 0.81 | 0.77 | 0.74 |
| ROTE | 7.5% | 12.2% | 13.7% | 10.5% | 9.2% |

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 30 September 2024 Intermonte's Research Department covered 125 companies. Intermonte's distribution of stock ratings is as follows:

| | |
|---|---|
| BUY: | 28.24 % |
| OUTPERFORM: | 48.09 % |
| NEUTRAL: | 23.67 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (61 in total) is as follows:

| | |
|---|---|
| BUY: | 55.74 % |
| OUTPERFORM: | 34.43 % |
| NEUTRAL: | 09.83 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|---|---|---|



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