Intermonte

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Italian Equity Research – Initiation of Coverage

BP SONDRIO

OUTPERFORM

Sector: Banks

Price: Eu5.60 - **Target: Eu6.70**

Slow & steady wins the race

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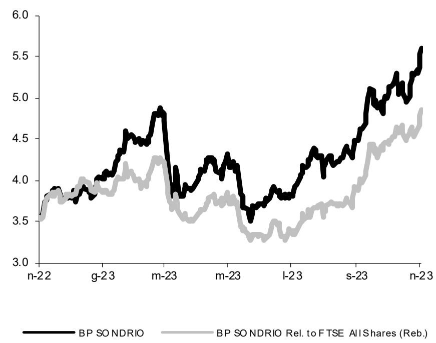
Stock Rating	
Rating:	OUTPERFORM (New Coverage)
Target Price (Eu):	6.70 (New Coverage)

BP SONDRIO - 12M Performance



Stock Data			
Reuters code:			BPSI.MI
Bloomberg code:			BPSO IM
Performance	**1M**	**3M**	**12M**
Absolute	10.3%	33.4%	57.0%
Relative	9.5%	34.0%	41.9%
12M (H/L)			5.60/3.50
3M Average Volume (th):			2,263.05

Shareholder Data	
No. of Ord shares (mn):	453
Total no. of shares (mn):	453
Mkt Cap Ord (Eu mn):	2,539
Total Mkt Cap (Eu mn):	2,539
Mkt Float - Ord (Eu mn):	1,937
Mkt Float (in %):	76.3%
Main Shareholder:	
Unipol Group	19.7%

Balance Sheet Data	
Tangible Equity (Eu mn):	3,572
TEPS (Eu):	7.88
CET1 Ratio Fully Loaded:	16.0%
Gross NPE Ratio:	4.3%

We initiate coverage of BP Sondrio (BPSO) with an Outperform rating and a target price of €6.7/s. The Group is an appropriate mix of size, growth, diversification, balance sheet strength and efficient P&L structure with leeway for improvement on the AM front. If this is not enough, BPSO is a valid candidate for M&A. These features may suggest decent upside potential on stand-alone fundamentals vs limited downside risk, as we argue that M&A is a clear hedge. The best-case scenario is self-evident.

- **Great positioning**: BPSO is a mid-size banking player with more than 100 years of steady growth behind it; the Group has self-financed its organic evolution in terms of branches and revenue diversification; it is now largely exposed to the most affluent areas of Northern Lombardy, Italy's richest region.
- **Strong balance sheet, a key factor:** today the Group is sitting on an abundant capital position, has sound asset quality and, given its NII exposures and efficiency, generates double-digit RoTE, which contribute to capital strengthening via an affordable 50% payout policy. Under-penetration in AM appears another prospect for enhancing profits in the mid-term.
- **Steady growth:** BPSO has always self-financed its growth through affordable and progressive steps; this has led to a diversified revenue structure (AM, Bancassurance, factoring, commercial banking exposure to Switzerland) but has not changed its DNA as a deeply rooted bank with a former co-op profile.
- **Loyalty pays off:** the customer base often overlaps with the shareholder base, enhancing the loyalty of both. This implies a sticky deposit base which makes the most of the current situation of *high-for-longer* interest rates.
- **Indirect funding**: The WM business looks underpenetrated if we look at the composition of fees (73% are those related to traditional banking services) and the mix between AuC (€36bn) vs AuM (AM+Bancassurance €9bn); despite the current interest rates environment, volumes growth in this business may support a progressive increase in revenues in the coming future in line with what the Group has posted in the first 9M of 2023.
- **M&A appeal is self-evident:** If this is not enough, we may add that the bank has explicit M&A appeal, which emerged recently when Unipol increased its stake in the Group to 20%, the same the insurer has in BPER, with both banks leveraged on the same product companies in Bancassurance (with Unipol as industrial partner) and AM. If M&A cannot be seen as a s/t upside catalyst, we argue it is a parachute that may provide a hedge should the macro deteriorate, and rates go down sharply.
- **Valuation:** We rate BPSO OUTPERFORM and we set the target price at €6.7/s implying upside potential of 20%. The stock is currently trading (2024E) slightly below 0.7x P/t-NAV and some 6x adj PE which mirrors the abundant free capital (16.3% CET1r) that has been cumulated so far.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	1,129	1,177	1,483	1,456	1,418
Net Operating Profit (Eu mn)	525	538	832	786	735
Net Profit Adj (Eu mn)	269	251	445	420	390
EPS New Adj (Eu)	0.593	0.554	0.981	0.926	0.860
DPS (Eu)	0.200	0.280	0.491	0.463	0.430
P/E Adj	9.5	10.1	5.7	6.0	6.5
Div. Yield	3.6%	5.0%	8.8%	8.3%	7.7%
P/TE	0.78	0.76	0.71	0.67	0.64
ROTE	8.3%	7.5%	12.5%	11.1%	9.8%