

INTESA S.PAOLO

Sector: Banks

OUTPERFORM

Price: Eu6.00 - Target: Eu7.10

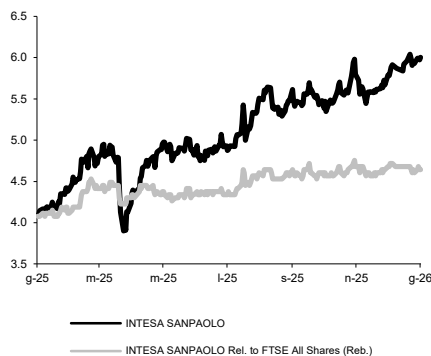
Quality Must Be Rewarded

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 7.00 to 7.10		
	2025E	2026E	2027E
Chg in Adj EPS	-2.6%	-4.0%	-3.2%

Next Event
Results Out on Feb. 2nd

INTESA S.PAOLO - 12M Performance



Stock Data			
Reuters code:	ISP.MI		
Bloomberg code:	ISP IM		
Performance	1M	3M	12M
Absolute	3.7%	11.5%	47.3%
Relative	-0.3%	2.1%	18.5%
12M (H/L)	6.04/3.90		
3M Average Volume (th):	46,692.43		

Shareholder Data	
No. of Ord shares (mn):	17,413
Total no. of shares (mn):	17,080
Mkt Cap Ord (Eu mn):	104,550
Total Mkt Cap (Eu mn):	104,550
Mkt Float - Ord (Eu mn):	87,868
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	55,716
TEPS (Eu):	3.26
CET1 Ratio Fully Loaded:	13.0%
Gross NPE Ratio:	2.3%

While at current levels Intesa Sanpaolo is trading as the most expensive Italian banking stock under our coverage, we believe its superior quality justifies a premium valuation, and therefore maintain our **OUTPERFORM** rating. The investment case is underpinned by a robust capital base, with the CET1 ratio remaining consistently at around 13%, supporting a sector-leading distribution policy that yields approximately 10% annually through cash dividends and share buybacks. Beyond its operational excellence, ISP's profile as a "de-risked" institution, with best-in-class asset quality and a management team focused on organic execution, solidifies its position as a core defensive stock in the European landscape. Its unique "product factory" architecture across Insurance and WM acts as a structural hedge, ensuring sustainable capital generation and high shareholder returns regardless of the interest rate cycle.

- In its upcoming **Business Plan**, we expect Intesa Sanpaolo to focus on evolution rather than revolution, prioritising organic growth and structural efficiency to maintain its sector-leading profitability. Our estimates project a steady rise in stated net profit to ~€11.4bn by 2029, supported by a 3.3% CAGR in fee income and resilient net interest income of ~€15.3bn. This performance is underpinned by a disciplined cost-control strategy, leveraging IT investments to reduce the cost/income ratio to a best-in-class 37% while managing a total indirect deposit base that is forecast to reach €880.6bn.
- The group's **distribution policy** is set to be stepped up significantly, with a revised payout policy that increases the dividend ratio to 80% from the current 70%. We believe this will be complemented by a consistent annual share buyback programme, conservatively estimated at €2bn, resulting in a total payout that is expected to exceed €11.1bn by 2029. Despite this generous remuneration profile, the group's capital adequacy remains exceptionally resilient, with the CET1 ratio expected to remain stable and well-buffered at between 13.23% and 13.28% throughout the forecast period.
- **Change in Estimates:** We are revising our model slightly downwards for the initial years of the plan, primarily to account for increased staff costs and the impact of the Italian Budget Law. Nevertheless, our long-term perspective remains notably more optimistic than the broader market view, with our EPS projections exceeding FactSet consensus by 6.7%/+6.6%/+5.3%/+3.1% for FY26/27/28/29. This anticipated outperformance is underpinned by our confidence in the group's superior operational efficiency and robust risk management framework. Specifically, we expect OpEx and LLPs to track below consensus levels as the market potentially underestimates the bank's efficiency and selective lending strategy.
- **Valuation:** we are valuing ISP using a GGM based on implicit P/TE, and we are now rolling forward our valuation model to an average of 2027 and 2028 fair values. Given the brighter projections for 2028, we are raising our TP to €7.10, confirming our **OUTPERFORM** recommendation. The stock is trading at 1.84/1.80/1.76x its FY26/27/28 TE; at target it would trade at 2.18/2.13/2.08x.

Key Figures & Ratios	2024A	2025E	2026E	2027E	2028E
Total income (Eu mn)	27,107	27,216	27,939	28,511	28,917
Net Operating Profit (Eu mn)	15,537	15,715	16,737	17,414	17,921
Net Profit Adj (Eu mn)	9,351	9,935	10,389	10,824	11,147
EPS New Adj (Eu)	0.525	0.571	0.608	0.646	0.679
EPS Old Adj (Eu)	0.525	0.586	0.634	0.667	
DPS (Eu)	0.341	0.371	0.481	0.512	0.538
P/E Adj	11.4	10.5	9.9	9.3	8.8
Div. Yield	5.7%	6.2%	8.0%	8.5%	9.0%
P/TE	1.93	1.88	1.84	1.80	1.76
ROTE	16.9%	17.8%	18.6%	19.4%	19.9%

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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 between 5.5% - 6.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the FTSEMIIB40 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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BUY:	32.33%
OUTPERFORM:	39.10%
NEUTRAL:	27.82%
UNDERPERFORM:	00.75%
SELL:	00.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (74 in total) is as follows:

BUY:	52.70%
OUTPERFORM:	31.08%
NEUTRAL:	14.87%
UNDERPERFORM:	01.35%
SELL:	00.00%

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