INTESA S.PAOLO

OUTPERFORM

Sector: Banks

Price: 2.56 - **Target: Eu3.60**

Broadly based 3Q23 beat; guidance up again

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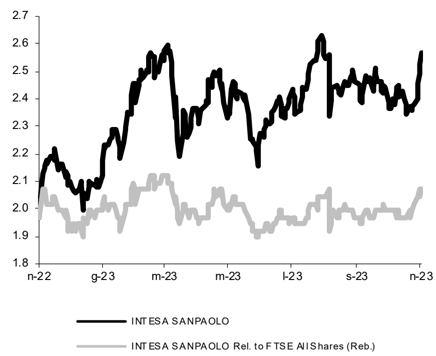
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 3.45 to 3.60
	2023E	**2024E**	**2025E**
Chg in Adj EPS	2.5%	0.9%	1.0%

Next Event

Interim dividend ex-date (20 Nov 2023)

INTESA S.PAOLO - 12M Performance



Stock Data			
Reuters code:			ISP.MI
Bloomberg code:			ISP IM
Performance	**1M**	**3M**	**12M**
Absolute	7.4%	0.7%	30.2%
Relative	3.2%	1.2%	6.0%
12M (H/L)			2.63/1.99
3M Average Volume (th):			81,811.64

Shareholder Data	
No. of Ord shares (mn):	18,283
Total no. of shares (mn):	18,283
Mkt Cap Ord (Eu mn):	46,868
Total Mkt Cap (Eu mn):	46,868
Mkt Float - Ord (Eu mn):	39,390
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	54,106
TEPS (Eu):	2.96
CET1 Ratio Fully Loaded:	13.6%
Gross NPE Ratio:	2.3%

- **3Q23 beat:** Intesa Sanpaolo has reported its best ever 3Q results, with the bottom line of €1.9bn beating our €1.8bn estimate on growing NII, offsetting weakish fees and decreasing trading proceeds. Moving to the main P&L lines, the beat is broadly based, with NII (+5% A/E) at €3.8bn; Opex of €2.65bn, -2% A/E; GOP +5% A/E to €3.7bn, implying a C/I ratio of 41.6%. Below the operating line, ISP posted moderately lower-than-expected LLPs moving the pre-tax to €3.3bn, +8% A/E and some +80% Y/Y. The 9M23 CoR was 28bp vs. 30bp in FY22 (ex-Russia, which was +70bp). NPL coverage was up +1.4pp QoQ to 50.4%. The 3Q23 bottom line came to €1.9bn, +6% A/E, on slightly higher taxes. CET1 ratio and asset quality were aligned to our assumptions: CET1 was 13.6% from 13.7% in 2Q23, while gross/net NPE ratios were 2.4%/1.2%.
- **Guidance:** ISP revised its FY net profit guidance upwards (now >€7.5bn from "well above" €7bn, we were at €7.4bn) and the payout policy moved up accordingly, with an interim dividend (in cash) now seen at c.€2.6bn (DPS €0.142 from €0.135, to be paid on 22 November). The total 2023 payout is seen at 70%, as before, implying an 11.5% yield. As for 2024 & 2025, ISP expects net profit to exceed 2023, with OpEx flattish YoY (ex IT-investments, FTE inflation covered by job cuts). ISP foresees a top line increase, with basic income (NII + Net Fees) on a positive trajectory and trading gains materializing in 2024 (no need to cash in gains in 2023 given booming NII). LLPs at 40bp max, more likely 30bp. Fully phased-in CET1 post Basel 4 at >14% as at FY25 (>15% including DTA). It is worth noting that NII is expected to be well above €14bn in 2023, with further growth expected in 2024 and 2025, partly thanks to higher contributions from hedging core deposits.
- **The focus is all on buyback:** Management decided to update the wording relating to shareholder remuneration. According to ISP: 1) there is a large pot of free capital vs 12% CET1 target (now they are at 13.6% -so almost €5bn- and some additional 100bps may come from DTAs in the future) plus organic capital generation 2) cash dividends are KING but share buyback opportunities can be considered; 3) any extra capital distribution will be analysed at year-end even if it is clear the ISP is now in a position to propose a buyback on top of the 70% cash payout.
- **Change in estimates.** Given ISP's NII surprise, we are raising our 2023 estimates (+3% Y/Y) but leaving 2024-2025 flattish even if with a slightly different mix of revenues (more NII but less fees and trading). OpEx are now projected slightly up on ISP's digital transformational path and broadly unchanged LLPs, even if we assume here (CoR) that there is room to surprise the street again.
- **OUTPERFORM confirmed; target raised from €3.45 to €3.6:** After fine-tuning our estimates, we incorporate a higher risk-free of 4.5% in the valuation (as we do for all companies under our coverage), resulting in a new target price of €3.6/s from €3.45/s before.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	20,793	21,470	25,209	25,807	25,970
Net Operating Profit (Eu mn)	9,813	10,536	14,047	14,436	14,577
Net Profit Adj (Eu mn)	4,020	4,565	7,803	8,049	8,202
EPS New Adj (Eu)	0.207	0.240	0.427	0.440	0.449
EPS Old Adj (Eu)	0.207	0.240	0.417	0.437	0.444
DPS (Eu)	0.151	0.164	0.291	0.304	0.310
P/E Adj	12.4	10.7	6.0	5.8	5.7
Div. Yield	5.9%	6.4%	11.4%	11.8%	12.1%
P/TE	0.92	0.94	0.87	0.83	0.80
ROTE	7.4%	8.8%	14.4%	14.3%	13.9%