

INTESA S.PAOLO

Sector: Banks

OUTPERFORM

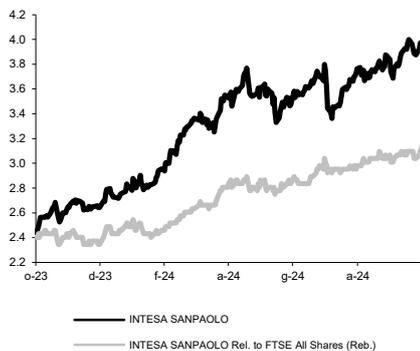
Price: Eu3.94 - Target: Eu4.80

Leading the way

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	1.1%	0.7%	0.7%

INTESA S.PAOLO - 12M Performance



Stock Data			
Reuters code:	ISP.MI		
Bloomberg code:	ISP IM		
Performance	1M	3M	12M
Absolute	2.8%	3.9%	64.3%
Relative	1.9%	2.5%	38.4%
12M (H/L)	4.00/2.46		
3M Average Volume (th):	67,730.36		

Shareholder Data	
No. of Ord shares (mn):	17,804
Total no. of shares (mn):	17,804
Mkt Cap Ord (Eu mn):	70,227
Total Mkt Cap (Eu mn):	70,227
Mkt Float - Ord (Eu mn):	59,021
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	57,199
TEPS (Eu):	3.21
CET1 Ratio Fully Loaded:	13.7%
Gross NPE Ratio:	2.3%

ISP reported a good set of 3Q24 results with a very slight QoQ decrease in NII and further quarterly growth in fees. This lies at the heart of our strategic view: banks refocusing from NII to fees, switching clients' wealth from indirect deposits to managed assets. ISP is clearly a frontrunner of this trend, as it owns the product factories. We stick to our positive rating and €4.80 TP. These results should be seen as a frame of reference for all Italian banks, which should post good 3Q24 figures.

- 3Q24 results:** on 3Q results we note resilient NII (+3.4% YoY), strong fee income (+10.1% YoY, +3.1% A vs. E) and outstanding trading. Total income was up ~7% YoY, 3.3% higher than our estimate, mostly on the back of these items. OpEx was in line with estimates, leading to +9.4% YoY growth in operating profit, which came in +5.7% higher than our forecast. LLPs were much lower than expected, leading to a cost of risk of just 23bp, while risk provisions rose to €150mn. Net profit was €2,401mn, +26.4% YoY and +7.5% higher than our estimate.
- Focus on efficiency:** ISP is focusing on making the bank more efficient to face up to a future of lower interest rates. In pursuit of the goal of managing a leaner bank, it announced a one-off item (worth €350mn) to reduce FTEs by 5.5k in total (9k voluntary exits and 3.5k new recruits). The move will save €500mn annually from 2028 onwards, and, more importantly, won't have any impact on net profit guidance (>€8.5bn). On top of that, Isybank is growing rapidly in terms of customers (both new and migrated), and will bring down the overall cost/income due to its structurally low level (<30%). IT investments already made and in the pipeline will deliver an additional ~€500mn contribution to gross income.
- Guidance and distribution:** ISP upgraded its 2024 NII guidance to >€15.5bn, while leaving the net profit indication unchanged. On 2025, however, the net profit forecast was updated to ~€9bn, implying further DPS growth, with the CET1 ratio indicated to reach ~14.5% (post-Basel 4). On distribution, the payout policy was spelled out very clearly by CEO Messina, a recurring 70% cash payout ratio, with further distribution to be evaluated on a year-by-year basis (due to ISP's long CET1 position). The CEO also stated that in general SBBs would definitely be preferred to distribution of further cash, and a new SBB will be proposed before the FY24 release.
- Change in Estimates:** we are revising our estimates on a few items, with no particular change to adj. EPS. We see slightly higher NII over the three-year period, and a further increase in fees, mostly related to higher AUM inflows. We are lowering our LLP forecast for FY24, as AQ remains pretty solid, while slightly raising risk provisions. The main change to our FY24 P&L estimates is the accounting of the €350mn one-off related to the exit of 9k FTEs, to be booked in 4Q24. We are lifting FY24/25/26 adj. EPS by +1.1%/+0.7%/+0.7%.
- Valuation:** we retain a preference for stocks exposed to WM, and ISP looks like the pick of the bunch due to favourable trends and even better market positioning. So, we stick to our OUTPERFORM recommendation and our €4.80 TP. Stock trading at 1.23/1.17/1.12x its FY24/25/26 TE. At target 1.49/1.43/1.37x.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	21,470	25,138	26,943	26,763	26,686
Net Operating Profit (Eu mn)	10,536	13,809	15,578	15,393	15,279
Net Profit Adj (Eu mn)	4,565	8,370	9,346	9,166	9,046
EPS New Adj (Eu)	0.240	0.458	0.525	0.515	0.508
EPS Old Adj (Eu)	0.240	0.458	0.519	0.511	0.504
DPS (Eu)	0.164	0.296	0.342	0.357	0.352
P/E Adj	16.4	8.6	7.5	7.7	7.8
Div. Yield	4.2%	7.5%	8.7%	9.0%	8.9%
P/TE	1.43	1.32	1.23	1.17	1.12
ROTE	8.7%	15.3%	16.3%	15.3%	14.5%

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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&P500 Index, most of those on the MIBEX 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.

Explanation of our ratings system:

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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