Milan, 03 October 2024

Italian Equity Research – 3Q24 Preview

INTESA S.PAOLO

OUTPERFORM

Sector: Banks

Price: Eu3.72 - **Target: Eu4.80**

9M24 to Shine a light on 2024…and beyond

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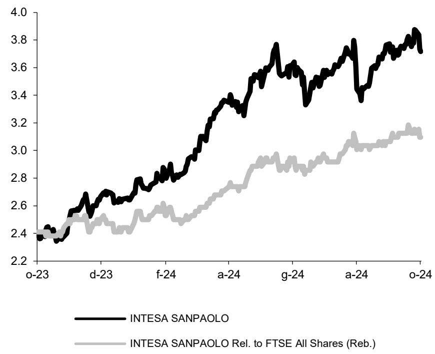
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 4.60 to 4.80
	2024E	**2025E**	**2026E**
Chg in Adj EPS	3.4%	3.9%	1.7%

Next Event

BoD on 9M24 Results Out on 31/10/2024

INTESA S.PAOLO - 12M Performance



Stock Data			
Reuters code:			ISP.MI
Bloomberg code:			ISP IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.5%	5.3%	54.1%
Relative	0.3%	4.8%	33.6%
12M (H/L)			3.88/2.34
3M Average Volume (th):			66,178.83

Shareholder Data	
No. of Ord shares (mn):	17,797
Total no. of shares (mn):	17,797
Mkt Cap Ord (Eu mn):	66,133
Total Mkt Cap (Eu mn):	66,133
Mkt Float - Ord (Eu mn):	55,581
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	57,265
TEPS (Eu):	3.22
CET1 Ratio Fully Loaded:	14.4%
Gross NPE Ratio:	2.3%

ISP's 3Q24 is expected to deliver a positive set of numbers, net of the usual seasonality. The quarter should give visibility on 2024 and, more importantly, shine some light on 2025. The street will focus on the usual P&L lines: with interest rates on the slide, fees will be the key focus. The other strategic angle will be the NII trendline, as it is impacted by decreasing Euribor rates likely to be partially offset by macro-hedging: 2025 guidance will be a key factor. Right now, we do not see issues on CoR and CET1r in the quarter given the good BoI macro numbers. We do not see any incoming bolt-on M&A. ISP is the most exposed bank to WM with proprietary product factories in AM, PB & Bancassurance, and a business model that other banks are trying to adopt, which is the main reason for our positive stance on the stock. We have raised our estimates, fine-tuning the top line and CoR, and upgrading the bottom line by 3.4%/3.9%/1.7%; TP up to €4.8/S.

- **3Q24 preview.** We expect another set of solid results, with strong revenues (ca. +3% YoY) driven mostly by NII that is offsetting falling rates through macro hedging, and fee-driven businesses (AM/WM and Bancassurance) seen growing YoY and unaffected by usual summer seasonality. Total revenues, on our estimates, would land at €6,582mn. On OpEx, we forecast a slight increase YoY (also ca. +3%) due to the pay rise, landing at €2,735mn, and operating profit of €3,847mn. CoR is seen stable QoQ at 31bps, with a default rate that does not appear to be worsening. We currently see quarterly net profit at €2,233. On **BS and Capital,** we highlight that loans to customers are broadly flat QoQ (+0.1%), in line with market trends, while we see a slight increase on the deposit side, mostly due to the lower interest in AuA. On CET1, we see a 23bp increase, mostly due to the strong OCG the company delivers, not offset by increases in RWAs.
- **Outlook.** We note that on these numbers there is high visibility on company guidance (FY24/25 net profit >€8.5bn and a 70% cash payout ratio; we are currently above with €8.90bn/€8.99bn) even if in 4Q there could be some precautionary provisions. We also highlight that in 4Q a €3bn interim dividend will be paid, booked on 2024 results, and potential additional distributions will be quantified on approval of FY24 results. In our view, there is room for a guidance update due to stronger-than-expected profitability and a macro that is not worsening.
- **Change in estimates.** We are updating our estimates to reflect better-than-expected trends on revenues, (mostly NII and fees), OpEx (appears well under control: ISP guided for flat OpEx for FY24 vs FY23), and CoR (due to asset quality that appears to be very manageable and not worsening). These changes prompt us to move adj. EPS up +3.4%/+3.9%/+1.7% for FY24/25/26, and, as a result, the payout (70% cash payout) has moved by the same percentage.
- **Valuation.** Due to the favourable trend and the even better market positioning of ISP, we stick to our OUTPERFORM recommendation, and we move our TP to €4.8/S (from €4.6/S). It remains one of our top picks due to its exposure to fee-based business. Stock now trading at 1.10/1.06x its FY25/26 TE, 7.27/7.37x its FY25/26 EPS. At target, the stock would trade at 1.43/1.37x its FY25/26 TE, 9.39/9.52x its FY25/26 EPS.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	21,470	25,138	26,704	26,627	26,563
Net Operating Profit (Eu mn)	10,536	13,809	15,359	15,257	15,155
Net Profit Adj (Eu mn)	4,565	8,370	9,243	9,096	8,977
EPS New Adj (Eu)	0.240	0.458	0.519	0.511	0.504
EPS Old Adj (Eu)	0.240	0.458	0.502	0.492	0.496
DPS (Eu)	0.164	0.296	0.350	0.354	0.349
P/E Adj	15.5	8.1	7.2	7.3	7.4
Div. Yield	4.4%	8.0%	9.4%	9.5%	9.4%
P/TE	1.35	1.24	1.15	1.10	1.06
ROTE	8.7%	15.3%	16.1%	15.2%	14.3%

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

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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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Further information is available