

INTESA S.PAOLO

Sector: Banks

OUTPERFORM

Price: Eu2.36 - Target: Eu3.45

9M23e >€6bn Net Profit improves visibility on 2023e guidance

Fabrizio Bernardi +39-02-77115.387
 fabrizio.bernardi@intermonte.it

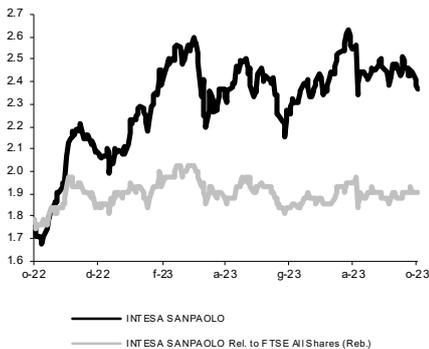
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

Results Out 3 Nov. 2023

INTESA S.PAOLO - 12M Performance



Stock Data

Reuters code:	ISP.MI		
Bloomberg code:	ISP IM		
Performance	1M	3M	12M
Absolute	-3.7%	-2.4%	32.1%
Relative	0.8%	1.5%	8.0%
12M (H/L)	2.63/1.68		
3M Average Volume (th):	83,281.46		

Shareholder Data

No. of Ord shares (mn):	18,283
Total no. of shares (mn):	18,283
Mkt Cap Ord (Eu mn):	43,193
Total Mkt Cap (Eu mn):	43,193
Mkt Float - Ord (Eu mn):	36,301
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data

Tangible Equity (Eu mn):	54,050
TEPS (Eu):	2.96
CET1 Ratio Fully Loaded:	14.0%
Gross NPE Ratio:	2.3%

- €6bn net profit in 9M23e.** ISP's 3Q23 results are due out 3 November (press release around lunchtime, conference call usually the same day in the early afternoon). We expect (see table overleaf) a sound set of numbers with a stated bottom line north of €1.75-1.8bn on €6.2bn of revenues, benefitting from continuing growth of NII (rates up, funding costs still under control), €2.7bn OpEx, and below average CoR, even if a little higher than 25bp in 1H23. In the current rates environment, our projections incorporate weaker-than-average trading gains and decreasing net fees, partly penalized by the usual 3Q seasonal effect. The quarter should also incorporate the usual €0.3bn provisions for the DGS in systemic risk.
- Capital and Asset quality.** We expect CET1r to remain flattish in 3Q23 at around the 1H23 level of 13.7%, probably a few bp lower due to evolution of the spread and limited regulatory headwinds. Asset quality is also expected to be stable at around the 1H23 benchmark level, with gross/net NPE ratios of 2.3%/1.2%, and €0.8bn of overlays. Worth noting that the 1H23 CET1r included €3bn of DPS accrual (70% payout) and also a 30bp voluntary deduction for calendar provisioning related to exposures likely to be sold, which will lower 2024-2025 CoR and raise the bottom line by some €0.4bn.
- Guidance & dividends.** ISP's 2023 guidance was revised up right after 2Q23 to "well above" €7bn net profit from circa €7bn previously (May 2023), which was already a big improvement on well above €5.5bn in Feb. 2023. This new target looks within easy reach given that 9M23 is now expected >€6bn and can strengthen visibility on the payout policy. As a reminder, the 3Q23 BoD meeting is expected to decide on the interim dividend payable in Nov. 2023 of at least €2.45bn (5.6% yield).
- Where to focus.** The windfall tax on banks may attract the attention of the street with ISP's management usually very forward-looking in terms of sector bias: our original view is that banks should provision to a non-payable reserve at 2.5x the tax and in any case maintain the promised dividend stream that they set pre-Windfall given the leeway in terms of retained earnings (for ISP, more than €2bn assuming a 70% payout and €7.4bn 2023 bottom line) and available reserves. Another key topic may be non-domestic external growth: ISP may be interested in consolidating its presence in areas already covered (the press recently mentioned Romania and Egypt); moreover, the size of the Group in these countries makes any deal fairly affordable for ISP.
- Outperform confirmed.** We stick to our outperform rating on ISP and €3.45 target price. ISP's strong management team is pushing the Group along a transformational path towards digitalization and virtually "zero" NPEs. The rates environment coupled to NII sensitivity is undoubtedly supporting this equity story, ensuring constant and growing shareholder remuneration. ISP is trading at 0.8x P/T-NAV, less than 6x adj. earnings with the comfort of an almost 12% cash DPS yield.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	20,793	21,470	25,269	25,746	25,869
Net Operating Profit (Eu mn)	9,813	10,536	14,108	14,516	14,636
Net Profit Adj (Eu mn)	4,020	4,565	7,616	7,981	8,121
EPS New Adj (Eu)	0.207	0.240	0.417	0.437	0.444
EPS Old Adj (Eu)	0.207	0.240	0.417	0.437	0.444
DPS (Eu)	0.151	0.164	0.284	0.301	0.307
P/E Adj	11.4	9.8	5.7	5.4	5.3
Div. Yield	6.4%	6.9%	12.0%	12.7%	13.0%
P/TE	0.84	0.87	0.80	0.77	0.73
ROTE	7.4%	8.8%	14.1%	14.1%	13.8%