

# INTESA S.PAOLO

Sector: Banks

## OUTPERFORM

Price: Eu2.38 - Target: Eu3.20

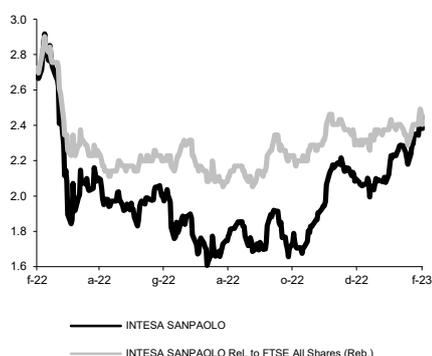
### NII Boost to Earnings, Green Light on Solid Dividends/Buyback

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#### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 3.00 to 3.20		
	2023E	2024E	2025E
Chg in Adj EPS	8.0%	0.2%	

#### INTESA S.PAOLO - 12M Performance



#### Stock Data

Reuters code:	ISP.MI
Bloomberg code:	ISP IM

Performance	1M	3M	12M
Absolute	9.7%	21.0%	-12.6%
Relative	-0.6%	2.3%	-11.7%
12M (H/L)	2.92/1.61		
3M Average Volume (th):	97,825.92		

#### Shareholder Data

No. of Ord shares (mn):	18,989
Total no. of shares (mn):	18,275
Mkt Cap Ord (Eu mn):	45,250
Total Mkt Cap (Eu mn):	45,250
Mkt Float - Ord (Eu mn):	38,030
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

#### Balance Sheet Data

Tangible Equity (Eu mn):	53,667
TEPS (Eu):	2.94
CET1 Ratio Fully Loaded:	13.2%
Gross NPE Ratio:	2.3%

- Much better revenues drove the beat in the quarter.** ISP posted a 13.1% YoY increase in revenues, beating expectations by +7.9% thanks to much better NII (+16.7% vs est, or +57% YoY) driven by a far better customer spread. Fees were broadly in line with estimates (-12.2% YoY) and suffered from AM business weakness. Trading was slightly negative, partly due to some deleveraging actions undertaken by management. Costs were up (+3.4% YoY) and cost of risk was higher than expected (103bps vs exp 84bps) as management sought to increase overlays and coverage ratios on NPE (underlying cost of risk FY22 at 30bps). Profits were higher than expected, due in part to a Eu 320mn DTA writeup (ex UBI), which more than compensated a higher negative PPA effect. CET1 ratio FL increased from 12.4% to 13.5% (+110bps QoQ) thanks to RWA optimization. In addition to the interim dividend per share already paid last November (Eu 0.0738), the bank announced the remaining dividend per share at Eu 0.0868.
- Solid capital: Eu 1.7bn buyback to start immediately, dividend payout ratio at 70% confirmed.** A greater impact in 2023 from the internal models update after the ECB inspection (from estimated -45bps to -70bps expected) together with the impact of IFRS17 (-20bps) prompted management to strongly rationalise RWA (ca. Eu -29bn QoQ) with an expected limited impact on P&L but a strong effect on capital ratios (CET1 ratio FL boosted by +110bps QoQ to 13.5%). This move will enable the bank to offset regulatory headwinds in 2023 (-90bps), guarantee a 70% dividend payout for the next 3 years, and start executing the Eu 1.7bn buyback immediately (to be concluded by 22<sup>nd</sup> May). CET1 ratio FL guided at 13% by YE23, above 13.0% by YE24 and above 13.5% by YE25 with the CET1 ratio FL target kept unchanged at >12%.
- New 2023 guidance.** The CEO gave guidance for profits in 2023 to “well above 2022 level ex Russia impact”, equivalent to “well above Eu 5.5bn”. Main drivers: NII +Eu 2.5bn YoY; fees flat/slightly up; trading down; costs flat/slightly up; cost of risk 30/40bps depending on GDP final outcome (slightly up/mild recession).
- Change in estimates.** We have raised our EPS estimates for ‘23/’24 by +8.0% and +0.2% driven by higher NII (we remain slightly below ISP guidance) and lower CoR (45bps for 2023 and 40bps for 2024), while for reasons of prudence we have raised our cost projections by +3.8% on average for ‘23/’24, mainly due to personnel and depreciation (i.e. technological investments). According to our new estimates, ISP should be able to deliver profits above Eu 6bn in 2023 (vs >Eu 5.5bn in guidance), also supported by some buffers (i.e. Eu 0.9bn overlays; forward rates which could provide some upside on NII).
- Outperform confirmed, T.P. raised from Eu 3.0 to Eu 3.20.** The high sensitivity to rates and the low gross NPE ratio together with a solid capital and remuneration policy should ensure a high return to shareholders. The Eu 1.7bn buyback to start soon should be a positive catalyst for the stock, and the absence of M&A (see the CEO’s statement on no interest in BMPS) should give some visibility on the use of excess capital. Our valuation is based on ROTe ‘23: at target, the stock would trade at just a touch above 1x TE vis-a-vis an expected ROTe ‘23 at 12%.

Key Figures & Ratios	2020A	2021A	2022A	2023E	2024E
Total income (Eu mn)	20,400	20,793	21,470	23,647	24,117
Net Operating Profit (Eu mn)	9,361	9,813	10,536	12,486	12,888
Net Profit Adj (Eu mn)	3,091	4,020	4,565	6,340	7,008
EPS New Adj (Eu)	0.159	0.207	0.240	0.347	0.383
EPS Old Adj (Eu)	0.159	0.207	0.225	0.321	0.383
DPS (Eu)	0.135	0.151	0.161	0.235	0.264
P/E Adj	15.0	11.5	9.9	6.9	6.2
Div. Yield	5.7%	6.3%	6.7%	9.9%	11.1%
P/TE	0.81	0.85	0.87	0.81	0.78
ROTE	5.4%	7.4%	8.8%	11.8%	12.6%