

INTESA S.PAOLO

Sector: Banks

OUTPERFORM

Price: Eu2.43 - Target: Eu3.20

Earnings and Capital Make Excess Capital Distribution More Likely

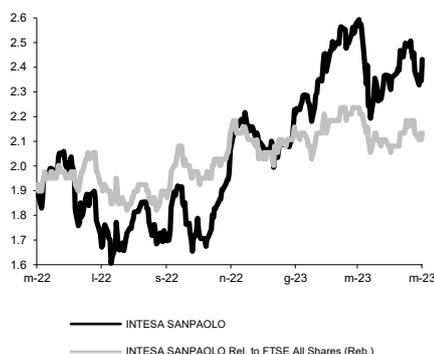
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 2.80 to 3.20		
	2023E	2024E	2025E
Chg in Adj EPS	18.6%	9.2%	

Next Event

INTESA S.PAOLO - 12M Performance



Stock Data

Reuters code:	ISP.MI		
Bloomberg code:	ISP IM		
Performance	1M	3M	12M
Absolute	5.3%	2.1%	26.4%
Relative	3.8%	1.0%	12.6%
12M (H/L)	2.59/1.61		
3M Average Volume (th):	123,950.14		

Shareholder Data

No. of Ord shares (mn):	18,283
Total no. of shares (mn):	18,283
Mkt Cap Ord (Eu mn):	44,464
Total Mkt Cap (Eu mn):	44,464
Mkt Float - Ord (Eu mn):	37,369
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data

Tangible Equity (Eu mn):	53,934
TEPS (Eu):	2.95
CET1 Ratio Fully Loaded:	13.8%
Gross NPE Ratio:	2.3%

- 1Q23 results above estimate thanks to NII, CoR, and capital generation.** ISP registered its best ever start to the year with almost Eu 2bn in net profit boosted by strong NII (+66% YoY thanks to rates, with deposit beta at 10%), flattish costs (+0.5% YoY with the C/I ratio at 41.9%, the lowest ever for the Group), and low CoR (17bps). Capital was another positive element in the quarter, with the FL CET1 ratio growing from 13.5% to 13.7%, despite a -60bp impact from regulatory headwinds, thanks to continuous RWA optimization. The gross NPE ratio was stable (2.3%), with NPE coverage ratio increased further (50%). Fees in line with estimates (-6.6% YoY due to AM component) while trading income slightly better than expected but far off last year's level.
- 2023 net profit guidance raised to ca. Eu 7bn.** NII guidance for 2023 went from Eu ca.12bn to Eu >13bn thanks to new assumptions on avg Euribor 1M (from 2.5% to 3.2%); net profit from "well above Eu 5.5bn net of Russia registered in 2022" to ca. Eu 7bn; FL CET1 ratio from 13% to 13.5%-14% by YE23. The main drivers to reach 2023 new guidance are: 1) NII: flattish loans, deposit beta at 40% by YE (vs 10% as of now); 2) fees: flat/slightly down YoY due mainly to AM fees; 3) trading income: well below 2022 as management has no rush to boost this item in 2023 given the solid NII; 4) costs: slight rise YoY (then to go down in 2024) given some investments and the renewal of the labour contract (underlying assumptions not disclosed); 5) cost of risk (CoR): 30bps as run rate to reach max 40bps if some NPE disposals needed to keep NPE ratio at current level (current Eu 0.9bn overlays still available as a buffer); 6) CET1 ratio: -60bp regulatory headwinds already booked in 1Q (incl. IFRS 17 impact); some additional -30bps to be booked by YE but RWA optimization and earnings should help to keep unchanged / increase current capital level.
- Excess capital: no M&A, back to shareholders.** Management reiterated there are no plans to go for M&A, excess capital as of 1Q23 was ca. Eu 5bn, FL CET1 ratio set to further improve with guidance for 2025 (post Basel IV impact) raised to 14% (from >13%) and from 14% to 15% including DTA absorption (+125bps, of which 30bps to be used by YE25). Management will decide at YE23 what to do with excess capital (both in terms of amount and form: cash or buyback) as it already distributes ca. Eu 5.8bn in 2023 (buyback, dividend balance and interim dividend).
- Change in estimates.** We have revised our '23/'24 EPS estimates upwards by +18.6% and +9.2% on the back of higher NII and slightly lower CoR, slightly compensated by lower fees and trading income, costs left unchanged. For 2023, FL CET1 ratio raised to 13.8% thanks to higher earnings and lower RWA.
- Outperform confirmed, T.P. raised to Eu 3.2 from Eu 2.8.** The better earnings trajectory and higher visibility on capital generation (with greater chances of excess capital distribution) reinforce our positive stance on the stock. Strong asset quality and WM and Protection business model reduce execution risk in the event of lower rates. We have not incorporated any excess capital distribution in our estimates for the time being. Stock trading at 0.82x TE with ROTC 23 at 13.4% and an 11.1% dividend yield.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	20,793	21,470	24,702	24,865	24,900
Net Operating Profit (Eu mn)	9,813	10,536	13,541	13,635	13,667
Net Profit Adj (Eu mn)	4,020	4,565	7,230	7,382	7,556
EPS New Adj (Eu)	0.207	0.240	0.395	0.404	0.413
EPS Old Adj (Eu)	0.207	0.240	0.333	0.370	
DPS (Eu)	0.151	0.164	0.269	0.278	0.285
P/E Adj	11.8	10.1	6.1	6.0	5.9
Div. Yield	6.2%	6.7%	11.1%	11.4%	11.7%
P/TE	0.87	0.89	0.82	0.79	0.76
ROTE	7.4%	8.8%	13.4%	13.2%	12.9%