INTESA S.PAOLO

OUTPERFORM

Sector: Banks

Price: Eu2.61 - **Target: Eu3.45**

Guidance Raised, Focus on Excess Capital and Digital Transformation

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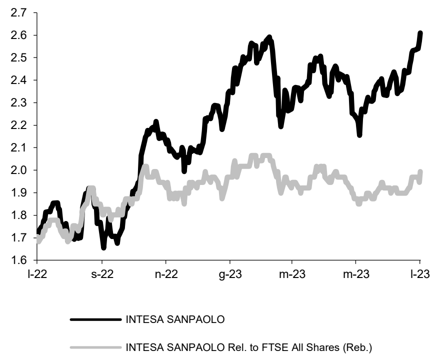
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 3.20 to 3.45
	2023E	**2024E**	**2025E**
Chg in Adj EPS	5.3%	8.1%	7.5%

INTESA S.PAOLO - 12M Performance



Stock Data			
Reuters code:			ISP.MI
Bloomberg code:			ISP IM
Performance	**1M**	**3M**	**12M**
Absolute	10.4%	9.4%	53.0%
Relative	4.2%	1.6%	21.8%
12M (H/L)			2.61/1.66
3M Average Volume (th):			80,438.55

Shareholder Data	
No. of Ord shares (mn):	18,283
Total no. of shares (mn):	18,283
Mkt Cap Ord (Eu mn):	47,709
Total Mkt Cap (Eu mn):	47,709
Mkt Float - Ord (Eu mn):	40,097
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%

- **Results beat expectations:** NII grew by +10% QoQ thanks to interest rates and a low deposit beta, while fees also grew by +3% QoQ, confirming the resilience of ISP's business model and more than offsetting weaker trading income. Costs were slightly better than estimated, as was the cost of risk (33bp vs. exp 52bp) with overlays unchanged (Eu900mn). The fully-loaded CET1 ratio was in line at 13.7%, after a Eu3bn dividend accrual and 30bp voluntary deduction for calendar provisioning; the gross NPE ratio stood at 2.3% (1.2% net). Loans were down 7.2% YoY while AuM grew by +1.8% YTD (flat YoY).
- **2023 guidance raised, 2024/25 net profit higher than 2023.** Strong 1H23 results and the positive NII trend led management to raise 2023 NII guidance from >Eu13bn to >Eu13.5bn and 2023 net profit from c.Eu7bn to well above Eu7bn. NII is also expected to grow in 2024 and 2025, while net income is forecast to exceed the 2023 level. The main growth driver is low deposit beta, a positive contribution from replicating portfolios, cost management and digitalisation, which should generate Eu500mn of additional gross income, enough to mitigate cost inflation.
- **Conference call feedback.** ISP is expected to deliver NII growth in 2023, but also in 2024 and 2025 thanks to a low deposit beta, the rollover of the financial portfolio and higher interest rates. Profits are expected to grow to well above Eu7bn, thanks in part to positive cost control and a low cost of risk due to low NPE inflows, a further reduction in NPE thanks in part to a 30bp voluntary deduction from the CET1 ratio for calendar provisioning in 2Q, and Eu900mn in overlays that remain untouched. No M&A in sight, the focus is on cash dividends, with an interim dividend of at least Eu2.45bn to be paid in November (Eu3bn already accrued for dividends in 1H23); the dividend yield is expected above 11%: Strong focus on technology and digital transformation: ISP's cloud-based digital banking platform, new digital channels (Isybank and Fideuram direct) and finally Artificial intelligence are expected to give an additional Eu500mn contribution to gross income by 2025. The CET1 ratio is expected to exceed 14% (or 15% after DTA absorption) in 2025 even after the implementation of Basle IV.
- **Change in estimates.** We are raising our 2023/24/25 EPS by 5.3%/8.1%/7.5% on the back of higher NII, partially offset by lower trading income. We are leaving our cost of risk assumptions unchanged for the same years, even if current NPE inflows and buffers could justify a lower overall number.
- **OUTPERFORM confirmed; target raised from Eu3.20 to Eu3.45.** We think management has proved capable of transforming ISP into a bank with very low NPEs, and is now ready to use the high sensitivity of NII to interest rates to invest in digital transformation, to ensure high shareholder remuneration through the cycle. We are raising our target price to incorporate the EPS increase. The stock is trading at 0.9x P/TE with an expected 2024 ROTE of 14% and a dividend yield above 11% for the next 3 years.

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	0.395	0.404	0.413
DPS (Eu)	0.151	0.164	0.284	0.301	0.307
P/E Adj	12.6	10.9	6.3	6.0	5.9
Div. Yield	5.8%	6.3%	10.9%	11.5%	11.8%
P/TE	0.93	0.96	0.88	0.85	0.81
ROTE	7.4%	8.8%	14.1%	14.1%	13.8%