

INTESA S.PAOLO

Sector: Banks

OUTPERFORM

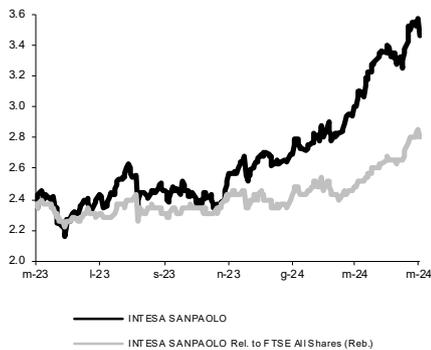
Price: Eu3.46 - Target: Eu4.20

Buy the Best & Forget the Rest... (...and a Good 1Q24)

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 4.07 to 4.20		
	2024E	2025E	2026E
Chg in Adj EPS	4.7%	5.0%	

INTESA S.PAOLO - 12M Performance



Stock Data			
Reuters code:	ISP.MI		
Bloomberg code:	ISP IM		
Performance	1M	3M	12M
Absolute	1.7%	23.6%	46.1%
Relative	4.1%	14.6%	22.5%
12M (H/L)	3.57/2.16		
3M Average Volume (th):	95,683.48		

Shareholder Data	
No. of Ord shares (mn):	18,283
Total no. of shares (mn):	17,800
Mkt Cap Ord (Eu mn):	63,295
Total Mkt Cap (Eu mn):	63,295
Mkt Float - Ord (Eu mn):	53,196
Mkt Float (in %):	84.0%
Main Shareholder:	
Compagnia San Paolo	6.1%

Balance Sheet Data	
Tangible Equity (Eu mn):	56,865
TEPS (Eu):	3.19
CET1 Ratio Fully Loaded:	14.1%
Gross NPE Ratio:	2.3%

ISP's 1Q24 results were slightly better than expected (see table overleaf) but we do not care that much about A/E, we were expecting a good quarter. The key point is that the NII "trend" is hanging tough (Euribor is not plunging, whatever the forward curve says...) and net fees are UP Y/Y. We feel like ISP is pre-empting trends and already moving liquidity to WM away from Custody in order to bring forward what we call the "switch" to AuM. ISP has all the tools to benefit from this swap, i.e., the product factories. €8bn 2024E net profit guidance is within reach, comfortably we believe. We therefore stay positive on ISP. M&A is not an issue: Mr Messina stated that that they do not see consolidation for the time being, with ISP sitting on the fence in order to gain market share while all the other banks are wasting time on consolidation. Incidentally, ISP 1Q24 says that domestic small/mid cap banks should do even better (BMP5, BAM1 & BPER, not to mention the small cap peers, Credem and BPSondrio). Euribor rates (05/05/2024) are still slightly below 4%... 2Q24E is not projected to be that bad at this stage = banks are buying 3-to-6 more months LIMBO, supported by a strong payout policy with billions of cash dividends and SBBs....

- **Promising 1Q24 top-line trends.** ISP posted a positive set of 1Q24 results, beating our estimates by 6%. The positive part of the story is that this is a TOP-LINE BEAT with both NII (expectedly) and fees & bancassurance (improving already) better A/E. OpEx in line, LLPs below A/E (asset quality ratios are flattish, as expected) and a bottom line of €2.3bn, +6% A/E. CET1R down on buyback frontloading. We believe this is a promising quarter for ISP and, allegedly, for the banks in general. ISP showed good numbers, with AM+WM proceeds already accelerating vs 2023, which is what we are looking at entering a potential lower Euribor path environment.
- **Balance sheet & payout.** Weak volumes are evident in a context of high interest rates, with especially Non.Fin-Corp. cutting volumes and Household rather flattish, in line with Bol data. In terms of the CET1, the ratio is down to 13.3% but remember that ISP is launching a €1.7bn buyback, which is front-loaded, and this is on top of the cash dividend.
- **"NO" M&A.** We specifically asked CEO Messina about consolidation among ITA banks. The answer was crystal clear: basically... they do not care. Whatever other banks do, ISP gains "time" and market share; we share this "angle". The point is that in this "high-for-longer" rates horizon, nobody is willing to waste time on M&A, given that rates are "pushing up" NII and ITA banks are very well exposed. That is, technically, our view on consolidation: with Euribor rates that high, nobody is expected to go on with M&A.
- **OUTPERFORM TP €4.2** - We roll over our valuation to 2026, embedding a fine tuning in our estimates after the 1Q24 results release. We slightly moving up the TP to €4.2, which includes a slightly lower CoE incorporated in our estimates in the 1Q24 previews. ISP may look like expensive, but in the context of a re-rating we believe it is the best pick exposed to slowing down interest rates and fees recovery.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Total income (Eu mn)	21,470	25,138	25,986	26,175	26,331
Net Operating Profit (Eu mn)	10,536	13,809	14,580	14,746	14,871
Net Profit Adj (Eu mn)	4,565	7,885	8,207	8,383	8,646
EPS New Adj (Eu)	0.240	0.431	0.461	0.471	0.486
EPS Old Adj (Eu)	0.240	0.427	0.440	0.449	
DPS (Eu)	0.164	0.296	0.318	0.326	0.336
P/E Adj	14.4	8.0	7.5	7.4	7.1
Div. Yield	4.7%	8.5%	9.2%	9.4%	9.7%
P/TE	1.25	1.16	1.08	1.04	1.00
ROTE	8.7%	14.5%	14.4%	14.1%	14.0%

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- 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)

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Frequency of research: quarterly.

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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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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short
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