

UNICREDIT

Sector: Banks

OUTPERFORM

Price: Eu17.88 - Target: Eu23.50

Interest Rates, Overlays and Capital Boost Visibility on New 2023 Guidance

Christian Carrese +39-02-77115.485

christian.carrese@intermonte.it

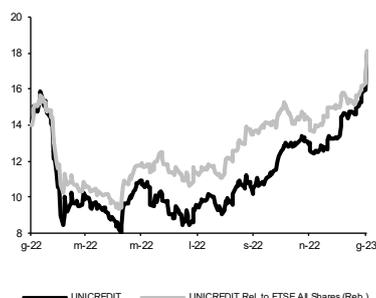
Stock Rating

Rating: from NEUTRAL to OUTPERFORM

Target Price (Eu): from 17.50 to 23.50

	2023E	2024E
Chg in Adj EPS	32.9%	16.4%

UNICREDIT - 12M Performance



Stock Data

Reuters code: CRDI.MI

Bloomberg code: UCG IM

Performance	1M	3M	12M
Absolute	34.7%	42.5%	27.8%
Relative	22.8%	25.5%	29.3%
12M (H/L)	17.88/8.02		
3M Average Volume (th):	14,836.77		

Shareholder Data

No. of Ord shares (mn):	1,935
Total no. of shares (mn):	1,748
Mkt Cap Ord (Eu mn):	34,610
Total Mkt Cap (Eu mn):	34,610
Mkt Float - Ord (Eu mn):	27,712
Mkt Float (in %):	80.1%
Main Shareholder:	
Blackrock	5.9%

Balance Sheet Data

Tangible Equity (Eu mn):	60,989
TEPS (Eu):	34.88
CET1 Ratio Fully Loaded:	14.7%
Gross NPE Ratio:	2.6%

■ **4Q results well above our estimates and consensus.** UCG delivered better NII (Eu3.42bn vs. exp Eu3.09bn) thanks to positive commercial trends (mainly due to interest rates), a higher financial contribution and TLTRO one-offs (Eu0.4bn). Trading was also higher than estimated, (Eu613mn vs. Eu196mn expected). Costs were in line, while the cost of risk (46bp) was still better than our forecast, as the bank did not see any sign of a deterioration in asset quality (default rates remained stable at 0.9%). The quarter was positively affected by Eu0.85bn in DTA write-ups (impact on P&L but not on capital) which brought net profit to Eu2.46bn (vs. Eu1.07/1.10bn in our and consensus estimates).

■ **Total 4-year remuneration to exceed Eu16bn.** Within FY results, management announced total capital distribution of Eu5.25bn, split between a Eu1.91bn cash dividend (Eu0.99 per share) and a Eu3.34bn buyback. Management is confident of gaining full ECB approval on the buyback programme by the AGM (31st March) and plans to execute it in two tranches (Eu2.4bn in 1H23 and the remainder in 2H23). In the first 2 years of the plan UCG has already delivered Eu9bn of capital distribution, which should exceed Eu14bn in the third year of the plan according to management guidance for 2023 (profit and capital distribution flat YoY). We see the capital distribution target of over Eu16bn in the 4Y plan as absolutely within reach given the current capital position (14.9%, already net of dividends and buyback) and therefore we raised our 4Y distribution estimates to over Eu 19bn.

■ **Change in estimates.** Management's new 2023 net profit guidance is 30% higher than the consensus published by UCG before 4Q results (we were some 7% below consensus); we were expecting much worse asset quality and cost of risk trends due to exposure to EE, Russia and Italy. We are therefore updating our 2023/24 EPS estimate to take a higher NII contribution and lower cost of risk into account. On the latter, we think the current asset quality trend and higher overlays (Eu1.8bn in total, increased by ca. Eu0.6bn in 4Q) will provide an adequate buffer to deliver a cost of risk of 30-35bp, as per the new 2023 guidance. We expect these overlays to be used in 2023 and 2024. Costs were left broadly unchanged, as we were already discounting the absorption of cost inflation through cost optimisation. Overall, we are revising our 2023/24 EPS estimates upwards by +33% and +16% respectively which take into account higher buyback (dividends+BB in 2023 equal to Eu 5.2bn).

■ **Upgrade to OUTPERFORM from Neutral; target raised from Eu 17.5 to Eu 23.5.** 4Q results confirmed the bank can deliver sustainable revenues and keep costs under control despite high inflation rates. Prudent origination in recent years, combined with high overlays (Eu1.8bn) and a 2.7% gross NPE ratio (1.4% net) make cost of risk guidance more credible than in the past (thanks in part to the easing energy crisis and de-risking in Russia), enhancing visibility on 2023 targets. Despite strong recent performance (+34% YTD), given the high remuneration yield (15% for 2023) and almost double digit Rote (9%), the valuation (P/TE 0.51x) remains undemanding, and looks worthy of a better rating. Target price raised to Eu23.5 based on 2023 ROTe.

Key Figures & Ratios	2020A	2021A	2022A	2023E	2024E
Total income (Eu mn)	17,140	17,913	20,343	20,053	20,299
Net Operating Profit (Eu mn)	7,335	8,158	10,782	10,320	10,558
Net Profit Adj (Eu mn)	792	3,743	5,610	5,381	5,793
EPS New Adj (Eu)	0.354	1.681	2.899	3.078	3.724
EPS Old Adj (Eu)	0.354	1.681	2.557	2.316	3.201
DPS (Eu)	0.120	0.538	0.987	1.000	1.172
P/E Adj	50.5	10.6	6.2	5.8	4.8
Div. Yield	0.7%	3.0%	5.5%	5.6%	6.6%
P/TE	0.70	0.67	0.57	0.51	0.46
ROTE	1.4%	6.3%	9.2%	8.8%	9.5%