Intermonte

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**Italian Equity Research – Company Update**

# UNICREDIT

# NEUTRAL

*Sector: Banks*

Price: Eu38.28 - **Target: Eu43.60**

## Definitely maybe


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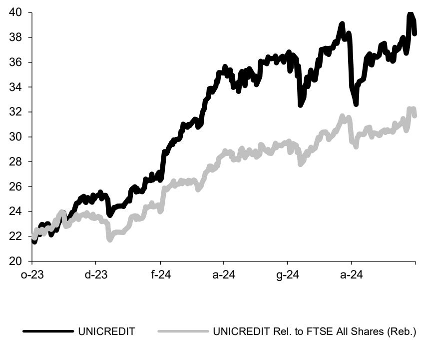
| Stock Rating | | | |
|---|---|---|---|
| **Rating:** | | | Unchanged |
| **Target Price (Eu):** | | | from 41.40 to 43.60 |
| | **2024E** | **2025E** | **2026E** |
| **Chg in Adj EPS** | 5.3% | 6.8% | 7.3% |

**Next Event**
9M24 results BoD next 5/11/24

**UNICREDIT - 12M Performance**




| Stock Data | | | |
|---|---|---|---|
| Reuters code: | | | CRDI.MI |
| Bloomberg code: | | | UCG IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | 2.4% | 5.7% | 68.4% |
| Relative | 4.2% | 5.7% | 49.1% |
| 12M (H/L) | | | 39.98/21.55 |
| 3M Average Volume (th): | | | 8,096.99 |

| Shareholder Data | |
|---|---|
| No. of Ord shares (mn): | 1,628 |
| Total no. of shares (mn): | 1,628 |
| Mkt Cap Ord (Eu mn): | 62,310 |
| Total Mkt Cap (Eu mn): | 62,310 |
| Mkt Float - Ord (Eu mn): | 49,891 |
| Mkt Float (in %): | 80.1% |
| Main Shareholder: | |
| Blackrock | 5.9% |

| Balance Sheet Data | |
|---|---|
| Tangible Equity (Eu mn): | 63,847 |
| TEPS (Eu): | 39.22 |
| CET1 Ratio Fully Loaded: | 16.1% |
| Gross NPE Ratio: | 2.6% |

**Keeping in mind Unicredit's (UCG) cautious approach to M&A, the Group may eventually enter a business combination with CommerzBank (CBK), if certain conditions are met. For the time being, UCG's current stake (9% +11.50% in derivatives) is considered "financial" and UCG may even play the CBK turnaround on a standalone basis. On top of this, the German government needs to sell another 12%. The German banking market is a tough one, and we argue that the deal needs major support, both politically and from an economic/financial standpoint, as most synergies are likely to be cost driven and it is hard to imagine a timeline for their achievement. That said, UCG CEO Orcel may well be the best bet to deal with all these issues, given his track record. Following the new guidance provided, we are updating our 2025/2026 estimates, especially on the payout. We stick to our Neutral rating, despite an update in estimates, given the difficult macro environment with slowing down Euribor rates, the ongoing issues related to the war, the exposure to Russia and the possibility that these issues may trigger and increase in risk provisions. We move the TP to €43.6/s.**

- **What's up?** – UCG owns 9% of CBK. and it can go at ~20% through derivatives. The German government may also sell another 12%. This process is eventually likely to trigger a takeover of Commerzbank (CBK), which will probably have a considerable impact given that, if we recall the deal with HVB, it took many years for the combination to deliver results. In any case, this is a sensitive deal, both strategically and industrially, which would be EPS-accretive under certain conditions given that CBK's cost base is higher than HVB/UCG's. The cash vs. paper trade-off in this combination may actually be significant when calculating potential accretion, especially considering that, accounting-wise, UCG may not be in a position to use all of its CET1r buffer. In any case, our base-case scenario is ~30% cash and ~70% paper (including €650mn post tax) and for the time being we calculate 9.1% accretion for UCG in 2026. The big caveat is the timescale for any benefits to materialise: this is an important issue, as it may take time to finalise a deal and book synergies, considering CBK's OpEx vs. HVB's; UCG took a few years to implement the HVB turnaround. All in all, we suggest UCG needs to sit down with all parties and find an agreement or leave the table.
- **Reverse merger?** The press has speculated about a reverse merger, with listed bank CBK buying unlisted counterpart HVB, and the new entity remaining on the stock market, with UCG at the helm of the German Champion. Such a solution may please many German parties, but we feel UCG would be averse to holding listed minorities that may interfere with cost-cutting efforts.
- **Valuation –** The situation is like a poker game with a few high rollers around the table. Nevertheless, UCG probably has one of the most skilled players, able to deal with all parties, although the execution risk is self-evident. In any case, it does not feel like a short-term bet, and while we believe synergies will come, they are unlikely to materialise in the near future.

| Key Figures & Ratios | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|
| Total income (Eu mn) | 20,330 | 23,826 | 24,617 | 24,549 | 24,551 |
| Net Operating Profit (Eu mn) | 10,784 | 14,366 | 15,221 | 15,119 | 15,063 |
| Net Profit Adj (Eu mn) | 5,610 | 8,614 | 9,403 | 9,088 | 9,087 |
| EPS New Adj (Eu) | 2.899 | 5.031 | 5.777 | 6.025 | 6.479 |
| EPS Old Adj (Eu) | 2.899 | 5.071 | 5.484 | 5.643 | 6.041 |
| DPS (Eu) | 0.987 | 1.761 | 2.311 | 3.012 | 3.239 |
| P/E Adj | 13.2 | 7.6 | 6.6 | 6.4 | 5.9 |
| Div. Yield | 2.6% | 4.6% | 6.0% | 7.9% | 8.5% |
| P/TE | 1.21 | 1.06 | 0.98 | 0.90 | 0.83 |
| ROTE | 9.2% | 13.9% | 14.7% | 14.1% | 14.0% |

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- 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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.
Frequency of research: quarterly.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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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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| | |
|---|---|
| BUY: | 24.39 % |
| OUTPERFORM: | 50.41 % |
| NEUTRAL: | 25.20 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (47 in total) is as follows:

| | |
|---|---|
| BUY: | 38.78 % |
| OUTPERFORM: | 51.02 % |
| NEUTRAL: | 10.20 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|---|---|---|



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