

# UNICREDIT

Sector: Banks

## NEUTRAL

Price: Eu18.29 - Target: Eu24.00

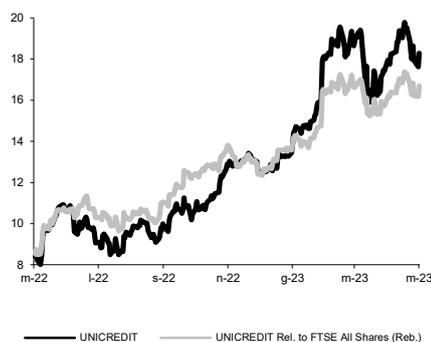
## Strong Capital Generation, Last Earnings Upgrade?

 Christian Carrese +39-02-77115.485  
 christian.carrese@intermonte.it

### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 20.50 to 24.00		
	2023E	2024E	2025E
Chg in Adj EPS	28.1%	11.9%	

### UNICREDIT - 12M Performance



### Stock Data

Reuters code:	CRDI.MI		
Bloomberg code:	UCG IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	2.0%	1.5%	111.4%
Relative	3.4%	2.3%	102.0%
12M (H/L)	19.78/8.02		
3M Average Volume (th):	19,360.87		

### Shareholder Data

No. of Ord shares (mn):	1,935
Total no. of shares (mn):	1,753
Mkt Cap Ord (Eu mn):	35,392
Total Mkt Cap (Eu mn):	35,392
Mkt Float - Ord (Eu mn):	28,338
Mkt Float (in %):	80.1%
Main Shareholder:	
Blackrock	5.9%

### Balance Sheet Data

Tangible Equity (Eu mn):	60,989
TEPS (Eu):	34.79
CET1 Ratio Fully Loaded:	16.3%
Gross NPE Ratio:	2.6%

- Interest rates and steady default rates boosted 1Q earnings, strong capital generation.** NII grew 10% QoQ (net of the positive TLTRO contribution in 4Q22) driven by a widening net interest margin (2% in the quarter, or +10bp QoQ and +80bp YoY). Fees (reset to include some client hedging fees previously booked as trading income) were up 10.7% QoQ (-2% YoY) driven by investment fees. Costs were under control (-0.5% YoY), with an extremely low cost of risk (8bp, or Eu93mn) thanks to even better default rates QoQ (0.8% vs. 1.1% YE22). The gross NPE ratio was flat QoQ at 2.7%, with strong organic capital generation (+111bp) thanks to better net profit (Eu2,064mn vs. Eu1,306mn exp.) and further RWA optimisation (Eu-10bn QoQ) bringing the CET1 FLratio to 16.05%.
- 2023 guidance revised upwards.** The positive interest rate trend (deposit facility rate assumption raised from 2.5% at the end of 1Q23 to 3.5% by the end of 2Q23) and lower deposit beta assumptions (decreased from c.40% to c.30% for 2023 with YE exit of c.40%) led management to raise its 2023 NII target from >Eu 11.3bn to >Eu 12.6bn. The sensitivity to +/-1pp in deposit beta was indicated at c.Eu120mn, with >Eu0.3bn of additional sensitivity to +50bp on the ECB DFR only. Costs now expected at <Eu 9.6bn (vs. <Eu 9.7bn previously), with the cost of risk unchanged (30-35bp), while stated net profit, including Eu300mn of pre-tax restructuring charges, was set at >Eu6.5bn (vs. "broadly in line with FY22" previously). Capital distribution indicated at >Eu 5.75bn, split between a cash dividend (35%) and a buyback (the remainder).
- Feedback from the conference call.** NII is expected to peak between 2Q23 and 3Q23, core capital generation around +250bp thanks to further RWA optimisation (corporate loan book), trading income expected to slow slightly in the coming quarters, while fees will be negatively affected from April onwards by the cancellation of some fees on deposits. Cost inflation on personnel embedded in budget at +3%, while a cost of risk of 30-35bp looks reasonable thanks to Eu1.8bn of overlays, untouched in the quarter, which will be used/released in 2023 and 2024. As for capital distribution, the current mix (35% cash dividend, 65% buyback) could be revised upwards in the future to increase the cash dividend component - as requested by some investors. A buyback still looks the best way to create value for shareholders, according to the CEO; any M&A has to have limited execution risk with higher EPS accretion than buyback in order to be feasible.
- Change in EPS.** We are raising our 2023 EPS forecast by 28% on the back of much higher NII, slightly better fees, slightly lower costs and slightly better cost of risk (from 39bp to 36bp), aligning our estimates to company guidance. As for 2024, our EPS revision is more limited (+12%) as we are implementing a lower increase in NII (expected to go down YoY) and slightly raising the cost of risk (expected increase in default rates postponed to 2024). We are also updating our dividend/buyback assumptions in line with guidance.
- NEUTRAL confirmed; target Eu24.** UCG is delivering solid results driven by interest rates, cost control, excellent asset quality and strong capital generation. We still see some difficulties for the bank to grow fees. We are updating our target price to Eu24, remaining NEUTRAL as we think consensus EPS upgrades are now at an end due to interest rate expectations, the higher cost of funding expected (deposits) and a gradual increase in the cost of risk. Any M&A could dampen capital distribution.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	17,913	20,330	21,740	21,095	21,050
Net Operating Profit (Eu mn)	8,158	10,784	12,125	11,402	11,219
Net Profit Adj (Eu mn)	3,743	5,610	6,541	6,194	5,872
EPS New Adj (Eu)	1.681	2.899	3.732	4.000	4.280
EPS Old Adj (Eu)	1.681	2.899	2.913	3.575	
DPS (Eu)	0.538	0.987	1.148	1.268	1.349
P/E Adj	10.9	6.3	4.9	4.6	4.3
Div. Yield	2.9%	5.4%	6.3%	6.9%	7.4%
P/TE	0.69	0.58	0.53	0.46	0.41
ROTE	6.3%	9.2%	10.7%	10.2%	9.6%