UNICREDIT

NEUTRAL

Sector: Banks

Price: Eu28.82 - **Target: Eu33.00**

Yes! it's raining …*DIVIDENDs*

Fabrizio Bernardi +39-02-77115.387
fabrizio.bernardi@intermonte.it

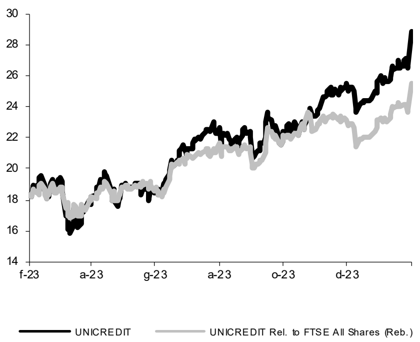
Unicredit surprised the street with a very solid set of 4Q23 results plus an important boost to the payout: guidance has been changed but let's cut to the chase: €10bn in fiscal year 2024 … and we sense no M&A in sight. Net-net, there is €10bn remaining of the capital buffer available for external growth or to be paid back to shareholders by the end of 2024. This payout policy may suggest that UCG paper is still seen as too cheap to use in a deal, which means that M&A (if any…) is, in our view, postponed. Paradoxically, the bigger capital position and better payout may suggest exactly the opposite….

- **Payout**: in short, UCG is projecting to pay out €10bn in dividends in fiscal year 2024, including the residual 2023 payout (€2.5bn ongoing buyback, €1.4bn completed) and the new interim dividend (40% of 2024 expected payout) which may be in cash or via SBB. All in all, this means €10bn in fiscal year 2024 or a 20% yield, which means a 100% payout on 2023 and ≥90% on 2024rim dividend. The cash distribution goes up to 40% for 2024 from the previous 35%.
- **P&L trends**: the 4Q23 beat is broad based and is very high-quality (see table overleaf for numbers) with NII up A/E, fees in line, trading at 3x what we had, Op.Ex aligned and very low CoR. In adjusted terms, UCG booked >€1.9bn of net profit (€2.8bn reported). We had a forecast of €1.1bn. vs consensus at €1.2/1.3bn. In particular, we highlight €3.6bn of NII (2.2% NIM from €3.4bn and 1.9% in 4Q22) due to favourable market rates in 4Q, and strict pass-through management of funding costs. Even on a risk-adjusted basis (so net of LLPs), NIM was €3.3bn, up from €2.9bn for 4Q22. C/Ir reached 40% vs 47% in FY2023, well below guidance, despite an increase in OpEx for the bonus pool due to the excellent revenue performance.
- **Capital generation was the real beat**: this drove up the improvement in the payout. RWA rationalization took RWA to €285bn from €308bn in FY2022: the group generated almost 0.4% of capital o/w 0.3% was used for the payout, leading to a CET1r of 15.9%, implying an MDA buffer of more than 600bp. 2023 revenues are now almost 8% of RWA vs 6% in 2022 and 5% in 2021.
- **Asset quality:** the default rate remained as low as 1% vs 1.1% one year before. Despite lower-than-expected CoR, the asset quality profile of the Group is running above projections: on a FY basis, the CoR was 12bp vs guidance for 25bp. 2024 guidance is even lower at some 20bp which
- **NEUTRAL confirmed, target price up to €33/s**: on the organic front, we believe UCG is working on fees: this is the key building block of its 2024 strategy to offset any weakness in its NII line (whatever the replicating portfolio may eventually add). On this point it seems that the Group is running at full steam to maintain a growth trajectory. The capital position is now more important than before, despite the better payout: one could argue that the purchasing power of UCG is technically better than before (the stock is actually moving towards 1x the -NAV) which may hint at M&A becoming another building block in the equity story, an option. While we have been playing the payout story of Italian banks, we stick to a neutral stance on the UCG stock.

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 27.10 to 33.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	19.0%	16.3%	

Next Event
General meeting next 12 April of FY2023

UNICREDIT - 12M Performance



Stock Data			
Reuters code:			CRDI.MI
Bloomberg code:			UCG IM
Performance	**1M**	**3M**	**12M**
Absolute	11.8%	23.0%	60.0%
Relative	10.0%	14.8%	46.7%
12M (H/L)			28.82/15.90
3M Average Volume (th):			10,558.04

Shareholder Data	
No. of Ord shares (mn):	1,771
Total no. of shares (mn):	1,586
Mkt Cap Ord (Eu mn):	51,049
Total Mkt Cap (Eu mn):	51,049
Mkt Float - Ord (Eu mn):	40,874
Mkt Float (in %):	80.1%
Main Shareholder:	
Blackrock	5.9%

Balance Sheet Data	
Tangible Equity (Eu mn):	63,449
TEPS (Eu):	40.01
CET1 Ratio Fully Loaded:	15.2%
Gross NPE Ratio:	2.6%

Key Figures & Ratios	2021A	2022A	2023A	2024E	2025E
Total income (Eu mn)	17,913	20,330	23,843	22,416	22,086
Net Operating Profit (Eu mn)	8,158	10,784	14,372	13,016	12,622
Net Profit Adj (Eu mn)	3,743	5,610	8,637	8,285	7,725
EPS New Adj (Eu)	1.681	2.899	4.877	5.225	5.547
EPS Old Adj (Eu)	1.681	2.899	4.228	4.391	4.768
DPS (Eu)	0.538	0.987	1.780	2.055	2.181
P/E Adj	17.1	9.9	5.9	5.5	5.2
Div. Yield	1.9%	3.4%	6.2%	7.1%	7.6%
P/TE	1.08	0.91	0.83	0.72	0.62
ROTE	6.3%	9.2%	14.0%	13.1%	12.0%