Milan, 09 October 2023

Italian Equity Research – 3Q23 Preview

UNICREDIT

NEUTRAL

Sector: Banks

Price: Eu22.46 - **Target: Eu26.50**

3Q23 preview: poised to benefit from macro environment

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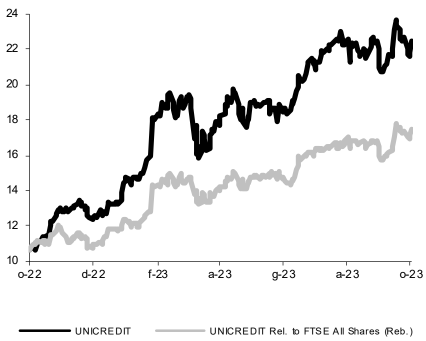
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event
Results Out 24 Oct. 2023

UNICREDIT - 12M Performance



Stock Data			
Reuters code:			CRDI.MI
Bloomberg code:			UCG IM
Performance	**1M**	**3M**	**12M**
Absolute	7.3%	7.7%	110.6%
Relative	9.1%	7.3%	81.6%
12M (H/L)			23.66/10.69
3M Average Volume (th):			12,735.22

Shareholder Data	
No. of Ord shares (mn):	1,935
Total no. of shares (mn):	1,753
Mkt Cap Ord (Eu mn):	43,466
Total Mkt Cap (Eu mn):	43,466
Mkt Float - Ord (Eu mn):	34,802
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:	16.5%
Gross NPE Ratio:	2.6%

- **€6.5bn stated net profit in 9M -** UCG looks poised to benefit from the ongoing benign macro environment, i.e., continuation of the right mix of rates-driven revenues (skyrocketing NII to offset weakening net fees/trading), OPEX well under control (Italy employment contract renewal not yet "in") and ongoing positive momentum for loan losses (default rate unchanged M/M plus deposit beta run-rate below expectations). All in all, we see the current 2023 guidance (updated straight after the 2Q23 release) as within easy reach. We expect a stated bottom line (pre DTA write-up and gross of SUB coupons) to jump above €2.1bn, with a potential earnings surprise on a possibly better CoR: 25bp LLP guidance for 2023 implies a sharp rise in loan loss provisions in 2H23; given €1.8tr existing overlays, we find an LLP increase a bit questionable. On the volume side, 3Q23 should confirm what went before: SME/retail volumes flattish vs positive momentum for consumer. CET1R is seen around the 2Q23 level with possibly a bit of volatility related to EUR/RUB FX (4bp each 10%) and widening of the spread (6bp each 10bp).
- **"Interim" buyback on 2023.** The 2023 payout season is over with the finalization of the last part (€1bn) of the buyback, but UCG is already preparing its next move: by the end of October, UCG has planned a general meeting to greenlight an "interim" buyback worth €2.5bn, a first tranche of its 2023 payout policy, revised upward to €6.5bn. In our view this *also* has a supportive signalling value since it gives visibility on the way UCG will use its available capital buffer. In other words, it puts a damper on any speculation about M&A. We find this strategy (shareholder remuneration + indication on proprietary M&A stance) to be spot on.
- **Windfall tax.** Bottom line numbers may or may not embed the so-called Windfall tax (= €0.5bn); UCG, in line with most of the other banks, still needs to take a final decision on paying the tax or opting out for provisioning 2.5x the same tax to non-usable reserves. Given what we have seen on the interim buyback, we struggle to believe UCG will decide to pay.
- **Valuation.** UCG should post €6.5bn net profit in 9M, which is technically the 2023 payout in full. With this in mind, the FY2023 budget looks achievable, making 2023 likely the best ever year for the Group in terms of stated earnings. Despite an outrageous performance (+110% YoY, +82% relative) the stock appears to be far from its fair valuation as it is trading slightly above 5x PE and 0.65x P/T-NAV, especially considering the yield (all in all, at >16%, o/w a €2.5bn interim 2023 buyback to start soon).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	17,913	20,330	22,490	21,593	21,770
Net Operating Profit (Eu mn)	8,158	10,784	12,875	11,899	11,939
Net Profit Adj (Eu mn)	3,743	5,610	7,246	6,808	6,304
EPS New Adj (Eu)	1.681	2.899	4.134	4.452	4.621
EPS Old Adj (Eu)	1.681	2.899	4.134	4.452	4.621
DPS (Eu)	0.538	0.987	1.372	1.425	1.468
P/E Adj	13.4	7.7	5.4	5.0	4.9
Div. Yield	2.4%	4.4%	6.1%	6.3%	6.5%
P/TE	0.84	0.71	0.65	0.56	0.50
ROTE	6.3%	9.2%	11.9%	11.2%	10.3%