

UNICREDIT

Sector: Banks

NEUTRAL

Price: Eu36.16 - Target: Eu41.40

Revamping the Equity Story...

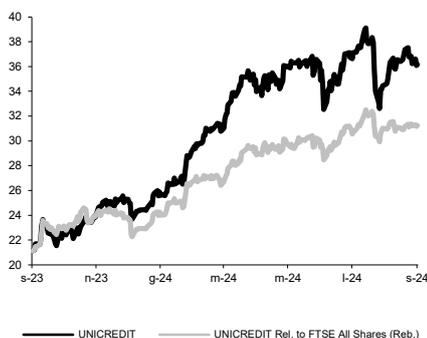
 Fabrizio Bernardi +39-02-77115.387
 fabrizio.bernardi@intermonte.it

| Stock Rating | | | |
|--------------------|-----------|-------|-------|
| Rating: | Unchanged | | |
| Target Price (Eu): | Unchanged | | |
| | 2024E | 2025E | 2026E |
| Chg in Adj EPS | 0.0% | 0.0% | 0.0% |

Next Event

 9M24 Results out 5th Nov. 2024

UNICREDIT - 12M Performance



| Stock Data | | | |
|-------------------------|-------------|------|-------|
| Reuters code: | CRDI.MI | | |
| Bloomberg code: | UCG IM | | |
| Performance | 1M | 3M | 12M |
| Absolute | 5.0% | 3.6% | 71.4% |
| Relative | 0.9% | 5.9% | 55.7% |
| 12M (H/L) | 39.10/21.17 | | |
| 3M Average Volume (th): | 8,290.42 | | |

| Shareholder Data | |
|---------------------------|--------|
| No. of Ord shares (mn): | 1,672 |
| Total no. of shares (mn): | 1,672 |
| Mkt Cap Ord (Eu mn): | 60,457 |
| Total Mkt Cap (Eu mn): | 60,457 |
| Mkt Float - Ord (Eu mn): | 48,407 |
| Mkt Float (in %): | 80.1% |
| Main Shareholder: | |
| Blackrock | 5.9% |

| Balance Sheet Data | |
|--------------------------|--------|
| Tangible Equity (Eu mn): | 60,629 |
| TEPS (Eu): | 36.26 |
| CET1 Ratio Fully Loaded: | 16.8% |
| Gross NPE Ratio: | 2.6% |

We have repeatedly stressed that banks would need to revamp their equity stories as and when interest rates started to go down, with M&A the likely avenue. Well, it looks like this is finally happening. Unicredit (UCG) has announced a deal that may possibly lead to the medium-term acquisition of Commerzbank (CBK). While the technicalities of the possible deal are not known (and this is a key point: i.e. cash/paper? – UCG has some €8bn of free capital) the idea is to update the equity story, shifting focus away from the likely drop in NII. UCG assures that its rich payout policy is not in danger, another pointer that a share swap seems more likely than a cash deal. It is clear that this move by UCG resets the domestic consolidation scenario among Italian banks.

- **Falling interest rates? The answer is M&A:** UniCredit (UCG) announced it owns a stake of almost 10% in Commerzbank (CBK) after the placement of almost 5% by the German government. UCG is seeking to explore value creating opportunities for the stakeholders of both banks and may also ask regulatory permission to lift its CBK stake to above 10%; all this while remaining compliant with its own strategic guidelines on external growth (in short, no dilution of CET1r or payout). There may eventually be a merger of CBK and UCG's HVB, in order to create a German banking leader. The deal may revamp UCG's equity story, catapulting the Group into a broader EU context: we believe the geographical aspects of the deal are also a key driver for a European player.
- **Cash vs. paper:** without any guidance (so far), we assume UCG would probably be happier to use its own paper at >1x t-NAV rather than cash, given the valuation spread vs. CBK. This is UCG's consistent mantra: it has already built a stake of almost 10% in cash, with any remaining deal likely to be in paper or cash. Obviously the CET1r buffer would give UCG the opportunity to "dilute" the impact of the acquisition by issuing fewer shares, but this could raise concerns over the payout policy, a pillar of UCG's strategy.
- **Synergies:** an HVB/CBK merger looks likely in this scenario. The situation is clearly evolving, but such a deal would move UCG's "core" more towards Germany. While revenue synergies may be technically challenging, the focus is likely to be on cost cutting, which could be significant; in any case we highlight that German trade unions are already reported to be gearing up to fight against such a tie-up. Our "merge" model factors in 10% OpEx synergies, considered an average synergy in such kind of M&A deals, to dilute EPS dilution resulting from the share swap. We highlight this is our "first take", as we do not know how the possible merger may be executed: while we could consider a larger cash component may improve the accretion, we would highlight that the P/t-NAV of the 2 banks may suggest that a hefty paper component seems likely.
- **NEUTRAL confirmed; target Eu41.4:** we have repeatedly highlighted that M&A could be the next step to update banks' equity story in the event of falling interest rates and the consequent NII margin compression, so we salute UCG's action as the very first mover. At this stage, the main issue is on the other domestic players that still need to deal with falling interest rates and, possibly, domestic consolidation.

| Key Figures & Ratios | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------|--------|--------|--------|--------|
| Total income (Eu mn) | 20,330 | 23,826 | 24,017 | 23,529 | 23,577 |
| Net Operating Profit (Eu mn) | 10,784 | 14,366 | 14,531 | 14,009 | 13,998 |
| Net Profit Adj (Eu mn) | 5,610 | 8,637 | 9,170 | 8,751 | 8,692 |
| EPS New Adj (Eu) | 2.899 | 5.071 | 5.484 | 5.643 | 6.041 |
| EPS Old Adj (Eu) | 2.899 | 5.071 | 5.484 | 5.643 | 6.041 |
| DPS (Eu) | 0.987 | 1.770 | 2.193 | 2.257 | 2.416 |
| P/E Adj | 12.5 | 7.1 | 6.6 | 6.4 | 6.0 |
| Div. Yield | 2.7% | 4.9% | 6.1% | 6.2% | 6.7% |
| P/TE | 1.15 | 1.00 | 1.00 | 0.92 | 0.84 |
| ROTE | 9.2% | 14.0% | 15.1% | 14.3% | 14.1% |

DISCLAIMER (for more details go to [DISCLAIMER](#))

IMPORTANT DISCLOSURES

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-Institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website www.intermonte.it under LEGAL INFORMATION. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the [PERFORMANCE](#) web page.

Intermonte distributes research and engages in other approved activities with respect to Major U.S. Institutional Investors ("Majors") and other Qualified Institutional Buyers ("QIBs"), in the United States, via Plural Securities LLC under SEC 15a-6 guidelines. Intermonte is not registered as a broker dealer in the United States under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is not a member of the Securities Investor Protection Corporation ("SIPC"). Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC.

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certifies that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Plural Securities LLC, 950 3rd Ave, Suite 1702, NY 10022, USA.

GUIDE TO FUNDAMENTAL RESEARCH

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&P500 Index, most of those on the MIBEX 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.

Explanation of our ratings system:

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

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 June 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

| | |
|--------------|---------|
| BUY: | 23.97 % |
| OUTPERFORM: | 49.59 % |
| NEUTRAL: | 25.61 % |
| UNDERPERFORM | 00.83 % |
| SELL: | 00.00 % |

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

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

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Intermonte is acting as financial advisor to Retex S.p.A. – Società Benefit in relation to the voluntary public tender offer launched on Alkemy S.p.A.

Intermonte is acting as financial advisor to Eagle S.p.A. and intermediary responsible for coordinating the collection of sale requests in relation to the sell-out procedure on Greenthesis S.p.A.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Civitanavi Systems, Cy4Gate, Esprinet, GPI, Greenthesis (formerly Ambienthesis), Growens, Illimity Bank, Maire Tecnimont, SAES Getters, Tinexta, Unidata and WIIT.

Intermonte SIM is acting as counterparty to WIIT Fin S.r.l. in connection with call and put options having WIIT S.p.A. shares and dividends as reference underlying.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Alkemy, Anima Holding, Antares Vision, Aquafil, Avio, Banca Ifis, Banca Sistema, Civitanavi Systems, Cyberoo, Cy4gate, DHH, El.En, Elica, Emak, Esprinet, Fimit - Fondo Alpha, Fine Foods, Franchi Umberto Marmi, GPI, Greenthesis (formerly Ambienthesis), IEG, Iervolino & Lady Bacardi Entertainment, IndelB, Intred, Luvè, Mistano & Stracuzzi, Mondadori, Notorious Pictures, Omer, Pharamnutra, Relatech, Reply, Revo Insurance, Reway, Saes Getters, Sclucker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Star7, Sys-Dat Group, Talea, Tamburi, Tinexta, Tesmec, The Italian Sea Group, TXT, Unidata, Webuild and WIIT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performs as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM, through Websim, which constitute the digital division of Intermonte, acts as a Financial Content Provider on the following companies: Abitare In, Alkemy, Allcore, Almamwave, Banca Sistema, Bifire S.P.A., B&C Speakers, Casta Diva Group, Cleanbnb, Cofe, Crowdfundme, Cube Labs, Cy4gate, Cyberoo, Digital Bros, Digital Magics, Digitouch, Doxee, Edilziacrobatica Spa, Eles, Elica, Emak, Energy, Esi, Esprinet, Eviso, Fae Technology, Fiera Milano, Fope, FOS, Franchi Umberto Marmi, Giglio Group, GPI, High Quality Food, Ikonisys, Intercos, Intred, ISCC Fintech, Lemon Sistemi, Lventure Group, Maps Group, Masi Agricola, Matica Fintec, Neodecortech, Notorious Pictures, Oldata, Osai Automation System, Racing Force Group, Relatech, Reti, Sclucker Frames, SG Company, Solid World Group, Spindox Digital Soul, Talea, Tamburi, Tesmec, Tinexta, TMP Group, Tps Group, Trendevice, Ulisse Biomed, WIIT.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

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

© Copyright 2024 by Intermonte SIM - All rights reserved

It is a violation of national and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright laws impose heavy liability for such infringement. The Reports of Intermonte SIM are provided to its clients only. If you are not a client of Intermonte SIM and receive emailed, faxed or copied versions of the reports from a source other than Intermonte SIM you are violating the Copyright Laws. This document is not for attribution in any publication, and you should not disseminate, distribute or copy this e-mail without the explicit written consent of Intermonte SIM.

INTERMONTE will take legal action against anybody transmitting/publishing its Research products without its express authorization.

INTERMONTE Sim strongly believes its research product on Italian equities is a value added product and deserves to be adequately paid.

Intermonte Sim sales representatives can be contacted to discuss terms and conditions to be supplied the INTERMONTE research product.

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website [MIFID](#)

Further information is available