

UNICREDIT

Sector: Banks

3Q23 beat

NEUTRAL

Price: Eu23.00 - Target: Eu27.10

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

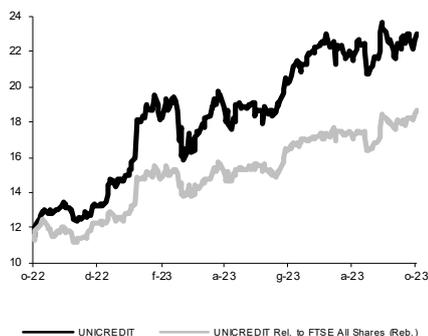
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 26.50 to 27.10		
	2023E	2024E	2025E
Chg in Adj EPS	2.3%	-1.4%	3.2%

Next Event

EGM on interim buyback: 27 Oct. 2023

UNICREDIT - 12M Performance



Stock Data

Reuters code:	CRDI.MI
Bloomberg code:	UCG IM

Performance	1M	3M	12M
Absolute	-1.5%	2.7%	99.8%
Relative	2.1%	7.8%	76.9%
12M (H/L)	23.66/11.52		
3M Average Volume (th):	13,055.24		

Shareholder Data

No. of Ord shares (mn):	1,771
Total no. of shares (mn):	1,771
Mkt Cap Ord (Eu mn):	40,724
Total Mkt Cap (Eu mn):	40,724
Mkt Float - Ord (Eu mn):	32,607
Mkt Float (in %):	80.1%
Main Shareholder:	
Blackrock	5.9%

Balance Sheet Data

Tangible Equity (Eu mn):	61,821
TEPS (Eu):	34.91
CET1 Ratio Fully Loaded:	16.7%
Gross NPE Ratio:	2.6%

- 3Q23 snapshot.** Unicredit posted a healthy set of 3Q23 results that beat Intermonte estimates and consensus. The beat was mainly driven by trading proceeds and LLPs, with NII up and weakish fees (see table A/E overleaf). No sign of asset quality deterioration with the default rate at 0.8% and gross/net NPE ratios unchanged Q/Q. Strong capital generation: CET1r above 17% with possible upside on RWA efficiency.
- New focus on fees.** The focus is now on the evolution of net fees, with UCG determined to set in train a recovery (€1.2bn run-rate upside in the mid-term) via decisive actions on some businesses: WM, Payments and Corporate Solutions. Granularity and timing will be provided later on, when visibility improves. This will also be the basis for disclosing line-by-line guidance on 2024
- OpEx.** Given the aforementioned weakish fees, the group is fully focused on efficiency and OpEx containment with some employment contract renewals in the pipeline. As a benchmark, the 2023E guidance implies a 4Q23 that we presume may be tactically weak on >€500m restructuring costs (FY); we may assume that some kitchen sinking on severance fund provisions and IT write-downs are in the pipeline based on UCG's improving digital strategy. As 2023 guidance has basically been achieved in 9M, this would clearly pave the way for a fresher start in 2024.
- CoR.** LLPs keep surprising thanks to reversals. Overlays remain intact at some €1.75bn. Provisioning is expected to remain soft with a very low default rate. As for OpEx, we may assume that going forward the level of CoR (some 25bp is the guidance) may be a buffer that UCG may use to improve visibility on 2024, provisioning on performing loans that may turn out to be useful later if the macro triggers a deterioration of asset quality.
- Growing capital buffer.** CEO Orcel seems confident on UCG's large and growing capital buffer (some €10bn vs 13% CET1r on our calculations) which, if not used, may be given back to shareholders. UCG mentions new RWA efficiency measures that could improve cap ratios in 2024. The ordinary payout is confirmed (2023E-2024E €6.5bn yearly, o/w 35% cash dividends) and at the end of 2024 there might even be an extraordinary buyback.
- Neutral confirmed.** We stick to a Neutral rating on Unicredit for tactical reasons despite improving our 2023-2024 estimates on the back of better-than-expected 3Q23 results. We believe UCG has leeway for a bountiful year-end: however, the 2023 yearly results have basically been achieved already and FY2023E's extra profitability may be used to ease entry to 2024 pre-provisioning on LLPs and one-off costs. Our valuation moves up slightly due to improved estimates that are in any case capped by a higher risk-free rate now set at 4.5%. From a strategic standpoint, UCG is generating more capital than expected: assuming a 13% CET1r, we calculate some €10bn of available buffer. The key message in this results release is that if the buffer is not used, it may be paid back to shareholders, including through an extraordinary buyback. It is evident that given this buffer, part of the street may even consider external growth as an option; from this standpoint, management has a proven track record of discipline.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	17,913	20,330	23,046	21,906	21,787
Net Operating Profit (Eu mn)	8,158	10,784	13,496	12,327	12,112
Net Profit Adj (Eu mn)	3,743	5,610	7,488	6,953	6,635
EPS New Adj (Eu)	1.681	2.899	4.228	4.391	4.768
EPS Old Adj (Eu)	1.681	2.899	4.134	4.452	4.621
DPS (Eu)	0.538	0.987	1.285	1.383	1.499
P/E Adj	13.7	7.9	5.4	5.2	4.8
Div. Yield	2.3%	4.3%	5.6%	6.0%	6.5%
P/TE	0.86	0.73	0.66	0.59	0.52
ROTE	6.3%	9.2%	12.1%	11.2%	10.7%