Milan, 27 November 2023

Italian Equity Research – 3Q23 Results

BANCA IFIS

OUTPERFORM

Sector: Banks

Price: Eu15.81 - **Target: Eu20.30**

30% 3Y cumulated yield in the pipeline

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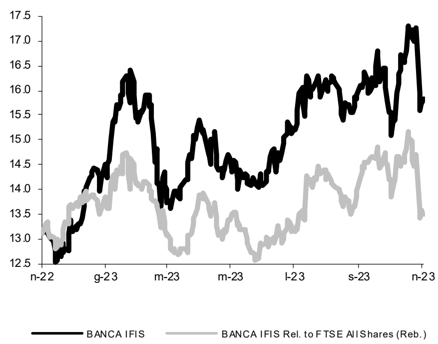
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 20.50 to 20.30
	2023E	**2024E**	**2025E**
Chg in Adj EPS	2.3%	-5.7%	-0.4%

BANCA IFIS - 12M Performance



Stock Data			
Reuters code:			IF.MI
Bloomberg code:			IF IM
Performance	**1M**	**3M**	**12M**
Absolute	1.7%	-1.0%	20.5%
Relative	-5.2%	-5.5%	3.2%
12M (H/L)			17.32/12.54
3M Average Volume (th):			146.40

Shareholder Data	
No. of Ord shares (mn):	54
Total no. of shares (mn):	54
Mkt Cap Ord (Eu mn):	851
Total Mkt Cap (Eu mn):	851
Mkt Float - Ord (Eu mn):	355
Mkt Float (in %):	41.7%
Main Shareholder:	
La Scogliera	50.5%

Balance Sheet Data	
Tangible Equity (Eu mn):	1,571
TEPS (Eu):	29.20
CET1 Ratio Fully Loaded:	14.9%
Gross NPE Ratio:	5.2%

Banca Ifis (Ifis) builds its numbers starting from a nice entry point: a 15.5% CET1r. This is a supportive floor for financing the business organically and paying out a cumulated 30% yield in 2023-2025 (ex. €63m 2023 interim paid recently). Having fine-tuned our estimates, we now assume that 2024 may possibly be tactically affected by higher funding costs and, less plausibly, by higher loan loss provisions. Visibility remains low at sector lever, but room for upside remains intact, even on our slightly bearish assumptions. We therefore stand by our recommendation.

- **Volumes** remain steady with Factoring & Leasing turnover/NNM on the upside vs core contracting markets. The Ifis NPL business is progressing both organically and through bolt-on deals (Revalea) that seal partnerships (Mediobanca) that may endure. This runs counter to a market that is actually contracting in general (bank lending) and specifically in Ifis' core business areas. The NRRP may actually boost 2024 volumes in a scenario with the possibility (in 2H24) of shrinking interest rates. However, we see two possible caveats for 2024: funding costs and cost of risk.
- **Funding costs:** a contraction of margins (fairly stable so far) may technically be triggered in 2024. We have updated our 2024 estimates to incorporate limited margin contraction which must be seen as a tactical move: 2023 projections are technically embedded in estimates (2023 net profit of €160m is within reach if we look at 9M23 data and recent guidance); however, next year may end up being more managed, at least at the beginning; later on, we expect funding costs to soften. There is a pot of €2.4bn liquidity to be rolled over among TLTRO funds and bonds, but Ifis has already moved forward and the roll-over has technically been done.
- **Cost of risk:** 9M23 numbers showed outstanding asset quality, with marginal signs of possible deterioration. Ifis' best-in-class asset quality has been ballasted by only €15m of LLPs (incl. a €6m one-off on a structured financial position). Worth reminding that Ifis is sitting on €65m of LLPs on performing exposures (so called overlays) that may turn out to be a shield in 2024.
- **Payout policy** at Ifis is what one might call a mantra. In our view, the situation is crystal clear: the Group's healthy capital position is self-evident and the cash dividend payout must, in our view, be taken for granted. We expect a flow of cash dividends that embeds a 25%, 2y cumulative yield (incl. €1.2/share paid on 22 Nov. as an interim).
- **Estimates finetuning:** we have looked again at our estimates in order to mainly update funding cost, cost of risk and also embed the consolidation of Revale; this should have a mid-single digit impact on 2024 while leaving 2023 and 2025 basically unchanged.
- **Outperform confirmed, T.P. marginally trimmed to Eu20.3/s:** We think the 2023 budget is within easy reach while 2024 may be slightly hit by higher funding costs and cost of risk. That said, the distribution policy (fully in cash) unveiled in 2Q23 delivers a solid dividend yield (some 10% yearly) that should be a solid support for the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Total income (Eu mn)	627	700	730	766	779
Net Operating Profit (Eu mn)	247	290	301	304	308
Net Profit Adj (Eu mn)	93	134	158	152	161
EPS New Adj (Eu)	1.723	2.481	2.941	2.817	2.983
EPS Old Adj (Eu)	1.723	2.481	2.874	2.988	2.994
DPS (Eu)	0.950	1.400	2.049	1.926	2.054
P/E Adj	9.2	6.4	5.4	5.6	5.3
Div. Yield	6.0%	8.9%	13.0%	12.2%	13.0%
P/TE	0.55	0.56	0.54	0.52	0.51
ROTE	6.0%	8.8%	10.1%	9.4%	9.6%

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- 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)

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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.
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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;
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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	52.14 %
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Emittente	%	Long/Short

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