

UNICREDIT

Sector: Banks

NEUTRAL

Price: Eu22.56 - Target: Eu26.50

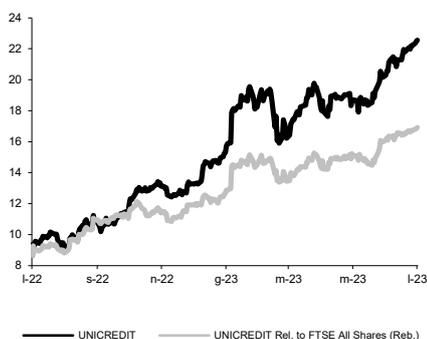
2023 Guidance Raised Further Thanks to NII and CoR, Earnings Peak?

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 24.00 to 26.50		
	2023E	2024E	2025E
Chg in Adj EPS	10.8%	11.3%	8.0%

UNICREDIT - 12M Performance



Stock Data

Reuters code:	CRDI.MI
Bloomberg code:	UCG IM

Performance	1M	3M	12M
Absolute	11.2%	25.3%	161.0%
Relative	5.4%	19.4%	127.6%
12M (H/L)	22.56/9.10		
3M Average Volume (th):	14,555.34		

Shareholder Data

No. of Ord shares (mn):	1,935
Total no. of shares (mn):	1,753
Mkt Cap Ord (Eu mn):	43,650
Total Mkt Cap (Eu mn):	43,650
Mkt Float - Ord (Eu mn):	34,950
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%

- 2Q results beat expectations.** NII grew +41% YoY (+6% QoQ) thanks to tight policy on the pass-through of interest rate rises, with deposit beta at Group level equal to 24% , pretty stable in Italy (c.11%). Fees were still weak (-0.6% YoY and -4.6% QoQ) due to weakness of investment fees and current account fee changes in Italy. Better net profit (Eu2,310mn vs. Eu1,942mn exp.) was due to an extremely low cost of risk (2bp) continuing the positive 1Q trend (8bp) as a result of no pick-up in default rates (0.8% at group level) with expected loss (EL) at 40bp on stock and at 27bp on new loans. CET1 ratio was above exp. (16.64% vs. 16.47% exp.) thanks to further RWA optimisation and higher earnings.
- 2023 and 2024 guidance revised upwards.** The higher NII trend and low cost of risk led to management revising 2023 guidance upwards: NII at least €13.2bn (from >€12.6bn), cost of risk: <25bp (from 30-35bp), Net revenues: >€21.5bn (from >€20.3bn), Net profit: equal to or above €7.25bn (from >€6.5bn), Shareholder distribution intention for 2023: at least €6.5bn (from >€5.75bn). 2024 guidance points to net profit and shareholder distribution broadly in line YoY. During the conference call management said it has no intention of paying an interim dividend, and a further buyback programme will be evaluated by YE (the second tranche of the previous programme is already underway).
- Change in estimates.** We are raising our 2023/24/25 EPS estimates by 9% on average on the back of better trends expected in NII (due to lower deposit beta trends and replicating portfolio mitigation for the coming years) and a lower cost of risk for 2023 and 2024 due to trimmed assumptions in terms of default rates, while overlays remain untouched (Eu1.8bn) and can be deployed over the next 2 years. We are also updating our capital distribution assumptions to take higher earnings into account. We are now broadly aligned with management's new earnings guidance for 2023, but 7% below for 2024.
- NEUTRAL confirmed; target raised to Eu26.5.** We think interest rates will support profitability in 2023 and 2024 and strict discipline on origination together with overlays should ensure a low cost of risk for 2023 and 2024, regardless of GDP trends. The capital position is strong, but capital generation is expected to be lower going forward due to more limited room for RWA optimisation. For the time being the focus remains on buybacks and dividends, but we cannot rule out management deciding to use part of the excess capital for M&A deals (from 2024 onwards). After the strong performance posted over the last 2 years, we think there is now less room for a further re-rating due to macro factors (interest rates nearing peak levels, GDP deteriorating in various areas) and lower support from buybacks in the short term (current programme expected to finish by September, no further plans before FY23). We are updating our target price to take the earnings upgrade into account, but remain NEUTRAL on the stock due to the limited upside.

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	3.732	4.000	4.280
DPS (Eu)	0.538	0.987	1.372	1.425	1.468
P/E Adj	13.4	7.8	5.5	5.1	4.9
Div. Yield	2.4%	4.4%	6.1%	6.3%	6.5%
P/TE	0.85	0.72	0.65	0.57	0.50
ROTE	6.3%	9.2%	11.9%	11.2%	10.3%