

Italy – Asset gathering

ACCUMULATE (prev. BUY)

TARGET € 6.8

January 22, 2004

Price €: **6.32**

BCI Index: **1.300**

N° 12

PREMIUM MIX AND TOTAL NET INFLOWS SLIGHTLY DISAPPOINTING

Mediolanum has disclosed preliminary 2003 results concerning net inflows.

Weighing up pleasant surprises (single premiums) and unpleasant surprises (annual premiums and administered assets), we think that 4Q03 was slightly below expectations, since the mix of new life premiums (more single and less annual) leads us **to reduce estimated net business value (NBV) by 5% (from €166 mn to €158 mn).**

4Q03 in fact featured an intensive marketing effort for the new index-linked policies, which led to a pleasant surprise for collections of single premiums (€510 mn vs. €325 mn expected) but to lower annual-premium volume (€31 mn vs. €42 mn).

The new index-linked policies' success also acted as a locomotive for managed assets (€636 mn vs. €490 mn expected) but there was a heavy net outflow of administered assets (€-476 mn vs. €-10 mn).

Single premiums did not fully offset the sharp drop in annual premiums, since the new index-linked policies have an average term of about 3 years and consequently a relatively low margin.

The figure out of line vs. expectations is in fact total net inflow. This normally ranges between €400 mn and €600 mn in a quarter, whereas in 4Q03 it amounted to just €136 mn – due to outflows on repos (€-273 mn). When questioned on this point, the company stated that the negative repo figure was largely due to an institutional investor.

Eliminating this one-off effect, which we estimate to be roughly €200 mn, net inflow would be about €330-350 mn, closer to the normal level although less than brilliant.

Revision of NBV takes our target price to €6.8 per share.

With upside potential of less than 10%, we think it right to downgrade our recommendation from Buy to ACCUMULATE. **At these prices we prefer Banca Fideuram, which – penalised by fears concerning the restructuring plan – is today worth 22x 2004E earnings vs. Mediolanum's 30x.**

Our view nevertheless remains positive because we believe that publication of detailed 2003 year-end results (on March 23rd) leaves room for pleasant surprises, thanks to stock markets' good performance in 4Q03.

In addition, 1Q04 promises to be generous in terms of performance fees (vs. just €5 mn in 1Q03) and inflows should improve in parallel with customers' lower aversion to risk and with growth of sales network size.

STOCK DATA

Bloomberg Code	MED IM
52-week range	€ 3.45 – 6.38
Daily Volumes (mn)	6.44

CAPITALISATION

Market Cap.	€ 4,574 mn
Latest AUM	€ 23,430 mn
Free Float	26%
Shares Outstanding (mn)	725

PRICE PERFORMANCE

	1M	3M	12M
Absolute	-1.01	9.30	41.68
Rel. to BCI Index	-1.50	1.34	22.26

FORECASTS/VALUATION

	12/2002	12/2003E
ADJ. EPS (€ cents)	14	18
ADJ. PE	34	35
PEV	1.84	2.23
ROE V%	8%	16%

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PRELIMINARY 2003 RESULTS

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MEDIOLANUM: 2003 PRELIMINARY FIGURES (€ MN)			
	4Q02	4Q03 Expected	4Q03 Actual
AUM			
YoY increase			
Total new premiums	277	367	532
YoY increase		32%	92%
o/w new annual premiums	46	42	31
YoY increase		-9%	-33%
o/w single premiums	231	325	501
YoY increase		41%	117%
Total new premiums APE (1/10 single)	69	75	81
YoY increase		7%	17%
Total net inflows (core)	672	480	136
YoY increase		-29%	-80%
o/w life	237	350	620
o/w mutual funds	124	140	-8
Total managed assets	361	490	611
o/w non managed assets	311	-10	-476

Source: Euromobiliare SIM estimates

4Q03 in fact featured an intensive marketing effort for the new index-linked policies, which led to a pleasant surprise for collections of single premiums (€ 510 mn vs. € 325 mn expected) but to lower annual-premium volume (€31 mn vs. €42 mn).

The new index-linked policies' success also acted as a locomotive for managed assets (€ 636 mn vs. € 490 mn expected) but there was a heavy net outflow of administered assets (€ -476 mn vs. € -10 mn).

The figure more out of line vs. expectations is in fact total net inflow. This normally ranges between € 400 mn and € 600 mn in a quarter,

whereas in 4Q03 it amounted to just € 136 mn – due to outflows on repos (€ -273 mn).

When questioned on this point, the company stated that the negative repo figure was largely due to an institutional investor.

Eliminating this one-off effect, which we estimate to be roughly € 200 mn, net inflow would be about €330-350 mn, closer to the normal level although less than brilliant.

More significant figures are starting to come from Fibanc (the Spanish subsidiary), which ended 4Q03 with a net inflow of €54 mn, of which €38 mn for AM.

On the NBV (new business value) front we have lowered our estimate by 5% to € 158 mn since single premiums do not fully offset the sharp drop in annual premiums.

The new index-linked policies in fact have an average term of about 3 years and consequently a relatively low margin. NBV revision takes our target price to € 6.8 per share.

With upside potential of less than 10%, **we think it right to downgrade our recommendation from Buy to ACCUMULATE**. At these prices we prefer Banca Fideuram, which – penalised by fears concerning the restructuring plan – is today worth 22x 2004E earnings vs. Mediolanum's 30x.

Our view nevertheless remains positive because **we believe that publication of detailed 2003 year-end results (on March 23rd) leaves room for pleasant surprises, thanks to stock markets' good performance in 4Q03.**

In addition, 1Q04 promises to be generous in terms of performance fees (vs. just €5 mn in 1Q03) and inflows should improve in parallel with customers' lower aversion to risk and with growth of sales network size.

MAIN FIGURES (€ mn)					
	2001	2002	2003E	2004E	2005E
Premiums	1,602	2,123	2,058	2,110	2,347
Change	5%	33%	-3%	3%	11%
Net Fees	203	217	253	270	374
Change	-23%	7%	17%	7%	38%
Pre Tax Income	139	109	146	185	239
Change	-11%	-22%	34%	27%	29%
Net Income	103	82	111	129	169
Change	-10%	-21%	36%	16%	31%
New Business Value	355	236	158	182	212
Change	9%	-34%	-33%	15%	16%
Emb. V. Earnings	410	147	309	319	363
Change	18%	-64%	110%	3%	14%
EMB. VALUE	1,768	1,816	2,052	2,299	2,571
ROEV	24%	8%	16%	16%	16%

PER SHARE DATA (EPS and DPS in € cent)					
	2001	2002	2003E	2004E	2005E
Eps	14	11	15	18	23
Change	-10%	-21%	36%	16%	31%
Eps Adj.	15	14	18	21	26
Change	-6%	-9%	34%	14%	27%
Emb. Value	2.44	2.50	2.83	3.17	3.55
Dividend	10.0	10.0	10.0	12.5	16.4

MARKET RATIOS					
	2001	2002	2003E	2004E	2005E
PE	69	41	41	35	27
PE Adj.	66	34	35	31	24
Goodwill vs NBV	16	7	17	14	11
P/EMB. V.	4.04	1.84	2.23	1.99	1.78
Yield	1.0%	2.2%	1.6%	2.0%	2.6%

OTHER FIGURES (€ mn)					
	2001	2002	2003E	2004E	2005E
Net Inf. Of Man. Assets	2,045	1,674	1,868	2,010	2,414
Net Inf. Of Non M. Assets	1,392	1,385	-360	210	755
Total Net Inflows	3,437	3,059	1,508	2,220	3,169
Assets Um	20,920	21,014	23,430	26,803	31,397
Change	17%	0%	11%	14%	17%
Ifas	3,842	4,144	4,052	4,152	4,302

Source: Euromobiliare SIM estimates

NEW LIFE PREMIUMS COLLECTED (€ mn)			
	2002	2003	2004E
FIRST YEAR	131	107	115
Change	-33%	-18%	7%
SINGLE PREMIUMS	1,283	1,170	1160
Change	55%	-9%	-1%

BREAKDOWN OF PRE TAX PROFITS (Italy; € mn)			
	2002	2003E	2004E
Life Business	75	84	96
Mutual Funds	46	59	77
Bank	18	43	42
Total	150	188	218
Change	2%	25%	16%

EMB. V. EARNINGS (€ mn)			
	2002	2003E	2004E
Existing business			
Expected Increase in EV	126	121	137
Change in assumptions	50	0	0
Variance in assumptions	-265	30	0
VA from ex. business	-89	151	137
New business value			
of which Life insurance, Italy	166	129	134
of which AM	70	29	49
Total NBV	236	158	182
Total EV earnings	147	309	319

COMPANY EVALUATION (€ mn)	
Total value of mutual funds	1,383
Total value of Life business	3,435
Free capital	92
Company evaluation	4,909
Nr. of shares	725
Value per share €	6.8

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