

Unicredito Italiano (CRDI.MI) SAN PAOLO IMI SpA (SPI.MI)

Possible management changes

Note

November 11, 2004

Unicredito Italiano

Outperform/Attractive

Stock data

Price	€4.31
52-week range	€4.41 - 3.82
Dividend yield	3.0%

Capitalization

Market cap	€27,218 mn
Enterprise value	--
Net debt/equity	--
Shares outstanding	6,315 mn

SAN PAOLO IMI SpA

Not Rated

Stock data

Price	€10.23
52-week range	€11.36 - 8.79
Dividend yield	4.9%

Capitalization

Market cap	€18,795 mn
Enterprise value	--
Net debt/equity	--
Shares outstanding	1,837 mn

Summary: Il Sole 24 reports (November 11, 2004) that Mr Modiano (Head of CIB of Unicredito) will leave Unicredito to become the new General Manager of SanPaoloIMI. SanPaoloIMI confirmed to Reuters (November 11, 2004) that tomorrow the Board will confirm the new appointment of a General Manager. The current key managers of Unicredito are CEO Mr Profumo, Mr Nicastro (head of retail division), Mr Fiorentino (Head of Global Banking Services Division), Mr Frigerio (Head of Private & AM division), Mr Moneta (Head of New Europe) and Mr Modiano (Head of CIB). We remain positive on Unicredito (OP/A) which on our estimates show: 1) valuation support; 2) superior revenue generation which we expect to be confirmed in 3Q; 3) cost cutting plan that we believe will deliver results better than management guidance. Goldman Sachs International is acting as financial advisor to SANPAOLO IMI in the proposed concentration of the insurance activities of the Group, which include the spin-off of Fideuram Vita from Banca Fideuram.

Forecasts and valuation - Unicredito Italiano

Fiscal year ended	EPS €	P/E X	Revenue €mn	Pre-Tax Profit €mn	Net Income €mn	EBITDA €mn	EV/EBITDA X	Div. Yield %
12/02A	0.29	14.9	--	--	1,801	--	--	2.4
12/03A	0.31	13.9	10,465	3,471	1,961	--	--	2.5
12/04E	0.33	13.1	10,409	3,457	2,080	--	--	3.0
12/05E	0.37	11.6	11,078	3,905	2,354	--	--	3.6
12/06E	0.45	9.6	11,771	4,746	2,860	--	--	4.5

Forecasts and valuation - SAN PAOLO IMI SpA

Fiscal year ended	EPS €	P/E X	Revenue €mn	Pre-Tax Profit €mn	Net Income €mn	EBITDA €mn	EV/EBITDA X	Div. Yield %
12/02A	0.48	21.3	--	--	889.0	--	--	2.9
12/03A	0.53	19.3	7,811	1,668	972.0	--	--	3.8
12/04E	0.72	14.2	7,955	2,169	1,315	--	--	4.9
12/05E	0.85	12.0	8,356	2,569	1,557	--	--	5.3
12/06E	0.93	11.0	8,779	2,804	1,700	--	--	4.8

Source: Company data, Goldman Sachs Research estimates

Mr Modiano is the Head of the CIB division that incorporates the Investment division, UBM. We expect that CIB will contribute 36% of total group earnings in 2004. We estimate a 2003-2006E revenue CAGR % of 4% for the period with a cost income ratio of 33% in 2004E. The division has 6,440 employees with 245 branches.

The Italian press reports on possible disagreement inside Unicredito management regarding the adopted recently plan to reduce headcount with 3,000 layoffs expected (7% of total workforce). Recently the Italian press (La Repubblica, October 27, 2004) reported that part of the management was against any changes in UC, in particular, to any layoff plan.

FIRST REACTION: POTENTIAL EFFECT FOR UNICREDITO

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We believe that market will be concerned about the recent changes in Unicredito's chain of command (Mr Majocchi Head of Retail left last year). On the other hand, we believe that the new cost cutting plan presented by management on October 27 will bring significant cost savings in the next two years. We believe that management was very conservative in its assumption and that results could be above targets. The layoff plan is significant and involves 7% of the bank's total workforce in Italy. We believe Unicredito's estimates of the cost cutting impact of this action are too low. The company indicates a EUR150mn staff cost reduction for 2007 assuming layoffs of 3,000. This implies an average cost per employee of EUR50,000 in contrast with a EUR61,556 average cost per employee for the retail division and EUR83,120 for the parent companies (the two main sources of cost cutting). Management has highlighted that it expects the oldest staff to be leaving the bank, and we believe the average cost of these employees will be above the group averages. Taking the inflation rate into consideration, we estimate that Unicredito is underestimating the cost cutting impact of these measures by EUR50mn.

Management has decided to create a pan European central back office in Romania where it plans to hire 500 employees. We believe this is the first step towards a potential future transfer of low valued added functions abroad. Romania offers synergies in term of language (same Latin origins) and significant cost reductions as the average monthly salary is US\$150 per employees.

POTENTIAL EFFECT FOR SANPAOLOIMI

SanPaoloIMI has been recently under pressure for the lack of growth in its loan book (1.7% in 2003 and +0.4% expected in 2004). We believe the appointment of Mr Modiano could be read by the market as potential catalyst for future growth in this respect. We also believe that it will take time and will incorporate some execution risk. However, it is worth noting that we expect Banca IMI (the Investment division of SanPaoloIMI) to contribute only 4% to the group net profits in 2004. On the other hand, we estimate 85% of total income will derive from the domestic retail network.

VALUATION

SanPaoloIMI (NR) is currently trading at 11.4x 2005E earnings versus 10.7x for Unicredito. Unicredito's P/BV is 1.8x (ROE 16% in 05E) vs. SanPaoloIMI's P/BV (1.5x 12.8% ROE).

RESULTS PREVIEW

SanPaoloIMI and Unicredito are set to announce 3Q2004 results on November 12 after the market close. For Unicredito (OP) we forecast 3Q2004 net profits of EUR452mn. For SanPaoloIMI we forecast 3Q2004 net profits of EUR293mn. We expect in particular good news from Unicredito, where we expect NII to have increased by 2% qoq on the back of superior volume growth.

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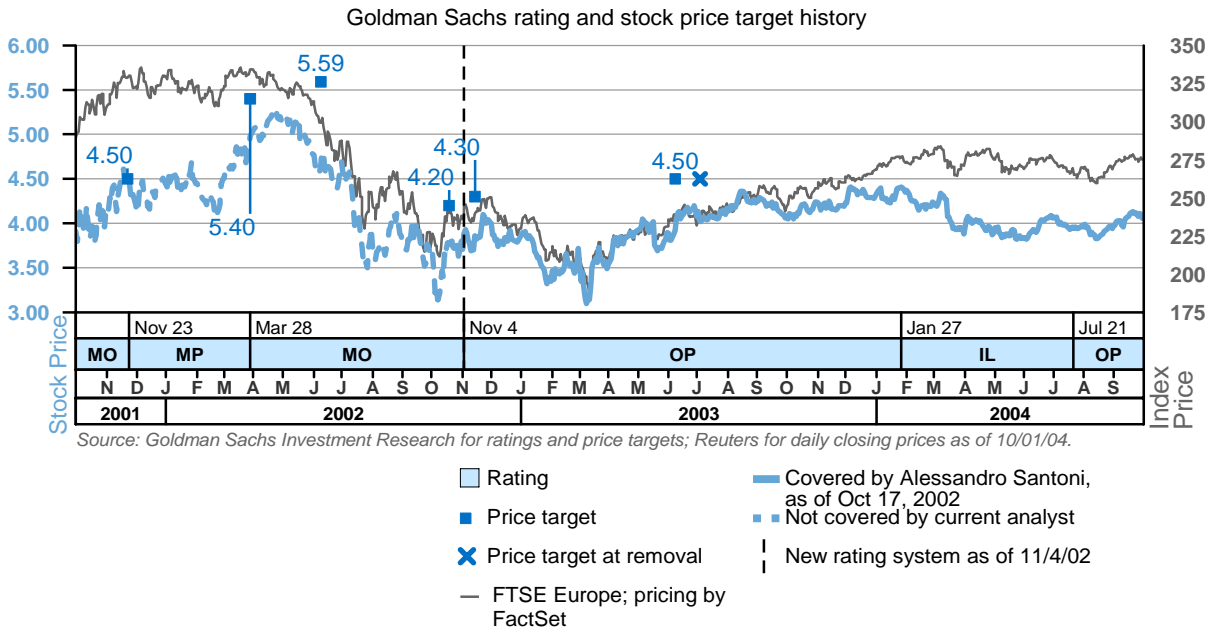
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Unicredito Italiano (CRDI.MI)

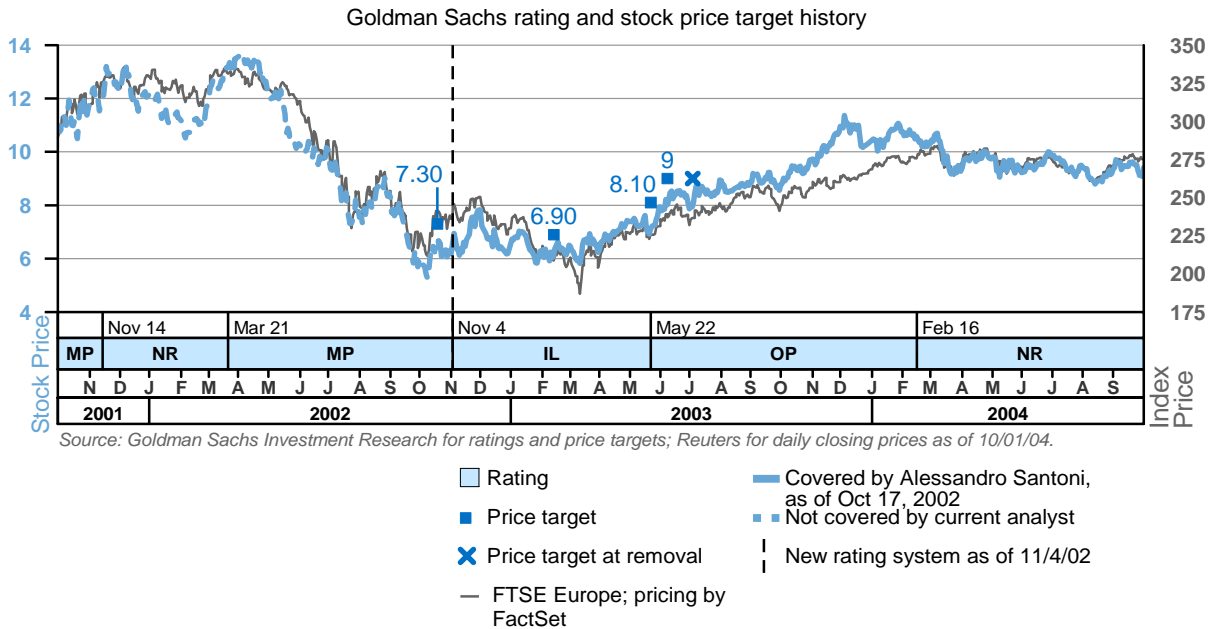
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SAN PAOLO IMI SpA (SPI.MI)

Currency: Euro



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