

Change in recommendation

## Banks

Italy

Previously: Buy

## SanPaolo Imi

**Hold**

22/03/05

Reuters: SPI.MI

**Price: €11.58****Target price: €12.10**

- **Following results in line with consensus, the presentation gave us no reason to upgrade our estimates or target price. The dividend was in line with consensus, despite the room for a 'surprise'. Mr Modiano's first presentation was literally outstanding, but in our view the stock could lose some momentum until the business plan. The upside to our target price is limited, hence we downgrade to HOLD.**

The presentation highlighted that Mr Modiano was an outstanding choice for the group. His speech was definitely the best part of the presentation. Mr Modiano gave some strategic guidance in anticipation of the business plan, which could be released between July and September – he is a 'revenue pusher' and his strategy will be focused on revenue enhancement. Some actions have already been taken, such as **revising the budget upwards**. He wants the **back office closer to the front office** in order to involve all employees in meeting the revenue targets. In the short term, Mr Modiano will focus on actions with negligible marginal costs to enhance revenue, such as the reorganisation of branches with fewer employees than required. The introduction of a new incentive scheme across the bank would help to meet more demanding targets. One of the most important commercial actions regards the increasing **share of wallet**. SanPaolo recently left some clients, large and mid-corporate, which could be re-approached on a different basis. SanPaolo's commercial lending policy is based on quality, which led to disappointing net interest income, but to an outstanding loans portfolio. Mr Modiano aims to push lending volumes to leverage the bank's potential, as he said: 'SanPaolo so far has been driving with its brakes on. This will no longer be the case'. As to the outlook, management said that the trend of 1Q is positive. In 2005, there is another real-estate spin-off ahead. As to the 2004 results, it is worthwhile highlighting that the tax rate at 31% is a one-off. The sustainable tax rate is 36%. In addition, trading income jumped in 4Q due to the following contributions: out of €175m, €60m from corporate derivatives and €23m for structured bonds. The results were not disappointing, but in line with market consensus. However, the dividend surprise did not come. The outlook for 2005 is positive and the new management could give a robust boost to the core business. However, until the business plan presentation, the stock could lose some momentum, following the uneventful set of results. We highlight that one upside to the stock is a lower bidding risk in the current situation. We waited for the results to potentially upgrade our estimates, but this is not the case for the moment. Therefore, we are not moving our price target, €12.1, and we downgrade the stock to **HOLD** from Buy, as the upside is limited until the business plan is disclosed. Then we envisage a possible re-rating of the stock. For the moment, we suggest to switch into UniCredito (€4.5, Buy, TP €4.9).

**Target price based on PER (fully diluted)**

	High	Low	Now	Target
PER (fd) 2006F (x)	12.4	10.8	13.4	12.9

**Price performance**

	12m	3m	Now	Target
Absolute(%)	26.7	12.1	11.6	4.50
E300 Banks	860.8	941.4	962.7	
Rel to E300 Banks (%)	13.3	9.62		
MIB 30	26,562	31,116	32,132	
Rel to MIB 30 (%)	4.73	8.56		

**Forecasts (€)**

Yr to Dec	2003	2004	2005F	2006F
Total assets (m)	202,580	211,157	210,693	215,631
Op profit (m)	1,601	2,134	2,512	2,817
Earnings (m)	1,130	1,592	1,549	1,751
EPS	0.62	0.85	0.83	0.94
PER (x)	21.9	15.5	15.3	13.4
DPS	0.39	0.47	0.54	0.61
Dividend yield (%)	3.37	4.06	4.66	5.27
BVPS	5.98	6.33	6.50	6.82
P/BVPS (x)	1.94	1.83	1.78	1.70

**Share data (€)**

No. of shares (m)	1,864	Volume	16,646,700
Market cap (m)	21,273		
Free float (%)	41.0		

**Key ratios**

Yr to Dec	2003	2004	2005F	2006F
Net int margin (%)	2.17	2.04	2.07	2.06
Cost/income (%)	66.9	63.5	62.3	60.3
Tier 1 BIS ratio (%)	7.30	7.35	8.12	8.36
ROE (%)	10.3	13.5	12.8	13.8
ROA (%)	0.56	0.77	0.73	0.82

Forecasts: ING High/Low 1 year

Carlo Tommaselli

+39 02 89629 3625

carlo.tommaselli@ing.it

23 March 2005

SPARK - single page action research

PLEASE SEE THE IMPORTANT DISCLAIMER, COMPANY DISCLOSURES AND ANALYST CERTIFICATION ON THE LAST PAGE OF THIS REPORT

## Company profile

### History

SanPaolo Imi came to existence through the merger of Istituto Bancario San Paolo di Torino and Istituto Mobiliare Italiano in 1998. In 2000 the group acquired Banco di Napoli, which added a presence in South Italy. The latest takeover involved Banca Cardine, whose acquisition became effective on 1 June 2002.

### Retail banking

SanPaolo Imi has the most balanced presence in the Italian retail market of all local banks with SanPaolo being strong in the North West, Banco di Napoli in the South and Cardine in the North East. The group operates approx 3000 branches and provides financial services to more than 6m customers. The retail banking division also includes the minority stakes the group holds in Inter-Europa Bank of Hungary, Cassa Risparmio Firenze and Cassa dei Risparmi di Forlì.

### Wealth management

SanPaolo Imi is the market leader in the Italian asset management business. It holds 19% of the national mutual funds market, and SanPaolo Vita is the no. 1 in the life insurance business.

### Personal financial services

Banca Fideuram has more than 5000 financial advisers and 200 branches to provide financial products, especially in the asset management, to retail and private clients in Italy. SanPaolo Invest, the other distribution channel of the group, has been folded into Fideuram recently with the aim of reinforcing the market leadership of SanPaolo Imi in this area. This division contributes almost 10% of total income.

### Wholesale banking

Wholesale banking consists of the corporate banking activities, the Banca OPI, which finances public infrastructure projects, IMI, the investment banking arm, and various merchant banking activities. Approx 9% of total income is generated in this division.

## Financials

Yr to Dec (€m)	2003	2004	2005F	2006F
Net interest income	3,716	3,569	3,691	3,772
Net fees and commissions	3,036	3,240	3,443	3,684
Trading profit	225.0	432.0	350.0	360.0
Insurance profit	0.00	0.00	0.00	0.00
Other operating income	637.0	671.0	657.8	698.0
Total income	7,614	7,912	8,142	8,514
% of average total assets	3.79	3.83	3.86	3.99
Total operating costs	(5,094)	(5,022)	(5,076)	(5,131)
% of average total assets	2.53	2.43	2.41	2.41
% of total income	66.9	63.5	62.3	60.3
Net operating income	2,520	2,890	3,066	3,383
Provisions	(919.0)	(756.0)	(554.7)	(565.8)
Operating profit	1,601	2,134	2,512	2,817
Associates	257.0	18.0	(25.0)	0.00
Capital gains, etc	(32.0)	148.0	0.00	0.00
Pre-tax profit	1,826	2,300	2,487	2,817
Tax	(657.0)	(658.0)	(867.3)	(976.2)
% tax rate	36.0	28.6	34.9	34.7
Minorities	(48.0)	(48.0)	(70.0)	(90.0)
Extraordinary & other items	9.00	(2.00)	0.00	0.00
Earnings	1,130	1,592	1,549	1,751
Amortisation of goodwill	(158.0)	(199.0)	(142.6)	(142.6)
Net income after amortisation of goodwill	972.0	1,393	1,407	1,608
Total assets	202,580	211,157	210,693	215,631
Shareholders funds	10,991	11,804	12,104	12,706
<b>Per share data (€)</b>				
EPS before goodwill amortisation	0.62	0.85	0.83	0.94
EPS after amortisation of goodwill	0.53	0.75	0.75	0.86
DPS	0.39	0.47	0.54	0.61
BVPS	5.98	6.33	6.50	6.82
Adj BVPS	6.51	6.75	6.83	7.08
<b>Solvency and profitability ratios (%)</b>				
Total BIS ratio	10.7	10.6	11.5	11.9
ROE	10.3	13.5	12.8	13.8
<b>Credit quality</b>				
Gross NPLs	4,364	4,619	4,642	4,665
Accumulated provisions	3,193	3,458	3,475	3,493
Coverage ratio (%)	73.2	74.9	74.9	74.9
Net NPLs	1,171	1,161	1,167	1,173
As % of shareholders funds	10.7	9.84	9.64	9.23
As % of net operating income	46.5	40.2	38.1	34.7

All sources: Company data, ING estimates

## ING Financial Markets

<b>AMSTERDAM</b> Tel: 31 20 563 87 98	<b>BRUSSELS</b> Tel: 32 2 557 10 26	<b>LONDON</b> Tel: 44 20 7767 1000	<b>NEW YORK</b> Tel: 1 646 424 6000	<b>SINGAPORE</b> Tel: 65 6535 3688
<b>Bratislava</b> Tel: 421 2 5934 61 11	<b>Edinburgh</b> Tel: 44 131 527 3000	<b>Madrid</b> Tel: 34 91 789 0030	<b>Paris</b> Tel: 33 1 56 39 31 41	<b>Shanghai</b> Tel: 86 21 6841 3355
<b>Bucharest</b> Tel: 40 21 222 1600	<b>Geneva</b> Tel: 41 22 593 8050	<b>Manila</b> Tel: 632 840 8888	<b>Prague</b> Tel: 420 2 5747 1111	<b>Sofia</b> Tel: 359 2 917 6400
<b>Budapest</b> Tel: 36 1 268 0140	<b>Hong Kong</b> Tel: 852 2848 8488	<b>Mexico City</b> Tel: 52 55 5258 2000	<b>Santiago</b> Tel: 562 452 2700	<b>Taipei</b> Tel: 886 2 2734 7500
<b>Buenos Aires</b> Tel: 54 11 4310 4700	<b>Istanbul</b> Tel: 90 212 258 8770	<b>Milan</b> Tel: 39 02 89629 3660	<b>Sao Paulo</b> Tel: 55 11 4504 6000	<b>Tokyo</b> Tel: 813 5210 1500
<b>Dublin</b> Tel: 353 1 638 4000	<b>Kiev</b> Tel: 380 44 230 3030	<b>Moscow</b> Tel: 7095 755 5400	<b>Seoul</b> Tel: 822 317 1500	<b>Warsaw</b> Tel: 48 22 820 5018

## Important Company Disclosures

The following designations [a-i] next to a company covered in this publication highlight that one or more members of ING Group:

- [a] holds 1% or more of the equity shares of the company (as at the end of the month preceding this publication).
- [b] has lead managed or co-lead managed a public offering of the securities of the company in the last 12 months.
- [c] has received compensation for investment banking services from the company within the last 12 months.
- [d] expects to receive or intends to seek compensation for investment banking services from the company in the next 3 months.
- [e] makes a market in the company's securities in the US via ING Financial Markets LLC.
- [f] is a liquidity provider, or acts as designated sponsor or market maker, for the company on a German, French or Dutch stock exchange.
- [g] has lead managed or co-lead managed a public offering of the company's securities in the last 5 years.
- [h] has a member of its board of directors or supervisory board or senior officer on the company's board of directors or supervisory board.
- [i] holds a net short position of 1% or more of the share capital, calculated in accordance with German law.

In addition, ING Group trades in the shares of the company/ies covered in this publication.

*Disclosures [a]-[e] are required specifically but not exclusively by US regulations.*

## Analyst Certification and Disclaimer

**The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.**

This publication has been prepared on behalf of ING (being for this purpose the wholesale and investment banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this publication. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this publication. Neither ING nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this publication or its contents. Copyright and database rights protection exists in this publication and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved.

Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this publication. This publication is issued: 1) in the United Kingdom only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors); 2) in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise.

ING Bank N.V., London branch is authorised by the Dutch Central Bank and regulated by the Financial Services Authority for the conduct of UK business. It is incorporated in the Netherlands and its London branch is registered in the UK (number BR000341) at 60 London Wall, London EC2M 5TQ. ING Financial Markets LLC, which is a member of the NYSE, NASD and SIPC and part of ING, has accepted responsibility for the distribution of this report in the United States under applicable requirements.

**This document has been written partly or entirely by analysts based outside the UK who are not governed by the ING Bank London Branch Research Policy (drawn up in accordance with FSA Rule COB 7.16.5R (2)) and therefore is not classified as UK Independent Research as defined in the Policy.**