

Company Flash

8 May 2009 | 8 pages

Unione Banche Italiane (UBI.MI)

 Target price change

1Q09 Results Preview

- Results Over the Week End** — UBI will report 1Q results over the week-end ahead of the AGM on Saturday morning. Management will host a conference call on Monday 11th May at 15:30 CET (dial in +39 02 805 88 11).
- Back in Black** — After €551m loss in 4Q08, we expect a small profit in 1Q09 (c€30m). We expect weak revenues, rising bad debt provisions YoY (although below 4Q08) and some AFS devaluations. Costs should fall YoY, as Banca Lombarda synergies show more fully.
- Weaker Revenues** — We expect NII to fall 6% YoY (-12% QoQ), with compressed deposit margins and flattish volume. Commissions should remain weak, may fall less than peers, given more limited fund outflows. We expect a small trading profit, compared to the big losses in 4Q09.
- Asset Quality Still Under Scrutiny** — Bad debt provisions should increase YoY to 68bp on loans (vs 58bp in 2008). The main areas of concern are small business and SME. Management guidance is <85bp (vs our 81bp est.) in FY09.
- Strong Capital, Pending Transaction** — UBI has a strong tangible equity/asset ratio (5.7% vs sector average <3%) and core tier 1 at c7% (stable from 4Q08). UBI has not requested government capital (Tremonti bonds) and plans to launch a non-mandatory convertible bond (€640m).
- A Defensive Play at Discount** — UBI trades at a discount to the European bank sector. Its stronger capital position and safer business mix should justify a premium in our view. We increase our target price to €13.50 from €10.20 to reflect the recent sector re-rating.

Buy/High Risk	1H
Price (08 May 09)	€11.24
Target price	€13.50
	<i>from €10.20</i>
Expected share price return	20.1%
Expected dividend yield	4.0%
Expected total return	24.1%
Market Cap	€7,184M
	US\$9,626M

Price Performance (RIC: UBI.MI, BB: UBI IM)



Unione Banche Italiane (EUR)

Year to 31 Dec	2007A	2008A	2009E	2010E	2011E
Net Income (€M)	954.5	848.5	413.6	542.2	648.8
Diluted EPS (€)	1.49	1.33	0.65	0.85	1.02
Diluted EPS (Old) (€)	1.49	1.33	0.65	0.85	1.02
PE (x)	7.5	8.5	17.4	13.2	11.1
P/BV (x)	0.6	0.6	0.6	0.6	0.6
DPS (€)	0.95	0.45	0.30	0.42	0.53
Net Div Yield (%)	8.5	4.0	2.7	3.7	4.7
ROE (%)	8.0	0.6	2.9	4.0	4.8

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See Appendix A-1 for Analyst Certification and important disclosures.

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Citi Estimates For 1Q09E

Figure 1. Unione Banche Italiane – Key Quarterly Data

Profit and Loss Account (Euro m)	1Q 07	2Q 07	3Q 07	4Q 07	1Q 08	2Q 08	3Q08	4Q08	1Q09E Cons	1Q09E Citi
Net Interest Income (NII)	667	681	693	738	751	757	756	797	-	691
Dividends and Other Income	5	74	1	3	2	67	2	1	-	3
Income (Loss) from Equity Investments	8	7	8	8	9	5	0	-15	-	8
Net Commission Income	331	348	324	342	317	302	277	281	-	267
Gain (Loss) on Financial Transactions	50	24	6	22	(27)	38	(61)	(193)	-	5
Insurance Result	9	12	8	12	4	10	3	-7	-	5
Other Net Operating Income	40	37	34	38	32	24	21	14	-	20
Total Revenues	1,110	1,183	1,073	1,164	1,088	1,203	998	879	-	999
Personnel Costs	(398)	(358)	(386)	(395)	(395)	(415)	(379)	(393)	-	(386)
Other Operating Expenses	(179)	(190)	(173)	(226)	(174)	(199)	(166)	(212)	-	(169)
Tang. and Intang. Assets Depreciation	(42)	(47)	(46)	(48)	(48)	(49)	(49)	(51)	-	(48)
Total Operating Costs	(619)	(595)	(606)	(669)	(617)	(663)	(594)	(656)	-	(603)
Operating Profit	491	588	467	495	470	541	404	223	-	397
Net Bad Debt Charges	(63)	(52)	(67)	(164)	(60)	(94)	(103)	(310)	-	(166)
Net Impairment on Assets	(1)	(5)	(2)	(20)	(0)	4	2	(516)	-	(67)
Provisions for Risk and Charges	(11)	(3)	(6)	(18)	(8)	(17)	(13)	5	-	(9)
Gain (Loss) from Sale of Assets	0	21	0	1	57	22	1	5	-	0
PBT from Continuing Operations	416	550	392	294	459	455	291	-594	-	154
Taxes	(182)	(212)	(177)	(83)	(173)	(80)	(131)	111	-	(87)
Integration Costs and PPA	(20)	(169)	(25)	(32)	(36)	(38)	(36)	(47)	-	(36)
Profit (Loss) from Discontinued Operations	0	17	0	292	0	-11	0	-5	-	0
Minorities	(20)	(19)	(25)	(54)	(31)	(26)	(24)	(17)	-	(2)
Net Profit	193	167	164	416	219	300	101	-551	c30	29
Core revenues	998	1,028	1,016	1,080	1,069	1,059	1,033	1,078	-	958
Operating profit after provisions	428	536	401	332	410	447	301	(87)	-	230
Balance Sheet (Em)										
Assets	117,397	123,615	118,723	121,469	121,469	120,718	121,595	121,956	-	122,200
Deposits	87,404	88,853	88,964	90,514	88,616	93,601	94,294	97,591	-	97,786
Customer Loans	84,800	89,588	88,635	92,729	92,729	96,506	98,020	96,368	-	98,307
Ratios										
Revenues / Assets (annualised)	3.78%	3.83%	3.62%	3.83%	3.58%	3.99%	3.28%	2.88%	-	3.27%
Cost/ Income Ratio	56%	50%	56%	57%	57%	55%	60%	75%	-	60%
Bad Debt Charge / Loans (bps, annualised)	30	23	30	71	26	39	42	129	-	68
Core tier 1	6.3%	6.1%	6.2%	6.9%	7.0%	7.0%	na	7.1%	-	7.0%
Tax Rate	44%	39%	45%	28%	38%	18%	45%	19%	-	57%

Source: Company Reports, Citi Investment Research and Analysis. Bloomberg and Reuters consensus.

Target Price Revision

We increase our target price to €13.50 from €10.20 to reflect the recent sector re-rating.

Figure 2. Unione Banche Italiane – Group P&L by Year

E millions	2006	2007	2008	% chg	2009E	% chg	2010E	% chg	2011E	% chg
GROUP P&L										
Net Interest Income (NII)	2,513	2,778	3,061	+10%	2,745	-10%	2,823	+3%	2,934	+4%
Dividends and Other Income	51	84	71	-15%	20	nm	36	nm	45	+23%
Income (Loss) from Equity Investments	17	33	0	-100%	21	nm	21	+2%	22	+4%
Net Commission Income	1,326	1,345	1,178	-12%	1,079	-8%	1,114	+3%	1,151	+3%
Gain (Loss) from Financial Transactions	243	102	-242	nm	60	nm	85	nm	102	+20%
Insurance Result	68	40	10	-76%	23	nm	23	+1%	23	+1%
Other Net Operating Income	148	150	90	-40%	87	-4%	89	+2%	92	+3%
Total revenues	4,366	4,530	4,168	-8%	4,035	-3%	4,192	+4%	4,369	+4%
Staff costs	-1,532	-1,537	-1,582	+3%	-1,537	-3%	-1,549	+1%	-1,577	+2%
Other expenses	-745	-768	-751	-2%	-725	-4%	-732	+1%	-741	+1%
Depreciation	-184	-183	-197	+7%	-191	-3%	-192	+1%	-195	+2%
Total operating expenses	-2,461	-2,488	-2,530	+2%	-2,453	-3%	-2,474	+1%	-2,514	+2%
Operating profit pre provisions	1,905	2,042	1,638	-20%	1,582	-3%	1,718	+9%	1,856	+8%
Goodwill	0	0	0	nm	0	nm	0	nm	0	nm
Bad Debt Provisions	-239	-346	-567	+64%	-804	+42%	-674	-16%	-627	-7%
Net Value Adj. to Fin. Assets	2	-29	-511	nm	0	nm	0	nm	0	nm
Provisions for risks and charges	-51	-38	-34	-9%	-50	nm	-51	+2%	-51	+0%
Gain (Loss) from Sale of Investments	63	23	85	nm	0	nm	0	nm	0	nm
Profit before tax	1,680	1,652	611	-63%	728	+19%	993	+36%	1,177	+19%
Taxes	-670	-654	-273	-58%	-298	+9%	-417	+40%	-486	+17%
Integration Costs and PPA	0	-247	-156	nm	-95	-39%	-93	-2%	-88	-5%
Profit (Loss) from Discontinued Operations	12	309	-16	nm	0	nm	0	nm	0	nm
Net Profit	1,021	1,059	166	-84%	335	nm	483	+44%	602	+25%
Minority interests	-89	-118	-97	-18%	-17	-83%	-34	+101%	-42	+25%
Attributable profit	933	941	69	-93%	319	nm	449	+41%	560	+25%
Adjusted attributable profit	883	954	848	-11%	414	-51%	542	+31%	649	+20%
PER SHARE FIGURES										
EPS - basic	1.46	1.47	0.11	-93%	0.50	Nm	0.70	+41%	0.88	+25%
EPS - adjusted	1.38	1.49	1.33	-11%	0.65	-51%	0.85	+31%	1.02	+20%
Dividend per share (ordinary)	0.80	0.95	0.45	nm	0.30	Nm	0.42	+41%	0.53	+25%
Book value per share (reported)	18.12	18.45	17.43	-6%	17.48	+0%	17.88	+2%	18.34	+3%
Tangible Book Value per share	9.66	11.63	10.64	-8%	10.69	+0%	11.09	+4%	11.55	+4%
Tangible Book Value (all intangible) per share	9.45	9.65	8.78	-9%	8.82	+1%	9.23	+5%	9.68	+5%
OPERATING RATIOS										
Revenues on avg RWAs	5.11%	4.81%	4.44%		4.43%		4.48%		4.53%	
Cost / income ratio	56%	55%	61%		61%		59%		58%	
Operating Profit / avg RWAs	2.23%	2.17%	1.74%		1.74%		1.84%		1.92%	
Provision charge / customer loans	0.29%	0.37%	0.58%		0.81%		0.65%		0.58%	
Tax rate	40%	40%	45%		41%		42%		41%	
Return on Equity (Adjusted / Tangible)	14.3%	12.8%	12.5%		6.1%		7.6%		8.8%	
Return on Equity (Adjusted / Tangible , all)	14.6%	15.5%	15.1%		7.3%		9.2%		10.5%	
SHARES OUTSTANDING										
Total shares outstanding (mn)	639	639	639	+0%	639	+0%	639	+0%	639	+0%
BALANCE SHEET ITEMS										
Total Assets	118,164	121,469	121,956	+0%	123,426	+1%	128,980	+5%	134,784	+5%
Net customer loans	83,552	92,729	97,591	+5%	99,260	+2%	103,627	+4%	108,187	+4%
Total Customer Deposits	86,253	90,514	97,591	+8%	99,757	+2%	103,967	+4%	108,355	+4%
Loan / deposit ratio	97%	102%	100%		100%		100%		100%	
Shareholder Equity	11,582	11,790	11,140	-6%	11,171	+0%	11,429	+2%	11,720	+3%
REGULATORY CAPITAL										
Risk-Weighted Assets	90,418	97,912	89,892	-8%	92,114	+2%	94,877	+3%	98,198	+4%
Tier 1 ratio	6.9%	7.4%	7.7%		7.7%		7.7%		7.7%	
'Core' Tier 1 ratio	6.3%	6.9%	7.1%		7.1%		7.1%		7.1%	
Total ratio	10.3%	10.2%	11.1%		11.0%		11.1%		11.1%	

Source: Company Reports, Citi Investment Research and Analysis

Unione Banche Italiane

Company description

UBI was created on 1 April 2007 from the merger of BPU and Banca Lombarda. BPU was formed from BP Bergamo (BPB) and BP Commercio Industria (BPCI) in 2003. Banca Lombarda was a local bank in northern Italy. Both banks were strongly rooted in their local area. UBI is the fifth-largest Italian banking group in terms of customer loans. UBI is the second largest 'Popolare' (cooperative) banking group in terms of branches in Italy. UBI is active in all major sectors, from household and corporate lending to asset management, life insurance and corporate advisory.

Investment strategy

We have a Buy/High Risk (1H) rating on UBI shares. UBI shares suit a defensive investment strategy, in our view, and we continue to prefer it to its peers. The main defensive characteristics of the UBI story are: solid business progression, solid balance sheet, a strong capital position and low risk integration generating synergies to offset macro environment deterioration. The combination with Banca Lombarda should have a low integration risk and we see more upside on cost synergies. Capital position is better than peers'. Newsflow on potential JVs in consumer credit, corporate banking, and non-life bancassurance could be additional positives for the stock, while newsflow/speculation on potential rescue with popolari banks could be a negative.

Valuation

We have a €13.50 target price for UBI shares. In valuing UBI, we focus on market multiples. On P/ tangible book, our target is based on c1.4x in 2009E, a premium to the sector, reflecting the defensive business mix and balance sheet characteristics. We also cross-reference this valuation with a P/E-based valuation; our target would indicate a premium to the European bank sector.

Risks

We have a High Risk rating on UBI shares. Any revenue slippage would impact UBI's profits. Net Interest income is the major revenue generator; NII margin and profitability are at risk in the event of movement of the ECB rate and movement in the credit market rates, or of more pricing pressure in Italy. The group's funding structure is mainly retail and the loan to deposit ratio is above the average in our universe, but the bank is planning to rebalance it during 2008. Any speculation/indication of a potential rescue merger with a popolare peer could negatively impact the share price. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. The recent management change should not represent a key risk for the stock.

Appendix A-1

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Unione Banche Italiane (UBI.MI)

Ratings and Target Price History

Fundamental Research

Analyst: Azzurra Guelfi

Covered since December 6 2007

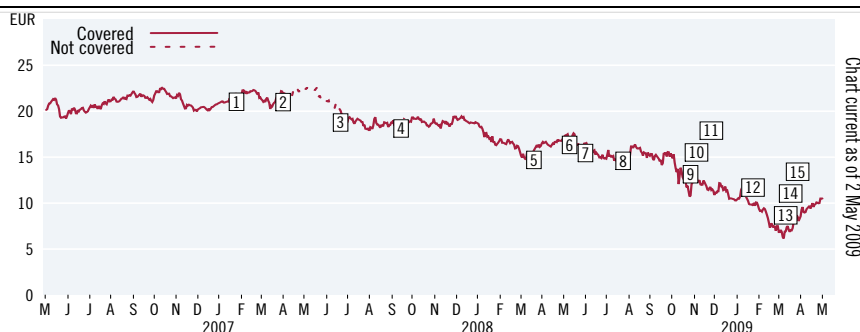


Chart current as of 2 May 2009

Date	Rating	Target Price	Closing Price
1 25-Jan-07	*2M	*23.50	21.82
2 2-Apr-07	Coverage suspended		
3 21-Jun-07	2M	*21.00	20.05
4 14-Sep-07	2M	*20.00	18.54
5 20-Mar-08	2M	*17.00	15.74

Date	Rating	Target Price	Closing Price
6 9-May-08	2M	*18.00	17.13
7 2-Jun-08	*1M	*18.80	16.41
8 24-Jul-08	1M	*18.00	15.11
9 28-Oct-08	1M	*14.00	10.82
10 5-Nov-08	1M	*15.50	13.01

Date	Rating	Target Price	Closing Price
11 26-Nov-08	1M	*14.00	11.41
12 23-Jan-09	1M	*11.50	9.73
13 11-Mar-09	1M	*9.00	6.93
14 18-Mar-09	*1H	9.00	7.05
15 27-Mar-09	1H	*10.20	8.53

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2009

	Buy	Hold	Sell
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