

Company Flash

11 May 2009 | 6 pages

Unione Banche Italiane (UBI.MI)

1Q09 Results - Initial Reaction

- Results Broadly In Line** — UBI reported a net profit of €24m in 1Q09, broadly in line with consensus (c€25m). Operating profit pre-provisions was 3% ahead and bad debt a touch better. Bottom line negatively affected by devaluation on AFS and high taxes. Capital shows slight deterioration.
- Stronger NII, Weaker Commissions** — NII is 3% ahead our estimates, showing strong contraction (-11% QoQ and -6% YoY), mainly due to decreasing deposit margin. Lending increased by 4% YoY (+1% QoQ), above industry data (c+3% YoY), in line with company strategy. Fee income was again weak (-6% vs estimates and -21% YoY) mainly due to asset management (-c€61m YoY out of the €67m overall decrease). Trading back to positive (€18m).
- Costs in Line** — Operating costs are in line with expectations and -2.4% YoY. Both staff costs (-4% YoY due to lower headcount) and depreciation (-14% YoY as result of IT savings) are better than expected. Other admin costs (+5% YoY) are negatively affected by the change in the regulation of the intragroup VAT (which will also affect the following quarter) and integration of branches.
- Asset Quality a Touch Better** — Provisions are €160m, (or 66bp on loans vs 129bp in 4Q and 26bp in 1Q08) slightly better than our estimates (68bp). As expected, asset quality indicators are deteriorating due to economic deterioration: Net Sofferenze are 0.98% of loans (vs 0.88% 4Q), Net Incagli are 1.30% of loans (vs 1.20% 4Q) both up c10% QoQ. No data on total NPLs, yet.
- AFS Devaluations Could Be Reversed in 2Q** —UBI showed €74m of losses on financial assets (€516m in 4Q) mostly due to Intesa and A2A. But given the accounting treatment UBI has opted for – if in June the value of these equity stakes return to the value showed in Dec 08, these could be recovered.
- Capital Not Improving** — No mention of Core tier 1, but tangible equity on total asset decreases from 5.6% in 4Q08 to 5.5% in 1Q09, possibly due to the acquisition of branches. The loan/deposit ratio is at 101% from 99% in 4Q (105% in 1Q08), mostly due to the maturity of some bonds in issue, but further funding is planned to be issued in 2009.
- Warrant Details** — The EGM also approved the already presented free warrant programme: 639m warrants (20 warrants could convert to 1 UBI share in 2011, at a €12.30 price) resulting in c32m new shares (c5% of sharecount).
- Conference Call This Afternoon** — Management will host a conference call on Monday 11 May at 15:30 CET (dial in +39 02 805 88 11).

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

Buy/High Risk	1H
Price (08 May 09)	€11.48
Target price	€13.50
Expected share price return	17.6%
Expected dividend yield	3.9%
Expected total return	21.5%
Market Cap	€7,337M
	US\$10,013M

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



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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

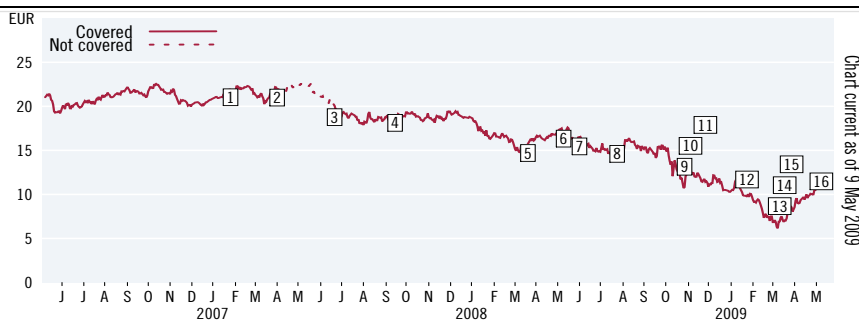


Chart current as of 9 May 2009

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
6 9-May-08	2M	*18.00	17.13

Date	Rating	Target Price	Closing Price
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
11 26-Nov-08	1M	*14.00	11.41
12 23-Jan-09	1M	*11.50	9.73

Date	Rating	Target Price	Closing Price
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
16 8-May-09	1H	*13.50	11.48

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2009

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