

Company Flash

11 May 2009 | 8 pages

Unione Banche Italiane (UBI.MI)

 Target price change
 Estimate change

Coping With a Difficult Environment

- NII Is Stronger** — NII was the main positive surprise of these results. Management say that deposit NII could suffer again in 2Q, but should then stabilise in 2H09. Volume growth was stronger than the sector average, mainly in retail and small business loans, while showing decreased large corporate exposure. We expect NII to decline by 9% YoY in 2009.
- Commissions Decline To Slow** — UBI says that commissions will remain weak, due to both asset management and also banking fees (lower volumes), but falling less than -22% YoY. We forecast a c15% decrease in 09. UBI has c50% of AUM in mutual funds, and in April has seen inflows (but possibly in lower-margin bond and liquidity funds).
- Some Surprises in Costs?** — Operating costs are down 2.6% YoY, and management indicate that UBI remains very focused on costs and has the potential for more cost savings, although these are not quantified. We expect costs to fall c4% YoY, benefiting from a single IT platform, lower staff costs, and branch rationalisation.
- Confirming Guidance on Asset Quality** — Total gross NPLs grew 8% QoQ. UBI indicated it had not seen a major increase in inflows in 1Q, but economic conditions remained challenging. Sofferenze coverage eased QoQ (from 53.9% in 4Q08 to 52.7% in 1Q09), while the Incagli coverage was stable at 16.1%. UBI confirmed previous guidance of <85bp in 2009.
- Upcoming Events** — UBI is awaiting regulatory approval for the tender offer on its hybrids, expected by July. We calculate that this could result in c20bp of additional core tier 1, due to capital gains. Any further news on costs could be a positive. UBI should present a new business plan by year-end.
- Lowering Estimates and Target Price** — We have lowered our estimates by 7% in 2009E mainly due to weaker commission income and higher taxes. We have left our bad debt provisions unchanged at 81bp of loans. We lower our target price to €12.80 from €13.50, reflecting our estimate changes.
- A Defensive Player** — We are lowering our estimates for UBI, but remain positive on the stock. Our preference remains for banks with a solid balance sheet, safer business mix and with a strong capital position. UBI trades at a discount to the European bank sector (1x P/BV vs 1.4x for the sector).

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

Buy/High Risk	1H
Price (11 May 09)	€10.66
Target price	€12.80
	from €13.50
Expected share price return	20.1%
Expected dividend yield	4.2%
Expected total return	24.3%
Market Cap	€6,813M
	US\$9,298M

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



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Estimate Revisions

Figure 1. UBI – Adjusted EPS Estimates

	2009E	2010E	2011E
New EPS	0.60	0.82	0.95
Old EPS	0.65	0.85	1.02
% Chg	-7%	-4%	-7%

Source: Citi Investment Research and Analysis

Figure 2. UBI – 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	3,060	+10%	2,793	-9%	2,874	+3%	2,976	+4%
Dividends and Other Income	51	84	71	-15%	19	nm	30	nm	32	+7%
Income (Loss) from Equity Investments	17	33	0	-100%	19	nm	20	+2%	20	+4%
Net Commission Income	1,326	1,345	1,188	-12%	994	-16%	1,039	+5%	1,082	+4%
Gain (Loss) from Financial Transactions	243	102	-242	nm	87	nm	93	nm	102	+10%
Insurance Result	68	40	10	-76%	27	nm	27	+1%	27	+1%
Other Net Operating Income	148	150	81	-46%	89	+10%	91	+2%	94	+3%
Total revenues	4,366	4,530	4,168	-8%	4,029	-3%	4,174	+4%	4,335	+4%
Staff costs	-1,532	-1,537	-1,583	+3%	-1,515	-4%	-1,527	+1%	-1,554	+2%
Other expenses	-745	-768	-751	-2%	-753	+0%	-757	+1%	-766	+1%
Depreciation	-184	-183	-197	+7%	-164	-16%	-165	+1%	-168	+2%
Total operating expenses	-2,461	-2,488	-2,530	+2%	-2,432	-4%	-2,448	+1%	-2,488	+2%
Operating profit pre provisions	1,905	2,042	1,638	-20%	1,597	-2%	1,726	+8%	1,847	+7%
Goodwill	0	0	0	nm	0	nm	0	nm	0	nm
Bad Debt Provisions	-239	-346	-567	+64%	-796	+40%	-713	-10%	-642	-10%
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%	-49	nm	-50	+2%	-50	+0%
Gain (Loss) from Sale of Investments	63	23	85	nm	4	nm	0	nm	0	nm
Profit before tax	1,680	1,652	610	-63%	757	+24%	963	+27%	1,155	+20%
Taxes	-670	-654	-273	-58%	-338	+24%	-409	+21%	-479	+17%
Integration Costs and PPA	0	-247	-156	nm	-98	-37%	-93	-5%	-88	-5%
Profit (Loss) from Discontinued Operations	12	309	-16	nm	5	nm	0	nm	0	nm
Net Profit	1,021	1,059	166	-84%	327	nm	460	+41%	587	+28%
Minority interests	-89	-118	-97	-18%	-35	-65%	-32	-7%	-41	+28%
Attributable profit	933	941	69	-93%	292	nm	428	+47%	546	+28%
Adjusted attributable profit	883	954	848	-11%	383	-55%	522	+36%	635	+22%
PER SHARE FIGURES										
EPS - basic	1.46	1.47	0.11	-93%	0.46	nm	0.67	+47%	0.85	+28%
EPS - adjusted	1.38	1.49	1.33	-11%	0.60	-55%	0.82	+36%	0.95	+16%
Dividend per share (ordinary)	0.80	0.95	0.45	nm	0.27	nm	0.40	+47%	0.51	+28%
Book value per share (reported)	18.1	18.5	17.4	-6%	17.5	+0%	17.9	+2%	18.0	+1%
Tangible Book Value per share	9.7	11.6	10.6	-8%	10.5	-1%	10.9	+4%	11.4	+5%
Tangible Book Value (all intangible) per share	9.5	9.7	8.8	-9%	8.7	-1%	9.1	+5%	9.7	+6%
OPERATING RATIOS										
Revenues on avg RWAs	5.11%	4.81%	4.44%		4.43%		4.46%		4.49%	
Cost / income ratio	56%	55%	61%		60%		59%		57%	
Operating Profit / avg RWAs	2.23%	2.17%	1.74%		1.75%		1.84%		1.91%	
Provision charge / customer loans	0.29%	0.37%	0.59%		0.81%		0.70%		0.60%	
Tax rate	40%	40%	45%		45%		43%		42%	
Return on Equity (Adjusted / Tangible)	14.3%	12.8%	12.5%		5.7%		7.5%		8.3%	
Return on Equity (Adjusted / Tangible , all)	14.6%	15.5%	15.1%		6.9%		9.0%		9.8%	
SHARES OUTSTANDING										
Total shares outstanding – Fully Diluted (mn)	639	639	639	+0%	639	+0%	639	+0%	671	+5%
BALANCE SHEET ITEMS										
Total Assets	118,164	121,469	121,956	+0%	123,646	+1%	129,210	+5%	135,025	+5%
Net customer loans	83,552	92,729	96,368	+4%	98,206	+2%	102,527	+4%	107,038	+4%
Total Customer Deposits	86,253	90,514	97,591	+8%	97,875	+0%	102,004	+4%	106,308	+4%
Loan / deposit ratio	97%	102%	99%		100%		101%		101%	
Shareholder Equity	11,582	11,790	11,140	-6%	11,157	+0%	11,409	+2%	12,092	+6%
REGULATORY CAPITAL										
Risk-Weighted Assets	90,418	97,912	89,892	-8%	92,159	+3%	94,924	+3%	98,247	+4%
Tier 1 ratio	6.9%	7.4%	7.7%		7.6%		7.6%		8.0%	
'Core' Tier 1 ratio	6.3%	6.9%	7.1%		7.0%		7.0%		7.5%	
'Core' Tier 1 ratio incl. Tremonti Bonds	6.3%	6.9%	7.1%		7.0%		7.0%		7.5%	
Total ratio	10.3%	10.2%	11.1%		10.9%		11.0%		11.5%	

Source: Company Reports and CIRA Estimates

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 €12.80 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)

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Fundamental Research

Analyst: Azzurra Guelfi

Covered since December 6 2007

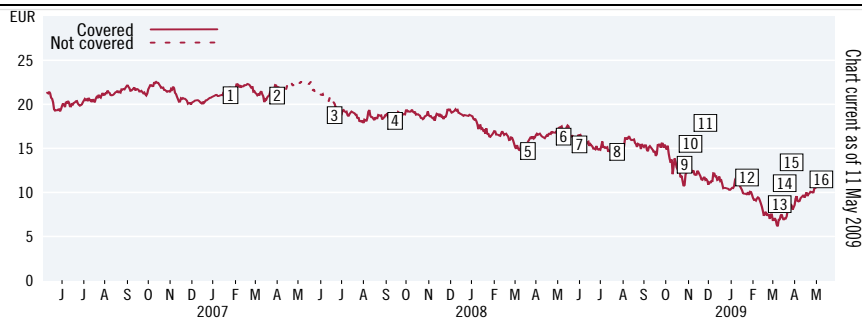


Chart current as of 11 May 2009

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

* Indicates change

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

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients	47%	43%	36%

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