Deutsche Bank

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COMPANY ALERT

UBI Banca

First thoughts on Q2-09 results

Results

Hold

Reuters:UBI.MI Exchange:MIL Ticker:UBI

Price (EUR)	**10.99**
Price target (EUR)	**9.60**
52-week range (EUR)	**15.56 - 6.15**
Market cap (EUR)	**7,018**
Shares outstanding (m)	**639**
DJ (.STOXXE)	**260.6**
Free float	**1**

FYE 12/31	2008A	2009E	2010E
Revenue (EUR)	4,310	4,105	4,328
PBT (EUR)	949	407	929
Stated Net Profit (EUR)	69	94	445
EPS Adjusted (EUR)	0.95	0.30	0.85
Dividend Yield (%)	3.0	1.0	3.2
P/E Adjusted (x)	10.8	36.2	13.0

UBI Banca reported a Q2-09 net profit of Euro 102m, better than our forecasts (Euro 80m), due to: (1) lower staff expenses and (2) higher trading income. In line with our forecasts, UBI Banca's bottom line has been inflated by (A) a Euro 60.6m capital gain coming from the exchange offer on some of its existing subordinated securities (replaced, for investors accepting the offer, with senior bonds) and by (B) a Euro 39m write-back on AFS stakes, like Intesa.

Looking at the recurring operating lines, net interest income (NII) declined 10% YoY and 4% QoQ, mainly as a result of spreads contraction, but also because of the evolution of customer loans (+0.3% YoY and -0.1% QoQ) did not particularly support it. Fees (Euro 257m, in line with Q2-09E) decreased 15% YoY and increased 3% QoQ; their trend has to be attributed to the evolution of AUM (-12% YoY, but +4% QoQ). The good performance of costs (-4% versus Q2-09E) has been mostly driven by the reduction of staff expenses. Provisions on loan losses reached 97bps and asset quality deteriorated (gross NPL and watchlists grew by 13% and 15%, respectively).

For H2-09E, UBI Banca expects: **1.** NII to be penalized by: A. the further decline of Euribor and B. the cancellation of the overdraft fee (which should be replaced by other proceeds, to be booked among commissions from Q3-09E onwards); **2.** staff expenses up versus H1-09 (still with an important YoY reduction in the FY-09); **3.** cost of credit at 86bps (in line with H2-08 and implying a FY-09 provisioning of 84bps). Based on this outlook, our FY-09E appears too optimistic on NII, but too conservative on fees and staff expenses.

Management will comment on results in a conference call today at 3:30PM CET (Italy +39 02 805 8811; UK +44 203 1474696; US +1 866 6320328).

Paola Sabbione	Fabrizio Bernardi
Research Analyst	Research Analyst
(+44) 207 54-50791	(+39) 02 86379-731
paola.sabbione@db.com	fabrizio.bernardi@db.com

Deutsche Bank AG/London