

COMMENT

Banca Popolare di Milano (PMII.MI) €1.52

Equity Research

2Q11 operating trends weak, focus on capital management**News**

BPM reported 2Q results on August 25 after the market close. Deconsolidation of the life insurance business pushed the bank to breakeven at the bottom-line level. Excluding this, underlying net income was €8 mn vs. our and Inquiry consensus forecasts of €16 mn. While the pick-up in loan provisions could be explained by some seasonality and specific exposures, the lack of revenue recovery remains the key challenge for BPM, in our view. The Board confirmed its intention to proceed with a capital increase of up to €1.2 bn, as announced on April 19, which would bring the bank's CT1 ratio up to 8.5% from 5.7% in 2Q11. The board will decide the final size and relative terms of the capital increase over the coming weeks.

Analysis

We see the upcoming Board decision and execution of the capital increase as a key focus for the market, rather than expected weak operating trends, given: (1) the stock has strongly outperformed Italian and European banks in the last month (+30% and +27% respectively), also amid market speculation about a reduced size of the cap hike or a postponement (Reuters, July 14); and (2) a €1.2 bn cap increase would represent 140% of current market cap (fully diluted for the convertible). With regard to operating trends, we highlight: (1) NII up 1% mainly due to a higher contribution from gov. bonds; underlying NII -1% QoQ in line with peers, as better loans and deposits spreads were fully offset by higher wholesale funding costs; (2) funding growth remains solid (+5% vs. Dec) but the mix shift confirms challenging market conditions (€900 mn deposits moved to more expensive retail bonds, c.€1 bn market repos moved to ECB repos); (3) net fees dropped 8% QoQ, given no contribution from third-party bond placements, underlying -3% QoQ; (4) loan losses were at 127 bp in 1H11 vs. 116 bp in 1H10; impaired loan growth slowed (+1% QoQ), with coverage up to 25% from 24%.

Implications

We maintain our price target and estimates and will examine the results and issues above in more detail over the next few days.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

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Exhibit 1: BP Milano: 2Q11 earnings review

Financial summary EUR mn	Historical financials							Forecasts		Actual			
	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11A	2Q11E	Cons*	q / q	y / y	vs GS	vs Cons
Net interest income	190	180	181	185	190	207	209	213	212	1%	15%	-2%	-1%
Net Fees	192	174	146	136	148	145	133	130	132	-8%	-9%	2%	1%
Div. and trading income	46	56	-9	48	6	20	18	10	10	-12%	-300%	79%	79%
Insurance income	0	0	0	17	-4			12		-	-	-100%	-
Other income	9	9	11	7	5	9	6	10		-34%	-48%	-43%	-
Non Interest Income	247	239	148	208	155	174	157	162		-10%	6%	-3%	-
Operating Income	437	419	329	393	345	381	365	375	375	-4%	11%	-3%	-3%
Operating costs	-287	-270	-285	-280	-275	-266	-281	-282	-279	6%	-1%	0%	1%
Gross operating profit	150	150	45	112	70	116	85	93	95	-27%	90%	-9%	-11%
Provisions for risks and charges	-6	-2	-56	-3	-5	-1	-1	-5		54%	-97%	-72%	-
Net adjustment to loans	-79	-65	-31	-49	-93	-42	-71	-58	-59	66%	130%	23%	19%
Net impairment / losses on other assets	-25	-2	-5	0	0	0	0	0					
Total provisions	-110	-69	-92	-52	-98	-43	-72	-63		66%	-21%	15%	-
Goodwill impairment	0	0	0	0	0	0	0	0					
Exceptionals	-132	0	81	0	-179	0	1	0					
PBT	-91	81	34	60	-206	73	13	30	33	-82%	-61%	-57%	-60%
Tax	10	-33	-16	-25	-4	-31	-4	-12					
Net profit	-81	47	18	35	-210	42	9	18		-78%	-50%	-49%	-
Net profit from discontinued operations	0	4	5	4	208	1	-8	0					
Minorities	3	-1	-2	-1	-1	-1	-1	-2					
Net Profit Attributable to the Group	-78	50	20	38	-2	42	0	16	16	-99%	-98%	-97%	-97%
GS Net income	26	46	-33	34	-103	42	8	16		-80%	nm	-49%	

*) Consensus Inquiry Financial Europe AB (Aug 24): poll of 6 analysts

BS summary EUR mn	Historical financials							Forecasts		Actual			
	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11A	2Q11E	Cons*	q / q	y / y	vs GS	vs Cons
Loans	32,852	33,363	33,412	34,701	35,586	35,375	35,848	35,500		1%	7%	1%	--
Assets	44,281	45,391	51,162	52,467	54,053	55,558	56,030	54,613		1%	10%	3%	--
Equity	3,892	3,943	3,894	3,943	3,843	3,903	3,800	3,931		-3%	-2%	-3%	--
Tang. Equity	2,913	2,970	2,822	2,872	2,970	3,037	2,933	3,065		-3%	4%	-4%	--
Key ratios													
NII / avg. loans	2.31%	2.17%	2.17%	2.17%	2.17%	2.34%	2.34%	2.40%					
Revenue / avg. loans	5.32%	5.07%	3.94%	4.61%	3.93%	4.30%	4.10%	4.23%					
C / I	66%	64%	86%	71%	80%	70%	77%	75%					
GOP / avg. loans	1.83%	1.81%	0.53%	1.32%	0.80%	1.30%	0.95%	1.05%					
GOP / avg. loans (excl. trading)	1.58%	1.13%	0.62%	0.77%	0.75%	1.12%	0.75%	0.99%					
Loans Provisions / avg. loans	0.96%	0.79%	0.37%	0.58%	1.05%	0.48%	0.79%	0.65%					
Tot. impairment and prov. / avg. loans	1.33%	0.83%	1.10%	0.61%	1.11%	0.49%	0.81%	0.71%					
Tax rate	11%	41%	47%	42%	-2%	42%	30%	41%					
Tang. ROE	-11%	7%	3%	5%	0%	6%	0%	2%					
TA / TE	14.9 x	15.0 x	17.7 x	17.9 x	17.9 x	18.0 x	18.8 x	17.5 x					

Source: Company data, Inquiry Financial Europe AB, Goldman Sachs Research estimates.

Reg AC

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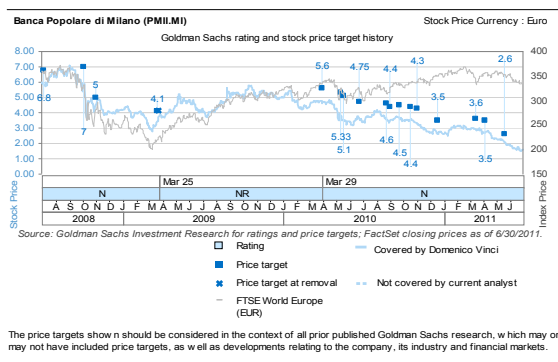
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