

Goldman Sachs Research

Commentary: Banco Popolare (BAPO.MI, Neutral, last close €1.17) First Take: 3Q12

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BAPO reported PBT of €71 mn vs. Bloomberg consensus of €12 mn. This was driven by better revenue and lower cost, driving a 10% beat on GOP vs. our estimates. Provisions were in line with our estimates and up 9% qoq. As for other Italian peers having reported today, the large percentage beat at the bottom line is due to the low base effect. On the balance sheet side, asset quality deteriorated further, with a 4% increase in total impaired loans (NPLs flat). The coverage ratio fell partially as a result of a better impaired loan mix, but also falling coverage on NPLs. CT1 improved by 20 bp to 10.4%. Loan balance increased qoq due to repos, but the main buckets of customer loans all showed sequential decline.

Earnings

- Revenues: 2% above GS and 5% above consensus
- Costs: 2% below GS (C/I ratio of 67%)
- GOP: 10% above GS
- PBT: €71 mn, compared to consensus at €12 mn and GS at €39 mn

Capital and balance sheet

- Capital: Core tier 1: 10.4% (2Q12 at 10.2%), RWAs: down 1% qoq after the sharp fall seen in 2Q as BaPo switched to advanced models (-35% in 2Q12, qoq)
- Provisions on loans and financial assets up at 0.88% of loans vs. 2Q12 at 0.81%.
- Total impaired loans reached €15.8 bn, up 4% qoq. This was driven by past dues and restructured loans as NPLs were barely changed qoq
- Coverage ratio on impaired loans decreased to 23.8% in 3Q12 vs. 25.5% in 2Q12. This was partly driven the mix change in impaired loans ("worse" bad loans increased less" - see above), but the coverage of those NPLs nonetheless decreased too, to 36.4% from 38.5%.

Banco Popolare 3Q12 snapshot
€ mn

P&L summary EUR mn	Historical					Forecasts		Actual			
	3Q11	4Q11	1Q12	2Q12	3Q12A	3Q12E	Cons*	q / q	y / y	vs GS	vs Cons
Net interest income	493	486	487	467	446	435		-2%	-9%	2%	-
Dividends & Inc. from equity inv.	5	-35	7	-66	-33	0					
Net Fees	314	305	337	342	335	300		-2%	7%	12%	-
Net Trading	268	144	-34	156	90	95					
Other	17	13	18	22	28	20		26%	62%	38%	-
Non Interest Income	604	426	328	464	420	415		-7%	-30%	1%	-
Operating Income	1,097	912	814	910	866	850	821	-5%	-21%	2%	5%
Personnel expenses	-372	-382	-366	-367	-355	-368		-3%	-4%	-4%	-
Other administrative expenses	-197	-170	-188	-183	-189	-185		3%	-4%	2%	-
Depreciation and amortization	-32	-45	-35	-30	-32	-34		8%	1%	-5%	-
Operating costs	-600	-597	-588	-580	-576	-587		-1%	-4%	-2%	-
Gross operating profit	497	315	226	331	290	264		-12%	-42%	10%	-
Net adjustment to loans	-192	-168	-212	-187	-204	-205		9%	6%	0%	-
Net impairment / losses on other assets	-11	-54	-2	-15	-5	-15					
Provisions for risks and charges	-7	-55	-73	60	-10	-5					
Total provisions	-210	-277	-286	-141	-218	-225		54%	4%	-3%	-
Net operating profit	287	38	-59	189	72	39		-62%	-75%	85%	-
Goodwill impairment	0	-2,832	0	-10	0	0					
Net income from investments	2	3	0	5	-1	0					
PBT	289	-2,791	-59	185	71	39	12	-62%	-75%	83%	493%
Tax	-121	250	-29	-28	-67	-17					
Integration and restructuring charges	0	0	0	0	0	0					
Net profit	167	-2,541	-88	157	4	21		-97%	-97%	-80%	-
Net fair Value Option result (FVO)					-78	0					

Net profit from discontinued operations	-2	-3	0	1	0	0				
Minorities	-5	-7	-5	-6	-1	-4				
PPA	-28	-31	-16	-14	-9	-12		-37%	-68%	-28%
Net Profit Attributable to the Group	133	-2,582	-109	138	-83	5	-40	-160%	-162%	-1728%
GS Net Income	-21	-11	39	94		17				

Source: Goldman Sachs Research estimates, Company data, Bloomberg consensus (Nov 9, 5 analysts)

Banco Popolare 3Q12 snapshot (continued)
€ mn

BS summary EUR mn								Actual			
	3Q11	4Q11	1Q12	2Q12	3Q12A	3Q12E	Cons*	q / q	y / y	vs GS	vs Cons
Loans	93,452	93,394	93,685	91,028	93,778	91,000		3%	0%	3%	-
Assets	136,767	134,127	134,942	133,649	135,965	134,173		2%	-1%	1%	-
Equity	11,803	9,004	9,356	9,199	9,409	9,139		2%	-20%	3%	-
Goodwill	4,375	1,608	1,608	1,608	1,603	1,608		0%	-63%	0%	-
Intangibles	753	746	746	752	752	752					
Tangible equity	6,674	6,650	7,002	6,839	7,055	6,778		3%	6%	4%	-
RWA	93,200	90,034	90,700	58,711	57,900	58,696		-1%	-38%	-1%	-
Core Tier 1 Capital	6,050	6,373	6,712	5,989	6,022	6,006		1%	0%	0%	-
Number of shares (FD, mn)	1,766	1,764	1,764	1,764	1,764	1,764					
TBVPS (€)	3.78	3.77	3.97	3.88	4.00	3.84		3%	6%	4%	-
EPS (€)	0.08	-1.46	-0.06	0.08	-0.05	0.00					
GS EPS (€)	-0.01	-0.01	0.02	0.05	0.00	0.01					

Key ratios						
NII / avg. loans	2.08%	2.08%	2.08%	1.98%	1.93%	1.91%
Revenue / avg. loans	4.62%	3.90%	3.48%	3.94%	3.75%	3.74%
C / I	55%	65%	72%	64%	67%	69%
GOP / avg. loans	2.08%	1.35%	0.97%	1.43%	1.26%	1.16%
Loans Provisions / avg. loans	0.81%	0.72%	0.90%	0.81%	0.88%	0.90%
Tot. impairment and prov. / avg. loans	0.89%	1.19%	1.22%	0.61%	0.94%	0.99%
Tax rate	42%	9%	-48%	15%	94%	45%
Tang. ROE	-1%	-1%	2%	5%	0%	1%
CT1 Ratio	6.5%	7.1%	7.4%	10.2%	10.4%	10.2%
TA / TE	19.7 x	19.8 x	18.9 x	19.2 x	18.9 x	19.4 x

Source: Goldman Sachs Research estimates, Company data, *Bloomberg consensus (Nov 9, 5 analysts)

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