

Credem

Banks

Target price cut from €3.9 to €3.2. UNDERWEIGHT confirmed

The economic outlook remains gloomy (with continuous downgrades of GDP expectations on a global basis, particularly in Italy, with the most recent -2.3% estimate for 2009 by Prometeia) and interest rates keep falling, making it tougher and tougher for banks to deliver revenues and defend credit quality. After taking an even more cautious approach we cut our FY2009-10e net profit estimates on Credem by -45% on average (after a -7.3% revenue cut), mainly to take the expected interest spread reduction into account. We also halved our FY08e expected dividend from €0.2 to €0.1. We consequently lowered our target price from €3.9 to €3.2 (-18%), confirming our UNDERWEIGHT rating. We do not expect Credem to ask for public aid, as its FY08 core Tier1 should reach 6.5% and also because of the strong support from its core shareholders. In 2009 Credem could look for new opportunities to increase its distribution network further (700 branches) by acquiring branches thanks to the already approved €250m second tranche of the capital increase.

Estimates

We lowered our net profit estimate by -5.4% down to €169bn in FY08e (just above breakeven in 4Q08e) after a -1% revenue cut, and by -45.7% on average in FY2009-10e (to €16m in FY09e and €8m in FY10e) following an average -7.3% revenue cut due to a -10% reduction of the net interest income (mainly due to a lower interest spread with loans rising at a +2.9% CAGR and deposits at a +4.7% CAGR), -2.3% in commissions and a -12% trading income. We confirm our already expected high level of provisions (67bps in FY09e and 60 bps in FY10e). The Robin tax would leverage the negative effect on the bottom line as we expect a 57% tax rate in FY09e and 46% in FY10e. We halved our dividend estimates in FY08e (from €0.2 to €0.1) and cut them -40% in FY2009-10e. The core Tier1 should reach 6.5% in FY08e and 6.8% in FY09e with a likely additional benefit from the introduction of the Basel II advanced method.

Valuation

Following our estimate cut, we reduced our target price on Credem by -18% from €3.9 to €3.2, assuming a -3.3% CAGR 2007-17e of normalized earnings, a sustainable 8% ROCI (vs. the 2.6% bottom we expect in FY09e) and a 9.2% cost of equity. At our target price Credem would trade at 0.6x the P/BV08e, 0.8x the P/Core Tier 1 and 23x and 12.1x the adj. P/E in FY09e and FY10e respectively. Credem is trading at a premium vs. its peers in terms of adj. P/E (22x in FY09e vs. 8.6x on average).

	2006	2007	2008e	2009e	2010e
Stated EPS (€)	0.83	0.88	0.51	0.14	0.26
YoY growth %	-7.6	6.7	-42.5	-72.7	90.4
Adj. EPS (€)	0.829	0.770	0.460	0.139	0.264
YoY growth %	32.7	-7.0	-40.3	-69.9	90.4
Dividend ord. (€)	0.350	0.360	0.100	0.100	0.200
BVPS (€)	4.93	5.47	5.22	5.26	5.32
P/E x	3.8	3.6	6.3	22.9	12.0
Adj. P/E x	3.8	4.1	6.9	22.9	12.0
Dividend Yield %	11.0	11.3	3.1	3.1	6.3
P/BV x	0.64	0.58	0.61	0.60	0.60
P/TIER1 x	0.76	0.69	0.80	0.77	0.76
Cost-income ratio %	60.8	64.6	69.1	76.1	73.0
NPL ratio %	0.2	0.4	0.5	0.7	0.8
ROE %	17.5	17.1	10.3	2.6	5.0
ROCI %	20.9	20.4	12.7	2.6	4.8
Tier 1 ratio %	7.9	8.1	6.5	6.8	6.7
Total capital ratio %	9.2	9.2	8.6	8.9	8.8

Source: Company data, GBL estimates

February 6 2009

UNDERWEIGHT

Target price: 3.2

(from previous €3.9)

Current price: €3.2

(price as of 05/02/2009)

Outstanding shares (m)

332

Mkt. Cap. (€m)

1,056

Avg daily volumes (30 days)

281,700

Main shareholders

Credem Holding 76.8% (Maramotti family)

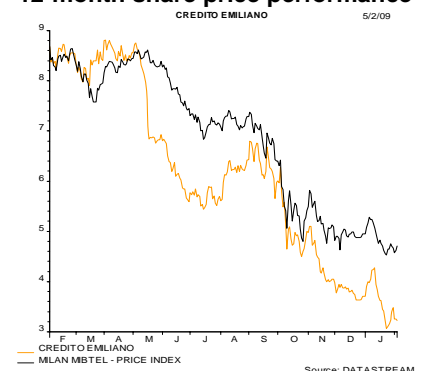
Reuters/Bloomberg

CE IM/EMBI.MI

Last 12 months

High: €8.8 Low: €3.1

12-month share price performance



Performance	1M	3M	12M
Absolute (%)	-20	-38	-62
To MIBTEL (%)	-12	-20	-18
To MSCI Europe (%)	-11	-22	-22

Source: Datastream

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Table 1 - CREDEM: Estimate revision (€m)

Consolidated data	FY08e old	FY08e new	change	FY09e old	FY09e new	change	FY10e old	FY10e new	change	Avg. Change 2008-10e	Avg. Change 2009-10e
Total revenues	991	981	-1.0%	1,050	970	-7.6%	1,107	1,030	-7.0%	-5.3%	-7.3%
Total costs	678	678	0.0%	739	739	0.0%	752	752	0.0%	0.0%	0.0%
Gross operating income	313	303	-3.3%	311	232	-25.6%	355	278	-21.7%	-17.1%	-23.5%
Net provisions	90	90	0.0%	132	125	-5.4%	125	116	-6.6%	-4.4%	-6.0%
Tax charges	42	41	-1.6%	85	61	-28.1%	92	74	-20.2%	-19.8%	-24.0%
Net profit	178	169	-5.4%	95	46	-51.5%	151	88	-42.0%	-28.7%	-45.7%
Adj. EPS (€)	0.49	0.46	-6.4%	0.29	0.14	-51.5%	0.45	0.26	-42.0%	-30.0%	-45.7%
Dividend (€)	0.20	0.10	-50.0%	0.20	0.10	-50.0%	0.30	0.20	-33.3%	-42.9%	-40.0%

Source: GBL estimates

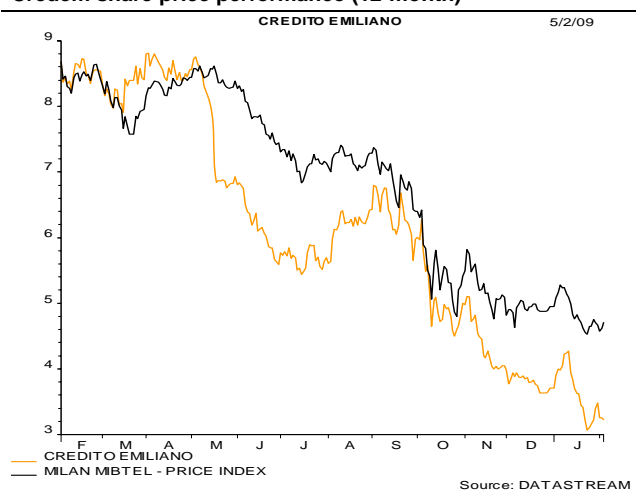
Table 2 - CREDEM: Main data before branch acquisition (€m)

Aggregated data	FY04	FY05	FY06	FY07	FY08e	FY09e	FY10e	CAGR 2007-10e
Net interest income	308	366	419	496	564	512	516	1.3%
Net commissions	364	406	414	344	291	272	298	-4.7%
Trading income/dividends	98	120	163	96	50	60	90	-2.3%
Other income	39	56	64	64	57	58	60	-2.2%
Total revenues	809	948	1,061	1,000	962	902	964	-1.2%
Total costs	570	612	645	646	667	691	706	3.0%
Gross operating income	239	336	416	354	295	210	258	-10.0%
Net provisions	24	18	34	74	90	121	113	15.1%
Net operating income	215	317	382	280	205	90	145	-19.7%
Extraordinary income	0	15	8	42	-3	0	0	-100.0%
Pre-tax profit	215	332	390	322	202	90	145	-23.3%
Tax charges	62	63	148	72	39	56	69	-1.7%
Minorities	9	19	10	0	0	0	0	-100.0%
Net profit	144	250	232	250	163	34	76	-32.6%

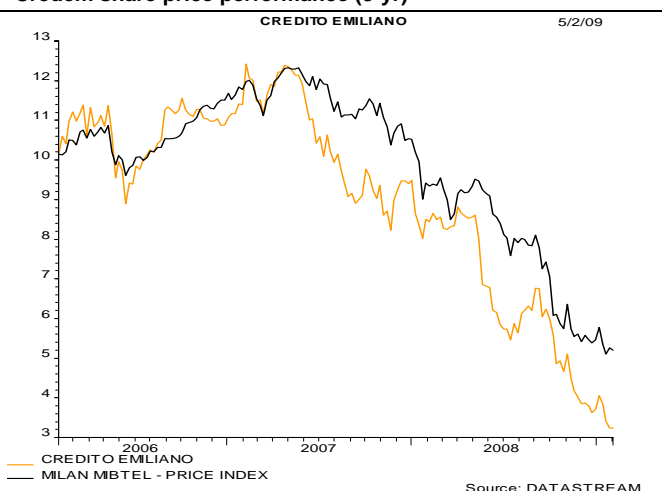
Source: GBL estimates

Price charts

Credem share price performance (12-month)



Credem share price performance (3-yr)



Earnings model

Profit & Loss (€m)	2007	2008e*	2009e*	2010e*	CAGR 2007-10e
Net interest income	535	570	548	553	1.1%
<i>YoY growth</i>	<i>18.3%</i>	<i>6.7%</i>	<i>-3.9%</i>	<i>0.9%</i>	
Dividend income	0	0	0	0	
Net commissions	357	294	294	318	-3.9%
Trading income	53	50	60	90	19.7%
Non interest income	410	344	354	408	-0.2%
<i>YoY growth</i>	<i>-23.7%</i>	<i>-16.1%</i>	<i>2.9%</i>	<i>15.2%</i>	
Associates equity accounted	0	0	0	0	nm
Other income	61	58	62	64	1.4%
Total net banking revenues	471	972	964	1,024	29.6%
<i>YoY growth</i>	<i>-5.8%</i>	<i>106.4%</i>	<i>-0.8%</i>	<i>6.2%</i>	
Total net insurance revenues	0	8	6	6	
<i>YoY growth</i>	<i>0.0%</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	
Total net revenues	1,006	981	970	1,030	0.8%
<i>YoY growth</i>	<i>-5.8%</i>	<i>-2.5%</i>	<i>-1.1%</i>	<i>6.2%</i>	
Staff costs	384	405	442	451	5.5%
General expenses	234	239	259	263	3.9%
Depreciation	31	34	38	38	7.4%
Total costs	649	678	739	752	5.0%
<i>YoY growth</i>	<i>0.2%</i>	<i>4.5%</i>	<i>9.0%</i>	<i>1.8%</i>	
<i>cost income ratio</i>	<i>65%</i>	<i>69%</i>	<i>76%</i>	<i>73%</i>	
Gross operating income	357	303	232	278	-8.0%
<i>YoY growth</i>	<i>-15.0%</i>	<i>-15.1%</i>	<i>-23.5%</i>	<i>20.0%</i>	
Goodwill amortization	0	0	0	0	
Total net provisions	73	90	125	116	16.6%
<i>of which loan-loss provisions</i>	<i>53</i>	<i>90</i>	<i>120</i>	<i>111</i>	<i>28.0%</i>
% on loans	0.34%	0.51%	0.67%	0.60%	
Net operating income	283	213	107	161	-17.1%
<i>YoY growth</i>	<i>-26.8%</i>	<i>-24.9%</i>	<i>-49.7%</i>	<i>50.8%</i>	
Extraordinary income	42	-3	0	0	
Pre-tax profit	325	210	107	161	-20.8%
<i>YoY growth</i>	<i>-17.4%</i>	<i>-35.4%</i>	<i>-49.0%</i>	<i>50.8%</i>	
Tax charges	75	41	61	74	-0.5%
<i>tax rate</i>	<i>23%</i>	<i>20%</i>	<i>57%</i>	<i>46%</i>	
Minorities	0	0	0	0	
Net income from company disposals	0	0	0	0	
Net profit	250	169	46	88	-29.5%
<i>YoY growth</i>	<i>7.5%</i>	<i>-32.5%</i>	<i>-72.7%</i>	<i>90.4%</i>	
Stated EPS (€)	0.884	0.508	0.139	0.264	-33.2%
<i>YoY growth</i>	<i>6.7%</i>	<i>-42.5%</i>	<i>-72.7%</i>	<i>90.4%</i>	
Adjusted EPS fd (€)	0.728	0.460	0.139	0.264	-28.7%
<i>YoY growth</i>	<i>-12.1%</i>	<i>-36.9%</i>	<i>-69.9%</i>	<i>90.4%</i>	
Ordinary dividend (€)	0.360	0.100	0.100	0.200	-17.8%
<i>YoY growth</i>	<i>2.9%</i>	<i>-72.2%</i>	<i>0.0%</i>	<i>100.0%</i>	

* including 33 acquired branches starting from 4Q08 and 35 from 2009

Source: Company data, GBL estimates

Balance Sheet & Key ratios	2007	2008e**	2009e**	2010e**	CAGR 2007/10e
Customer loans	15,763	17,601	17,803	18,637	5.7%
Customer deposits	16,420	19,950	20,334	21,864	10.0%
Total assets	26,232	31,820	31,434	32,610	7.5%
Net interbank exposure	-1,098	-1,890	-1,996	-1,465	10.1%
Shareholders' equity	1,542	1,733	1,746	1,767	4.6%
Customer loans/total assets	60%	55%	57%	57%	
Customer deposits/total liabilities	63%	63%	65%	67%	
Customer loans/customer deposits	96%	88%	88%	85%	
Asset quality					
Gross NPL ratio	0.7%	1.2%	2.0%	2.2%	
Net NPL ratio	0.3%	0.5%	0.7%	0.77%	
Coverage ratio	63.6%	63.8%	64.0%	65.0%	
Gross doubtful loans/Customer loans	0.5%	0.7%	1.1%	1.2%	
Net doubtful loans/Customer loans	0.2%	0.2%	0.3%	0.4%	
Coverage ratio	34.5%	32.4%	33.0%	33.0%	
Net NPL/Sh. equity (incl. minorities)	2.8%	4.6%	7.3%	8.1%	
Net doubtful loans/Sh. equity (incl. minorities)	3.3%	4.6%	7.2%	8.7%	
Loan loss provisions/Customer loans	0.34%	0.51%	0.67%	0.60%	
Total provisions/Gross operating income	21%	30%	54%	42%	
Profitability & Financial Ratios					
ROE	17.1%	10.3%	2.6%	5.0%	
Adjusted ROE	15.3%	12.8%	3.4%	6.3%	
ROCI	20.4%	12.7%	2.6%	4.8%	
RORWA	1.55%	0.93%	0.43%	0.78%	
Revenues/RWA	6.4%	4.9%	4.9%	5.0%	
Costs/RWA	4.0%	3.4%	3.7%	3.6%	
Cost-income ratio	65%	69%	76%	73%	
Tax rate	23%	20%	57%	46%	
Payout ratio	41.1%	19.7%	72.2%	75.8%	
Solvency ratios					
Tier1 capital ratio	8.1%	6.5%	6.8%	6.7%	
Total capital ratio	9.2%	8.6%	8.9%	8.8%	
Risk-weighted assets (€m)	16,120	20,140	19,908	20,660	
Other key data					
Assets under custody (€bn)	25	21	19	22	-4.1%
Assets under management (€bn)	17	15	15	16	-2.2%
AUM/AUC	41.0%	40.9%	43.4%	42.4%	
Employees	5,246	5,950	5,950	5,950	
Branches	600	700	710	725	

** including the acquired branches starting from 2008

Source: Company data, GBL estimates

GBL historical target price and rating changes for Credem in the last 12 months

Date	Target price (€)	Rating	Initiating coverage
09/02/2007	12.7	HOLD	09/02/2007
28/03/2008	9.7	HOLD	
16/05/2008	7.9	HOLD	
23/06/2008	7.1	HOLD	
01/09/2008	7.3	HOLD	
12/09/2008	6.6	HOLD	
24/09/2008	6.2	HOLD	
02/10/2008	6.2	UNDERWEIGHT	
20/10/2008	5.5	BUY	
20/11/2008	4.8	UNDERWEIGHT	
15/01/2009	3.9	UNDERWEIGHT	
06/02/2009	3.2	UNDERWEIGHT	

Source: GBL estimates

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Definition of table items

EPS €	Earnings adjusted for extraordinary items diluted as appropriate
YoY	Year on year growth rate
QoQ	Quarter on quarter growth rate
Dividend/DPS €	Gross dividend per share
P/E ×	Share price / EPS
Dividend Yield %	Gross dividend per share / Share price
PEG ×	P/E / CAGR EPS 2006-09e
EV/Sales ×	(Market Cap + net debt)/Sales
EV/EBITDA ×	(Market Cap + net debt)/EBITDA
EV/EBIT ×	(Market Cap + net debt)/EBIT
EV/Cap. Employed ×	(Market Cap + net debt)/Cap. Employed
ROE %	Net Profit / Shareholders' Equity
ROCE %	Operating Profit / Capital Employed
Debt/Equity ×	Net Debt / Shareholders' Equity
Free Cash Flow Yield	Free Cash Flow / Market Cap.
Interest cover ×	EBIT / Net financial charges
Pay out ratio %	Total Dividend paid / Net profit
Debtors rotation (days)	Debtors *365 / Net sales
Inventories rotation (days)	Inventories *365 / Net sales
Creditors rotation (days)	Creditors *365 / Operating costs
Sales / Capital employed	Net sales / Net Capital employed
NFP €m	Net Financial Position
Free Float %	Shares below 2% owned by shareholders

Rating System

1. STRONG BUY
12/18-month total expected return > 10%, associated with analyst's high conviction
2. BUY
12/18-month total expected return > 10%
3. UNDERWEIGHT
12/18-month total expected return between +10% and -10%
4. SELL
12/18-month total expected return < 10%
5. TENDER THE SHARES/DO NOT TENDER THE SHARES
Stock recommendation in presence of a Public Tender Offer

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