

Credem

Banks
From BUY to HOLD

Yesterday, after trading hours, Credem announced worse-than-expected 4Q07 results due to weak commissions (-6.7% below estimates) and trading income (-89%) and higher provisions. We cut our FY2008-09e earning estimates by -10.6% on average. We cut our target price by -16% from €11.6 to €9.7 following our estimate cut, reduced sustainable ROCI (from 15% to 13%) and an increase of COE from 8.8% to 9%. Hence, we downgraded our rating from BUY to HOLD, after the +14% 3M overperformance vs. peers. We appreciate Credem's strategy of also reinforcing the core distribution network through branch acquisition, but we believe a clear long-term strategy on asset management business is still missing, and this could penalize the sustainable profitability.

Good net interest income but weak commissions and trading income

The YoY growth must be considered as estimates as the yearly comparison is difficult due to the deconsolidation of Euromobiliare. Gross operating income (-31% YoY) was -13% below estimates. Revenues came -7.5% below our estimates falling -15% YoY with a solid net interest income growing +25.4% YoY. Costs (-3.3% YoY) were -4.9% below our estimates. Provisions came at an impressive 125bps annualized vs. the 89bps we expected and 47bps in 4Q06, due to higher generic provisions. Credit quality worsened (Net NPL ratio at 0.3% from 0.2% in FY06) and four times higher generic provisions indicate a cautious attitude on FY08. Net profit was €0m (+48.5% YoY), +43% above our estimates only thanks to a €7m benefit from deferred tax recalculation (almost €15) and the Euromobiliare SIM disposal and €3m extraordinary income (Borsa Italiana, almost €20m, and Euromobiliare disposal, both expected.) but without any negative effect from the Euromobiliare deconsolidation. Sound capital ratio confirmed, with a Tier 1 ratio at 8.1%. The Board proposed a FY07 dividend of €0.36 (+3% YoY), -10% below our estimate.

Estimate downgrade

We cut our FY2008-09e earning estimates by -10.6% on average, -14.9% in FY08e mainly due to a -11% cut of net commissions and a halved trading income. We now estimate a €185m FY08e net profit, -24% below the €242m management target.

Target price from €11.6 to €9.7

We cut our target price by -16% from €11.6 to €9.7 following our estimate cut, reduced sustainable ROCI (from 15% to 13%) and an increased COE from 8.8% to 9%.

	2006	2007	2008e	2009e	2010e
Stated EPS (€)	0.83	0.88	0.66	0.80	0.88
YoY growth %	-7.6	6.7	-25.9	22.3	9.4
Adj. EPS (€)	0.829	0.770	0.649	0.794	0.868
YoY growth %	32.7	-7.0	-15.7	22.3	9.4
Dividend ord. (€)	0.350	0.360	0.450	0.500	0.550
BVPS (€)	4.93	5.47	5.76	6.11	6.48
P/E	10.4	9.7	13.1	10.7	9.8
Adj. P/E	10.4	11.1	13.2	10.8	9.9
Dividend Yield %	4.1	4.2	5.2	5.8	6.4
P/BV	1.74	1.57	1.49	1.40	1.32
P/TIER1	2.04	1.89	1.79	1.68	1.58
Cost-income ratio %	60.8	64.1	67.0	63.5	62.0
NPL ratio %	0.2	0.3	0.3	0.3	0.3
ROE %	17.5	17.1	11.7	13.5	13.9
ROCI %	20.7	17.5	14.0	16.2	16.8
Tier 1 ratio %	7.9	8.1	7.7	7.7	7.9
Total capital ratio %	9.2	9.4	9.2	9.1	9.2

Source: company data, GBL estimates

March 28 2008

HOLD

(from previous BUY)

Target price: 9.7

(from previous TP €11.6)

Current price: € 8.6

(price as of 27/03/2008)

Outstanding shares (m)

282

Mkt. Cap. (€m)

2,422

Avg daily volumes (30 days)

355,800

Reuters/Bloomberg

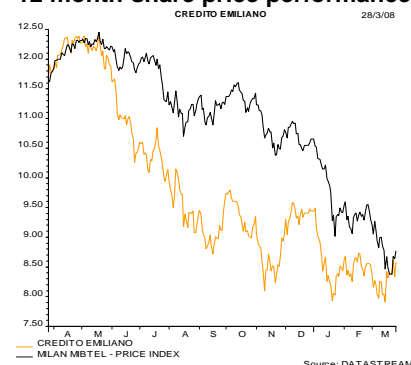
CE IM/EMBI.MI

Last 12 months

High: € 12.4

Low: € 7.9

12 month-share price performance



Performance	1M	3M	12M
Absolute (%)	0	-9	-26
To MIBTEL (%)	8	8	-2
To MSCI Europe (%)	6	7	-14

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Table 1 - CREDEM: Main data (€m)

	FY06	FY07*	YoY	FY07e**
Net revenues	1,061	1,033	0.7%	1,069
Costs	645	662	5.0%	677
Gross op. income	416	371	-5.9%	392
Provisions	34	74	78.8%	61
Pre-tax profit	390	327	-9.8%	351
Net profit	232	249	3.0%	239
Dividend (€)	0.350	0.360	3.0%	0.400

* with Euromobiliare consolidated line by line at 70%

Source: Company data, GBL estimates

** with Euromobiliare consolidated line by line

pf : excluding Euromobiliare , GBL estimate

Table 2 - CREDEM: Main data (€m) ex Euromobiliare

	FY06e	FY07e pf	YoY	FY07e	Act/Est	4Q06pf	4Q07pf	YoY	4Q07e
Net revenues	993	994	0.7%	1,013	-1.9%	278	238	-14.7%	257
Costs	618	646	5.0%	654	-1.3%	167	162	-3.3%	170
Gross op. income	374	348	-5.9%	359	-3.1%	111	76	-31.8%	87
Provisions	34	74	78.8%	55	34.5%	17	49	189.3%	36
Pre-tax profit	348	316	-9.8%	325	-2.9%	99	60	-39.5%	61
Net profit	232	249	3.0%	239	4.3%	61	90	48.5%	63
Dividend (€)	0.350	0.360	3.0%	0.400					

Source: Company data, GBL estimates

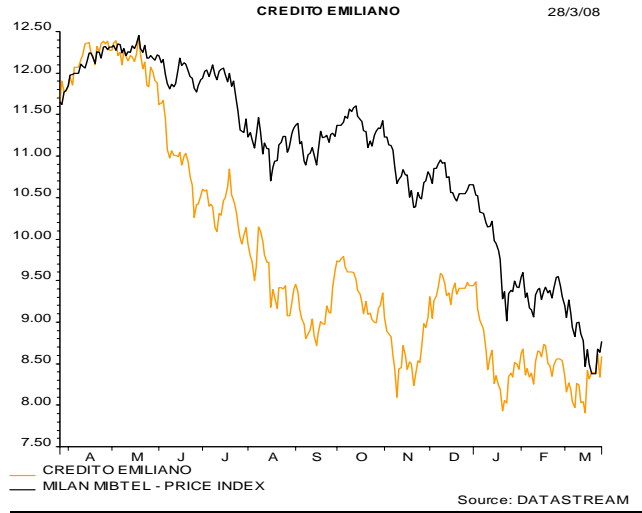
Table 3 - CREDEM: Estimate revision (€m)

Consolidated data	2008e old	2008e new	change	2009e old	2009e new	change
Total revenues	1,084	1,008	-7.0%	1,153	1,103	-4.3%
Total costs	690	675	-2.1%	712	700	-1.7%
Gross operating income	394	333	-15.6%	440	403	-8.5%
Net provisions	44	44	0.5%	50	50	0.4%
Pre-tax profit	350	289	-17.6%	391	353	-9.6%
Tax charges	133	104	-21.9%	148	127	-14.4%
Net profit	217	185	-14.9%	242	226	-6.7%
EPS STATED (€)	0.77	0.66	-14.9%	0.86	0.80	-6.7%
EPS adj (€)	0.76	0.65	-14.9%	0.85	0.79	-6.7%
Dividend (€)	0.45	0.45	0.0%	0.50	0.50	0.0%

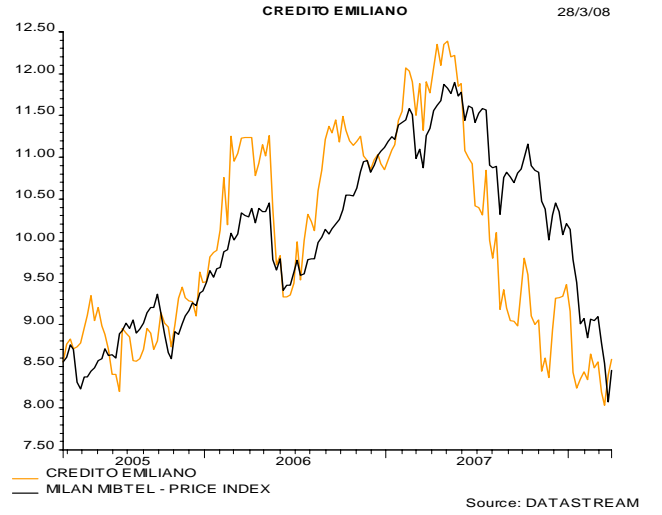
Source: GBL estimates

Price charts

Credem share price performance (12 months)



Credem share price vs. Italy and EU (2-yr rebased at 100)



Earnings model

Profit & Loss (€m)	2006	2007	2008e	2009e	2010e	CAGR 2007/10e
Net interest income	419	491	531	557	581	5.8%
YoY growth	14.5%	17.0%	8.2%	4.9%	4.2%	
Dividend income	0	0	0	0	0	
Net commissions	414	377	360	374	401	2.1%
Trading income	163	100	50	100	100	0.1%
Non interest income	577	477	410	474	501	1.7%
YoY growth	9.8%	-17.3%	-14.0%	15.5%	5.8%	
Associates equity accounted	2	8	7	7	7	-1.1%
Other income	63	57	60	65	65	4.2%
Total net banking revenues	1,061	1,033	1,008	1,103	1,154	3.8%
YoY growth	11.9%	-2.6%	-2.4%	9.5%	4.6%	
Total net insurance revenues	0	0	0	0	0	
YoY growth						
Total net revenues	1,061	1,033	1,008	1,103	1,154	3.8%
YoY growth	11.9%	-2.6%	-2.4%	9.5%	4.6%	
Staff costs	388	394	396	411	420	2.1%
General expenses	230	237	247	254	259	3.0%
Depreciation	26	31	33	35	37	6.0%
Total costs	645	662	675	700	716	2.6%
YoY growth	5.3%	2.7%	2.0%	3.7%	2.2%	
cost income ratio	61%	64%	67%	63%	62%	
Gross operating income	416	371	333	403	439	5.7%
YoY growth	24.0%	-10.9%	-10.3%	21.2%	8.8%	
Goodwill amortization	0	0	0	0	0	
Total net provisions	34	74	44	50	52	-10.9%
of which loan loss provisions	26	54	39	45	47	-4.0%
% on loans	0.18%	0.34%	0.22%	0.24%	0.24%	
Net operating income	382	297	289	353	386	9.2%
YoY growth	20.5%	-22.3%	-2.7%	22.3%	9.4%	
Extraordinary income	8	30	0	0	0	
Pre-tax profit	390	327	289	353	386	5.7%
YoY growth	17.3%	-16.1%	-11.7%	22.3%	9.4%	
Tax charges	148	78	104	127	139	21.5%
tax rate	38%	24%	36%	36%	36%	
Minorities	10	0	0	0	0	
Net income from disposal companies	0	0	0	0	0	
Net profit	232	249	185	226	247	-0.3%
YoY growth	-7.2%	7.4%	-25.9%	22.3%	9.4%	
Stated EPS (€)	0.829	0.884	0.655	0.801	0.876	-0.3%
YoY growth	-7.6%	6.7%	-25.9%	22.3%	9.4%	
Adjusted EPS fd (€)	0.829	0.770	0.649	0.794	0.868	4.1%
YoY growth	32.7%	-7.0%	-15.7%	22.3%	9.4%	
Ordinary dividend (€)	0.350	0.360	0.450	0.500	0.550	15.2%
YoY growth	-30.0%	2.9%	25.0%	11.1%	10.0%	

Source: Company data, GBL estimates

Balance Sheet & Key ratios	2006	2007	2008e	2009e	2010e	CAGR 2007/10e
Customer loans	14,386	5,763	17,406	18,798	19,738	7.8%
Customer deposits	14,165	5,954	18,154	19,674	20,658	9.0%
Total assets	24,251	5,872	27,748	29,416	30,641	5.8%
Net interbank exposure	-918	-898	-961	-990	-1,020	4.4%
Shareholders' equity	1,380	,542	1,625	1,723	1,827	5.8%
Customer loans/total assets	59%	61%	63%	64%	64%	
Customer deposits/total liabilities	58%	62%	65%	67%	67%	
Customer loans/customer deposits	102%	99%	96%	96%	96%	
Asset quality						
Gross NPL ratio	0.5%	0.7%	0.7%	0.7%	0.8%	
Net NPL ratio	0.2%	0.3%	0.3%	0.3%	0.3%	
Coverage ratio	60.3%	73.0%	74.0%	76.0%	76.0%	
Gross doubtful loans/Customers loans	0.4%	0.4%	0.4%	0.4%	0.4%	
Net doubtful loans/Customers loans	0.2%	0.3%	0.3%	0.3%	0.3%	
Coverage ratio	45.5%	39.0%	40.0%	40.0%	40.0%	
Net NPL/ Sh. Equity (incl. minorities)	2%	2%	2%	2%	2%	
Net doubtful loans/ Sh. Equity (incl. minorities)	2%	3%	3%	3%	3%	
Loan loss provisions/Customer Loans	0.2%	0.3%	0.2%	0.2%	0.2%	
Total provisions/gross operating income	8%	20%	13%	12%	12%	
Profitability & Financial Ratios						
ROE	17.5%	17.1%	11.7%	13.5%	13.9%	
Adjusted ROE	18.2%	15.5%	12.0%	13.9%	14.3%	
ROCI	20.7%	17.5%	14.0%	16.2%	16.8%	
RORWA	1.50%	1.52%	1.05%	1.21%	1.27%	
Revenues/RWA	6.8%	6.2%	5.7%	5.9%	5.9%	
Costs/RWA	4.2%	4.0%	3.8%	3.7%	3.7%	
Cost-income ratio	61%	64%	67%	63%	62%	
Tax Rate	38%	24%	36%	36%	36%	
Payout ratio	42.2%	41.1%	69.3%	63.0%	63.3%	
Solvency ratios						
TIER 1 capital ratio	7.9%	8.1%	7.7%	7.7%	7.9%	
Total capital ratio	9.2%	9.4%	9.2%	9.1%	9.2%	
Risk weighted assets (€ m)	15,521	6,429	17,620	18,679	19,457	
Other key data						
Assets under custody (€ bn)	26	27	29	30	30	
Assets under management (€ bn)	17	18	17	19	20	
AUM/AUC	40%	39%	37%	39%	40%	
Employees	5,095	,277	5,406	5,406	5,406	
Branches	469	499	528	538	642	

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
30/03/2007	12.8	HOLD	
26/06/2007	12.5	BUY	
14/09/2007	12.3	BUY	
21/11/2007	11.6	BUY	
28/03/2008	9.7	HOLD	

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. BUY 12/18-month total expected return > 10%
2. HOLD 12/18-month total expected return between +10% and -10%
3. SELL 12/18-month total expected return < 10%

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