

Banca Sistema

Resilient, specialist finance provider

Banca Sistema (BST) is an Italian speciality finance provider with factoring as its main activity. The long payment times that characterise public administrations (PAs) in Italy, together with EU-mandated late payment interest, create an attractive opportunity with low credit risk for a specialist lender such as BST. In consumer finance, BST has established a strong position in salary and pension-backed lending and has a small but growing pawnbroking business, providing alternative sources of growth and diversification.

Addressing attractive and niche markets

Banca Sistema's factoring business (63% of customer loans, 79% of total income in H120) focuses on purchasing trade receivables owed by Italian PAs or the tax authority, mainly to leading multinationals and corporates. Established in 2011, BST has strong analytical capabilities and knowledge of the PA obligors and their suppliers, which supports pricing decisions, new business wins and the yield achieved. Pension and salary loans (34% of loans, 19% of total income) are mainly purchased but BST now also originates these directly. Over 80% are backed by PA salaries or by pensions. The gold and jewellery-backed (pawnbroking) business is still small but, following an acquisition from Intesa Sanpaolo in July, loans rose from €13m in H120 to c €75m with 12 branches. There was some impact on loan growth from COVID-19 in H120, but this was largely confined to tax receivables and football industry receivables. Since end 2016, group customer loans as shown on the balance sheet have grown at a compound annual rate of 21% to €2.6bn.

Financial position

BST funding is balanced (50/50) between retail and wholesale, with the latter including full utilisation of ECB funding. The H120 total funding cost was 0.6%. Even after adjusting for the pawnbroking acquisition, the capital position has a good level of headroom with the CET1 ratio at 11.7% and total capital ratio at 15.2% compared with requirements of 7.75% and 11.9% respectively. Reflecting the nature of the loan book, the cost of risk has been low and broadly stable in recent years, and in H120 was 0.37% (0.36% for FY19). Net bad loans were 1.1% of total loans.

Valuation

Using an ROE/COE model (with assumed long-term growth of 4%, a 10% cost of equity), the current share price implies an assumed ROE of c 8.5%: cautious when compared with an H120 ROE of 13.5% and FY21e consensus of 13.9%.

Consensus estimates

Year end	Total income (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/18	91.1	42.1	34.0	8.70	5.0	5.1
12/19	100.9	41.3	37.0	9.30	4.6	5.5
12/20e	100.7	35.5	35.5	11.35	4.8	6.7
12/21e	117.7	46.9	46.9	10.06	3.6	5.9

Source: Refinitiv

Financial services

7 October 2020

Price €1.72
Market cap €138m

Share price graph



Share details

Code BST
Shares in issue 80.421m
Core equity tier 1 ratio 11.7%

Business description

Banca Sistema is a speciality finance provider with a primary focus on factoring receivables from the Italian public sector (public administrations or PAs), with salary and pension-based lending forming a second core activity. The bank is opportunistic and has expanded its small gold and jewellery-backed lending (pawnbroking) business through an acquisition this year.

Bull

- Specialist lender in niche areas with growth potential.
- Low credit risk.
- Capital headroom.

Bear

- Prompter Italian PA payments would reduce opportunity for factoring.
- Little scope for funding costs to fall further.
- Economic uncertainties have delayed publication of new business plan to early 2021.

Analyst

Andrew Mitchell +44 (0)20 3681 2500

financials@edisongroup.com

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Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b

60325 Frankfurt

Germany

London +44 (0)20 3077 5700

280 High Holborn

London, WC1V 7EE

United Kingdom

New York +1 646 653 7026

1185 Avenue of the Americas

3rd Floor, New York, NY 10036

United States of America

Sydney +61 (0)2 8249 8342

Level 4, Office 1205

95 Pitt Street, Sydney

NSW 2000, Australia