

Italy Asset Managers

Attractive entry point for BMED, upgrade to Buy; FBK down to Neutral

While we acknowledge that the political backdrop in Italy is uncertain, we reassess our estimates for the Italian asset gatherers into 4Q20 earnings. We upgrade BMED to Buy (from Neutral) with a TSR of 25.6% (new PT €8.70 from €7.70 previously); we believe the stock's P/E multiple compression (-1.5x since Aug-20) implies that the market is underestimating BMED's potential earnings growth derived from its high exposure to equity markets as well as its stronger-than-expected operational results in 2020. We downgrade FBK to Neutral (new PT €14.70 from €14.20 previously) as we see limited upside to FBK's valuation from the current NTM P/E of 27.6x (Datastream consensus). We also increase our estimates for AZMT and BGN by an average of 5.2% over 2020-22, driving increases in AZMT's PT to €21.10 (from €20.3) and BGN's to €32.50 (from €31.0). Since being added to the Buy List on August 10, 2020, FBK shares are up by 10.5% vs. the FTSE World Europe up 12.5%; we believe the narrow underperformance was driven by decreasing rates in 2H driving a marginal negative impact on FBK's earnings.

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- 1. BMED: Equity exposure supports AuM growth.** We believe the market is underestimating the positive impact on BMED's 2020E and 2021E earnings from the strong rally in European and US equity markets in 4Q20 (Euro STOXX 600 up 11% and S&P 500 up 12%) and the positive expectations GS strategists have for 2021 (see [here](#)). With c.50% of Mutual Funds invested in equity (GS FY20 estimate) we believe BMED will be the main beneficiary of this trend relative to Italian asset gatherer peers, which on our estimates supports 9% EPS growth in 4Q20E and an 18% CAGR over 2020-22E, while the current market valuation implies -1.5x P/E multiple compression since [last August](#).
- 2. Flows accelerated in December, leading to strong organic growth for FY20E.** Strong AuM flows reported for December for the asset gatherers conclude a year that has seen an acceleration of their market share gains at the expense of small local banks, with capital moving towards more digital, client-centric services able to support clients throughout the market volatility. We expect this trend to be sustained and benefit the four companies in our coverage, led by FBK (25% flows market share in 2020E).

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- 3. Organic AuM growth to remain strong despite the macro environment.** While we acknowledge that the political backdrop in Italy is uncertain, we note that the asset managers' sensitivity to political tensions in the Italian government has been relatively muted historically, with our four coverage companies posting consistent strong organic AuM growth since at least 2013. We therefore expect the organic growth of the companies to remain solid (avg. organic AuM growth over 2021-23E of 5.7%). This will be driven in our view by the growth initiatives launched by each company, supported by their continued market share gains.

Market dynamics favor BMED, while sector earnings growth should remain strong

With the strong equity market performance in Europe and the US over 4Q20 and expected for most of 2021 on GS estimates, we expect BMED's earnings growth to accelerate vs. peers thanks to its strong exposure to equity markets, which we estimate make up c.50% of the company's mutual funds AuM. We see the 4Q reporting scheduled for February 9 as the first catalyst for the stock to re-rate. We expect organic AuM growth to remain strong across our coverage, thanks to the flight to quality last year in the midst of the pandemic, and we expect the trend to continue due to individual growth initiatives launched by the companies. While we acknowledge that the political backdrop in Italy is uncertain, we note that the asset gatherers' sensitivity to political tensions in the Italian government has been relatively muted historically, with our four coverage companies posting consistent strong organic growth since at least 2013.

1. Equity exposure to support AuM growth

The last quarter of 2020 saw a strong European and US equity market rally since the announcement of the first vaccine in November. Additionally, the potentially fast deployment of the vaccines and hope for further stimulus by central banks has led to GS expectations of a strong recovery in 2021. GS strategists expect the STOXX 600 and the S&P 500 to grow by 5.1% and 12.9% respectively in 2021 (see [here](#)).

In this context, we believe the market is underestimating the positive impact of BMED's high exposure to equity will have on the company's earnings. We estimate the firm has c.50% of mutual fund and unit-linked AuM invested in equity as of end-2020, against c.38% for AZM and c.32% for FBK. This will drive in our numbers a stronger positive impact for BMED's organic AuM growth, on a relative basis. We expect the investment performance alone to drive an average annualised organic AuM growth of 6.9% for BMED over 4Q20-4Q21.

Exhibit 1: We estimate BMED has the highest exposure of the ITA asset gatherers to equity markets...

Equity % of AuM at end-2020E

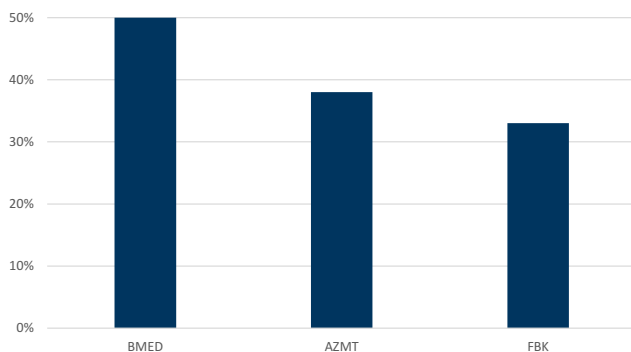
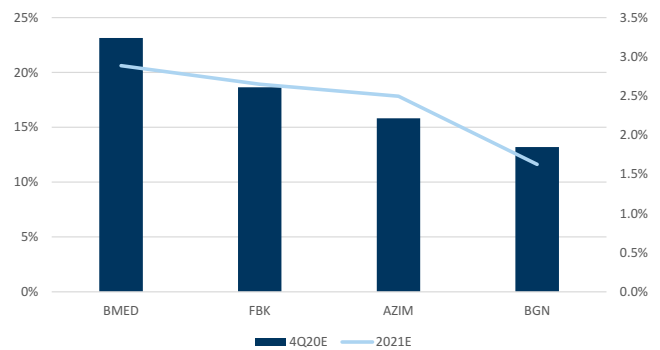


Exhibit 2: ...which should support a strong positive impact from investment performance

Investment performance vs. AuM



BGN excluded from the analysis due to lack of data. For BMED we use the equity proportion reported for mutual fund and unit-linked assets (50% in 3Q20) as a proxy for total AuM.

Source: Goldman Sachs Global Investment Research

Source: Goldman Sachs Global Investment Research

2. Flows accelerated in December, leading to a strong organic AuM growth for FY20

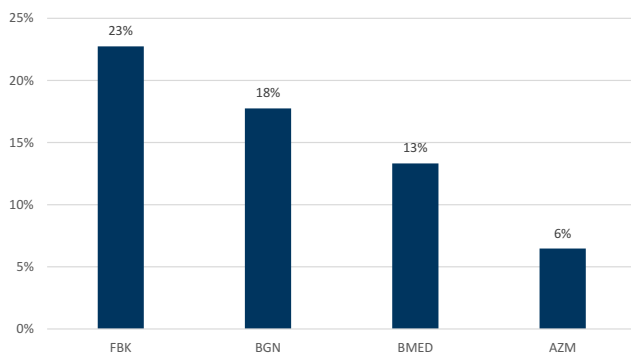
In December the four firms in our coverage — AZM, BGN, BMED and FBK — reported strong sales, supported by the positive market environment. The highest AuM organic growth was posted by FBK, delivering €791 mn of sales in AuM, followed by BGN and BMED. This closes 2020 with strong operating performance for all the companies, despite the spikes in volatility and market uncertainty.

The Italian asset gatherers under our coverage continued to benefit throughout the year from the macro trends we discussed in our [initiation report](#). The pandemic led to a search for quality within the Italian asset management space. Following bank branch closures in March/April 2020 and on the back of continued lockdowns, the asset gatherers managed to gain market share from small local banks thanks to their flexibility, client-centric businesses and higher levels of digitalisation of their services. This resulted in FBK capturing 25% of the market share in 2020 from an initial AuM market share of 9% registered in December 2019. Similarly, BGN and BMED captured 19% and 20% of the Italian financial network sales from an initial market share of 11% and 14% respectively.

We expect this trend to continue in the medium term as we see the effects of COVID as an accelerator of the digitalisation trend within the Italian banks market.

Exhibit 3: The reported December organic AuM growth was strong across the board

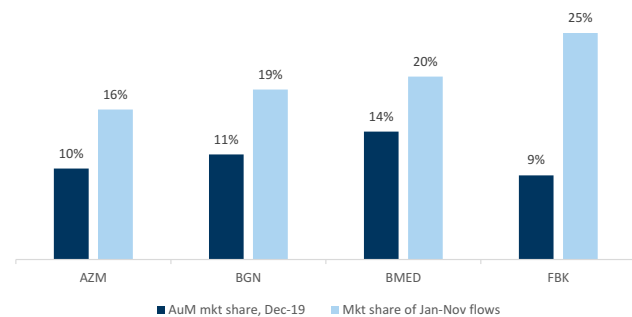
AuM organic growth (Dec-20, annualised)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Market share growth accelerated throughout the year

AuM market share in Dec-19 vs. Jan-Nov 2020 flows market share



Source: Assoreti, Company data, Goldman Sachs Global Investment Research

3. Organic growth to remain strong despite the macro environment

We believe the flight to quality in the Italian financial markets, coupled with the numerous initiatives launched by the four companies, will drive solid organic growth over the coming years. While acknowledging the recent tension with the ruling coalition, we note that the asset gatherers' sensitivity to political tensions in the Italian government has been relatively muted historically, with our four companies posting consistent strong organic growth since at least 2013.

We believe FBK will continue to see the highest AuM organic growth (8.5% annual organic growth on AuM in 2021-23E) driven by its complete offering of a fully integrated digital bank with highly competitive and transparent pricing. We also see the growth of Fineco Asset Management (FAM) accelerating, providing additional support to AuM

growth.

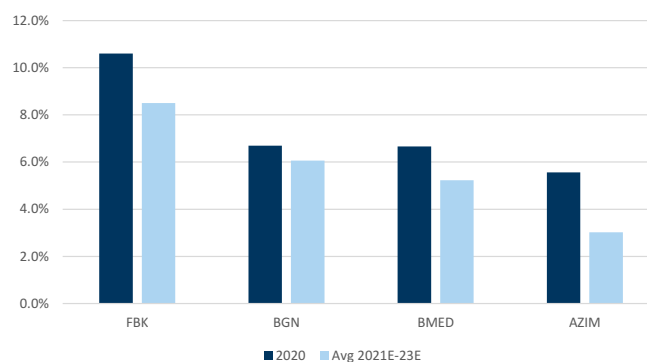
We expect BGN to deliver an average annual organic growth of 6.1% over the same period, supported by the group's strong hiring efforts, the robust pipeline of Lux IM (in-house asset management products) and by the innovative product offering in Switzerland. Additionally, we see the growth in the insurance space accelerating thanks to the increasing demand in the space and the recent initiatives launched by the group.

We expect BMED to organically grow AuM at 5.2% annually on average over 2021-23 thanks to the continuous launch of new products within the asset management arm of the group that effectively targets changes in client needs, and to the strong marketing campaigns that have been driving continued growth in recent years. Additionally, we remain bullish on the insurance growth of BMED, which started adding insurance experts to its distribution network in order to increase the insurance coverage of its clientele. The group targets a total of €400 mn in insurance premiums generating c.€120 mn of annual insurance revenues by 2024.

Finally, we see AZM organically growing AuM at c.3% over 2021-23 as the company does not have the full benefit of the banking operations the other peers leverage on, and as we continue to expect a slight deceleration in the organic growth due to the transition the company is making to increase its efforts in private markets.

Exhibit 5: We expect AuM organic growth to continue to be the highest for FBK

AuM organic growth (%)



Source: Company data, Goldman Sachs Global Investment Research

Estimate changes

The recently reported December flows, in addition to the positive impact we expect from the 4Q20 equity market rally, drive a c.9% increase in our estimates for BMED (2020-22E). Additionally, we increase the earnings of AZM on the back of the company's preview of its FY20 net income which it expects to be higher than in 2019. However, we expect most of the upside on AZM to come from performance fees, therefore only affecting 2020E earnings. Finally, we make minor adjustments on BGN and FBK earnings to reflect the December flows reported and the market moves.

Exhibit 6: Summary of estimate and 12m price target changes

Company	Cur.	Price Current	Rating	12M PT			Upside/Downsid	2020E divi yield	Cur.	EPS (new)			EPS (old)			New vs. old (%)		
				New	Old	%				2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Azimut	€	18.9	Neutral	21.10	20.30	3.9%	11.6%	6.3%	€	2.12	1.92	1.92	1.91	1.83	1.87	11.3%	4.8%	2.8%
Banca Mediolanum	€	7.2	Buy	8.70	7.70	13.0%	20.1%	5.5%	€	0.50	0.64	0.69	0.49	0.58	0.61	2.9%	10.9%	13.6%
Banca Generali	€	27.3	Buy	32.50	31.00	4.8%	19.1%	5.6%	€	2.15	2.37	2.45	2.13	2.24	2.31	1.0%	5.6%	5.7%
FinecoBank	€	13.9	Neutral	14.70	14.20	3.5%	5.8%	2.8%	€	0.55	0.58	0.64	0.54	0.57	0.62	0.4%	3.2%	3.1%

Source: Datastream, Goldman Sachs Global Investment Research

Key financials

Exhibit 7: FinecoBank key financials

€ mn	2019	2020E	2021E	2022E	2023E	2024E
AuA	81,419	91,709	101,903	113,235	122,528	132,590
- managed assets	40,505	45,382	51,111	57,364	62,187	67,422
- under custody	40,913	46,328	50,792	55,871	60,341	65,168
Net inflows	5,840	9,282	8,706	9,630	7,388	7,996
FAs	2,541	2,582	2,592	2,612	2,632	2,652

AuA / FAs (mn)	32.0	35.5	39.3	43.4	46.6	50.0
Managed assets / AuA	50%	49%	50%	51%	51%	51%

Income statement	2019	2020E	2021E	2022E	2023E	2024E
Net commissions	325	403	450	497	547	595
Net interest income	281	274	260	263	269	273
Trading profit	48	99	89	98	108	119
Other fees	4	2	1	1	1	1
Net revenues	658	778	801	859	924	987
Net fee income	658	778	801	859	924	987
Other income	0	0	0	0	0	0
Net revenues	658	778	801	859	924	987
Operating costs	-250	-262	-265	-273	-282	-291
Operating profit	408	516	536	586	642	696
Other items	-22	-44	-35	-37	-39	-41
Pre-tax profit	386	473	501	549	603	655
Taxes	-118	-139	-145	-159	-175	-190
Net income statutory	269	333	356	390	428	465

Key profitability ratios	2019	2020E	2021E	2022E	2023E	2024E
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As percentage of average AuA

Gross fee income						
- management fees	1.22%	1.15%	1.22%	1.20%	1.20%	1.20%
- performance fees						
- other fees						
Net fee income	0.87%	0.90%	0.83%	0.80%	0.78%	0.77%
Net revenue	0.87%	0.90%	0.83%	0.80%	0.78%	0.77%
Pre-tax profit	0.51%	0.55%	0.52%	0.51%	0.51%	0.51%
RoAuA	0.36%	0.38%	0.37%	0.36%	0.36%	0.36%

Commission pay out	-	-	-	-	-	-
C / I ratio	38%	34%	33%	32%	31%	30%
Tax rate	30%	30%	29%	29%	29%	29%

Growth rates	2019	2020E	2021E	2022E	2023E	2024E
AuA growth	17%	13%	11%	11%	8%	8%
net inflows	8%	11%	9%	9%	7%	7%
market performance	9%	1%	2%	2%	2%	2%
FAs	-1%	2%	0%	1%	1%	1%
Revenue	5%	18%	3%	7%	8%	7%
Net commissions	8%	24%	12%	10%	10%	9%
Net interest income	1%	-2%	-5%	1%	2%	1%
Costs	2%	5%	1%	3%	3%	3%
Net income	10%	24%	7%	10%	10%	9%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: Banca Mediolanum key financials

€ mn	2019	2020E	2021E	2022E	2023E	2024E
AuA	84,716	93,569	100,796	107,720	114,928	122,539
- managed assets	61,604	66,574	71,932	77,125	82,558	88,389
- other assets	23,112	26,995	28,863	30,595	32,370	34,150
Net inflows	4,064	7,716	5,029	5,287	5,456	5,739
FAs	5,197	5,377	5,405	5,435	5,465	5,495
AuA / FAs (mn)	16.3	17.4	18.6	19.8	21.0	22.3
Managed assets / AuA	73%	71%	71%	72%	72%	72%

Income statement	2019	2020E	2021E	2022E	2023E	2024E
Management fees	1,027	1,063	1,216	1,288	1,364	1,448
Performance fees	425	59	115	124	132	142
Other fees	432	456	498	539	583	624
Gross fee income	1,883	1,579	1,829	1,951	2,080	2,213
Commission expenses	-625	-661	-778	-825	-873	-927
Net fee income	1,258	917	1,051	1,126	1,207	1,287
Other income	251	232	225	223	220	217
Net revenues	1,509	1,149	1,276	1,349	1,427	1,504
Operating costs	-654	-667	-683	-707	-728	-751
Operating profit	856	481	593	642	699	753
Other items	-117	-21	8	8	8	8
Pre-tax profit	739	461	601	650	707	761
Taxes	-174	-98	-128	-139	-151	-163
Net income statutory	565	363	473	511	556	598

Key profitability ratios	2019	2020E	2021E	2022E	2023E	2024E
As percentage of average AuA						
Gross fee income	2.37%	1.77%	1.88%	1.87%	1.87%	1.86%
- management fees	1.29%	1.19%	1.25%	1.24%	1.23%	1.22%
- performance fees	0.54%	0.07%	0.12%	0.12%	0.12%	0.12%
- other fees	0.54%	0.51%	0.51%	0.52%	0.52%	0.53%
Net fee income	1.49%	0.98%	1.04%	1.05%	1.05%	1.05%
Net revenue	1.90%	1.29%	1.31%	1.29%	1.28%	1.27%
Pre-tax profit	0.93%	0.52%	0.62%	0.62%	0.63%	0.64%
RoAuA	0.71%	0.41%	0.49%	0.49%	0.50%	0.50%
Commission pay out	61%	62%	64%	64%	64%	64%
C / I ratio	43%	58%	54%	52%	51%	50%
Tax rate	23%	21%	21%	21%	21%	21%

Growth Rates (yoy %)	2019	2020E	2021E	2022E	2023E	2024E
AuA growth	14%	10%	8%	7%	7%	7%
net inflows	5%	9%	5%	5%	5%	5%
market performance	9%	1%	2%	2%	2%	2%
FAs	-1%	3%	1%	1%	1%	1%
Revenue	44%	-24%	11%	6%	6%	5%
Management fees	3%	4%	14%	6%	6%	6%
Performance fees	203%	-86%	94%	8%	7%	7%
Costs	6%	2%	2%	3%	3%	3%
Net income	121%	-36%	30%	8%	9%	8%

Source: Company data, Goldman Sachs Global Investment Research

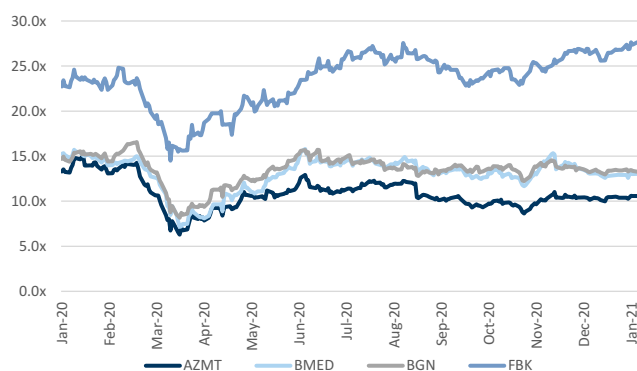
Valuation and risks

Since last August, the share prices of the four Italian asset gatherers in our coverage increased by 11% but their multiples compressed on average by 0.4x. Notably, FBK is the only name that enjoyed a significant margin expansion (1.7x). Its share price gained roughly 10% while its earnings suffered from headwinds on NII which have a more significant weight on the firm vs. peers (35% of total earnings).

FBK: Downgrade to Neutral (from Buy). We remain bullish on the organic AuM growth prospects of FBK, and we continue to expect an 8.5% average organic growth on AuM over 2021-23 and a further 3% revenue CAGR in its broking business over the forecast period to 2024E from the highest-ever reported broking results in 2020. However, we believe the growth is fully captured in the stock's current valuation of 27.6x NTM P/E on Datastream consensus earnings. We therefore downgrade our rating to Neutral (from Buy) while updating our PT to €14.70 (from €14.20 previously).

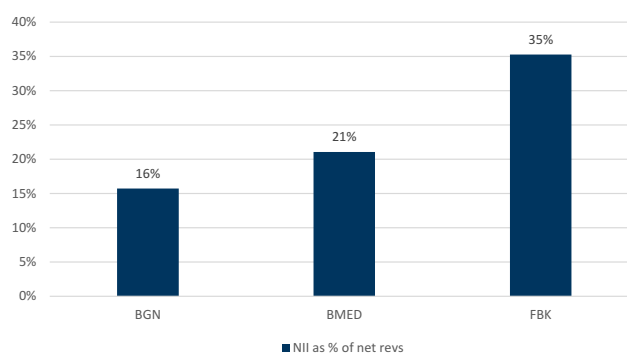
BMED: Upgrade to Buy (from Neutral). We believe that the P/E multiple compression we have seen on BMED since last August (1.5x) is not justified in light of the positive AuM organic growth we expect the company will deliver over the forecast period to 2024E in its investing business and also the tailwind provided by the equity market performance in 4Q20 and expected to continue in 2021, which historically has had a particularly positive effect on BMED vs. peers. We estimate the company's total AuM organic growth in 4Q20 of 8% (31% annualised) and the strong performance of the equity markets should ensure sustained fee margins throughout 2021, supporting the top line. This results in EPS growth of 9% for 4Q20E alone in our numbers. Given the higher-than-expected operational results reported in FY20 and the strong performance of equity markets in 4Q20, we increase our earnings by c.9% on average in 2020-22E and raise our PT to €8.70 (from €7.70 previously). With the stock currently at €7.2, 13x its NTM P/E (Datastream consensus), we see this as an attractive entry point for BMED and upgrade our rating to Buy.

Exhibit 9: FBK is the only stock in our coverage that saw multiple expansion in 2020...
NTM P/E



Source: Datastream

Exhibit 10: ...despite its strong reliance on NII on total revenues
NII as % of net revenues in 2020E



Azimut excluded as it has no banking operations

Source: Company data, Goldman Sachs Global Investment Research

Valuation and risks

Azimut (Neutral):

- **Valuation:** Our 12-month P/E-based price target is €21.10 (from €20.3), applying an 11x multiple to average 2021/22E EPS (unchanged) and implies 12% upside.
- **Risks:** The main upside and downside risks to our investment case are higher/lower flows, especially in relation to the private markets segment, a better- or worse-than expected macro environment, and better- or worse- than expected emerging market performance.

Banca Generali (Buy):

- **Valuation:** Our 12-month P/E-based price target is €32.50 (from €31.0), using a 13.5x multiple applied to average 2021/22E EPS (unchanged), and implies 19% upside from current market levels.
- **Risks:** The main downside risks to our investment case are a worsening macro environment, lower-than-expected demand for Lux IM, lack of demand in Switzerland, adverse regulation and technological issues.

Banca Mediolanum (Buy, up from Neutral):

- **Valuation:** Our 12-month P/E-based price target is €8.70 (from €7.7), applying a 13x multiple to average 2021/22E EPS (unchanged), and implies 20% upside.
- **Risks:**
 - **Worse-than-expected macro environment.** A worsening in the macro environment that is quicker or more accentuated than we expect could result in lower organic growth for the company and a deterioration in market performance, decreasing AuM and therefore earnings for BMED.
 - **Lower-than-expected flows.** Lower inflows in to BMED assets, especially in the insurance business, could result in lower-than-expected organic growth of total AuM, affecting earnings and having a direct impact on valuation.
 - **Possible stock overhang.** The potential stock disposal by large stakeholders could represent a risk to the valuation of the company.

FinecoBank (Neutral, down from Buy):

- **Valuation:** Our 12-month P/E based price target is €14.70 (from €14.2), using a 24x multiple applied to an average of 2021-22E EPS (unchanged), and implies 6% upside.
- **Risks:**
 - **Better- or worse-than-expected macro environment.** An improving or worsening macro environment could result in higher or lower organic growth for the company.
 - **Higher- or lower-than-expected demand for Fineco Asset Management.** Improving or worsening performance of the FAM funds could result in higher- or lower-than-expected organic growth and penetration of total AuM in the short to medium term, affecting earnings and having a direct impact on valuation.
 - **Higher or lower volatility.** A sharp decrease in volatility would negatively affect the broking revenue growth we model, affecting earnings and valuation.
 - **Higher- or lower-than-expected UK growth.** Fluctuations in the growth of Fineco UK could have a significant impact on the UK revenue we currently estimate.
 - **Competition.** Currently, there are few players that offer the fully integrated multi-channel platform that FBK does – this could change, however, which would potentially have a negative impact on FBK’s market share prospects and growth potential in Italy and the UK.

Pricing in this report is as of January 13, 2021, unless otherwise indicated.

Disclosure Appendix

Reg AC

We, Roberta De Luca and Charles Mayne, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

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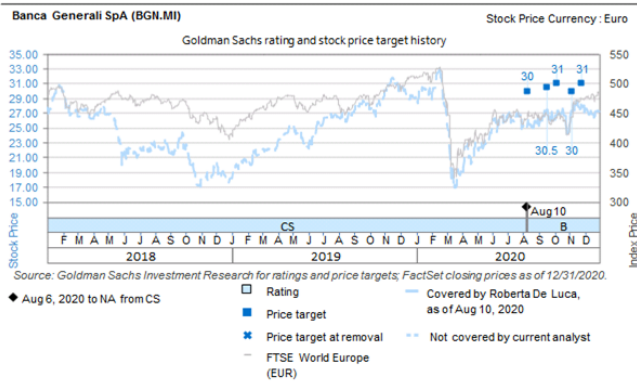
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

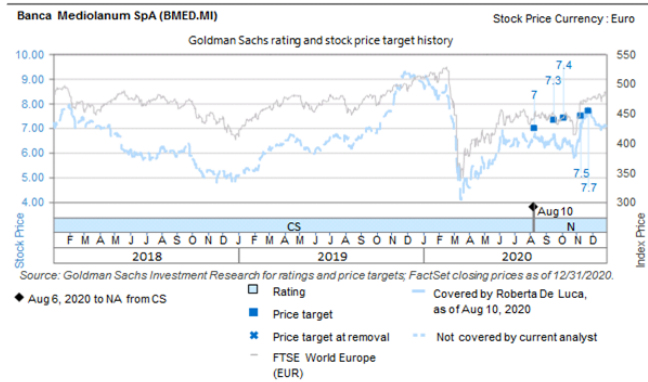
	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	49%	35%	16%	64%	57%	54%

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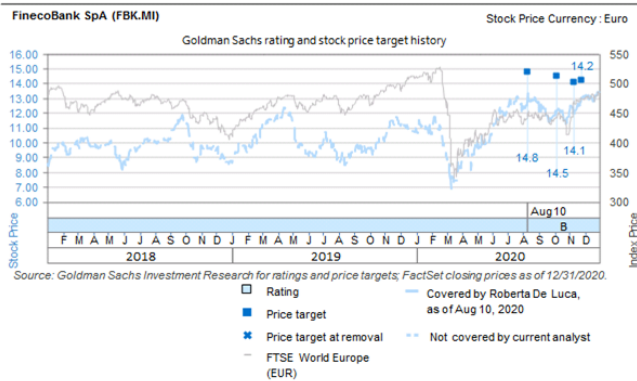
Price target and rating history chart(s)



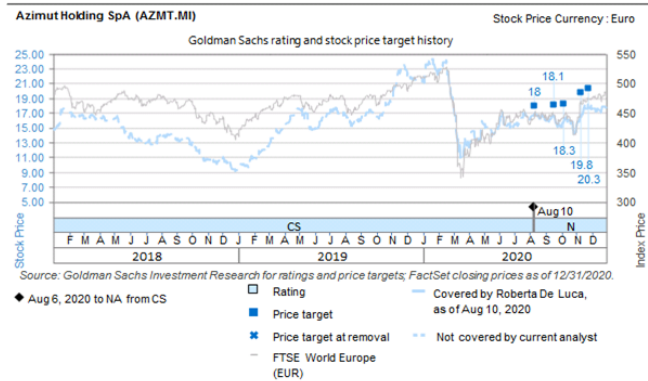
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