

Natixis (CNAT.PA)

1Q13 Results Soft, but Capital Return Story Accelerating

- **Capital Return Story Playing Out** — Our Buy thesis rests on: (1) attractive capital return, with a €2bn exceptional dividend in August from the sale of Retail (c15% yield) and an extra €2bn+ locked in non-core assets, (2) stable core businesses with 10%+ RoE. In our view, 1Q13 suggests that, while costs will need to be cut deeper to offset weaker revenue (we cut 2014-15E EPS by -2% - see Figure 1), the capital return story is accelerating. We remain Buyers, TP €4.
- **1Q13 Results: Underlying Group Miss** — Natixis reported an in-line B3 CET1 ratio of 9.4% and a net profit of €333m, ahead of consensus/our of €233/263m. This included a -€6m loss on own debt and +€72m CVA/DVA. Non-Core activities were strong, but *underlying* Core Businesses (CIB, IS, SFS) Post Provision Profit (PPOP) of €424m was 6% below our & consensus expectations, driven by weaker revenue & higher costs.
- **Non-Core Disposal Accelerating, Impact in Q3** — (1) **Sale of Retail**: Natixis CEO said the sale is “proceeding in line” and “the exceptional dividend of €0.65 per share should be paid in August 2013”. (2) **GAPC (legacy assets) accelerating**: B3 RWAs decreased by €0.9bn in Q3 but, a further €2.4bn in asset disposals was concluded on 2 May with marginal P&L impact. As highlighted in [Decoupling Overdone](#) (23 Apr), favourable credit trends support targeted mid-2014 closure. (3) **Financial Investments** PPOP of €34m was in line with soft Coface revenue from tight risk management.
- **Wholesale Banking Slight Miss** — Wholesale Banking *underlying* PPOP of €212m (ex +€72m DVA/CVA) was c6% below our & consensus forecasts. Costs were heavier while revenues were somewhat softer in equities (-4% yoy) & structured financing (-6% qoq) although FICC was in line with global peers (-13% yoy, helped by strong DCM).
- **Investment Solutions Miss, SFS & Financial Investments in Line** — Investment Solutions PPOP of €125m was 15% weaker than expectations, driven by worse revenue in asset management & private equity. SFS PPOP of €86m was broadly in line with expectations. Heavier SFS costs were offset by stronger revenue (up 9% yoy) – as explained in [Capital Return Model in Place, Focus on RoEs](#) (19 March), Natixis’ franchise benefits from under-penetration in an otherwise shrinking market.

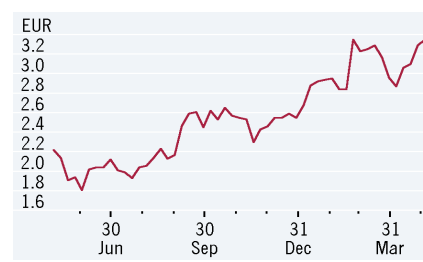
Natixis (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Net Income (€M)	1,289.0	822.0	1,075.4	1,204.4	1,349.5
Diluted EPS (€)	0.43	0.27	0.35	0.39	0.44
Diluted EPS (Old) (€)	0.43	0.27	0.31	0.40	0.45
PE (x)	7.9	12.8	9.8	8.8	7.8
P/BV (x)	0.6	0.6	0.7	0.6	0.6
DPS (€)	0.10	0.10	0.17	0.20	0.22
Net Div Yield (%)	2.9	2.9	5.1	5.7	6.4
ROE (%)	8.0	4.8	6.4	7.4	8.0

- Company Update
- Estimate Change

Buy	1
Price (06 May 13)	€3.42
Target price	€4.00
Expected share price return	17.0%
Expected dividend yield	2.9%
Expected total return	19.9%
Market Cap	€10,555M
	US\$13,843M

Price Performance (RIC: CNAT.PA, BB: KN FP)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2011	2012	2013E	2014E	2015E
Valuation Ratios					
P/E adjusted (x)	7.9	12.8	9.8	8.8	7.8
P/E reported (x)	7.9	12.8	9.8	8.8	7.8
P/BV (x)	0.6	0.6	0.7	0.6	0.6
P/Adjusted BV diluted (x)	0.6	0.6	0.7	0.6	0.6
Dividend yield (%)	2.9	2.9	5.1	5.7	6.4
Per Share Data (€)					
EPS adjusted	0.43	0.27	0.35	0.39	0.44
EPS reported	0.43	0.27	0.35	0.39	0.44
BVPS	5.29	5.74	5.13	5.35	5.59
Tangible BVPS	4.13	4.57	4.19	4.41	4.65
Adjusted BVPS diluted	5.29	5.74	5.13	5.35	5.59
DPS	0.10	0.10	0.17	0.20	0.22
Profit & Loss (€m)					
Net interest income	2,815	2,674	2,648	2,568	2,491
Fees and commissions	2,092	2,029	2,050	1,988	1,928
Other operating Income	1,852	1,568	2,538	2,742	3,098
Total operating income	6,759	6,271	7,235	7,299	7,518
Total operating expenses	-4,724	-4,946	-4,962	-4,933	-5,017
Oper. profit bef. provisions	2,035	1,325	2,273	2,365	2,501
Bad debt provisions	-366	-446	-469	-350	-268
Non-operating/exceptionals	445	337	-106	-133	-136
Pre-tax profit	2,114	1,216	1,699	1,882	2,097
Tax	-526	-270	-538	-567	-631
Extraord./Min. Int./Pref. Div.	-299	-124	-85	-111	-116
Attributable profit	1,289	822	1,075	1,204	1,350
Adjusted earnings	1,289	822	1,075	1,204	1,350
Growth Rates (%)					
EPS adjusted	-6.8	-38.1	30.7	11.9	12.1
Oper. profit bef. prov.	7.3	-34.9	71.5	4.0	5.8
Balance Sheet (€m)					
Total assets	508,000	528,400	537,260	515,769	495,139
Avg interest earning assets	434,704	475,560	483,534	464,192	445,625
Customer loans	114,546	99,418	98,424	99,408	100,402
Gross NPLs	5,173	5,328	5,488	5,653	5,822
Liab. & shar. funds	508,000	528,400	537,260	515,769	495,139
Total customer deposits	44,483	54,550	55,097	56,750	58,452
Reserve for loan losses	2,400	2,600	2,779	3,042	3,243
Shareholders' equity	16,300	17,700	15,849	16,517	17,265
Profitability/Solvency Ratios (%)					
ROE adjusted	8.0	4.8	6.4	7.4	8.0
Net interest margin	0.65	0.56	0.55	0.55	0.56
Cost/income ratio	69.9	78.9	68.6	67.6	66.7
Cash cost/average assets	1.0	0.9	0.9	1.0	1.0
NPLs/customer loans	4.5	5.4	5.6	5.7	5.8
Reserve for loan losses/NPLs	46.4	48.8	50.6	53.8	55.7
Bad debt prov./avg. cust. loans	0.3	0.4	0.5	0.4	0.3
Loans/deposit ratio	257.5	182.3	178.6	175.2	171.8
Tier 1 capital ratio	11.3	12.1	11.5	12.0	12.5
Total capital ratio	15.1	14.6	16.1	16.6	17.1

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Natixis – Post 1Q13 Results

Our underlying 2013-15E forecasts are slightly reduced, in light of somewhat weaker revenue trends in core businesses and higher costs. Our 2013E EPS forecast increases by 13% to reflect the company's new reporting (pro forma of Retail disposal) and to the +€72m DVA gain.

Figure 1. Natixis – Changes to our Financial Forecasts, 2013E-2015E

€m	2013E Old	2013E New	% Chg	2014E Old	2014E New	% Chg	2015E Old	2015E New	% Chg
Revenues	6,859	7,235	5%	7,329	7,299	0%	7,551	7,518	0%
Total Op. Expenses	-5,048	-5,085	1%	-5,057	-5,060	0%	-5,148	-5,147	0%
Operating Income	1,811	2,150	19%	2,272	2,238	-1%	2,404	2,371	-1%
Prov. Loan Losses (Net)	-501	-469	-7%	-354	-350	-1%	-268	-268	0%
Operating Income Post Provisions	1,310	1,682	28%	1,918	1,889	-2%	2,136	2,103	-2%
Associate Income	202	20	-90%	14	0	-100%	15	0	-100%
Pre-Tax Profit	1,505	1,699	13%	1,926	1,884	-2%	2,144	2,098	-2%
Taxes	-451	-538	19%	-580	-567	-2%	-645	-631	-2%
Net Income	1,053	1,160	10%	1,346	1,317	-2%	1,498	1,467	-2%
Minorities	-32	-19	-40%	-47	-46	-2%	-52	-51	-2%
Attributable Net Income	1,022	1,141	12%	1,299	1,271	-2%	1,446	1,416	-2%
Attributable Net Income (post hybrid cost)	954	1,075	13%	1,231	1,206	-2%	1,378	1,351	-2%
EPS - Reported, Incl. Hybrids Funding (€)	0.31	0.35	13%	0.40	0.39	-2%	0.45	0.44	-2%

Source: Company Reports and Citi Research Estimates

Figure 2. Natixis - Quarterly Profit and Loss Account, 1Q11-4Q13E

€m	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	3Q13E	4Q13E
Revenues	1,621	1,829	1,561	1,748	1,421	1,824	1,416	1,610	1,871	1,809	1,779	1,777
Total Op. Expenses	-1,219	-1,231	-1,144	-1,246	-1,240	-1,267	-1,232	-1,326	-1,274	-1,259	-1,249	-1,303
Operating Income	402	598	417	502	181	557	184	284	597	549	530	474
Prov. Loan Losses	-20	-106	-66	-174	-80	-151	-84	-131	-96	-122	-124	-127
Operating Income Post Provisions	382	492	351	328	101	406	100	153	501	427	406	347
Gains and Losses on Other Activities	22	0	0	0	0	2	-7	-3	2	0	0	0
CCI Associate Income	153	177	120	144	134	167	61	118	5	5	5	5
Goodwill & One Offs	-12	0	0	-43	-5	0	0	-11	0	-2	-2	-1
Pre-Tax Profit	545	669	471	429	230	575	154	257	508	430	409	351
Taxes	-126	-161	-121	-118	-37	-168	-13	-52	-181	-129	-123	-105
Net Income	419	508	350	311	193	407	141	205	327	301	286	246
Minorities	-4	-4	-7	-24	-7	-14	-1	-26	6	-9	-9	-7
Attributable Net Income	415	504	343	287	186	393	140	179	333	292	278	238

Source: Company Reports and Citi Research Estimates

Figure 3. Natixis — Group Profit and Loss Account by Year

€m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
Revenues	4,106	6,364	6,759	+6%	6,271	-7%	7,235	15%	7,299	+1%	7,518	+3%
Total Op. Expenses	-4,412	-4,580	-4,840	6%	-5,065	5%	-5,085	0%	-5,060	0%	-5,147	2%
Operating Income	-306	1,784	1,919	+8%	1,206	-37%	2,150	78%	2,238	+4%	2,371	+6%
Prov. Loan Losses	-2,402	-178	-366		-446		-469		-350		-268	
Operating Income Post Provisions	-2,708	1,606	1,553	-3%	760	-51%	1,682	121%	1,889	+12%	2,103	+11%
Gains and Losses on Other Activities	5	-24	22		-8		2		0		0	
Associates (incl CCI)	425	499	594	19%	480	-19%	20	-96%	0	-100%	0	#DIV/0!
Goodwill & One Offs	-170	-80	-55	-31%	-16	-71%	-5	-69%	-5	0%	-5	0%
Pre-Tax Profit	-2,448	2,001	2,114	+6%	1,216	-42%	1,699	40%	1,884	+11%	2,098	+11%
Taxes	1,061	-241	-526	118%	-270	-49%	-538	99%	-567	5%	-631	11%
- Implied Tax Rate	43%	12%	25%		22%		30%		30%		30%	
Net Income	-1,387	1,760	1,588	-10%	946	-40%	1,160	23%	1,317	14%	1,467	11%
Minorities	-55	-36	-39	8%	-48	23%	-19	-60%	-46	143%	-51	11%
Net Income - Reported	-1,442	1,724	1,549	-10%	898	-42%	1,141	27%	1,271	+11%	1,416	+11%
Cost of Hybrids	-318	-381	-260	-32%	-76	-71%	-66	-13%	-65	-1%	-65	0%
Net Income - Adjusted	-1,760	1,343	1,289	-4%	822	-36%	1,075	31%	1,206	+12%	1,351	+12%
Exceptional items (Citi calculations)	0	-45	-210	0%	-287	0%	44	0%	0	0%	0	0%
Underlying Net Income	-1,760	1,388	1,499	0%	1,109	0%	1,032	0%	1,206	0%	1,351	0%
PER SHARE FIGURES												
EPS - Reported, Incl. Hybrids Funding (€)	-0.61	0.46	0.43	-7%	0.27	-38%	0.35	31%	0.39	+12%	0.44	+12%
EPS - Excl. Hybrids Funding (€)	-0.50	0.59	0.52	-13%	0.29	-44%	0.37	27%	0.41	11%	0.46	11%
Dividend	0.00	0.23	0.10		0.10		0.17		0.20		0.22	
Payout ratio	0%	50%	23%		38%		50%		50%		50%	
Book Value per share	4.89	5.44	5.29	-3%	5.74	8%	5.13	-11%	5.35	+4%	5.59	+5%
Tangible Book Value per share	3.7	4.3	4.1	-3%	4.6	11%	4.2	-8%	4.4	+5%	4.6	+5%
Number of shares (avg)	2,898	2,908	2,994		3,084		3,088		3,090		3,090	
OPERATING RATIOS												
ROE	-11.8%	8.9%	8.0%		4.8%		6.4%		7.5%		8.0%	
Cost / income ratio	107.5%	72.0%	71.6%		80.8%		70.3%		69.3%		68.5%	
Operating Profit / avg RWAs	-0.2%	1.3%	1.3%		0.9%		1.7%		1.8%		1.9%	
Provision charge / customer loans (bps)	2.2%	0.1%	0.3%		0.4%		0.5%		0.4%		0.3%	
BALANCE SHEET												
Total assets	449,218	458,009	508,000	+11%	528,400	+4%	537,260	2%	515,769	-4%	495,139	-4%
Gross customer loans	109,090	131,120	114,546	-13%	99,418	-13%	98,424	-1%	99,408	+1%	100,402	+1%
Shareholders' equity	14,218	15,831	16,300	+3%	17,700	+9%	15,849	-10%	16,517	+4%	17,265	+5%
Average shareholders' equity	14,885	15,831	16,300		17,700		15,849		16,517		17,265	
CAPITAL RATIOS												
Core Tier 1	11,100	11,700	12,100		13,600		12,605		11,062		12,266	
Risk-weighted assets	130,900	147,900	145,600	-13%	125,700	-14%	122,576	-3%	122,509	-2%	122,733	-0%
RWA - B3 Pro forma		218,400	171,600	-21%	145,300	-15%	124,396	-14%	122,509	-2%	122,733	+0%
Core tier 1 capital ratio	8.5%	7.9%	8.3%		10.8%		10.3%		9.0%		10.0%	
Core tier 1 - B2		6.3%	8.7%		11.4%		10.8%		11.6%		12.2%	
Core tier 1 - B3 Pro Forma (incl DTA - company definition)		5.1%	6.8%		9.0%		9.6%		10.2%		10.7%	
Core tier 1 - B3 Pro Forma (fully loaded)		3.7%	5.2%		7.4%		8.0%		9.0%		10.0%	

Source: Company Reports and Citi Research Estimates

Figure 4. Natixis — Divisional Profit and Loss Account by Year

€m	2009	2010	2011	% Chg	2012	% Chg	2013E	% Chg	2014E	% Chg	2015E	% Chg
WHOLESALE BANKING												
Revenue	2,648	3,025	2,847	-6%	2,829	-2%	2,895	2%	2,856	-1%	2,883	1%
Operating Expenses	-1,601	-1,650	-1,675	2%	-1,690	1%	-1,692	-2%	-1,655	-2%	-1,656	0%
Operating Income	1,047	1,375	1,172	-15%	1,139	-3%	1,203	6%	1,201	0%	1,227	2%
Provisions	-1,384	-204	-106	-48%	-265	150%	-350	32%	-271	-22%	-212	-22%
Operating Profit Post Provisions	-337	1,171	1,066	-9%	874	-18%	853	-2%	931	9%	1,015	9%
Cost/Income Ratio	60%	55%	58%		60%		59%		58%		57%	
INVESTMENT SOLUTIONS												
Revenue	1,560	1,791	1,889	5%	2,069	10%	2,151	4%	2,254	5%	2,398	6%
Operating Expenses	-1,152	-1,280	-1,355	6%	-1,524	12%	-1,581	3%	-1,645	4%	-1,739	6%
Operating Income	408	511	534	5%	545	2%	570	5%	608	7%	659	8%
Provisions	-33	-26	-100	NA	1	-101%	-5	-600%	0	0%	0	0%
Operating Profit Post Provisions	375	485	434	-11%	546	26%	565	3%	608	8%	659	8%
Cost/Income Ratio	74%	71%	72%		74%		74%		73%		73%	
SFS												
Revenue	870	961	1,139	19%	1,189	4%	1,247	5%	1,292	4%	1,338	4%
Operating Expenses	-618	-672	-792	18%	-786	-1%	-827	5%	-850	3%	-874	3%
Operating Income	252	289	347	20%	403	16%	420	5%	442	5%	464	5%
Provisions	-48	-54	-60	-28%	-75	-10%	-91	21%	-64	-30%	-45	-30%
Operating Profit Post Provisions	204	235	287	22%	328	14%	329	1%	378	15%	419	11%
Cost/Income Ratio	71%	70%	70%		66%		66%		66%		65%	
FINANCIAL STAKES												
Revenue	401	869	869	0%	915	5%	872	-2%	871	0%	889	2%
Operating Expenses	-722	-742	-762	4%	-743	2%	-733	-1%	-724	-1%	-729	1%
Operating Income	-321	127	107	-16%	172	61%	139	-5%	148	6%	160	8%
Provisions	-19	-36	-55	53%	-9	-84%	-7	-22%	-5	-30%	-3	-30%
Operating Profit Post Provisions	-340	91	52	-43%	163	213%	132	-4%	143	8%	156	9%
Cost/Income Ratio	180%	80%	88%		81%		84%		83%		82%	
GAPC (Legacy Assets)												
Revenue	-1,782	-146	55	-138%	138	151%	77	-63%	15	-80%	0	0%
Operating Expenses	-168	-183	-137	-25%	-125	-9%	-68	-46%	-20	-70%	0	0%
Operating Income	-1,950	-329	-82	-75%	13	-116%	9	-75%	-5	nm	0	nm
Provisions	-914	146	-31	NM	-75	142%	-7	-91%	-1	-80%	0	0%
Operating Profit Post Provisions	-2,864	-183	-113	-38%	-62	-45%	2	-105%	-6	-420%	0	0%
CORPORATE CENTRE												
Revenue	409	-136	217	-260%	-612	-382%	-7	-99%	10	-243%	10	0%
Operating Expenses	-151	-53	-119	125%	-197	66%	-184	-7%	-166	-10%	-149	-10%
Operating Income	258	-189	98	-152%	-809	nm	-191	-76%	-156	-19%	-139	-11%
Provisions	-4	-4	-14	250%	-23	-36%	-9	-61%	-9	-5%	-8	-5%
Operating Profit Post Provisions	254	-193	84	-144%	-832	nm	-200	-76%	-164	-18%	-147	-10%

Source: Company Reports and Citi Research Estimates

Natixis

Company description

Natixis is the quoted entity within the BPCE group. Natixis' core businesses are: 1) Wholesale banking (FICC, equities, financing), 2) Investment solutions (leading international asset manager, insurance), and 3) Specialised financial services, which includes consumer finance operations. Natixis also owns Coface, the leading credit insurer.

Investment strategy

We have a Buy rating on Natixis. Natixis has significantly improved its balance sheet and operations to reduce its risk profile and return capital to shareholders. After its recently agreed disposal of retail operations, we expect Natixis to further reduce its non-core assets (financial stakes & legacy assets) and focus on improving the profitability of its core businesses in wholesale banking, investment solutions and specialised financial services.

Valuation

We use a two-stage dividend discount model (DDM) to value Natixis, including the present value of 2012-15E dividends, a terminal value assuming zero growth at the sustainable RoE and the estimated excess capital in 2015E. We use a Cost of Equity of 11.8% based on the company's business mix and adjusted to funding risks on CIB. We cross-check this valuation using: (1) justified price to book valuation; and (2) comparable P/E valuation relative to the banks sector. On this basis, we set our target price at €4.

Risks

The key risks to our investment thesis on Natixis include: (1) complexity of the group and its financials, (2) operational and financial leverage (including funding risks), (3) the high reliance on activities related to markets (capital markets, asset management); (4) the execution risk of the bank's strategy plan.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

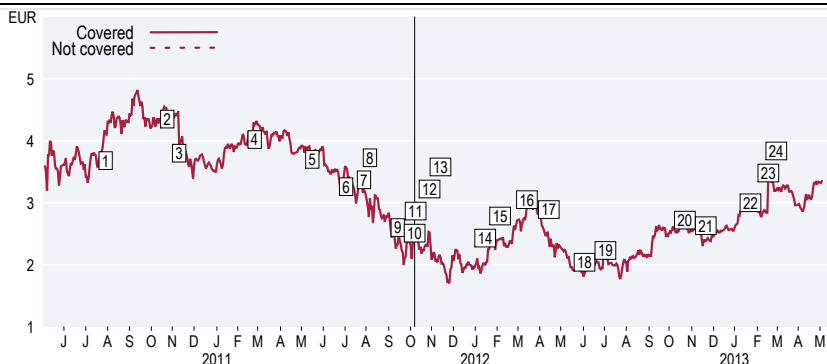
IMPORTANT DISCLOSURES

Natixis (CNAT.PA)

Ratings and Target Price History Fundamental Research

Analyst: Florent Nitu

Covered since June 4 2012



Date	Rating	Target Price	Closing Price
1 29-Jul-10	3H	*3.40	4.11
2 25-Oct-10	3H	*3.70	4.44
3 10-Nov-10	3H	*3.50	3.93
4 24-Feb-11	3H	*4.00	4.26
5 17-May-11	*2M	4.00	3.77
6 4-Jul-11	2M	*3.70	3.57
7 28-Jul-11	2M	*3.40	3.21
8 5-Aug-11	2M	*2.90	3.07

* Indicates change

Date	Rating	Target Price	Closing Price
9 14-Sep-11	2M	*2.30	2.33
10 7-Oct-11	Stock rating system changed		
11 8-Oct-11	*2	2.30	2.42
12 28-Oct-11	2	*2.60	2.52
13 14-Nov-11	2	*2.20	2.13
14 16-Jan-12	2	*2.00	1.99
15 6-Feb-12	2	*2.50	2.42
16 14-Mar-12	2	*3.10	2.95

Date	Rating	Target Price	Closing Price
17 13-Apr-12	2	*2.70	2.39
18 4-Jun-12	2	*1.90	1.85
19 3-Jul-12	2	*2.20	2.21
20 23-Oct-12	2	*2.80	2.60
21 21-Nov-12	2	*2.60	2.38
22 23-Jan-13	2	*3.10	2.88
23 18-Feb-13	*1	*3.80	3.48
24 28-Feb-13	1	*4.00	3.19

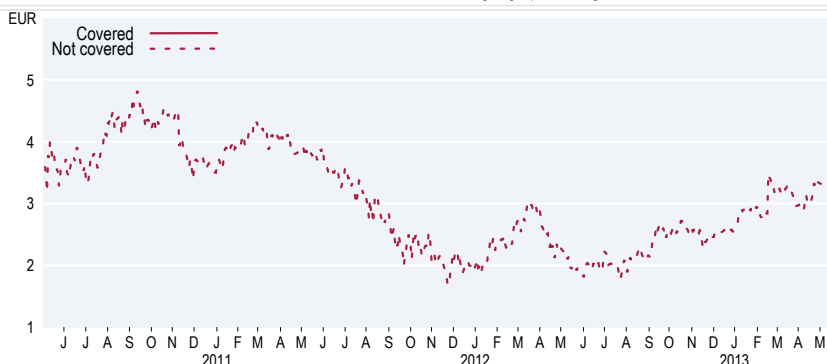
Rating/target price changes above reflect Eastern Standard Time

Natixis (CNAT.PA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Florent Nitu

Covered since June 4 2012



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Data current as of 31 Mar 2013

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	53%	49%	43%	65%	49%	51%

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