Q3 2021 Earnings Call

Company Participants

- Camillo Greco, Chief Financial Officer
- Matteo Del Fante, Chief Executive Officer, General Manager

Other Participants

- Alberto Cordara
- Azzurra Guelfi
- Domenico Santoro
- Manuela Meroni

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for joining this call on our Third Quarter Results and Updated Guidance on Full Year 2021. Hopefully, you'll all get the chance to review our documents, which as usual are available on our Investor Relations section of the Poste Italiane corporate website.

So, I'm going to first turn the call over to our CEO, Matteo Del Fante for some opening comments, and then Camillo Greco, our CFO will cover the details of the quarter. Following the presentation, we will be happy to answer your questions. Over to you, Matteo.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, (Inaudible). Good afternoon, and thank you for joining us.

Beginning on Slide 3. Our growth machine has continued to deliver above pre-pandemic levels, with strong third quarter results Poste Italiane has once again demonstrated the benefits of the diversified business model and a successful execution of 24 Sustained and Innovate, 24SI. As a result, we are upgrading our guidance for the full year 2021. We're now expecting EBIT to reach EUR1.8 billion, with net profit at around EUR1.3 billion, which is more than EUR100 million higher than the original 24SI target. These figures reflect the strong performance year-to-date and our confidence for the rest of the year.

We also confirm the distribution of an interim dividend of EUR18.5, up 14% compared to last year's interim, representing one-third of our full dividend original commitment for the year. This increase is based on our solid performance, as we aim to reward investors with a visible and competitive dividend, and where we feel fully confident with going forward.

The key initiative already secure, we have significantly reduced the execution risk related to 24SI and beyond. And we're also taking full advantage of new opportunities that we will show you later in the presentation.

Let's move to group financial results on Slide 4. Our business activities are progressing well year-on-year in line with the trends embedded in 24SI. As you can see, the third quarter results and year-to-date figures demonstrate that we are back to a revenue growth momentum after the pandemic slow down, supporting a robust performance both in terms of revenue and EBIT.

Group revenues in the third quarter were up by EUR187 million, representing a 7.3% increase year-on-year or 12% in the first nine months. On the cost side, as I've said in the past, a direct comparison with last year would be inaccurate as there were HR-related one-off savings last year. As Camillo will elaborate later our cost remains well under control with higher costs to support growing revenues careful[ph] with lower share of fixed cost. As a result, in the third quarter, EBIT grew by 18.3% to EUR566 million. In the first nine months of the year, EBIT reached EUR1.6 billion, up 30% year-on-year. Net profit increased 14% on a yearly basis to EUR401 million in the third quarter. Year-to-date net profit reached EUR1.2 billion, up by 31%.

Let's move to Slide 5. If we compare current financial results to 2019's, let me say that we're very pleased that our performance as we can clearly see is sustainable. Underlying growth trend both in terms of revenues and EBIT. Our results are above pre-pandemic levels, leveraging on an omnichannel platform that is growing organically.

As you can see on Slide 6. Year-to-date revenue trend is showing a successful execution of 24SI. Let's go segment-by-segment, starting with Mail, Parcels, and Distribution. Revenues were up 90%, exceeding our original expectation, thanks to Parcel growth. After a strong increase experienced in the first half Parcel volumes are trending towards a new normal. While the Nexive consolidation has contributed to the expected Mail recovery. Both trends are now in line with our projections.

Financial services revenues are in line with 24SI targets, supported by insurance product distribution, more than offsetting revenue pressure from the current low interest rate environment. At the group level, as of the end of September, we have bought tax credit for EUR3.9 billion. In July, a change in law has enabled us so to use a portion of client deposit to buy tax credit, enhancing the yield of our investment and providing further flexibility in our active portfolio management strategies. Let me remind you that this activity is on the top of 24SI.

In Insurance Services, the multi-class products now represent over 57% of life gross written premiums year-to-date, ahead of our 2024 target.

Looking at Payment and Mobile, this business is showing steady revenue progression leveraging on digital payments. Our Payment transaction continues to increase both in our physical and digital channels.

Moving to the Energy business, the start-up phase is progressing, targeting an early 2022 launch for our new offer.

Finally, in our Telco business, immigration to the Vodafone network is now complete and we are seeing savings which would be fully visible starting from Q4.

Moving to Slide 7, on the back of the initiative in place and the visible growth momentum we have seen in the past three quarters, we are confident in upgrading our outlook for 2021. Our revenues are expected higher than originally forecast by up to EUR100 million, as a result of the increased contribution from Parcel and Payment and Mobile, as well as from higher net interest income related to tax credit acquisitions. This positive revenue mix along with lower HR costs which, Camillo will comment on later, allow us to upgrade full-year '21 EBITDA by over EUR100 million leading to EUR1.8 billion compared to the previous EUR1.7 billion target. Therefore, the upgraded net profit now stands at approximately EUR1.3 billion compared to our previous guidance of EUR1.2 billion, excluding the revaluation our stake in SIA.

Moving to Slide 8. Let's now look at the divisional drivers of our performance versus 24SI. First, in Mail, Parcel, Parcel target has been overachieved with double B2C volume versus 2019 pre-pandemic levels and trending to a new normal compared to 2020, when online shopping was the only option available during the lockdown. Mail trends recover versus early 2021 and we're now in line with the plan.

FTE reduction has been anticipated to the first half of the year resulting in HR savings. Let me highlight that the recent renewal of the group labor contract provides visibility on the HR cost base going forward. Nexive integration is also progressing ahead of the plan, with lower-than-expected restructuring cost and synergies again, ahead of our plan.

Moving to financial and insurance, tax credit acquisition has been well received adding 13,000 new corporate and 13 -- 1,000 retail clients. This will translate into additional net interest income compared to our original forecasts, which we will benefit from over the 24SI horizon and beyond, also securing significant opportunities for active portfolio management. While final negotiation for the renewal of the postal saving distribution agreement with CDP are ongoing, postal saving gross inflows exceeded EUR22 billion in the first nine months, a record high over the last five years.

In Insurance, we have gained visibility on our very ambitious full-year '21 targets. Thanks to the successful integration of Insurance with asset management. The integration of protection investment offers will be key going forward. Protection is growing steadily but is still at an early stage counting for just 6% of activities undertaken by our relationship managers.

Finally, in Payment and Mobile, we are on track with full-year '21 targets. As said, the migration to Vodafone network is completed, and the Energy project start-up is also on track and we are in the process of developing and setting up the service model.

Moving to Slide 9. Here you can see a snapshot of the key agreements providing enhanced visibility on our long-term growth trajectory, over and beyond the plan. Let's start with the universal service agreement with the Ministry of Economy and development is now in place for five years, now envisaging the compensation cover until 2024, also embedding opportunities to work in partnership with the government and public administration on key topics such as digitalization, innovation, and social inclusion initiatives.

The new long-term contract recently signed with Amazon, enable us to effectively manage peak delivery period with tough tariff, properly differentiated for deliveries to urban and rural areas. Back in June, we signed a group-level contract, which yet again give us visibility on our human capital management over the next three years. As part of our support to the country, recovery measures approved by the government following the pandemic. As mentioned, tax credit purchase activity is performing very well at the moment.

The administrative aspect of the distribution agreement with CDP on postal saving and nearing completion and is in line with expectation. And finally, as a strategic pillar for Italy, we're also proud to contribute to the National Recovery Plan, which covered implementation of a key national project aimed at supporting local communities and remote areas, reducing the digital divide, supporting their economic growth, and strengthening social recognition across our physical network.

And as a final remark, I'm proud of the systemic flow that Poste continues to play in Italy and specifically in the vaccination plan. And I'm also pleased that our effort in ESG have been recognized. In fact, in October, we ranked Number 1 in ESG overall score by DGO Eriz[ph] and we've been included in the first ESG index of Borsa Italiana, the NBI ESG index.

And now, let me hand over to our CFO, who will take you through a more detailed business review. Over to you Camillo.

Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo, and good afternoon, everyone. Now, let's do a deep dive into each segment starting with Mail, Parcels, and Distribution on Slide 11. Both in the third quarter and year-to-date we have witnessed a healthy increase in both Mail and Parcel revenues, translating to a significant underlying EBIT growth. Q3 revenues increased by 9% in the quarter compared to last year.

Mail revenues are progressing on their upward trajectory boosted by the ongoing volume recovery and consolidation of Nexive. Parcel revenues increased 8%, which is a strong result when compared to Q3 last year when e-commerce witnessed an unprecedented boom triggered by the first national lockdown. Parcel volume growth was supported by both B2C and B2B channels and started to trend towards a new normal in line with our expectations. Let me remind you that this business line also benefited from ongoing warehousing services and PP deliveries for the government.

Finally, other revenues were up 9%. Thanks to the expense recovery related to the vaccine -- vaccination plan. Distribution revenues grew by 10% on the back of economic and commercial recovery. As a result, EBIT reached a positive EUR78 million in the third quarter, driven by both market and intersegment revenues. Finally, let me remind you that in line with expectations we're going to book EUR0.2 billion early retirement charge in Q4, mostly entirely related to this segment.

Let's now take a look at the Mail and Parcel volume and pricing trends on Slide 12. Parcel volumes increased by 7% in the quarter and 29% year-to-date, supported by both B2C and B2B growth. As previously mentioned, volumes are trending towards a new normal in line with the 24SI expectations. B2C remain the biggest contributor to growth supported by key customers. Parcel volumes from China were impacted by the new regulation on x-ray, UV (Inaudible), or low-value imports. However, volumes are gradually recovering in Q4 confirming an upward trend early in November.

Moving to B2B, which was up 5%, the volumes improved on positive macroeconomic trends. Like in the previous quarter, C2X comparison with 2020 is polluted by an unprecedentedly strong performance last year when demand was higher during lockdown; impossible, the only operator with a large footprint running its business as usual. Looking at pricing, the average B2C parcel tariff was up 7 percentage points in the quarter, supported by favorable customer base mix effect.

Moving to Mail, volumes grew 10%, strongly supported by resumed notification from public administrations, as well as by Nexive consolidation. Direct marketing was done by 5% due to e-substitution, while higher-margin recorded mail grew by 15%. The average mail tariff remained stable as the growth of lower margin register mail was balanced by the increase in our margin recorded mail.

Moving to Financial Services on Slide13. Gross revenues increased 9% in the quarter, driven by wealth management activities and contribution from active portfolio management. Let's review the items one by one. Net interest was up 1%, with higher net inflows from deposits and tax credit purchases contribution mitigating the impact of lower rates.

As previously mentioned, we have purchased tax credit for EUR3.9 billion, with a duration of around 4.5 years. This asset class allows us to reinvest maturities and disposal of BDPs[ph] with an average yield over 2%, enhancing flexibility in our active portfolio management. In this regard, we booked EUR181 million capital gains in Q3, achieving the 2021 target. Additionally, we locked in capital gains for 2022, retaining flexibility on that total amount, which is currently under assessment given current favorable conditions.

Cost of saving distribution fees declined 10% year-on-year, but are on track to achieve the 2021 target embedded in 24SI. Let me remind you that, as measured by Matteo, in the first nine months, postal bonds gross inflows exceeded EUR22 billion, a record high level over the last five years. In line with market trends, traditional payment slips continue to gradually decrease driving transaction banking fees down 5% in Q3, mitigated by the repricing place[ph] since August.

Loan and mortgage distribution fees were down 5% on a reported basis, impacted by the accounting of potential early repayment provisions, given the low-interest rate environment. Increasing volumes and steady market share in these products are consistent with the trajectory embedded in the 24SI plant horizon.

Asset management revenues increased with growing net inflows supported by our effective advisory model and the successful introduction of ESG and multi-asset funds, as well as discretionary mandates in our product offer. EBIT remains broadly stable due to higher inter-segment costs recognized to our network.

Moving to Slide 14. TFAs reached EUR582 billion, up by EUR26 billion year-on-year and up by EUR13 billion year-to-date. This figure is above the full year 2021 target. Net inflows amounted to EUR10.5 billion year-to-date and almost doubled compared to the last quarter. Looking at each component, postal savings were stable with accrued interest compensating outflows, Net Technical Reserve were up by EUR4 billion, with net inflows boosted by multi-class products, more than offsetting the negative market effect related to lower and realized capital gains in the insurance portfolio.

Deposit grew by EUR7 billion increasing across all categories, ranging from public administration retail and corporate accounts. Finally, mutual funds were up with positive net inflows also supported by weather[ph], project offer, and a positive market effect.

Moving to Slide 15. Revenues were down 10% in the quarter in line with our expectations. The year-on-year comparison is unfavorable both in Life and P&C due to particularly strong Q3 '20, bouncing back from the trough of the first national lockdown.

In particular, Life revenues decreased 10%, because the investment margin was impacted by their rebates to our policyholders within our segregated accounts, after a record high second quarter which benefited from favorable market conditions. This was well anticipated and is related to a time mismatch between the quarter where we realized the investment margin and the quarter where we recognizing to our policyholders.

In non-life, revenues were down 16% impacted by lower claims in 2020, due to lockdown and increasing share of welfare policies, which are characterized by higher claims, as well as increase of share of the modular offer with our value recognized to the policyholders. However, commercial trends remain healthy in both Life and P&C.

Life growth is supported by positive net inflows and higher margin multi-class life products now reaching 66% of the new production. P&C growth with gross written premiums up 34% in the quarter and higher-than-expected average tickets is supported by both retail and welfare policies. P&C's combined ratio increased to 82% in the nine months, excluding one-off charges related to government policies in COVID protection claims recognized to employees in line with expectations. P&C and welfare remained strategic businesses for us, enabling a comprehensive product offer, integrating investment and protection services.

In terms of EBIT, we are well in line with our bold 2021 target, with both Life and Non-life supported by higher groceries and premiums and a share of multi-class life products ahead of expectations.

Let's look at the solvency ratio evolution on Slide 16. Poste Vita Group's Solvency II ratio remains well above our 200% managerial ambition to recycle. The solvency II ratio is brought in line with the Q2 level with a beneficial impact from narrowing BTP[ph] spread and increasing interest rates, but with a negative impact due to the corporate portfolio market-to-market.

Transitional measures provide additional 28 percentage points to address potential market volatility. The solvency ratio has been further strengthened by the EUR300 million intercompany restricted (Inaudible), which is funded by part of the EUR800 million hybrid bond issued in June by Poste Italiane providing additional seven percentage points.

Moving to Payments and Mobile on Slide 17. Q3 was another strong quarter for this segment, with revenues growing by 19% in all business lines providing outstanding contribution. Card payment revenues continued last year's -- last quarter's growth trajectory and were up by 20%, boosted by higher volumes and increasing digital payments. Other payments are up EUR80 million in the quarter, mainly driven by increased payment transaction directly managed by Postepay, as payment service provider.

Telco revenues grew 12% in the quarter, thanks to increasing customer base and a lower churn rate on mobile contracts. EBIT grew 6% in Q3, impacted by lower payments slips and higher Telco traffic cost from post-covid new normal data usage. We also recognized EUR 4.5 million one-off costs related to Vodafone Network immigration and Energy project start-up costs. Focusing on the new Vodafone contract, we are starting to see savings. Running efficiencies will be achieved starting from the last quarter of this year.

On Slide 18, we can focus on the FTEs base evolution, reviewing progress made to date in our ongoing workforce transformation. As of September, average FTEs amount to below 120,000, down 3,000 FTEs compared to the end of last year. This was enabled by early retirements anticipated in the first half of the year and lower than planned hirings, which we are expecting to increase in Q4. HR costs per FTE are up 3% since the start of the year to just under EUR43,000. But more importantly, the value added per FTE is growing with faster rate of 8% year-to-date, now reaching EUR70,000 per FTE.

Moving to Group HR costs on Slide 19. Overall HR costs are slightly down year-on-year with lower FTE's more than offsetting the higher impact related to national holiday accruals, variable compensation, and Nexive consolidation. An important KPI to highlight here is the ordinary HR cost on revenues down to 44% from 48% in Q3 '20. This is a material decrease of four percentage points year-on-year. As already discussed, the ordinary shared[ph] cost base is lower than 24SI targets for 2021.

On Page 20, let's review non-HR costs. COGS stand at EUR674 million, increasing year-on-year due to variable expenses supporting Parcel, Payments, and Telco business growth. B&A[ph] were up EUR20 million due to EUR85 million higher CapEx year-on-year, 70% of which are focused on ESG initiatives. Finally, Nexive consolidation has an impact of around EUR29 million, mostly related to COGS.

Moving to Slide 21. Here, we focus on the updated targets for the full year 2021 cost base. As Matteo mention earlier, lower average FTEs are driving HR costs down and are now expected at around EUR5.3 billion versus the regional forecast of EUR5.5 billion. This is the result of anticipating early retirement from H2 to H1, also leveraging on the favorable legislative environment, the so-called (Inaudible), currently allowing employees to retire earlier.

While confirming our target to book EUR0.2 billion for early retirement charges in Q4, we are successful managing exits at a lower-than-expected per capita cost. With regards to non-HR costs, let me flag that the full-year '21 ratio between variable cost and variable revenues is forecasted approximately 70% compared to the regional 71% target for 2021. Furthermore, we see ongoing reductions in parcel unit cost and running savings from the Vodafone contract starting from Q4 as already mentioned earlier.

Moving to Slide 22, you can observe the breakdown of EBIT progression not only compared to 2020, but also to 2019. In Mail, Parcels and Distribution, we see a significant improvement year-to-date and the segment EBIT is heading towards over delivering the full-year target. As (Inaudible) expected Financial Services profitability is down due to higher provisions, where 2020 benefited from releases. Insurance Services show solid growth, increasing 25% year-on-year, supported by strong business dynamics in line with our ambitious plan. Payments and Mobile continues to grow supported by increasing digital payments and will further benefit from lower Telco costs going forward.

Let me now hand back to Matteo for some closing remarks. Thank you.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Camillo. Let me, before taking question conclude on Slide Number 23. The third quarter saw a strong operating performance coming not only from the resilience of our business model across all segments, but also continued positive indication that the business can grow beyond pre-pandemic levels. These strong results give us the confidence to pay an interim dividend of EUR18.7 on 2021 full-year results, which is 20 -- 14% year-on-year, up for an amount of EUR240 million. Thanks, the successful ongoing implementation of 24SI, we confirm our commitment to a visible and competitive dividend aligned with our performance.

Thank you for your time, and let's now move to the Q&A session. Over to you, Mercy[ph].

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the Q&A session. (Operator Instructions) The first question is from Ms.Guelfi from Citigroup. Please, Azzurra.

Q - Azzurra Guelfi {BIO 6148923 <GO>}

Hi. Good afternoon. I have two question. One is on your guidance and dividend. The second one is on a bit more color on the tax credit benefit. When I look at your guidance, it has improved, and it's mainly driven by gen revenue and lower HR costs. There could be some higher inflation, I guess, on non-HR costs, given volume growth. But this is not resulting in an improvement of the dividend guidance. You have a 60% payout. So can you just give us a little bit more color on potential dividend move? Maybe we have to wait for the year-end, but I guess this is an important point.

The second one is on tax credit. This business was not included in the business plan target, if I'm correct, and it's growing quite nicely. In this slide, you indicated that you can fund this with to 15% of your corporate and retail deposits. So volume could be just south of EUR10 billion. Can you give us some color on trajectory margin? And how do you see this business evolving? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Azzurra. Yes. I mean, we upgraded the guidance today, both the EBIT and net profit level. And that could create expectations for reviewing the dividend. But as you already anticipated, we commit to a dividend back in March for this year, and we want to finish the full year, keeping our commitment to a competitive dividend, which is competitive in terms of payout ratio and competitive also versus our peer group broadly defined in terms of dividend yield. And on the second question, yes, the top of the current retail deposit, 15% ceiling is around EUR9 billion. So we have still room to grow in this segment. We are progressing well. As we stated that we reach EUR3.9 billion end of September. So the machine is going well. And the investment that we put on this credit, taking it away basically from potential BTP or risk-free, which is what the law would allow us to do. Otherwise, is at least a 2% higher yield for assets that are in the five-year more or less time horizon. So is a good addition to our NII over the plan, as we stated and slightly beyond.

Operator

Thank you, Azzurra. And the next question is from Mr.Santoro and HSBC. Please, Domenico.

Q - Domenico Santoro {BIO 20232719 <GO>}

Hello. Hi. Good afternoon. Thanks for the presentation, it's Domenico, HSBC. Sorry, can we come back a bit on the dividend policy? Because I understand that you want to play competitory with other operators now that are basically raising up the guidance on dividends. But I'm just wondering whether at this point we should simply apply the payout, normalized payout of 60% of this net profit to get the dividend for this year? And given that your revenue trend is quite strong, we could actually apply the same for the next year as well.

The second one is on cost. The savings that you are realizing that you are accelerating actually in the Mail and Parcel division. I wonder whether this is a sort of a recurrent, sort of cost savings also for the next years? And at this point, the breakeven in the Mail and Parcel that you targeted in 2024, if I'm not wrong, it could be pushed forward by one-year or two as well? And then on the NII, the answer that you just gave the colleague. I wonder whether the direction from here is positive instead of negative as you envisaged in the industrial plan. And this level of Q3 is sort of sustainable? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. I think on the first question on dividend, you said it all. So I'll move to the third as well as second question, starting from the NII and trend and the tax credit that I mentioned. Certainly, the direction, if we manage to invest our allotment, the direction of NII would be positive. And clearly, that would support the Mail, Parcel and Distribution, the Distribution component of our division will benefit from this growth helping seeing maybe the breakeven closure for that specific component. And on cost, Camillo, you want to complete my answer.

A - Camillo Greco {BIO 21978163 <GO>}

Yes. On cost for Mail, Parcel and Distribution, Mail, Parcel and Distribution is the biggest contributor of the saving that we have on HR costs, where, as you have seen from the slides, we have 3,000 individuals below budget. That will have a material impact on 2021, where in the 24 SI plan, we said that the business would have lost EUR0.5 billion. You should assume that the guidance we have put forward for 2021 reflects the benefit. And going forward, '22 and further out, we will update you in due course.

Q - Domenico Santoro {BIO 20232719 <GO>}

All right. Thank you.

Operator

Thank you. The next question is from Ms.Meroni, Banca IMI. Please, Manuela.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes. Thank you for taking my questions. The first one is on the tax credit business. Could you please tell us how much was the contribution of tax credit in your NII in the third quarter and the second quarter of this year? The second question is on Parcel business. You said that the pace of growth is trending towards the new normal. So what is this new normal? Is the current 8% of the per quarter or the 16% that you have in your business plan or another level? And third question on payment and mobile, you mentioned some savings coming from telco migration to Vodafone in the fourth quarter 2021. Could you please quantify these savings?

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. I ask Camillo to -- the first question, Camillo, is the impact of tax credit in second and third quarter?

A - Camillo Greco {BIO 21978163 <GO>}

Yes. So within BancoPosta, the second quarter, the benefit of credit -- tax credit was EUR3 million, in the third quarter was EUR14 million, cumulative EUR17 million in total, within the group, within the first three quarters, we have EUR25 million of benefit from a tax credit that there are EUR8 million at Poste Italiane SpA as opposed to BancoPosta. And if you can repeat your second question, sorry. Do you have -- yes.

The question, I think, was on the impact on Vodafone contract going forward. As mentioned, we have completed the migration in Q3. We also had to absorb EUR3.5 million of one-off costs. We expect to save circa EUR30 million in terms of cost, i.e., lower cost from Q4 onwards, that is a annualized number. So you should assume that for a quarter is a quarter of that amount, around between EUR7 million and EUR 8 million [ph].

Q - Manuela Meroni {BIO 1782610 <GO>}

Thank you. And for the new normal of parcel growth?

A - Camillo Greco {BIO 21978163 <GO>}

Yes. Here, we added plan a number of EUR1.3 billion for 2021. I think for 2021, we have already answered in half year that we're expecting to be around EUR1.4 billion. Having said that, we confirm longer-term what we put in the plan 24 SI, which was a CAGR of around 20% across the plan.

Q - Manuela Meroni {BIO 1782610 <GO>}

Thank you.

Operator

Thank you, Manuela. The next question is from Mr.Cordara from Merrill Lynch. Please, Alberto.

Q - Alberto Cordara {BIO 7441341 <GO>}

Thanks a lot. A good project because I lost the line for five minutes. So I hope not to ask a questions that have already been asked. But I just wanted to get back to your answer to Azzurra in the first question. So you mentioned EUR9 billion as a target for tax credit that you can purchase. So if I apply an over 2% rate, I should be getting between EUR200 million to EUR300 million additional revenues at regime. I just wanted to check with you if this number is correct? And related to that, if the new budget law is going to make some change on the possible revenues because as I understand that the government is about to introduce some cap in terms of the task ready for that house [ph] also can get. But I just wanted to have your comment on this specific point.

Then in terms of the sharp NIIs quarter-on-quarter, if there is any additional component to the tax credit, just wanted you to elaborate a bit on that? And finally, my last question is, if you can give us an update on your negotiations with the CDP? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. I'll start from the last one, we are progressing. So we're doing the final admin aspect of the negotiation with CDP. On NII, yes, it's correct. Your calculations are not far from what we're seeing and consider, we are buying some tax credit, which are residual short one-year some are longer beyond the plan you'll see the bulk, I mean, the highest impact of what we have bought in 2021, we will see it in 2022, where you have all the assets purchase.

In terms of the impact of the new budget law, we haven't seen the specifics, but we don't anticipate from the government the intention to stop such a instrument to support the economy at the moment. So the target we mentioned and that we have in mind is something we have a reasonable level of confidence.

Q - Alberto Cordara {BIO 7441341 <GO>}

Thank you very much.

Operator

Thank you, Alberto. And the next question has been submit by our webcast from by Ms.Benassi [ph] from Kepler Cheuvreux. (inaudible), we appreciate your upgrade of the 2021 guidance. But because we know you are extremely cautious, our estimates were already higher and in line with your new guidance. The question is, when will you review your 2022 targets as they are even more conservative now? On the tax credit business, what is your revenue expectation for 2022, is the new budget to drop changing in the picture some way? Thank you, Anna.

I think we have answered the second and third question. We have the first question.

A - Matteo Del Fante {BIO 6237992 <GO>}

Yes. The first question is, we will do our 2022 first quarter results and guidance for the year. And there will be -- the moment we will give the new guidance for next year. And we will take the opportunity to upgrade some of the elements of 24 SI, which have taken a different direction from what we had in mind the first quarter. So Q1 of 2022 is the short answer.

I have -- I'm short have an answer to Mr.Cordara. The NII has also a component in terms of additional growth of size. So we have higher volumes that justify slightly higher NII in the period.

Operator

And this was the last question. Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

So thank you very much, everybody, for taking the time to follow our share and be with us today. Thank you. Good work.