

Supervielle

4Q23 results below estimates, despite unusually high securities and FX gains

Maintain Rating: UNDERPERFORM | PO: 210.00 ARS | Price: 928.60 ARS

4Q NI benefited by FX gains, but came shy of expectations

NI of AR\$22.5bn recovered when compared to a loss of AR\$2.5bn in 4Q22 but came 11% below our estimates. 4Q23 earnings benefited by abnormally high FX gains (+26% vs BofAe), which we estimate are unlikely to repeat in 2024. Those gains were partially offset by higher operating expenses and provisions charges, while a wider net monetary loss. Accumulated net earnings of AR\$51.4bn improved from a net loss of AR\$13.7bn in 2022, while ROAE increased to 16.7% from -4.5% in 2022.

Management anticipates a challenging 1H24

Mgmt. expects i) peso loan growth slightly above inflation, with the recovery taking place in 2H24, as inflation eases and interest rate regulations are lifted; ii) NPL ratio to remain at low levels, but above 2023 levels as they resume loan growth, and a stable/higher cost of risk of 7.4% due to still contingent activity and high inflation; iii) NIMs to remain at high levels if inflation cedes; iv) fees re-pricing in-line with inflation; v) opex to grow in-line with inflation (costs associated with lagging inflation to be offset by efficiencies in headcount and branches); and vi) ROAE falling to 10% (vs 16.7% in 2023).

Key operating highlights

Loan Growth (-): contracted 34% YoY (-15% QoQ) and came 3% below our estimates. Negative real loan growth continues to be explained by weak credit demand and stringent credit scoring on high interest rates and inflation.

Net interest margin (+): NIM rose significantly QoQ supported by unusually high gains related to FX devaluation, Argentine bonds performance, and higher sight deposits. Furthermore, NII (including securities) rose 62% QoQ and 131% YoY (19% above BofAe).

Asset Quality (+): NPL ratio improved 50bps QoQ to 1.2%, reflecting the shift to middle-market corporates and payroll customers, better retail customer behavior, and the sale of delinquent retail loans. We noticed improvements of -90bp in consumer loans (to 2.5%), while a relative stable behavior in the corporate segment. Nonetheless, provision charges rose 51% QoQ, and came 14% above our estimates, reflecting a cost of risk of 6.9% of average gross loans (vs. 4.5% in 3Q23), which helped to increase the reserve coverage ratio to 262% from 183% in 3Q23.

Fees (-): advanced 17% YoY (-8% QoQ), supported by an increase in IOL brokerage fees, but came 8% below our estimates.

Opex (-): grew 22% QoQ (+6% vs BofAe), mainly explained by higher personnel costs.

Tax rate (-): increased to 44.3% from 37.6% in 3Q23 on lower tax benefits.

Maintain Underperform rating

We continue to see execution risks on the Argentina economy (related to dollarization and hyperinflation). We maintain our Underperform.

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Refer to important disclosures on page 4 to 11. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Stock Data

Price (Common / ADR)	928.60 ARS / 4.57 USD
Price Objective	210.00 ARS / 1.30 USD
Date Established	17-Oct-2023 / 17-Oct-2023
Investment Opinion	C-3-7 / C-3-7
52-Week Range	169.55 ARS - 1,289.10 ARS
Market Value (mn)	337,804 ARS
Free Float	97.8%
Average Daily Value	0.56 USD
Shares Outstanding (mn)	363.8 / 61.3
BofA Ticker / Exchange	XAZFF / BUE
BofA Ticker / Exchange	SUPV / NYS
Bloomberg / Reuters	SUPV AR / SUPV.BA
ROE (2023E)	12.0%

NIM: Net Interest Margin

NII: Net Interest Income

NI: Net Income

SME: Small and Medium Enterprise

9M: 9 months

IUDU: Supervielle's consumer business

Exhibit 1: Supervielle – 4Q23 results

Earnings came shy of expectations

ArP\$ mn	4Q/22	3Q/23	4Q/23e	4Q/23A	YoY	QoQ	vs. BofAe
Net interest income	67,208	99,728	133,546	137,845	105%	38%	3%
Fee income	14,871	18,984	19,049	17,439	17%	-8%	-8%
Income from securities	14,939	17,153	25,000	51,615	246%	201%	106%
Fx gains	1,578	-69	2,500	3,139	99%	NA	26%
Insurance	3,334	3,368	3,446	3,684	11%	9%	7%
Non-interest expense	89,459	77,681	89,521	94,684	6%	22%	6%
Provision for loan losses	10,109	6,668	8,826	10,089	0%	51%	14%
Non-operating income	-5,931	-1,078	700	-16,572	NA	NA	-2467%
Net monetary position	-6,798	-30,410	-45,366	-52,010	NA	71%	NA
Net Income	-3,753	14,550	25,277	22,482	NA	55%	-11%
EPS - reported	-8.22	31.83	55.34	49.23	NA	55%	-11%
Gross loans + Leasing	758,002	587,962	514,029	498,127	-34%	-15%	-3%
Total assets	1,166,232	1,980,014	2,305,133	2,063,117	77%	4%	-10%
Deposits	917,130	1,485,436	1,770,884	1,548,928	69%	4%	-13%
Equity	144,359	316,820	340,014	342,787	137%	8%	1%
ROAE - reported	-3.4%	18.8%	30.9%	27.2%	3062 bps	847 bps	-362 bps
NIM	22.0%	31.2%	29.2%	46.4%	2438 bps	1516 bps	1718 bps
Efficiency ratio	89.1%	55.8%	49.4%	45.0%	-4418 bps	-1083 bps	-449 bps
Effective tax rate	83.7%	37.6%	37.6%	44.3%	-3941 bps	667 bps	667 bps
Cost of Risk	5.2%	4.5%	4.5%	6.9%	170 bps	240 bps	240 bps
NPLs/ Gross loans	3.6%	1.7%	1.7%	1.2%	-244 bps	-53 bps	-54 bps
LLR/ NPLs	141.3%	182.8%	170.3%	262.4%	12107 bps	7955 bps	9210 bps

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH

Price objective basis & risk**Supervielle (XAZFF)**

Our price objective of ArPs337/share (US\$2.1/ADS converted at 800 FX rate) is derived from the Gordon Growth Model, assuming a COE of 25.3% (reflecting a US risk-free rate of 3.5%, Argentina country risk of 1,000bp (vs. EMBI at 1,945bp), inflation differential of 450bp and beta of 1.2x), 4% growth in perpetuity, and a sustainable ROE of 13%.

Downside risks to our PO are 1) weaker economic activity/higher inflation and sharper deterioration in asset quality, 2) inability to reprice the loan book, 3) implementation of unorthodox economic policies, and 4) unstable political conditions in Argentina.

Upside risks to our PO are: 1) higher-than-expected securities gains, 2) faster recovery in macro conditions leading to lower-than-expected NPLs and provision charges, and 3) becoming a potential for consolidation.

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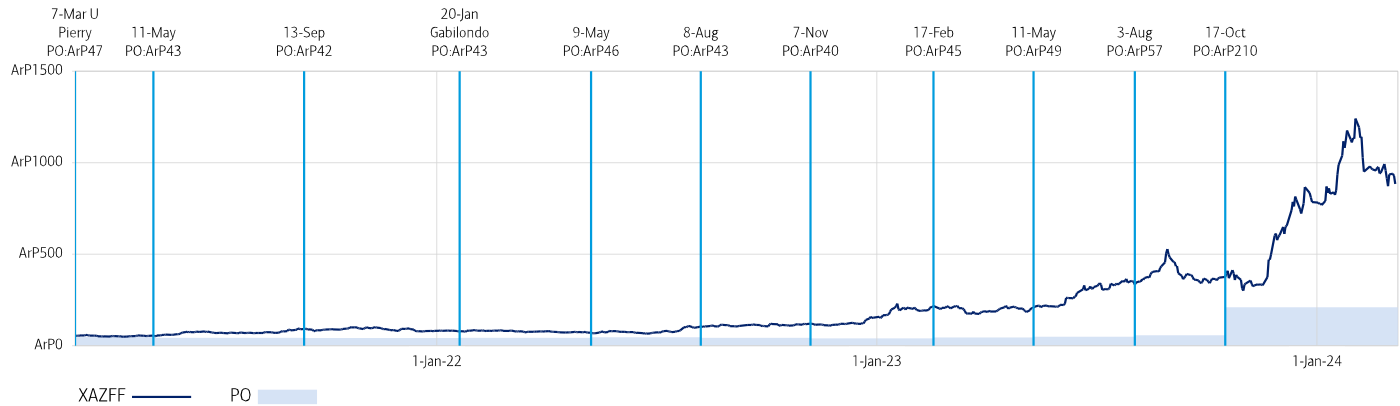
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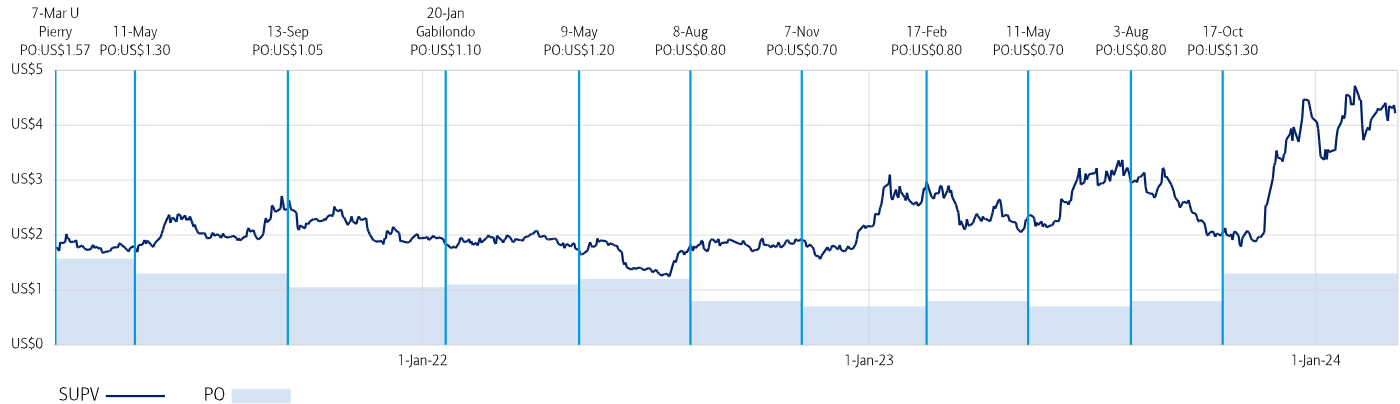
Supervielle (XAZFF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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