

Santander Brasil

Miss in 4Q23 on higher-than-expected provision charges; ROE of 10.4%

Maintain Rating: UNDERPERFORM | PO: 29.00 BRL | Price: 29.20 BRL

Net income 15% below BofAe; ROE of 10.4% in 4Q23

Recurring net income of R\$2.2bn missed BofAe by 15%, yielding ROE of 10.4%. The figure is 31% above 4Q22, when results were pressured by provisions to Americanas. Pre-tax income was 20% below BofAe, but tax credits prevented a weaker print. The main drag to results related to provision charges given i) further provisions to Americanas (increasing coverage to this case to 70% from 50% of its exposure of R\$3.6bn) and ii) other cases in the wholesale segment as well as higher-than-expected operating expense. On a positive note, loan book growth accelerated to 5% YoY (from 4% in 3Q23), but NPLs deteriorated slightly (+10bp QoQ). We maintain our Underperform rating on SANB, which is trading at 1.3x trailing P/BV but with ROE running well below COE.

Key operating highlights

Loan growth (+): it accelerated to 5% YoY (+4% in 3Q23), with improving performance in all segments. The SME book grew 9% YoY (+7% in 3Q23) and large corporate 5% YoY (+3% in 3Q). On the individuals book, we highlight acceleration in rural loans (+19% YoY vs. 11% in 3Q23), credit cards (+6% YoY vs. 4% in 3Q), and consumer finance (+5% YoY vs. 0% in 3Q), while personal loans shrunk 7% YoY (vs. -4% in 3Q).

NII (=): it increased 12% YoY (+6% in 3Q23), in line with BofAe. Client NII increased 4% YoY, below loan expansion, reflecting a more conservative loan mix. Market NII improved but remained in negative territory at R\$-263mn (vs. R\$-827mn in 3Q23).

Asset quality (-): provision charges were 10% above BofAe (+22% QoQ), impacted by the wholesale segment (SANB is the only large-cap bank that was not 100% provisioned for Americanas). NPL increased 10bp QoQ, reflecting deterioration on individuals and SME books, pressured by worse asset quality in the renegotiated portfolio. The coverage ratio decreased to 222% from 230% in 3Q23.

Fee income (=): it continued to expand 8% YoY (as in 3Q), in line with BofAe, reflecting acceleration in cards (issuance and acquiring), brokerage, and lending fees. Getnet TPV expanded 13% QoQ (+11% YoY), in line with historical industry seasonality in 4Q.

Operating expenses (-): they grew 8% YoY (as in 3Q), 4% above BofAe, given higher-than-expected administrative expenses (+7% YoY), pressured by specialized services and marketing. Personnel expenses grew 17% YoY (in line with BofAe), reflecting the collective bargaining agreement.

Other expenses (-): they reached R\$3.1bn (vs. R\$1.6bn in 4Q22) and 7% below BofAe, impacted by higher labor contingencies and expenses with credit cards.

Tax rate (+): the tax credit of 16% (vs. 2% tax credit in 3Q) was supported by IoC benefits.

CET1 (+): it increased 30bp QoQ to 11.5%, supported by retained earnings.

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Stock Data

Price (Common / ADR)	29.20 BRL / 5.96 USD
Price Objective	29.00 BRL / 5.80 USD
Date Established	16-Jan-2024 / 16-Jan-2024
Investment Opinion	B-3-7 / B-3-7
52-Week Range	25.27 BRL - 32.48 BRL
Market Value (mn)	109,479 BRL
Free Float	100.0%
Average Daily Value	10.63 USD
Shares Outstanding (mn)	3,749.3 / 3,749.3
BofA Ticker / Exchange	XCBD / SAO
BofA Ticker / Exchange	BSBR / NYS
Bloomberg / Reuters	SANB11 BZ / SANB11.SA
ROE (2023E)	12.1%

COE: cost of equity

IoC: interest on capital

NII: net interest income

NPL: non-performing loans

opex: operating expense

P/BV: price to book value

ROE : return on equity

SME: Small and medium-size enterprises

TPV: total payment volume
vs.: versus

4Q23 Review

Exhibit 1: Santander Brasil 4Q23 earnings summary

Net income was 15% below our estimates

R\$ mn	4Q/22	3Q/23	4Q/23E	4Q/23A	YoY	QoQ	vs. BofAe
Margin with clients	13,781	14,240	14,361	14,318	4%	1%	0%
Margin with market	(1,265)	(827)	(350)	(263)	-79%	-68%	-25%
Net interest income	12,517	13,413	14,011	14,055	12%	5%	0%
Fee income	5,075	5,123	5,379	5,480	8%	7%	2%
Other non-interest income	(1,617)	(3,232)	(3,296)	(3,060)	89%	-5%	-7%
Non-interest expense	6,725	6,769	7,064	7,333	9%	8%	4%
Provision for loan losses	7,364	5,618	6,204	6,837	-7%	22%	10%
Goodwill amortization	(80)	(85)	(85)	(85)	6%	0%	0%
Pre-tax income	2,086	3,036	2,953	2,375	14%	-22%	-20%
Net income - reported	1,609	2,644	2,511	2,119	32%	-20%	-16%
Net income - recurring	1,689	2,729	2,596	2,204	31%	-19%	-15%
EPU - reported	0.43	0.71	0.67	0.57	32%	-20%	-16%
EPU - recurring	0.45	0.73	0.69	0.59	31%	-19%	-15%
EPADR (US\$) - reported	0.21	0.11	0.13	0.11	-46%	7%	-15%
EPADR (US\$) - recurring	0.22	0.11	0.13	0.12	-44%	11%	-9%
Gross loans	489,687	502,626	513,150	516,618	5%	2.8%	1%
Total assets	1,048,518	1,162,093	1,179,078	1,153,196	10%	-1%	-2%
Deposits	420,929	465,528	472,468	475,702	13%	2%	1%
Equity	82,062	84,793	86,551	86,084	5%	2%	-1%
ROAE - reported	7.8%	12.5%	11.7%	9.9%	210 bps	-260 bps	-180 bps
ROAE - management	8.3%	13.1%	12.3%	10.4%	210 bps	-270 bps	-180 bps
NIM	5.8%	5.6%	5.6%	5.7%	-10 bps	10 bps	10 bps
NIM (ex-treasury)	6.4%	5.9%	5.7%	5.8%	-60 bps	-10 bps	10 bps
Efficiency ratio	41%	43%	43%	44%	260 bps	50 bps	90 bps
Effective tax rate	-10%	-3%	0%	-16%	-570 bps	-1320 bps	-1580 bps
Provisions/ Avg. gross loans	6.0%	4.5%	4.9%	5.4%	-70 bps	90 bps	50 bps
NPLs/ Gross loans	3.1%	3.0%	2.9%	3.1%	0 bps	10 bps	20 bps
LLR/ NPLs	230%	230%	230%	222%	-810 bps	-750 bps	-850 bps

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH

Price objective basis & risk

Santander Brasil (XCBD / BSBR)

Our price objective for Santander Brasil of R\$29/US\$5.8 is derived from the Gordon Growth Model, assuming a sustainable ROAE of 16%, a COE of 14.3%, and 4% growth in perpetuity. Our PO implies a target '24 P/BV multiple of 1.2x. Our USD/ADR PO is derived from the local PO converted at an FX rate of 5.0.

Upside risks are 1) stronger than forecasted loan portfolio growth, 2) better than expected NII with market and 3) lower than expected provision charges. Downside risks includes: 1) faster deterioration in asset quality, which could lead to higher provision charges, and 2) slower revenue generation in a challenging macro environment, which should maintain ROE below the COE.

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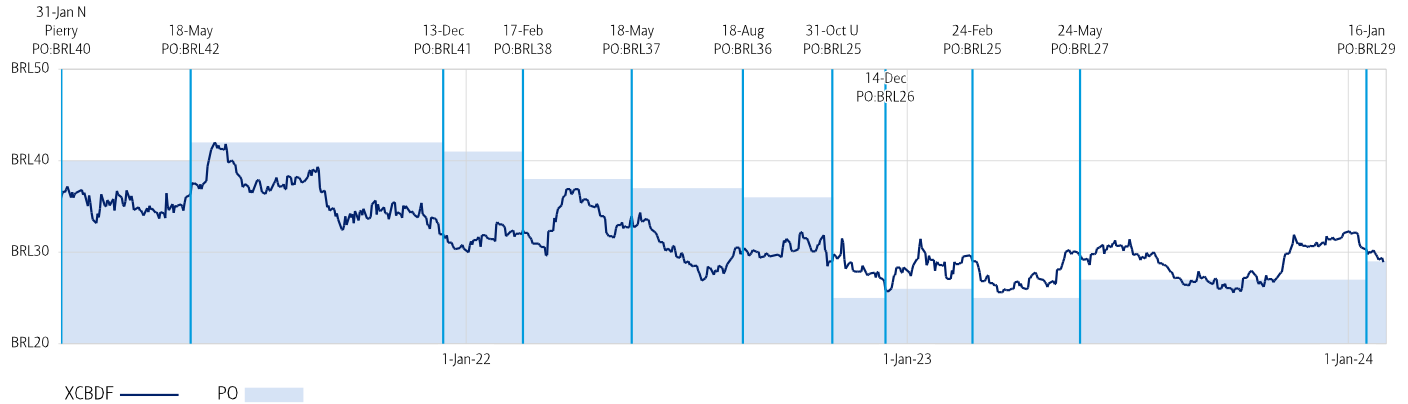
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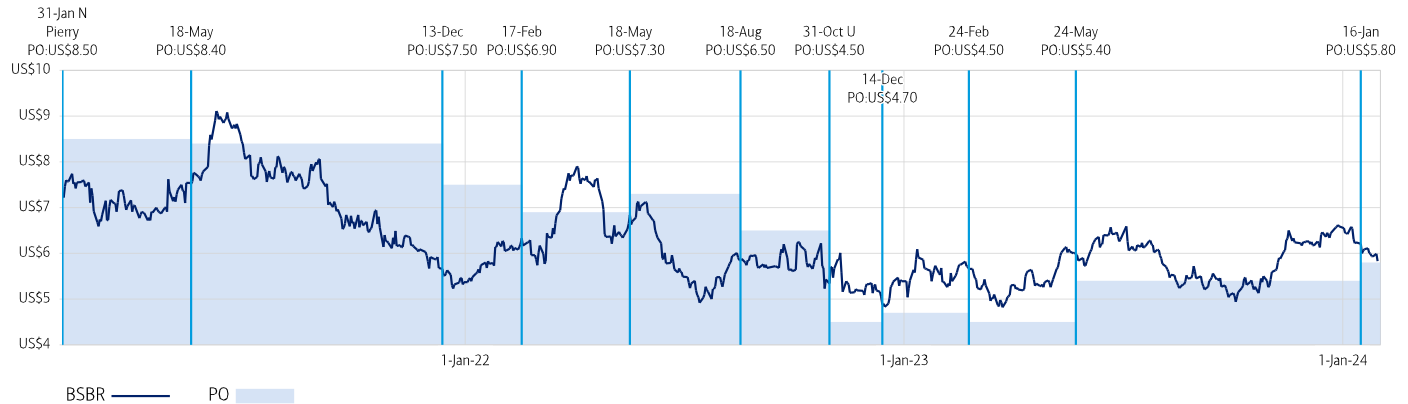
Santander Brasil (XCBD) Price Chart



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

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Santander Brasil (BSBR) Price Chart



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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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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