

## Banco de Chile

# 4Q23 results already known; management anticipates ROAE of 18% in 2024

Reiterate Rating: UNDERPERFORM | PO: 100.00 CLP | Price: 102.20 CLP

## Net earnings were already known; ROE stood at 30.1%

No surprise, as preliminary 4Q results were already known, while we have already incorporated the results in our model. NI of ChP386mn advanced 11% QoQ and 48%. 4Q23 results showed positive core revenue generation (NII + fees), offsetting higher operating expenses and provision charges. Meanwhile, we noticed low single-digit loan growth and a lower reserve coverage ratio of 143% in 4Q23 (vs. 151% in 3Q23). ROAE for the quarter stood at 30.1% improving from 21% in 3Q23 and from 29.1% in 4Q22.

## Incorporating a lower dividend pay-out ratio

Importantly, we kept our annual estimates unchanged, but reduced our sustainable ROAE to 18% (vs. 19% before). This was basically to reflect the company's dividend payment proposal of ChP8.077 per share, implying a 66% pay-out ratio. Given BCH's strong capital ratio, we were expecting 80% pay-out ratio before.

## Management anticipates an ROAE of ~18% (vs. 24.6% in '23)

Management expects an ROAE of ~18% in 2024 (vs. 24.6% in '23), implying earnings contraction of 20% YoY. Furthermore, they expect i) loan growth slightly above the industry's levels of 5.0-5.5% (vs. 6% of BofA, and vs. 2% in '23), ii) NIM pressure of -10bp (vs. -30bp of BofAe, as lower investment securities could be impacting financial results instead of NII due to the end of the FCIC program), iii) a cost of risk of 1.2% (vs. 1.1% of BofAe, increasing from 1.0% in '23), and iv) a higher efficiency ratio at 40% (in-line with BofA and higher vs. 37% in '23). Finally, BCH expects a better macro-outlook for this year, expecting GDP growth of 1.4% (vs. 0.1% in '23), inflation of ~3.0% (vs. 3.9% in '23), and interest rates of ~4.5% by year-end (vs. 8.25% in '23).

## Maintain our Underperform rating

Management guidance assumes ROAE to decline to ~18% from 24.6% in 2023, implying earnings contraction of 20% (in-line with our expectations). We see demanding valuation, as the stock is trading at 10x '24 P/E, despite the earnings contraction. Maintain Underperform.

Estimates(Dec) (CLP)	2022A	2023A	2024E	2025E	2026E
EPS	13.95	12.31	9.84	10.82	12.59
EPS Change (YoY)	77.9%	-11.8%	-20.1%	10.0%	16.4%
Consensus EPS (Bloomberg)			9.75	10.31	NA
DPS	5.33	8.58	8.00	5.91	6.49
ADR EPS (US\$)	3.28	2.80	2.19	2.34	2.66
ADR DPS (US\$)	1.25	1.95	1.78	1.28	1.37
Valuation (Dec)					
P/E	7.3x	8.3x	10.4x	9.4x	8.1x
Dividend Yield	5.2%	8.4%	7.8%	5.8%	6.4%

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**Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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29 January 2024

### Equity

#### Key Changes

(CLP)	Previous	Current
2024E EPS	9.81	9.84
2025E EPS	10.87	10.82

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### Stock Data

Price (Common / ADR)	102.20 CLP / 22.12 USD
Price Objective	100.00 CLP / 22.00 USD
Date Established	25-Jan-2024 / 25-Jan-2024
Investment Opinion	A-3-7 / B-3-7
52-Week Range	69.79 CLP - 104.00 CLP
Market Value (mn)	10,044,256 CLP
Free Float	42.8%
Average Daily Value	8.87 USD
Shares Outstanding (mn)	98,280.4 / 491.4
BofA Ticker / Exchange	XHND / SGO
BofA Ticker / Exchange	BCH / NYS
Bloomberg / Reuters	CHILE CI / CHILE.SN
ROE (2024E)	18.1%

BCH: Banco de Chile

CoR: Cost of Risk

ROAE: Return on Average Equity

NIM: Net Interest Margin

NII: Net Interest Income

NI: Net Income

# iQprofile<sup>SM</sup> Banco de Chile

## Income Statement Data (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	2,235,546	1,890,660	1,831,329	2,000,049	2,242,453
% change	43.9%	-15.4%	-3.1%	9.2%	12.1%
Net Fee Income	531,619	545,278	582,933	628,815	678,657
Securities Gains / (Losses)	303,385	467,765	360,000	340,000	340,000
Total Operating Income	3,102,130	2,987,919	2,818,261	3,012,864	3,305,109
Operating Expenses	(995,474)	(1,118,549)	(1,126,187)	(1,166,117)	(1,195,892)
% change	14.2%	12.4%	0.7%	3.5%	2.6%
Provisions Expense	(435,118)	(361,251)	(417,648)	(444,887)	(476,793)
% change	21.9%	-17.0%	15.6%	6.5%	7.2%
Operating Pre-Tax Income	1,671,538	1,508,119	1,274,426	1,401,860	1,632,425
Operating Net Income to Comm S/Hold.	1,409,187	1,243,519	994,007	1,093,004	1,271,804
GAAP Net Income	1,422,767	1,252,876	1,008,407	1,107,404	1,286,204

## Balance Sheet Data (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	55,255,362	55,792,552	60,785,102	66,410,271	72,623,083
Average Interest Earning Assets	45,653,123	47,922,181	50,732,029	54,264,917	58,253,643
Total Gross Customer Loans	36,694,804	37,600,704	39,902,244	42,763,916	45,830,818
% change	7.2%	2.5%	6.1%	7.2%	7.2%
Total Customer Deposits	27,540,373	28,687,222	31,239,128	34,025,345	37,068,000
% change	1.8%	4.2%	8.9%	8.9%	8.9%
Tangible Equity	4,858,327	5,237,283	5,746,917	6,482,052	7,359,892
Common Shareholders' Equity	4,858,327	5,237,283	5,746,917	6,482,052	7,359,892

## Key Metrics (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	4.90%	3.95%	3.61%	3.69%	3.85%
Effective Tax Rate	16.5%	18.2%	23.1%	23.1%	23.0%
Loan / Deposit Ratio	133.2%	131.1%	127.7%	125.7%	123.6%
Tangible Common Equity / Assets	8.8%	9.4%	9.5%	9.8%	10.1%
ROA	2.6%	2.2%	1.7%	1.7%	1.8%
ROE	30.8%	24.6%	18.1%	17.9%	18.4%
RoTE	30.8%	24.6%	18.1%	17.9%	18.4%
Dividend Payout Ratio	38.2%	69.7%	81.3%	54.6%	51.6%
Efficiency Ratio (Cost / Income Ratio)	35.6%	44.4%	45.8%	43.6%	40.3%

## Quality of Earnings (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	27.9%	36.7%	35.0%	33.6%	32.2%
NPLs plus Foreclosed Real Estate / Loans	1.1%	1.4%	1.5%	1.6%	1.7%
Loan Loss Reserves / NPLs	196.41%	143.01%	177.25%	177.07%	176.89%
Loan Loss Reserves / Total Loans	2.12%	2.05%	2.71%	2.89%	3.06%

## Company Sector

Banks-Retail

## Company Description

Banco de Chile is Chile's second largest bank in terms of total loans, holding a market share of 18%. Banco de Chile is one the most recognized brands within the Chilean banking sector. Banco de Chile merged with Banco Edwards in 2002.

## Investment Rationale

We view Banco de Chile as high-quality bank in Chile, with competitive advantages in asset quality and funding costs, which has translated in the past to above market ROEs. We rate Banco de Chile Underperform, in light of earnings contraction in '23 and '24 due to NIM pressure on lower inflation levels and, lower financial results from inferior investment securities, and no further upside potential.

## Stock Data

Average Daily Volume	79,789,220
Shares / ADR	600.00

## Quarterly Earnings Estimates

	2023	2024
Q1	2.63A	2.61E
Q2	3.29A	2.57E
Q3	2.57A	2.40E
Q4	3.82A	2.26E

## Key Changes

(US\$)	Previous	Current
2024E EPS	2.18	2.19
2025E EPS	2.35	2.34
2026E EPS	2.67	2.66
2024E DPS	2.19	1.78

## Key operating highlights: positives and negatives

**Loan Growth:** loan growth of 2.5%, modestly accelerating from 1.9% in 3Q23, limited by softer demand in consumer loans (+6% YoY from +9% in 3Q23), although a softer decline in commercial loans (-1% YoY from -3% in 3Q23).

**NIM:** NIM expanded 120bps QoQ to 4.7%, supported by higher inflation levels. Indeed, NIMs benefited by superior inflation levels (UOF variation of 1.6% in 4Q23 vs. 0.4% in 3Q23). As such, NII rose 7% YoY (38% QoQ).

**Asset Quality:** the NPL ratio behaved stable QoQ at 1.4%. Nonetheless, provision charges rose 112% QoQ normalizing from the release of provisions in 3Q23 and reflecting asset quality deterioration in retail banking, reflecting a CoR of 1.4% of (0.7% in 3Q23). Meanwhile, the reserve coverage ratio declined to 143% from 151% in 3Q23.

**Fees:** grew 6% QoQ (+2% YoY), supported by insurance brokerage, credit origination, contingent loans and financial advisory fees.

**Opex:** jumped 18% QoQ and +20% YoY, on non-recurring expenses of Ps22bn related to severance payments, collective bargaining agreements, operational write-offs, and impairments.

**Tax rate:** 7% (vs. 26% in 3Q23), due to higher tax benefits related to inflation.

### Exhibit 1: Banco de Chile – 2023 reported and 2024 management guidance vs. BofA

Management's 2024 guidance looks roughly in-line with our estimates

	2023		2024E	
	Mgmt. guidance	Reported	Mgmt. guidance	BofA
Loan, yoy growth	7%	2%	slightly above industry of 5.0-5.5%	6%
<b>NIM expansion</b>	<b>-120bp</b>	<b>-95</b>	<b>-10bp</b>	<b>-32</b>
Operating expenses, yoy growth	2% above inflation	12.4%		0.7%
Efficiency ratio		37%	40%	40%
<b>Provisions to Average Loans</b>	<b>1.2%</b>	<b>1.0%</b>	<b>1.2%</b>	<b>1.1%</b>
Tax rate		18%		23%
ROE	18%	25%	18%	18%
Implied earnings, YoY		-12%		-20%

Source: Company data and BofA Global Research estimates

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### Exhibit 2: Banco de Chile – 4Q23 results

4Q23 results already known and incorporated in our model

Ch\$ bn	4Q/22	3Q/23	4Q/23	4Q/23A	YoY	QoQ
Net interest income	526	407	562	562	7%	38%
Fee income	136	132	140	140	2%	6%
Net trading and brokerage	125	128	117	117	-6%	-9%
Other non-interest income	13	11	46	46	248%	311%
Non-interest expense	267	270	320	320	20%	18%
Provision for loan losses	123	60	128	128	4%	112%
<b>Net income - reported</b>	<b>347</b>	<b>260</b>	<b>386</b>	<b>386</b>	<b>11%</b>	<b>48%</b>
<b>EPS - reported</b>	<b>3.43</b>	<b>2.57</b>	<b>3.82</b>	<b>3.82</b>	<b>11%</b>	<b>48%</b>
<b>EPADR (US\$) - reported</b>	<b>0.81</b>	<b>0.58</b>	<b>0.87</b>	<b>0.87</b>	<b>8%</b>	<b>51%</b>
Gross loans	36,695	36,758	37,601	37,601	2%	2%
Total assets	55,255	55,153	55,793	55,793	1%	1%
Deposits	27,540	25,779	28,687	28,687	4%	11%
Equity	4,858	5,026	5,237	5,237	8%	4%
<b>ROAE - reported</b>	<b>29.1%</b>	<b>21.0%</b>	<b>30.1%</b>	<b>30.1%</b>	<b>100 bps</b>	<b>900 bps</b>
NIM	4.6%	3.5%	4.7%	4.7%	10 bps	120 bps
Efficiency ratio	33%	40%	37%	37%	370 bps	-280 bps
Effective tax rate	17%	26%	7%	7%	-940 bps	-1900 bps
Provisions/ Avg gross loans	1.4%	0.7%	1.4%	1.4%	0 bps	70 bps
NPLs/ Gross loans	1.1%	1.4%	1.4%	1.4%	40 bps	10 bps
LLR/ NPL	196%	151%	143%	143%	-5340 bps	-840 bps

Source: Company data and BofA Global Research estimates

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## Price objective basis & risk

### Banco Chile-ADR (BCH)

Our price objective for Banco de Chile of CLP100 per share (US\$22/ADR) is based on a Gordon Growth model, assuming a sustainable ROE of 18%, a cost of equity of 12.2% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 100 bp and a beta of 1.0x

Downside risks are macro deceleration, constitutional changes and a tough regulation against the banks, impacting loan growth and asset quality, difficulties improving cost efficiencies and increased tax rates. Upside risks to our PO are faster-than-anticipated inflation benefiting NIMs and a more benign macro scenario, which would increase loan growth expectations.

### Banco de Chile (XHNDLF)

Our price objective for Banco de Chile of CLP100 per share (US\$22/ADR) is based on a Gordon Growth model, assuming a sustainable ROE of 18%, a cost of equity of 12.2% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 100 bp and a beta of 1.0x

Downside risks are macro deceleration, constitutional changes and a tough regulation against the banks, impacting loan growth and asset quality, difficulties improving cost efficiencies and increased tax rates. Upside risks to our PO are faster-than-anticipated inflation benefiting NIMs and a more benign macro scenario, which would increase loan growth expectations.

## Analyst Certification

We, Ernesto Gabilondo, Antonio Ruetten and Flavio Yoshida, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	B3	XIMAF	B3SA3 BZ	Mario Pierry
	B3	BOLSY	BOLSY US	Mario Pierry
	Bajio	BBAJF	BBAJ100 MM	Ernesto Gabilondo
	Banco do Brasil	XBBAF	BBAS3 BZ	Mario Pierry
	Banco do Brasil	BDORY	BDORY US	Mario Pierry
	Banco Santander Chile	BSAC	BSAC US	Ernesto Gabilondo
	Banco Santander Chile	XLDTF	BSAN CI	Ernesto Gabilondo
	Banorte	GBOOF	GFNORTEO MM	Mario Pierry
	Banorte	GBOOY	GBOOY US	Mario Pierry
	Bci	BZCIF	BCI CI	Ernesto Gabilondo
	BTG Pactual	XNXCF	BPAC11 BZ	Flavio Yoshida
	Caixa Seguridade	XDXUF	CXSE3 BZ	Mario Pierry
	Credicorp Ltd	BAP	BAP US	Ernesto Gabilondo
	Genera	CMPRF	GENERAT* MM	Ernesto Gabilondo
	Grupo BMV	BOMXF	BOLSAA MM	Ernesto Gabilondo
	IFS	IFS	IFS US	Ernesto Gabilondo
	Inter	XBZIF	INBR32 BZ	Mario Pierry

## Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Inter	INTR	INTR US	Mario Pierry
	Itau Unibanco	ITUBF	ITUB4 BZ	Mario Pierry
	Itau Unibanco	ITUB	ITUB US	Mario Pierry
	PagSeguro Digital Ltd	PAGS	PAGS US	Mario Pierry
	Regional	RGNLF	RA MM	Ernesto Gabilondo
	StoneCo	STNE	STNE US	Mario Pierry
	XP Inc.	XP	XP US	Mario Pierry

## NEUTRAL

	ABC Brasil	XBABF	ABCB4 BZ	Flavio Yoshida
	Banco Pan	XQSFF	BPAN4 BZ	Flavio Yoshida
	Banrisul	XGRBF	BRSR6 BZ	Flavio Yoshida
	BB Seguridade	XBDPF	BBSE3 BZ	Mario Pierry
	BB Seguridade	BBSEY	BBSEY US	Mario Pierry
	Bradesco	BRDPF	BBDC4 BZ	Mario Pierry
	Bradesco -A	BBD	BBD US	Mario Pierry
	Cielo	CIOXF	CIEL3 BZ	Mario Pierry
	Cielo	CIOXY	CIOXY US	Mario Pierry
	Nubank	NU	NU US	Mario Pierry
	Porto Seguro	PSGUF	PSSA3 BZ	Mario Pierry

## UNDERPERFORM

	Banco Chile-ADR	BCH	BCH US	Ernesto Gabilondo
	Banco de Chile	XHNDF	CHILE CI	Ernesto Gabilondo
	Banco Macro	BMA	BMA US	Ernesto Gabilondo
	Banco Macro	BCVMF	BMA AR	Ernesto Gabilondo
	GFinbur	GPFOF	GFINBURO MM	Ernesto Gabilondo
	Grupo Financiero Galicia	GGAL	GGAL US	Ernesto Gabilondo
	Grupo Financiero Galicia	GGABF	GGAL AR	Ernesto Gabilondo
	Qualitas	QUCOF	Q* MM	Ernesto Gabilondo
	Santander Brasil	XCBDP	SANB11 BZ	Mario Pierry
	Santander Brasil	BSBR	BSBR US	Mario Pierry
	Supervielle	SUPV	SUPV US	Ernesto Gabilondo
	Supervielle	XAZFF	SUPV AR	Ernesto Gabilondo

## RSTR

	Bancolombia	CIB	CIB US	Ernesto Gabilondo
	Bancolombia	XAFFF	PFBCOLO CB	Ernesto Gabilondo

IQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

## Quality of Earnings

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

## Valuation Toolkit

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

## Numerator

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

## Numerator

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

## Denominator

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

## Denominator

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization



Valuation Toolkit

Numerator

Denominator

*iQmethod*<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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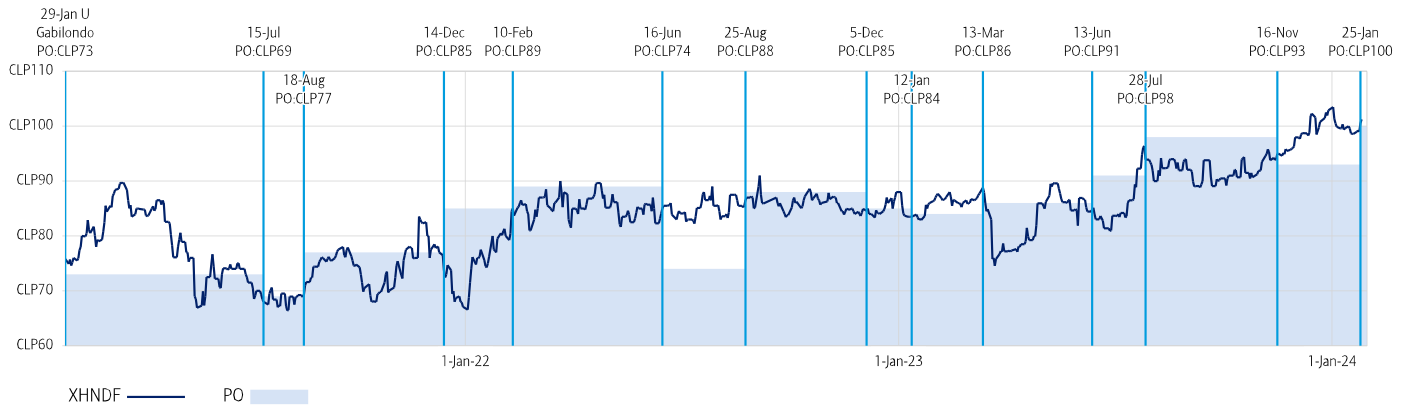
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# Disclosures

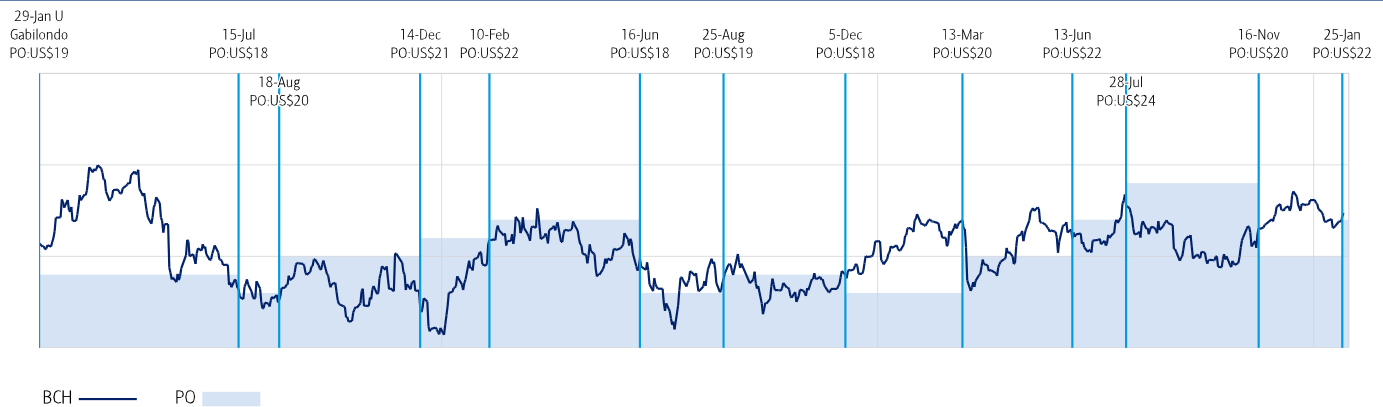
## Important Disclosures

### Banco de Chile (XHNDF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Banco Chile-ADR (BCH) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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.



**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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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