

Banco Santander Chile

Big 3Q23 earnings disappointment; mgmt. lowered 2023 expectations

Maintain Rating: UNDERPERFORM | PO: 46.00 CLP | Price: 39.30 CLP

3Q23 earnings well below expectations; ROAE of 13.5%

No surprise, as preliminary 3Q results were already out since mid-October. Net income of only ChP57bn dropped 55% QoQ (-69% YoY), and came well below our estimates and market consensus. 3Q23 earnings miss was mainly explained by NIM pressure from lower inflation levels, and lower-than-expected fees. If considering accumulated earnings of ChP\$320bn, we estimate BSAC will need to deliver ChP\$331bn in 4Q23 to achieve management's guidance for an ROAE of 15% in 2023. ROAE of 5.4% in 3Q23 dropped from 12.6% in 2Q23 and from 9.9% in 3Q22.

Mgmt. reduced '23 guidance, while hinted numbers for '24

Mgmt. '23 provided guidance for 4Q23, expecting an ROAE of ~19%, which implies a NI of ChP204bn (well below ChP\$331bn required for a 15% full-year ROAE). As such, new guidance implies a full-year ROAE of ~12-13% in 2023 (vs. 15% before). Meanwhile, mgmt. hinted some numbers for 2024, expecting an ROAE recovering to normalized levels, supported by: i) mid-single digit growth (vs. 6% in '22), ii) NIM expansion of 100-150bp (vs. -170bp in '23), iii) non-interest revenues growth of 10% (decelerating from +13% in '23), and iv) a stable CoR of 1.2% (same as in '23). Importantly, mgmt. expects i) GDP recovery of 2.0% in '24 (from -0.75% in '23), ii) inflation of 3.0% in '24 (from 4.5% in '23), iii) interest rates of 5.0% in '24 (from 8.0% in '23).

Key operating highlights: positives and negatives

Loan Growth (=): 3% YoY (roughly in-line with BofA), same growth as in the previous quarter. We noticed weaker activity in mortgages (+9% YoY from +11% in 2Q), although better growth in consumer loans (+8% YoY vs. +6% in 2Q23).

NIM (-): NIM eroded -40bp QoQ to 1.8% on lower inflation levels (UOF variation of 0.30% in September vs. 1.44% in June), despite inferior funding costs on lower rates. Moreover, NII contracted 17% QoQ and -42% YoY, and came 35% below expectations.

Asset Quality (=): The NPL ratio deteriorated 10bp QoQ to 2.3%, while the reserve coverage declined to 125% (excluding additional provisions) from 130% in 2Q23. Furthermore, provisions charges rose 3% QoQ and 33% YoY, and came roughly in-line with our expectations, reflecting a CoR of 1.2% avge gross loans (same as in 2Q23).

Fees (-): fell 11% QoQ (+14% YoY), and came 9% below BofAe, limited by weak financial advisory services.

Opex (=): kept no growth QoQ and YoY (in-line with BofA), reflecting the company's cost control program.

Tax rate (-): increased to 18% (vs. 5% in 2Q), due to lower tax benefits on inflation.

Maintain our Underperform rating

3Q earnings miss raised doubts on the velocity of Santander Chile's earnings recovery path under lower rates. Underperform

31 October 2023

Equity

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Stock Data

Price (Common / ADR)	39.30 CLP / 17.37 USD
Price Objective	46.00 CLP / 22.00 USD
Date Established	31-Jul-2023 / 31-Jul-2023
Investment Opinion	A-3-7 / B-3-7
52-Week Range	31.40 CLP - 45.12 CLP
Market Value (mn)	7,405,928 CLP
Average Daily Value	6.92 USD
Shares Outstanding (mn)	188,446.0 / 471.1
BofA Ticker / Exchange	XLDTF / SGO
BofA Ticker / Exchange	BSAC / NYS
Bloomberg / Reuters	BSANCI /
	BSANTANDERSN
ROE (2023E)	15.3%

A/Q: Asset Quality
Mgmt.: Management
CoR: Cost of Risk
ROE: Return on Equity
NI: Net Income
BSAC: Santander Chile

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Timestamp: 31 October 2023 10:12AM EDT

Exhibit 2: Santander Chile – 3Q23 results

Big miss on 3Q23 earnings impacted by weak core revenue generation

Ch\$ bn	3Q/22	2Q/23	3Q/23	3Q/23A	YoY	QoQ	vs BofAe
Net interest income	364	254	323	211	-42%	-17%	-35%
Fee income	107	136	134	122	14%	-11%	-9%
Net trading and brokerage	61	85	81	81	32%	-4%	0%
Other non-interest income	-22	0	0	0	-98%	-395%	-395%
Non-interest expense	221	221	221	220	0%	0%	0%
Provision for loan losses (gross)	91	117	119	121	33%	3%	1%
Net income - reported	186	127	161	57	-69%	-55%	-65%
EPS - reported	0.98	0.67	0.85	0.30	-69%	-55%	-65%
EPADR (US\$) - reported	0.61	0.25	0.36	0.36	-41%	43%	0%
Gross loans	38,924	39,362	39,795	40,139	3%	2%	1%
Total assets	75,038	68,682	69,992	72,491	-3%	6%	4%
Deposits	28,289	28,164	28,512	28,555	1%	1%	0%
Equity	3,862	4,169	4,329	4,193	9%	1%	-3%
ROAE - reported	19.9%	12.6%	15.1%	5.4%	-1450 bps	-720 bps	-970 bps
NIM	3.2%	2.2%	2.7%	1.8%	-150 bps	-40 bps	-90 bps
Efficiency ratio	43%	47%	41%	53%	1000 bps	670 bps	1220 bps
Effective tax rate	5%	5%	18%	18%	1300 bps	1340 bps	80 bps
Provisions/ Avg gross loans	0.9%	1.2%	1.2%	1.2%	30 bps	0 bps	0 bps
NPLs/ Gross loans	1.7%	2.1%	2.1%	2.3%	60 bps	10 bps	10 bps
LLR/ NPLs	155%	130%	130%	125%	-2980 bps	-500 bps	-500 bps

Source: Company data and BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk**Banco Santander Chile (BSAC)**

Our price objective for Santander Chile of USD22 per ADR / CLP\$46 per share is based on a Gordon Growth model, assuming a sustainable ROE of 19%, cost of equity of 12.6% 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 140 bp and a beta of 1.0x

Upside risks to our PO are higher inflation levels, greater cost-controls and better than expected macro impacting loan growth and asset quality.

Downside risks to our PO are NIM margin pressure from lower inflation levels and an upward trend in the effective tax rate.

Banco Santander Chile (XLDTF)

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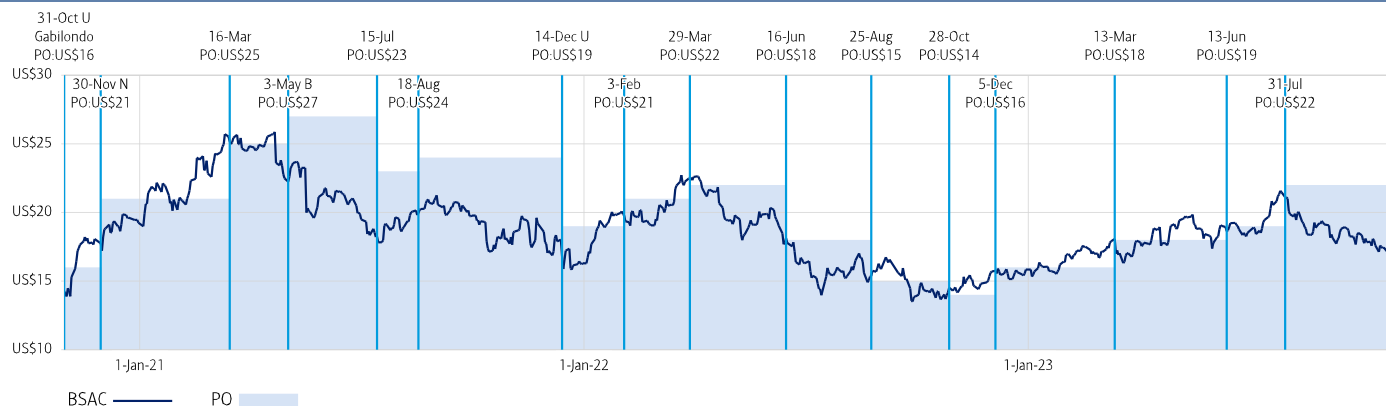
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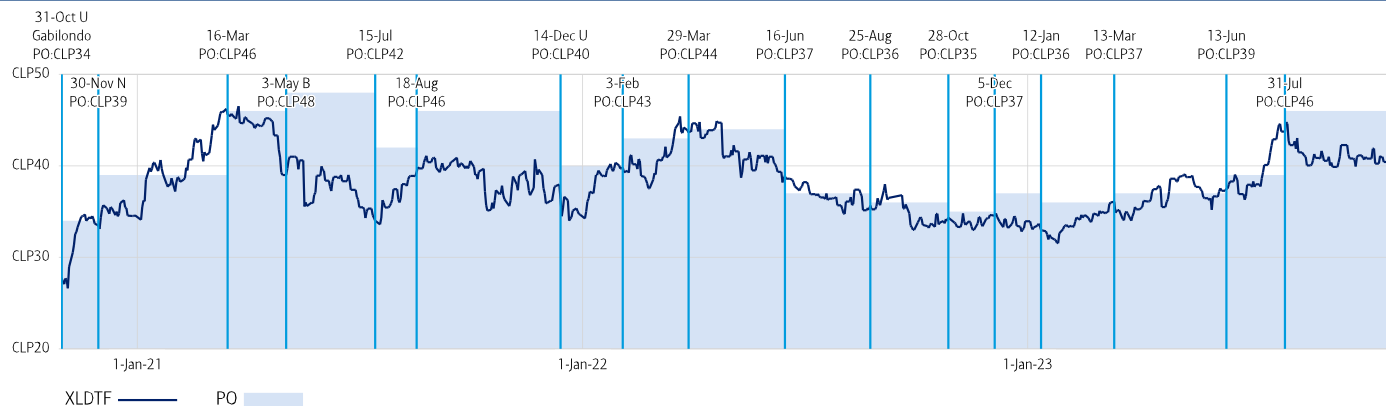
Santander Chile (BSAC) Price Chart



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

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Santander Chile (XLDTF) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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