

Bradesco

New driver but a winding road ahead; strategic plan won't save '24 (and '25)

Reiterate Rating: NEUTRAL | PO: 16.00 BRL | Price: 13.96 BRL

A gradual recovery in profitability

We lower our earnings estimates for '24 and thereafter, as recently reported weak results and subdued guidance indicate slower profitability improvement than expected. The new CEO shared the outline of a five-year strategic plan that aims to improve efficiency, recover profitability, and gain market share. However, Mr. Noronha emphasized that (1) ROE expansion should be gradual over the next five years; (2) '24 will be a transition year; and (3) ROE should only reach similar levels to cost of equity in '26.

Strategic plan is not a silver bullet

The strategic plan aims to: (1) lower the cost to serve low-income retail clients; (2) launch a new segment to serve high income retail clients; (3) create a new structure to serve the SME (small & medium-sized enterprises) segment; (4) lead to a leaner organizational structure; and (5) create a dedicated team to lead the strategic transformation. While we welcome the plan as recognition that recent operational struggles are structural (in addition to cyclical), it comes with several execution risks and associated costs. The plan was put together over the last 60 days and still lacks granularity on the financials.

Reducing earnings estimates

We lower our '24/'25 net income estimates by 17%/12% to R\$17.9bn/R\$24.5bn, yielding ROE of 10.8%/13.7%. Main changes are related to: (1) lower Client NII (net interest income), reflecting a slower loan growth expectation; (2) lower fee income generation; and (3) higher other non-operating expenses, more than offsetting (4) lower provision charges.

New PO of R\$16/US\$3.2

We reduce our GGM-derived PO to R\$16/US\$3.2 from R\$19/US\$3.8, reflecting lower sustainable ROE of 15% (vs. 17% previously) and cost of equity of 14.3% (unchanged). While we expect ROE to remain below the cost of equity through '25, we think that is already reflected in current valuation of 0.9x trailing P/BV. We keep our Neutral rating.

Estimates(Dec) (BRL)	2022A	2023A	2024E	2025E	2026E
EPS	1.95	1.42	1.68	2.30	2.96
GAAP EPS	1.94	1.53	1.68	2.30	2.96
EPS Change (YoY)	-5.2%	-27.0%	18.2%	36.8%	28.8%
Consensus EPS (Bloomberg)			2.11	2.61	3.19
DPS	0.81	1.06	0.84	0.69	0.89
ADR EPS (US\$)	0.38	0.28	0.34	0.46	0.60
ADR DPS (US\$)	0.16	0.21	0.17	0.14	0.18
Valuation (Dec)					
P/E	7.2x	9.8x	8.3x	6.1x	4.7x
GAAP P/E	7.2x	9.1x	8.3x	6.1x	4.7x
Dividend Yield	5.8%	7.6%	6.0%	4.9%	6.4%

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 07 February 2024 05:45PM EST

07 February 2024

Equity

Key Changes

(BRL)	Previous	Current
Price Obj.	19.00	16.00
2024E Rev (m)	123,780.8	117,481.6
2025E Rev (m)	136,918.2	130,070.1
2026E Rev (m)	149,924.6	142,769.8
2024E EPS	2.02	1.68
2025E EPS	2.60	2.30
2026E EPS	3.26	2.96
2024E DPS	0.60	0.84

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Stock Data

Price (Common / ADR)	13.96 BRL / 2.83 USD
Price Objective	16.00 BRL / 3.20 USD
Date Established	7-Feb-2024 / 7-Feb-2024
Investment Opinion	B-2-7 / C-2-7
52-Week Range	12.39 BRL - 17.74 BRL
Market Value (mn)	148,565 BRL
Free Float	97.6%
Average Daily Value	96.20 USD
Shares Outstanding (mn)	10,642.2 / 10,642.2
BofA Ticker / Exchange	BRDPF / SAO
BofA Ticker / Exchange	BBD / NYS
Bloomberg / Reuters	BBD4 BZ / BBD4.SA
ROE (2024E)	10.8%

iQprofileSM Bradesco

Income Statement Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	67,772	64,885	64,428	70,573	79,640
% change	22.0%	-4.3%	-0.7%	9.5%	12.8%
Net Fee Income	35,694	35,642	37,117	39,439	41,414
Securities Gains / (Losses)	(1,390)	311	4,100	5,000	5,200
Total Operating Income	113,158	111,995	117,482	130,070	142,770
Operating Expenses	(53,220)	(54,877)	(58,457)	(61,682)	(65,539)
% change	7.5%	3.1%	6.5%	5.5%	6.3%
Provisions Expense	(32,297)	(39,545)	(37,513)	(33,854)	(29,320)
% change	114.8%	22.4%	-5.1%	-9.8%	-13.4%
Operating Pre-Tax Income	27,772	17,712	21,779	34,802	48,179
Operating Net Income to Comm S/Hold.	20,681	16,297	17,867	24,450	31,486
GAAP Net Income	20,734	15,122	17,867	24,450	31,486

Balance Sheet Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	1,830,247	1,964,052	2,114,273	2,305,378	2,532,621
Average Interest Earning Assets	1,745,635	1,843,618	1,956,292	2,127,089	2,330,121
Total Gross Customer Loans	656,431	627,241	678,685	738,566	814,730
% change	7.6%	-4.4%	8.2%	8.8%	10.3%
Total Customer Deposits	609,574	642,689	688,647	752,432	830,031
% change	3.9%	5.4%	7.2%	9.3%	10.3%
Tangible Equity	134,513	138,825	149,494	168,210	191,727
Common Shareholders' Equity	154,263	161,182	170,115	187,230	209,271

Key Metrics (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	3.88%	3.52%	3.29%	3.32%	3.42%
Effective Tax Rate	24.3%	5.8%	16.5%	28.8%	34.0%
Loan / Deposit Ratio	107.7%	97.6%	98.6%	98.2%	98.2%
Tangible Common Equity / Assets	7.3%	7.1%	7.1%	7.3%	7.6%
ROA	1.2%	0.8%	0.9%	1.1%	1.3%
ROE	13.8%	9.6%	10.8%	13.7%	15.9%
RoTE	15.6%	11.1%	12.4%	15.4%	17.5%
Dividend Payout Ratio	41.8%	69.4%	50.0%	30.0%	30.0%
Efficiency Ratio (Cost / Income Ratio)	46.5%	49.1%	51.6%	49.3%	47.6%

Quality of Earnings (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	40.1%	42.1%	45.2%	45.7%	44.2%
NPLs plus Foreclosed Real Estate / Loans	4.3%	5.2%	4.7%	3.9%	3.1%
Loan Loss Reserves / NPLs	205%	165%	171%	183%	192%
Loan Loss Reserves / Total Loans	8.80%	8.59%	8.03%	7.13%	5.94%

Company Sector

Banks-Retail

Company Description

Bradesco is the second largest private-sector bank in Brazil, with over 38 million checking account customers and a market share close to 15% in term of assets. Bradesco is the leader among private-sector banks in various financial segments, such as leasing, insurance, private pension funds, and asset management, among others.

Investment Rationale

We rate Bradesco a Neutral, as we think that earnings momentum should remain pressured in the medium-term from weak client NII growth and elevated provision charges. On the other hand, we like the bank's earnings diversification and think that valuation limits downside potential.

Stock Data

Average Daily Volume	34,194,300
Shares / ADR	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	0.40A	0.38E
Q2	0.42A	0.40E
Q3	0.43A	0.44E
Q4	0.16A	0.46E

Key Changes

(US\$)	Previous	Current
Price Obj.	3.80	3.20
2024E EPS	0.41	0.34
2025E EPS	0.52	0.46
2026E EPS	0.66	0.60
2024E DPS	0.12	0.17

Revised earnings estimates

Exhibit 1: Summary earnings model – Old vs New

We have reduced our earnings estimates for '24-'26; expect ROE to reach COE by '26

R\$mnn	2023E	2024E			2025E			2026E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
NII with clients	64,885	67,066	64,428	-4%	76,035	70,573	-7%	85,676	79,640	-7%
NII with market	311	4,100	4,100	0%	5,000	5,000	0%	5,200	5,200	0%
Net interest income	65,196	71,166	68,528	-4%	81,035	75,573	-7%	90,876	84,840	-7%
Fee income	35,642	38,105	37,117	-3%	40,490	39,439	-3%	42,518	41,414	-3%
Net insurance, pension, cap.	17,879	19,342	19,074	-1%	20,890	20,600	-1%	22,561	22,248	-1%
Other non-interest income	(6,722)	(4,833)	(7,237)	50%	(5,497)	(5,542)	1%	(6,030)	(5,732)	-5%
Non-interest expense	54,877	57,095	58,457	2%	60,518	61,682	2%	64,304	65,539	2%
Provision for loan losses	39,545	38,985	37,513	-4%	36,791	33,854	-8%	32,520	29,320	-10%
Extraordinary income	(1,175)	-	-	-	-	-	-	-	-	-
Net income - reported	15,122	21,457	17,867	-17%	27,685	24,450	-12%	34,689	31,486	-9%
Net income before extra	16,297	21,457	17,867	-17%	27,685	24,450	-12%	34,689	31,486	-9%
EPS - reported	1.42	2.02	1.68	-17%	2.60	2.30	-12%	3.26	2.96	-9%
EPS - before extra	1.53	2.02	1.68	-17%	2.60	2.30	-12%	3.26	2.96	-9%
Gross loans	627,241	695,711	678,685	-2%	757,048	738,566	-2%	835,115	814,730	-2%
Total assets	1,964,052	2,121,530	2,114,273	0%	2,314,549	2,305,378	0%	2,543,406	2,532,621	0%
Deposits	642,689	680,696	688,647	1%	743,744	752,432	1%	820,447	830,031	1%
Equity	161,182	179,054	170,115	-5%	198,434	187,230	-6%	222,716	209,271	-6%
ROAE - reported	9.6%	12.5%	10.8%	-170 bps	14.7%	13.7%	-100 bps	16.5%	15.9%	-60 bps
ROAE - before extra	10.3%	12.5%	10.8%	-170 bps	14.7%	13.7%	-100 bps	16.5%	15.9%	-60 bps
NIM	3.5%	3.6%	3.5%	-10 bps	3.8%	3.6%	-20 bps	3.9%	3.6%	-20 bps
Efficiency ratio	49.0%	46.1%	49.8%	360 bps	44.2%	47.4%	320 bps	42.9%	45.9%	300 bps
Effective tax rate	6%	21%	17%	-470 bps	29%	29%	-40 bps	34%	34%	0 bps
Provisions/ Avg. gross loans	6.2%	5.8%	5.7%	-10 bps	5.1%	4.8%	-30 bps	4.1%	3.8%	-30 bps
NPLs/ Gross loans	5.2%	5.6%	4.7%	-90 bps	4.8%	3.9%	-90 bps	4.0%	3.1%	-90 bps
LLR/ NPLs	165%	156%	171%	1480 bps	168%	183%	1520 bps	176%	192%	1550 bps

Source: BofA Global Research estimates and Company data

BofA GLOBAL RESEARCH

Price objective basis & risk

Bradesco (BRDPF / BBD)

Our price objective (PO) for Bradesco of R\$16/US\$3.2 is derived from the Gordon Growth Model, assuming a sustainable ROE of 15%, a COE of 14.3%, and 4% growth in perpetuity. Our PO implies a target '24E P/BV multiple of 1.0x. Our USD/ADR PO is derived from the local PO converted at a 5.0 FX rate.

Downside risks to our PO are 1) weaker economic activity could negatively impact loan growth, 2) corporate NPL deterioration, and 3) regulatory changes could be detrimental to profitability. Upside risks include: 1) stronger than forecasted loan portfolio growth, 2) stronger than expected Selic rate cuts benefiting Market NII and, 3) lower than expected provision charges.

Analyst Certification

We, Mario Pierry, Antonio Ruelle 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.

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Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	B3	XIMAF	B3SA3 BZ	Mario Pierry
	B3	BOLSY	BOLSY US	Mario Pierry
	Bajio	BBAJF	BBAJIO 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	XNXC	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
	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

Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
	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	PFBICOLO CB	Ernesto Gabilondo
	Cielo	CIOXF	CIEL3 BZ	Mario Pierry
	Cielo	CIOXY	CIOXY US	Mario Pierry

IQmethodSM 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

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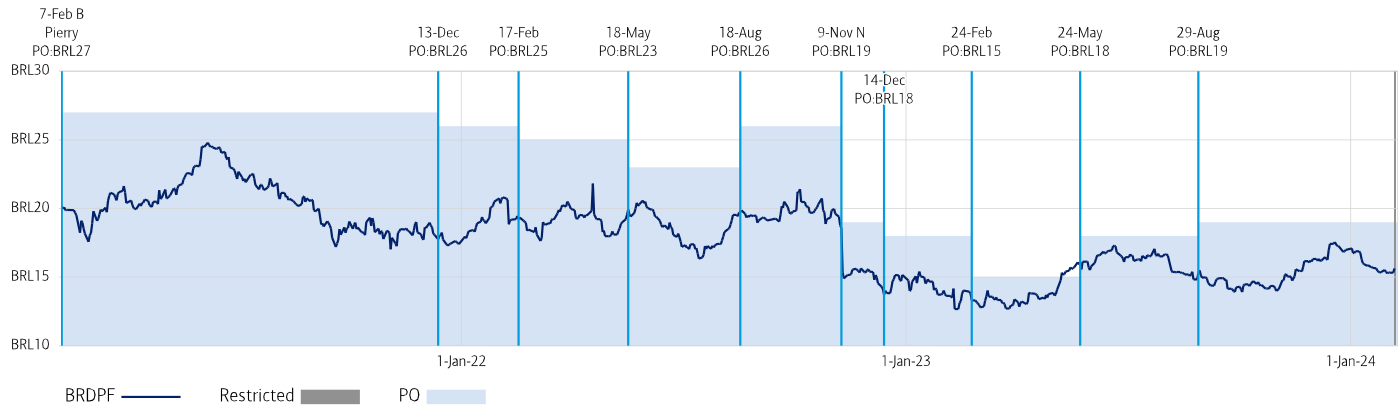
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Disclosures

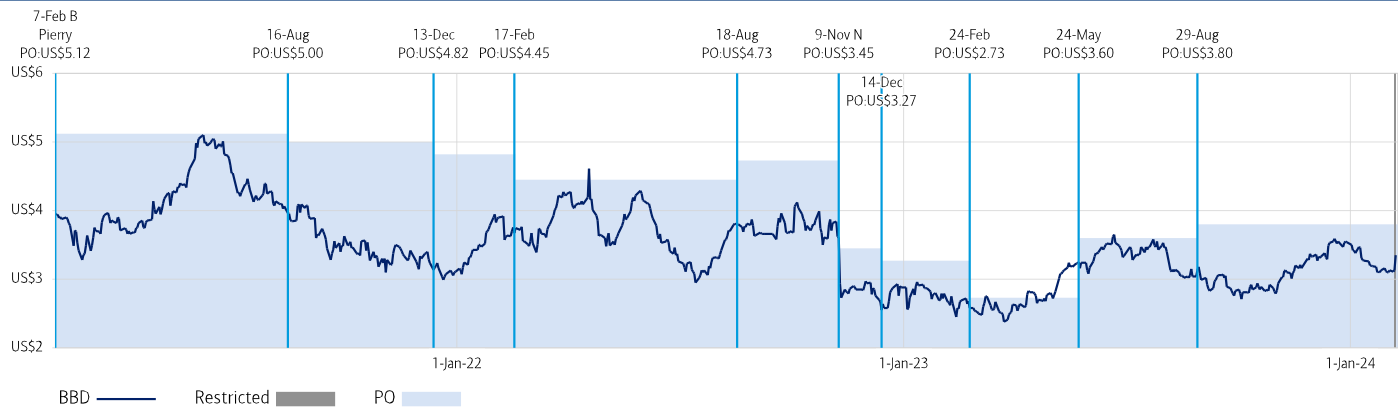
Important Disclosures

Bradesco (BRDPF) 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.

Bradesco -A (BBD) 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 ^{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%
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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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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