Banco Santander Chile

Earnings to take-off; key takeaways from call with CFO

Maintain Rating: BUY | PO: 47.00 CLP | Price: 48.45 CLP

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Equity

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Virtual meeting with CFO

We hosted a conference call with Santander Chile's CFO Emiliano Muratore, and IR team for an update on the business. Management addressed i) loan growth, ii) NIM outlook, iii) digital transformation, iv) competition, v) asset quality, and vi) profitability.

Loan growth supported by better economic prospects

Assuming GDP growth of 2.0% in 2024 and inflation of 3.5%, Santander anticipates mid-single digit loan growth and 7-8% of the industry. Loan growth should be driven by i) consumer loans growing at a higher pace after leaving behind the low level of households during the pandemic and the excess liquidity from pension's withdrawals, and ii) mortgage loans growing in-line or slightly higher than inflation. Meanwhile, the commercial loan book is still showing soft demand for capital and long-term projects.

NPL deterioration in 1H24, but then recovering

Given the state of the economic cycle, it is likely to see NPL deterioration in the first half of the year. Nonetheless, improving in the second half, supported by a more tangible economic recovery (stronger GDP growth and employment figures, lower inflation, and inferior rates). Furthermore, 2024 cost of risk should be in the 1.2-1.3% area.

NIM expansion to accelerate in 2H24

NIMs are expected to recover to 3.0-3.5% in 2024 (vs. 2.2% last year). Nonetheless, at this level of monetary normalization, NIMs should be at mid-point of the range of 3.2-3.3%. Meanwhile, management indicated 1Q24 NIMs to be closer to the second half of last year, and then trending-up through the year. *More details on page 2.*

Fintech competition unlikely to be a threat in Chile

The size of the Chilean market and its high credit penetration are two obstacles preventing other LatAm fintechs to enter the Chilean market. Having said that, Mercado Pago seems like the biggest competitor in Chile. Within this context, Santander Chile is the best incumbent prepared against potential competition. *More details on page 2.*

Adequate CET1 ratio and high dividend pay-out ratio

BSAC expects to maintain a CET1 ratio of 10.5-11.0%, 60% dividend policy ratio and 17-19% long-term ROAE. Having said that, considering the low net income achieved in 2023, management is evaluating to propose a higher dividend pay-out ratio in the next shareholders' meeting. Also, management sees that if there is no need for higher loan book growth, any excess of capital above 11.0% could be distributed in dividends.

Maintain our Buy rating

We continue to see Santander Chile's earnings and NIMs to start benefiting from lower rates, becoming one of the few LatAm bank stories with strong earnings momentum in 2024- 2025 (c.36% growth). Buy

Stock Data

Price (Common / ADR)	48.45 CLP / 19.55 USD
Price Objective	47.00 CLP / 21.00 USD
Date Established	25-Jan-2024 / 25-Jan-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	33.51 CLP - 49.30 CLP
Market Value (mn)	9,130,209 CLP
Free Float	32.8%
Average Daily Value	5.33 USD
Shares Outstanding (mn)	188,446.0 / 471.1
BofA Ticker / Exchange	XLDTF / SGO
BofA Ticker / Exchange	BSAC / NYS
Bloomberg / Reuters	BSAN CI / BSANTANDER.SN
ROE (2024E)	16.4%

A/Q: Asset Quality
CoR: Cost of Risk
ROE: Return on Equity
NI: Net Income
CET1: Common Equity Tier 1
BSAC: Santander Chile
NPL: Non performing loan
NIM: Net interest margin

Other topics addressed

NIMs evolution after the FDIC credit line

CFO indicated that the maturity of the credit line with the Central Bank (FDIC) is not so relevant for Santander Chile. The deleverage of the balance sheet will imply two stages: one in April 1st and another in July 1st, representing 10% of the assets in each period. This could imply a tailwind measure for NIMs, which could position them in the 3.5-4.0% range. Finally, NIMs above 4.0% seem challenging considering the size of Santander Chile's mortgage loan book.

Fees, opex and effective tax rate trends

CFO expects fees to grow at the low-double digit given the regulatory headwinds in the interchange fee, implying a negative impact of CHP25bn in 2024. Excluding it, fees should grow at high double-digit. Meanwhile, operating expenses are expected to behave at or below inflation, around low single-digit. Finally, management expects effective tax rate to behave around 20% in 2024.

Neobanks and fintech competition

Besides Mercado Pago, Chile has other competitors' digital offerings, such as Mach (from BCI), Tempo (Neobank owned by Credicorp), and Cuenta Fan (from Banco de Chile). While those competitors had been successful in attracting clients, they are still evaluating different strategies on how to monetize them. Meanwhile, Santander Chile is the most prepared incumbent bank in Chile against competition, as its digital offering is already profitable, while the global scale of Santander allows them to be prepared against new potential players entering the country.

Reducing branches, but expanding Santander work cafe

Santander Chile has been reducing its number of branches, although increasing work cafes by migrating the physical presence into a much richer experience. Work Café's key advantages are on i) the revenue side, given a better NPS (Net Promoter Score) and cross-selling opportunities at the high level, and ii) a lower cost to serve (not human tellers, not use of cash, security guards and vault). Today, Life and Mas Lucas clients operate fully digital. Clients can pay USD10 to pick-up the credit card at the branch, USD3-4 at home, or can picked them up in lockers with code at the branch (copying Amazon's strategy).

Santander Chile's digital offering is already profitable

Santander Chile started its digital deposit base by charging fees to their clients to compensate for loyalty and rewards costs. Digital deposits represent an attractive lending opportunity, although management does not want to be aggressive to protect asset quality. Having said that, Santander Chile has already a massive client base that has been for more than a year, in which management has started to offer small limits in credit cards, and depending on their behavior, increasing their ticket-size. Meanwhile, Getnet (the payments business) has been in the market for two years, and has already a 20% market share in terms of number of clients, taking advantage of the transactional knowledge of the client to offer them working capital loans to develop their businesses.

Unlikely to create an independent digital bank

CFO sees Santander Chile as a digital bank with branches, although does not foresee the need of creating an independent digital bank as in other regions (ie. Open bank in Mexico).

Price objective basis & risk

Banco Santander Chile (BSAC)

Our price objective for Santander Chile of USD21 per ADR / CLP$47 per share is based on a Gordon Growth model, assuming a sustainable ROE of 19%, 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 100bp 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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Downside risks to our PO are NIM margin pressure from lower inflation levels and an upward trend in the effective tax rate.

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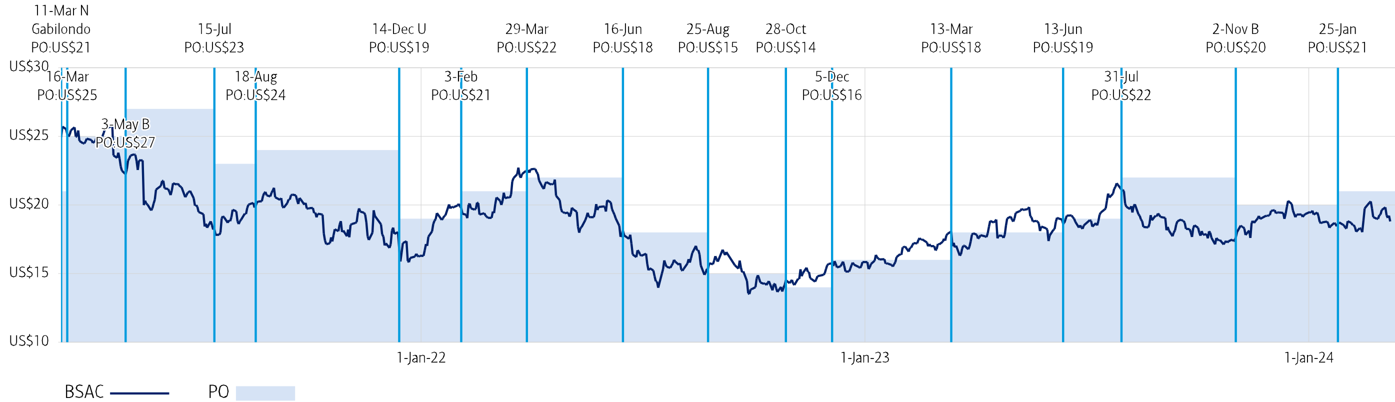
Santander Chile (BSAC) Price Chart



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

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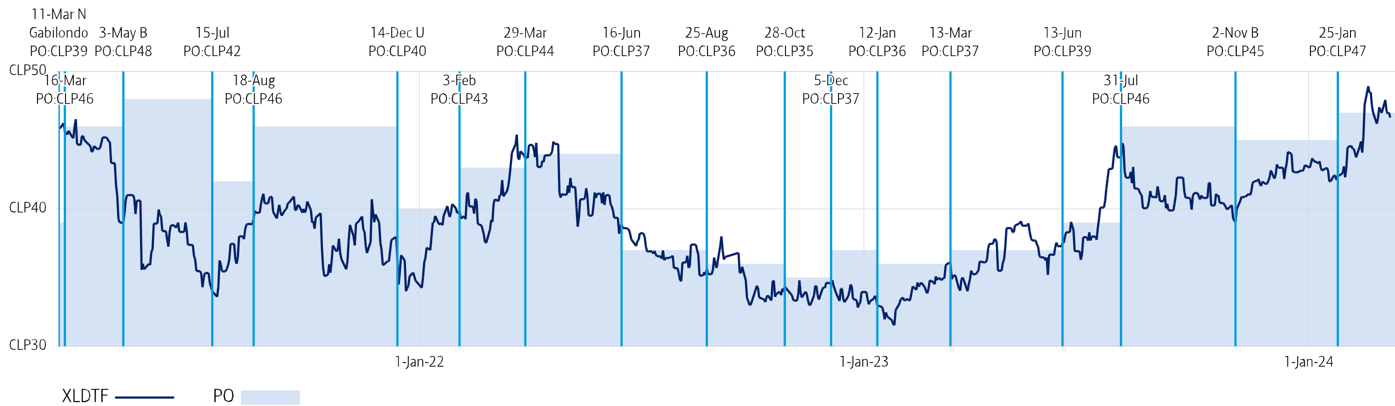
Santander Chile (XLDTF) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
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%

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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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