

## Banco Santander Chile

## 4Q23 already known; management anticipates ROAE recovery

Maintain Rating: BUY | PO: 47.00 CLP | Price: 44.80 CLP

## 4Q23 earnings already known; earnings recovery on track

No surprise, as preliminary 4Q results were already out since early January, net earnings of ChP\$177bn (+212% QoQ and +74% YoY). Santander Chile's ROAE started to recover to 16.5% from 5.4% in 3Q23, backed by NIMs benefiting under lower rates and high inflation in the quarter. Results showed strong QoQ and YoY NII growth, single-digit opex growth and lower provisions charges. Full year net income of Ch496trn declined 38% YoY, while ROAE stood at 11.7%

## 2024 ROE guidance of 15-17% implies 35-58% NI growth

Management expects an ROAE of 15-17% in 2024 (vs. 12 in '23 and 17% of BofAe) and a medium-term ROAE of 17-19% (vs. 19% of BofAe). Ours and consensus 2024 net income estimate is already at the high-end of the guidance range. Mgmt. expects: i) NIM expansion of 110-130bp (vs. +70bp of BofA) under lower rates; ii) mid-single digit loan growth (vs. 6% of BofA) supported by the economic growth; iii) costs increasing in-line with inflation (vs. 3% of BofAe), reflecting inflation, headcount, productivity and investment plans; iv) cost of credit between 1.1% - 1.2% (vs. 1.2% of BofAe); v) non-NII growth of 8% (vs. 11% of BofA) limited by lower interchange fees; and vi) CET1 at 11%.

## Key operating highlights: positives and negatives

**Loan Growth:** rose 2% QoQ and 5% YoY, accelerating from 3% in 3Q23. We noticed better activity in commercial loans (+2% YoY from -3% in 3Q23), stable in mortgages (at 9% YoY), and modestly lower in consumer loans (+6% YoY from +8% in 3Q23). Having said that, credit cards continued to show double-digit growth.

**NIM:** NIM expanded QoQ on lower interest rates and superior inflation levels (UOF variation of 1.6% in 4Q23 vs. 0.4% in 3Q23). As such, NII grew 80% QoQ and 37% YoY.

**Asset Quality:** The NPL ratio behaved stable QoQ at 1.2%. Meanwhile, provisions behaved relatively stable QoQ (+3% YoY), reflecting a CoR of 1.2% avg gross loans (same as in 3Q23), while the reserve coverage ratio stayed at 123%

**Fees:** modest growth of 6% YoY (-5% QoQ) due to fewer insurance brokerage commissions and lower collections, although main products continue to show positive trends

**Opex:** grew only 3% YoY (+2% QoQ) supported by the company's cost control program and the digital channels.

**Tax rate:** declined to 10% (vs. 18% in 3Q23), due to tax benefits on higher inflation.

## Maintain our Buy rating

We believe the worst is behind and earnings have started to inflect, NIMs should start to benefit from lower rates, and in our view. BSAC is one of the few LatAm bank stories with strong earnings momentum in 2024- 2025 (c.36% growth). Buy

02 February 2024

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## Stock Data

Price (Common / ADR)	44.80 CLP / 19.06 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	33.10 CLP - 45.12 CLP
Market Value (mn)	8,442,381 CLP
Free Float	32.8%
Average Daily Value	4.16 USD
Shares Outstanding (mn)	188,446.0 / 471.1
BofA Ticker / Exchange	XLDTF / SGO
BofA Ticker / Exchange	BSAC / NYS
Bloomberg / Reuters	BSAN CI /
	BSANTANDERSN
ROE (2024E)	16.8%

FOGAPE – relief program

A/Q: Asset Quality

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Timestamp: 02 February 2024 08:55AM EST

**Exhibit 1: Santander Chile: 2023 reported and 2024 management guidance vs. BofA**

Our net income and ROAE at the high-end of the company's guidance range

	2023	2024	
	Reported	Management	BofA
Loan, yoy growth	5%	5%	6%
<b>NIM performance</b>	<b>-108</b>	<b>+110-130bp</b>	<b>71</b>
Non-NII (Fees)	23%	8%	11%
Operating expenses, yoy growth	2%	in-line with inflation	3%
Efficiency ratio	46%	N/A	37%
<b>Provisions to Average Loans</b>	<b>1.2%</b>	<b>1.2%</b>	<b>1.2%</b>
Tax rate	10%	N/A	22%
<b>Net income, yoy growth</b>	<b>-39%</b>	<b>38 -58%</b>	<b>56%</b>
ROE	12%	15 - 17%	17%
Sustainable ROE	12%	17 - 19%	17%

Source: Company data and BofA Global Research estimates

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**Exhibit 2: Santander Chile – 4Q23 results**

4Q23 results were already known since early January, reflecting NII has started to recover under lower rates, while also this quarter was favored because of high inflation

Ch\$ bn	4Q/22	3Q/23	4Q/23	YoY	QoQ
Net interest income	277	211	379	37%	80%
Fee income	108	122	115	6%	-5%
Net trading and brokerage	57	81	57	0%	-30%
Other non-interest income	-14	0	-13	-8%	2803%
Non-interest expense	217	220	225	3%	2%
Provision for loan losses (gross)	117	121	121	3%	1%
<b>Net income - reported</b>	<b>102</b>	<b>57</b>	<b>177</b>	<b>74%</b>	<b>212%</b>
<b>EPS - reported</b>	<b>0.54</b>	<b>0.30</b>	<b>0.94</b>	<b>74%</b>	<b>212%</b>
<b>EPADR (US\$) - reported</b>	<b>0.61</b>	<b>0.25</b>	<b>0.36</b>	<b>-41%</b>	<b>43%</b>
Gross loans	38,872	40,139	40,917	5%	2%
Total assets	68,165	72,491	70,858	4%	-2%
Deposits	27,065	28,555	29,676	10%	4%
Equity	4,129	4,193	4,367	6%	4%
<b>ROAE - reported</b>	<b>10.2%</b>	<b>5.4%</b>	<b>16.5%</b>	<b>630 bps</b>	<b>1110 bps</b>
NIM	2.2%	1.6%	2.8%	60 bps	120 bps
Efficiency ratio	51%	53%	42%	-910 bps	-1150 bps
Effective tax rate	-8%	18%	10%	1740 bps	-860 bps
Provisions/ Avg gross loans	1.2%	1.2%	1.2%	0 bps	0 bps
NPLs/ Gross loans	1.8%	2.3%	2.3%	40 bps	0 bps
LLR/ NPLs	144%	125%	123%	-2190 bps	-240 bps

Source: Company data and BofA Global Research estimates

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**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)**

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.

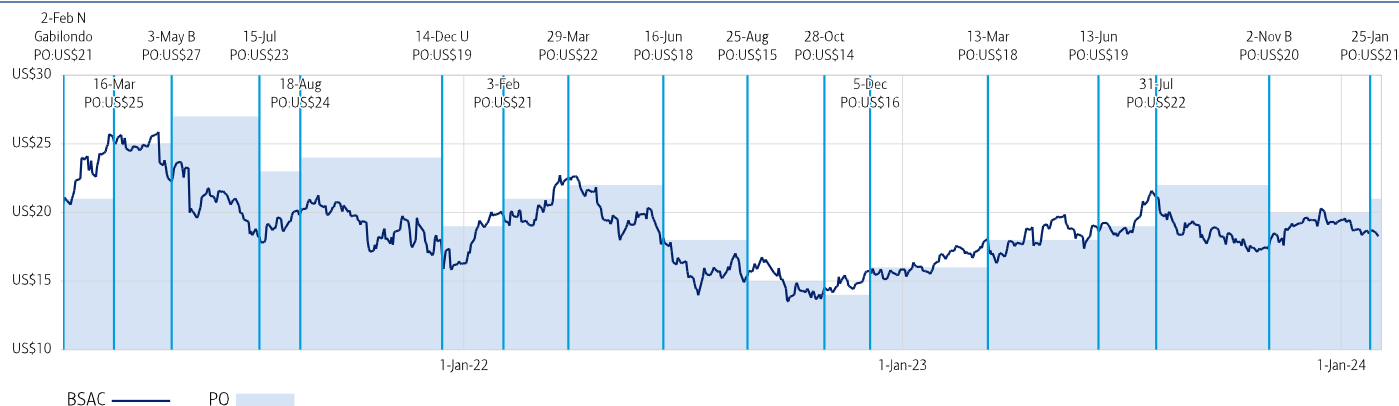
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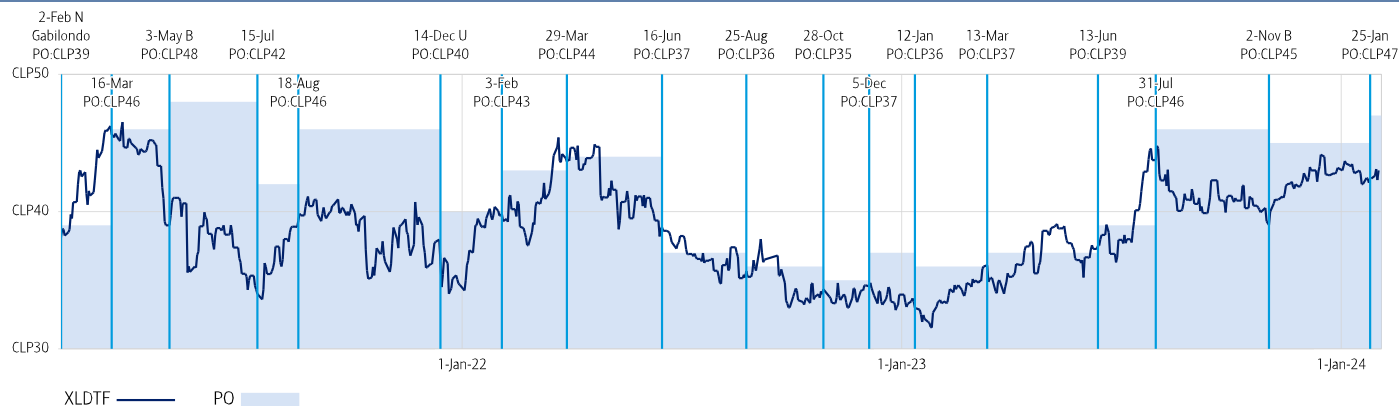
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### Santander Chile (XLDTF) Price Chart



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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%

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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%

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