

Grupo Financiero Galicia

Not the exception, benefiting from abnormally high FX gains

Maintain Rating: UNDERPERFORM | PO: 1,075.00 ARS | Price: 2,346.65 ARS

4Q23 earnings advanced 5% QoQ; 17% ROAE

Reported NI of AR\$86.9bn advanced 5% QoQ (+25% YoY), and came in 8% below our estimates. 4Q23 earnings benefited by abnormally higher FX gains (4.4x higher QoQ), which we believe are unlikely to repeat, explained by the sharp depreciation of the Argentine peso during the quarter. This helped to partially offset weaker insurance results (affected by Sura's consolidation), higher provision charges and superior operating expenses. Meanwhile, results continued to show weak lending activity. Accumulated net income advanced 110% YoY and posted an ROAE of 18.2% in 2023, improving from 9.3% in 2022. Importantly, Galicia's earnings expansion and ROAE came at a lower surprise when compared to those reported by Banco Macro.

Key operating highlights

Loan Growth (-): contracted 11% QoQ and -22% YoY, and came in 3% below our expectations, reflecting weaker lending dynamics in commercial loans (overdrafts and promissory notes) and retail loans (mortgages, pledge, personal, and credit cards).

Net interest income (+): +31% QoQ (not comparable on an annual basis due to a reclassification from income from securities to NII during 2023), well above loan growth, but came in 5% below our expectations. NII was explained by investment in securities and loan re-pricing, which more than offset weak lending volumes. 20% of financial interests was explained by government securities (pases).

Asset Quality (-): NPL ratio improved -30bp QoQ to 2.5%, due to asset quality improvements of -10bp at bank level (to 2.3%) and of -100bp in credit cards (to 2.75%). Nonetheless, provision charges rose 13% YoY (+47% QoQ), and came in 12% above our expectations, reflecting a cost of risk of 6.5% of average gross loans (vs. 4.1% in 3Q23). With lower NPLs and higher provisioning, the reserve coverage increased to 149% from 132% in 3Q23.

Fees (-): declined 2% QoQ (+9% YoY), and came in 10% below our estimates, reflecting softer deposit accounts, foreign trade, and insurance fees.

Opex (-): advanced 37% QoQ and 28% YoY and came in 25% above our estimates, reflecting higher personnel expenses due to the increase in staff and of salary increases above inflation.

Tax rate (-): increased to 52% from 28% in 3Q23, on lower tax benefits.

Maintain Underperform rating

4Q23 results came with a lower surprise when compared to Banco Macro. We continue to see execution risks on the Argentina's economy (risks related to dollarization and hyperinflation). Maintain Underperform.

04 March 2024

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Stock Data

Price (Common / ADR)	2,346.65 ARS / 21.71 USD
Price Objective	1,075.00 ARS / 13.00 USD
Date Established	27-Feb-2024 / 27-Feb-2024
Investment Opinion	C-3-7 / C-3-7
52-Week Range	401.00 ARS - 2,875.00 ARS
Market Value (mn)	3,051,267 ARS
Free Float	68.0%
Average Daily Value	5.78 USD
Shares Outstanding (mn)	1,300.3 / 119.3
BofA Ticker / Exchange	GGABF / BUE
BofA Ticker / Exchange	GGAL / NAS
Bloomberg / Reuters	GGAL AR / GGALBA
ROE (2023E)	17.5%

CoR: Cost of risk

NPL: Non-performing loan ratio

NII: Net Interest Income

NI: Net Income

ROAE: Average Return on Equity

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Timestamp: 04 March 2024 07:47PM EST

Exhibit 1: Galicia – 4Q23 results

Results benefited from abnormally high income from securities, while came in 8% below our expectations on higher opex and provision charges

ArP\$ mn	4Q/22	3Q/23	4Q/23	4Q/23A	YoY	QoQ	vs. BofAe
Net interest income	44,210	447,134	611,586	583,644	1220%	31%	-5%
Fee income	111,607	123,603	135,077	121,738	9%	-2%	-10%
Income from securities	402,582	88,710	85,708	13,241	-97%	-85%	-85%
Fx gains	24,802	94,169	180,000	416,811	1581%	nm	132%
Insurance	10,638	6,708	3,332	-20,062	-289%	-399%	-702%
Non-interest expense	183,022	170,855	186,716	234,221	28%	37%	25%
Provision for loan losses	54,274	41,735	54,916	61,541	13%	47%	12%
Results from net monetary position	-204,232	-404,592	-574,585	-585,761	187%	45%	2%
Other income (other expenses)	-55,723	-27,788	-27,607	-55,609	0%	100%	101%
Net income - reported	69,387	83,106	94,228	86,946	25%	5%	-8%
EPS - reported	58.14	69.63	78.95	72.85	25%	5%	-8%
Gross loans	4,128,782	3,601,463	3,311,954	3,213,802	-22%	-11%	-3%
Total assets	10,541,475	9,605,391	9,730,396	10,541,600	0%	10%	8%
Deposits	6,670,203	5,870,831	5,861,732	6,670,283	0%	14%	14%
Equity	1,897,528	1,929,822	2,011,473	1,897,547	0%	-2%	-6%
ROAE - reported	14.8%	17.0%	19.2%	17.0%	220 bps	-1 bps	-217 bps
NIM	22.8%	34.4%	34.4%	65.3%	4246 bps	3088 bps	3088 bps
Efficiency ratio	31%	22%	18%	21%	-982 bps	-147 bps	262 bps
Effective tax rate	28%	28%	45%	52%	2452 bps	2481 bps	741 bps
Cost of Risk	5.1%	4.1%	4.1%	6.5%	143 bps	239 bps	239 bps
NPLs/ Gross loans	2.6%	2.8%	2.8%	2.5%	-18 bps	-30 bps	-30 bps
LLR/ NPLs	188%	132%	132%	149%	-3909 bps	1773 bps	1773 bps

Source: Company data and BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Grupo Financiero Galicia (GGABF)

Our price objective of ArPs1,075/share (US\$13/ADS converted at 800 FX rate) is derived from the Gordon Growth Model, assuming a COE of 24.2% (reflecting a US risk-free rate of 3.5%, Argentina country risk of 1,000bp (vs. EMBI at 1,945bp), inflation differential of 450bp and beta of 1.0x), 4% growth in perpetuity, and a sustainable ROE of 15%.

Downside risks are high inflation and gradual economic recovery reduces earnings visibility and could lead to asset quality deterioration, especially due to the bank's outsized exposure in credit cards.

Upside risks are stronger lending dynamics, better asset quality, and lower inflation levels

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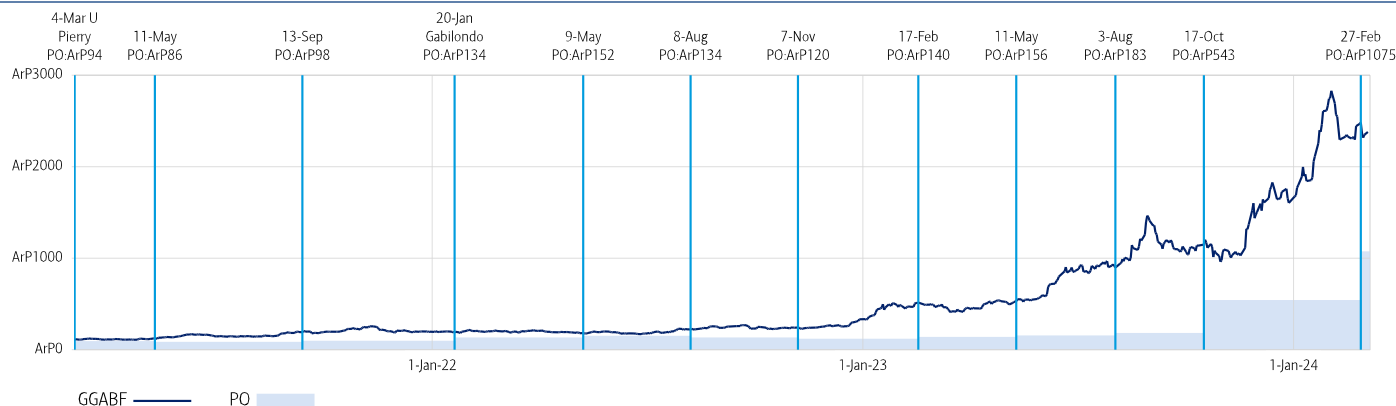
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Grupo Galicia (GGAL) Price Chart



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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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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