

Brazilian Financial Institutions

Sentiment tracker – What are investors expecting for 1Q23 earnings season?

Industry Overview

Investors' expectations for 1Q23 earnings season

We conducted our quarterly survey with local and global investors to better understand the sentiment, concerns and positioning on Brazilian Financials ahead of the 1Q23 earnings season. We summarize below the key take-aways from our survey.

BTG in the spotlight; cap on revolving card is coming

Most investors are positioned to benefit from a declining rate environment in Brazil, being BTG the preferred name (29%), followed by BBDC and XP (13% each) (Exhibit 1). The implementation of a cap on revolving credit card rates is expected by most investors, but they are confident that the cap will be higher than 8% (Exhibit 2-3). End of loC benefits and tax on dividends are the most likely impacts from the tax reform, and most of investors believe that the *Desenrola* program (refinancing for individuals) should be neutral (Exhibit 4-5).

Banks: BBAS with the best results; BBDC the weakest

On large-cap banks, 67% of respondents believe that BBAS should post the best set of results in 1Q23, while the weakest print expectation is divided among BBDC (48%) and SANB (41%) (Exhibit 6 and 7). Positioning in the banking sector is mostly neutral (59%), while only 22% are overweight and 19% underweight (Exhibit 8). Main concerns are related to NPL, provisions and client NII, and most respondents are not concerned by political interference on BBAS (Exhibits 9 and 10). Sharper NPL deterioration is expected on BBDC and SANB (30-40bp QoQ), while only 10-20bp is expected to BBAS and ITUB (Exhibit 11-14). Main macro concerns are related to economic activity, interest rates and politics (Exhibit 15). On digital banks, main KPIs to monitor are NPL, provisions, ROE and net income, while cheaper valuation, improving ROE and controlled NPL could increase interest on Nubank (Exhibit 16-17).

Non-banks: BBSE with the best print; weakest from B3

Among other financials, 41% of survey respondents believe that BBSE should post the best set of results, followed by STNE (19%), while the weakest print is divided among B3 (30%), PSSA, PAGS and XP (15% each) (Exhibit 18-19). Positioning on non-bank financials is light, with 44% neutral, 36% underweight and 20% overweight, while insurance (37%) and payments (30%) are the preferred sub-sector (Exhibit 20-21). High rate environment and weak results are limiting interest on XP, B3 and payment companies (Exhibits 22-24). On operating trends, investors are mainly concerned about: i) revenue yield and net inflows on XP, and ii) competition and TPV evolution on payment companies (Exhibits 25-26). Lastly, investors interest on the insurance companies could increase on improving operating trends (Exhibit 27).

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BBAS: Banco do Brasil
BBDC: Bradesco
BBSE: BB Seguridade
BTG: BTG Pactual
IOC: Interest on capital
ITUB: Itau
KPI: key performance indicator
NII: net interest income
NPL: Non-performing loans
PAGS: PagSeguro
PSSA: Porto Seguro
SANB: Santander Brasil
STNE: Stone
TPV: Total purchase volume
OW: Overweight
UW: Underweight
XP: XP Inc.

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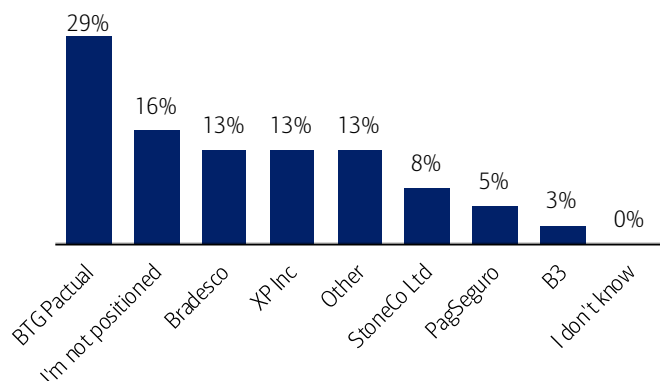
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Sentiment tracker for 1Q23

Exhibit 1: How are you positioned in the financials sector to benefit from a declining rate environment in Brazil?

BTG Pactual is the preferred name to benefit from lower rates environment

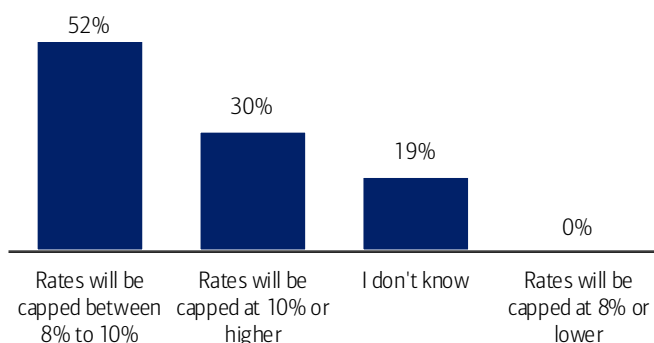


Source: BofA Global Research

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Exhibit 3: If the cap on revolving credit card rates is approved:

52% of respondents believe that rates will be capped between 8-10%

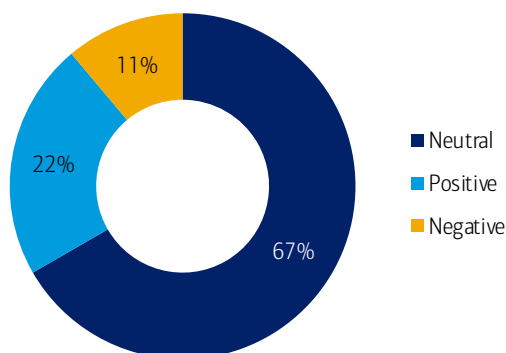


Source: BofA Global Research

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Exhibit 5: What's your view on the implementation of the Desenrola program (refinancing for individuals)?

Only 11% of respondents view it as negative

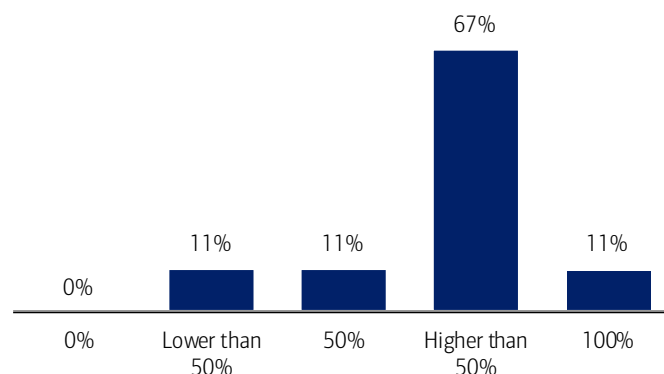


Source: BofA Global Research

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Exhibit 2: What is the probability of implementation of a cap on revolving credit card rates?

78% of investors believe that the cap will be implemented

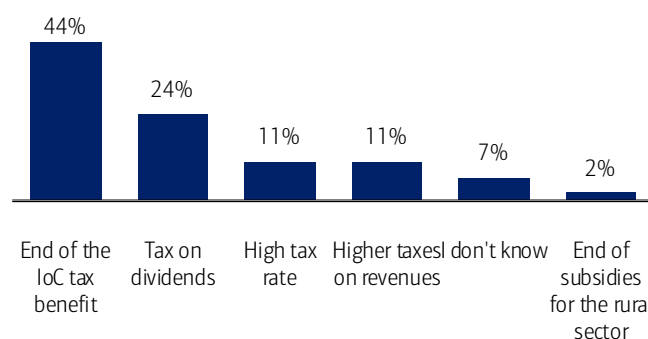


Source: BofA Global Research

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Exhibit 4: How do you believe the tax reform in Brazil will impact banks and non-bank financials?

End of IoC tax benefits and tax on dividends are the most likely outcome

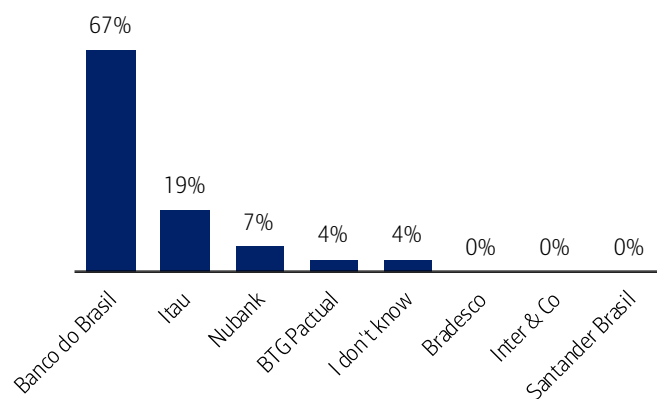


Source: BofA Global Research

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Exhibit 6: Which bank do you think will deliver the strongest set of results in 1Q23?

Banco do Brasil is the most preferred by far

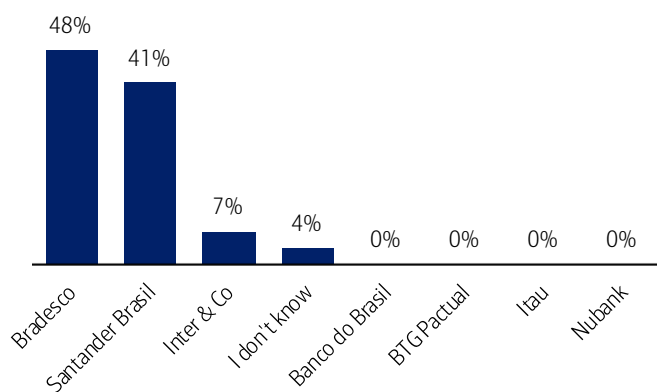


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Exhibit 7: Which bank do you think will deliver the weakest set of results in 1Q23?

Bradesco and Santander are expected to print the weakest figures

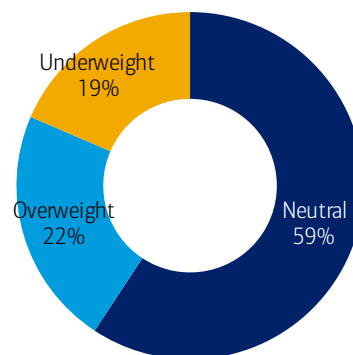


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Exhibit 8: How are you positioned in the banking sector?

Light positioning on the sector, with 59% Neutral

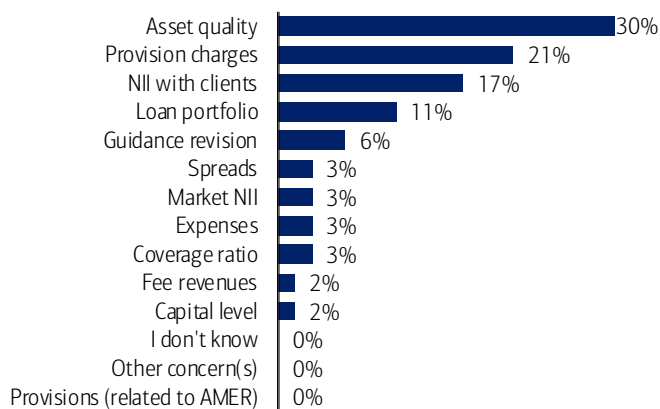


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Exhibit 9: What are the main concern(s) to banks' for 1Q23?

Asset quality, provisions, and client NII are the greatest concerns

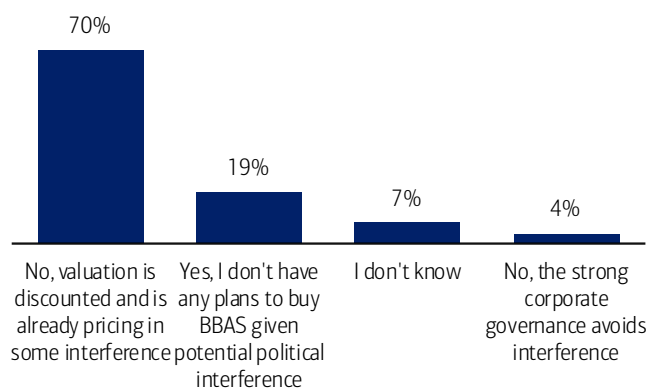


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Exhibit 10: Are you concerned with any political interference on BBAS?

Most investors believe that some interference is already priced in

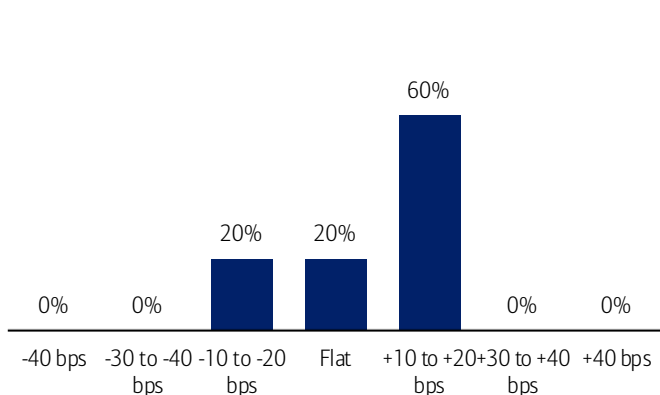


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Exhibit 11: What is your QoQ expectation to Banco do Brasil's NPL?

Respondents expect 10 to 20 bps NPL deterioration on BBAS

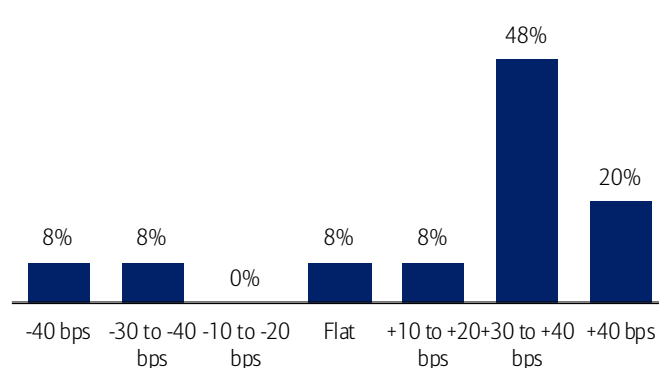


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Exhibit 12: What is your QoQ expectation to Bradesco's NPL?

Respondents expect 30 to 40 bps NPL deterioration on BBDC

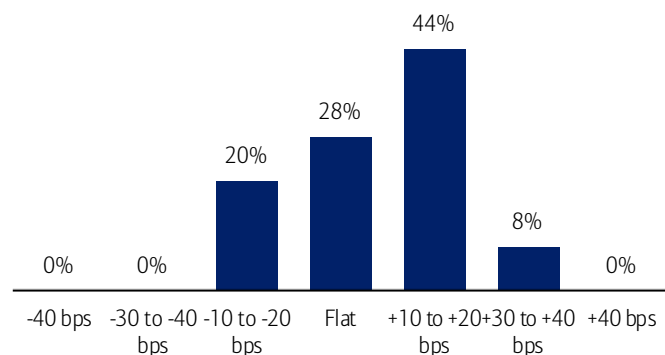


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Exhibit 13: What is your QoQ expectation to Itau's NPL?

Respondents expect 10 to 20 bps NPL deterioration on ITUB

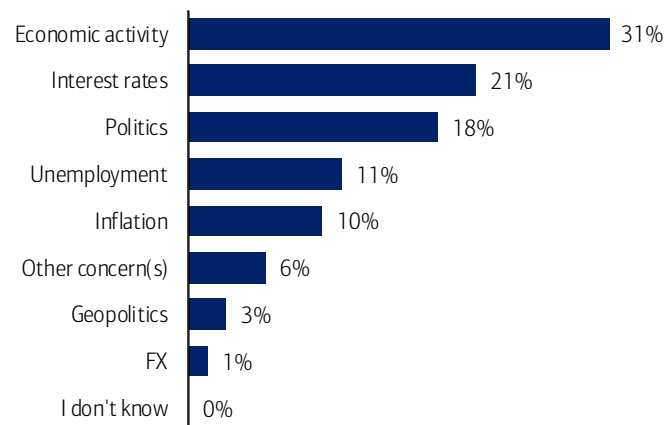


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Exhibit 15: What are your main macro concern(s) related to banks?

Economic activity and interest rates are the main macro concerns

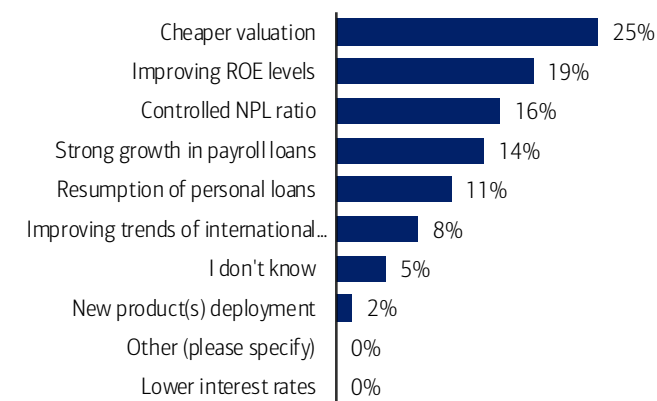


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Exhibit 17: What do you believe could spark greater interest on Nubank?

Valuation and ROE trend are key to increase interest to Nubank

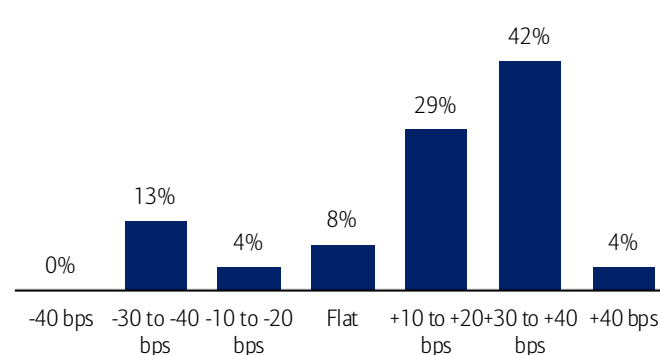


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Exhibit 14: What is your QoQ expectation to Santander Brasil's NPL?

Respondents expect 30 to 40 bps NPL deterioration on SANB

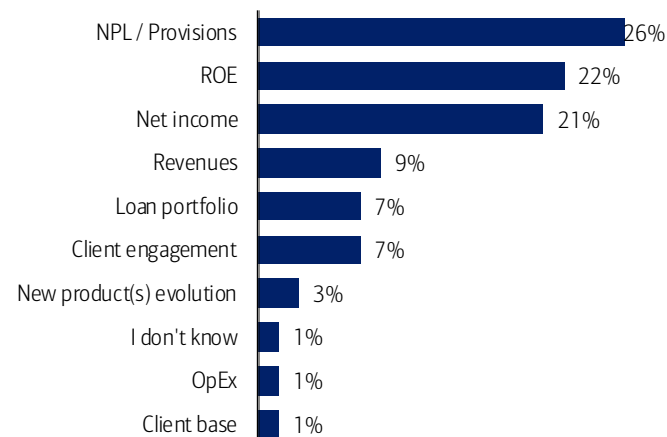


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Exhibit 16: Most important KPIs for digital banks in 1Q23?

Investors are monitoring closely NPL, provisions and ROE

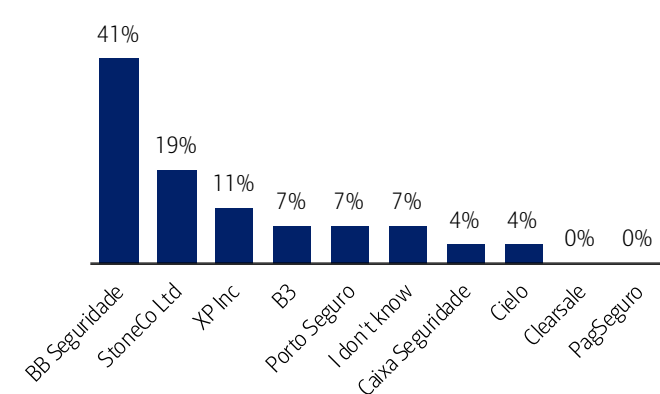


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Exhibit 18: Which non-bank do you think will deliver the best set of results in 1Q23?

BB Seguridade is expected to post the best set of results

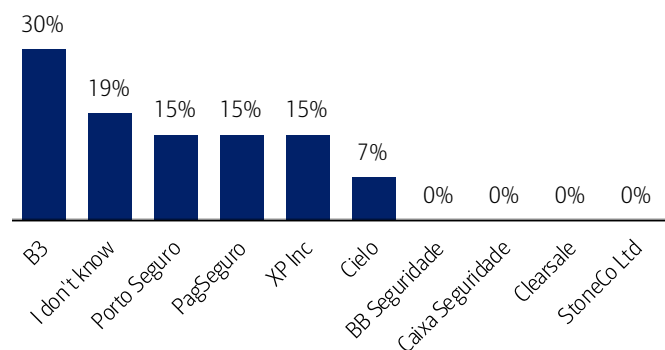


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Exhibit 19: Which non-bank do you think will deliver the weakest set of results in 1Q23?

B3, followed by Porto Seguro, PagSeguro and XP are expected to post the weakest figures

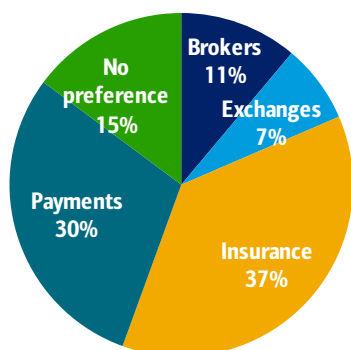


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Exhibit 21: Which sub-sector of non-bank financials do you prefer?

Insurance and payments are leading investors' preference

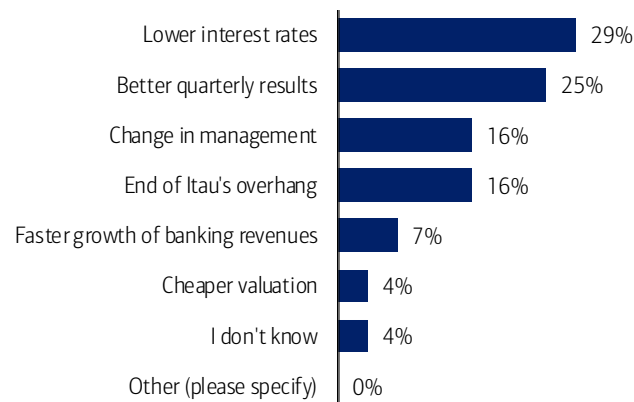


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Exhibit 23: What do you believe could spark greater interest on XP?

High rates and weak results are limiting interest on XP

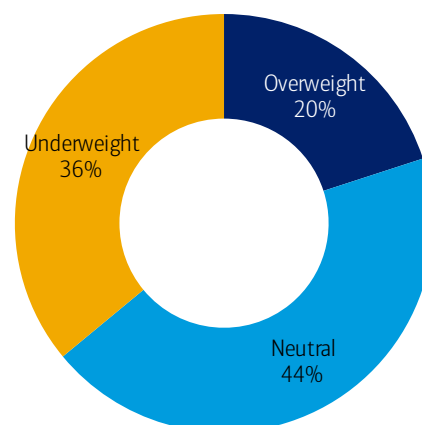


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Exhibit 20: How are you positioned in non-bank financials?

Only 20% are OW

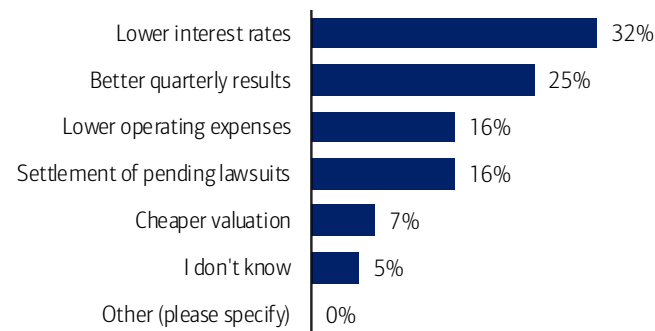


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Exhibit 22: What do you believe could spark greater interest on B3?

High rates and weak results are limiting interest on B3



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Exhibit 24: What do you believe could spark greater interest on payment companies?

High rates and weak results are limiting interest on payment companies

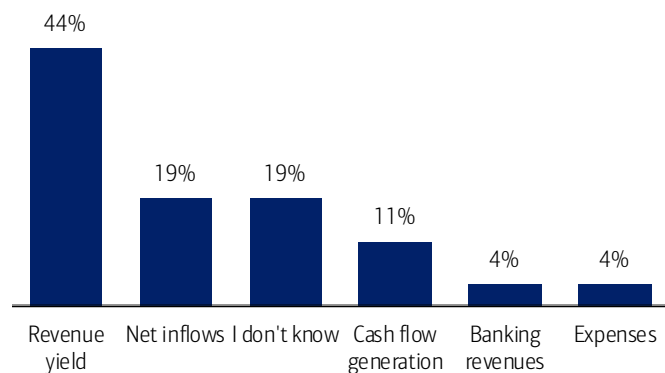


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Exhibit 25: What is your main concern related to XP Inc's operating trends?

Revenue yield and net inflows are the main concerns

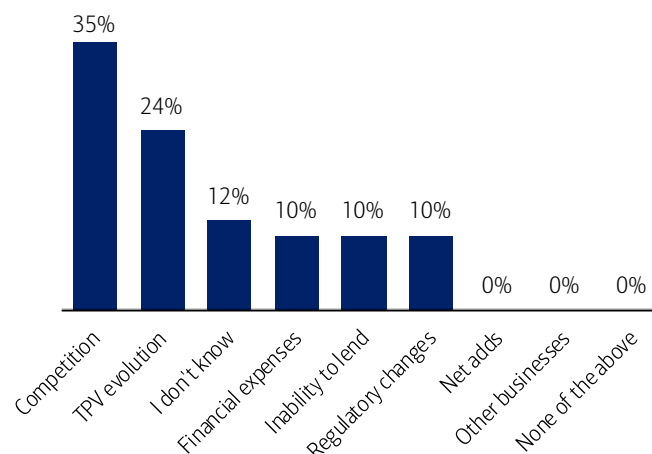


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Exhibit 26: What are your main concern(s) related to payment companies?

Sector competitive landscape and TPV are the main concerns

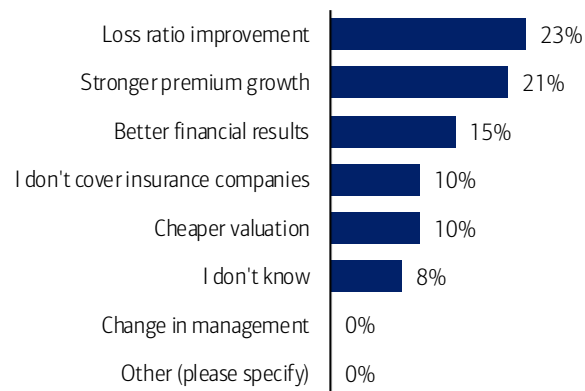


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Exhibit 27: What do you believe could spark greater interest on insurance companies?

Better operating trends are key to increase interest on the sector



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