

IFS

# Adjusting estimates after '24 guidance

Reiterate Rating: BUY | PO: 31.00 USD | Price: 25.79 USD

## Updating estimates after 4Q and '24 mgmt. guidance

After 4Q23 results (well above expectations) and mgmt.'s 2024 expectations' announcement, we adjusted downward our 2024 NI estimate mainly to reflect higher provisions charges given the deterioration in the Peruvians' payment behavior (although normalizing in the next years supported by stronger economic activity). Meanwhile, we kept unchanged our 2025-2026 earnings estimates. We forecast IFS to post recurring EPS growth of 15% in 2024 (roughly in-line with the implied earnings growth guidance), and earnings growth of c.33% in '25-26 supported by growing again in higher yield segments and normalizing cost of risk on the back of stronger economic activity.

## '24 guidance yields double-digit recurring NI growth

Management guided for '24 an ROE above 12% (improving from recurring 11.6% in 2023), which implies net earnings of S\$1.3bn, or recurring growth of 12-15% YoY. Therefore, our new NI estimate of S\$1.3bn is in-line with the company's guidance and market consensus. Mgmt. expects: (1) mid-single loan growth (vs. 3% in 2023); (2) stable NIMs (at 5.6%); (3) a lower CoR of 4.3% (vs. 4.5% in '23); and (4) mid-single digit opex growth (vs. 4% in '23). See Exhibit 1.

## Increasing our PO to USD\$31 to reflect a lower beta

We have increased our GGM-derived PO to USD\$31 (from USD\$29 before) to reflect a lower beta of 1.3x (vs. 1.4x before), after a lower probability of a moderate-strong El Niño (although beta remains elevated due to its low liquidity and still lower profitability vs. peers). Importantly, although we reduced our 2024 earnings estimates, 4Q23 results came in well above expectations, which left our 2024 stockholders' equity estimate relatively unchanged. At our new PO, IFS shares would provide 22% potential upside, and implies to trade at 10.5x '24E P/E and 1.2x '24E P/BV.

## Maintain our Buy rating

We continue to see earnings bouncing-back, diversified earnings mix, a recovery in fixed-income securities once interest rates start to trend-down, and robust digital trends. Buy.

Estimates (Dec) (PEN)	2022A	2023A	2024E	2025E	2026E
EPS	12.93	9.66	11.12	16.81	19.29
GAAP EPS	14.87	9.29	11.12	16.81	19.29
EPS Change (YoY)	-0.1%	-25.3%	15.1%	51.2%	14.8%
Consensus EPS (Bloomberg)			12.39	16.29	17.31
DPS	6.76	4.49	3.25	3.89	5.88
Valuation (Dec)					
P/E	7.6x	9.9x	9.0x	5.9x	5.2x
GAAP P/E	6.6x	10.3x	9.0x	5.9x	5.2x
Dividend Yield	6.9%	4.7%	3.3%	3.9%	5.9%

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Timestamp: 15 February 2024 08:00AM EST

15 February 2024

Equity

### Key Changes

(PEN)	Previous	Current
Price Obj.	US\$29.00	US\$31.00
2024E Rev (m)	6,139.9	6,275.5
2025E Rev (m)	6,633.3	6,832.9
2026E Rev (m)	7,159.6	7,380.9
2024E EPS	13.41	11.12
2025E EPS	16.84	16.81
2026E EPS	19.31	19.29
2024E DPS	2.59	3.25

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### Stock Data

Price	25.79 USD
Price Objective	31.00 USD
Date Established	15-Feb-2024
Investment Opinion	B-1-7
52-Week Range	17.94 USD -25.79 USD
Mkt Val / Shares Out (mn)	2,977 USD / 115.4
Free Float	29.4%
Average Daily Value	0.88 USD
BofA Ticker / Exchange	IFS / NYS
Bloomberg / Reuters	IFS US / IFS.N
ROE (2024E)	12.3%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

NI: Net Income

SMEs: Small and Mid-Sized companies

WM: Wealth Management

ROAE: Average return on Equity

# iQprofile<sup>SM</sup> IFS

## Income Statement Data (Dec)

(PEN Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	4,209	4,603	4,813	5,261	5,677
% change	18.6%	9.3%	4.6%	9.3%	7.9%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	(186)	328	380	380	380
Total Operating Income	4,895	5,946	6,276	6,833	7,381
Operating Expenses	(2,656)	(2,765)	(2,902)	(3,039)	(3,147)
% change	17.4%	4.1%	5.0%	4.7%	3.5%
Provisions Expense	(831)	(1,982)	(1,979)	(1,533)	(1,616)
% change	22.4%	138.6%	-0.1%	-22.6%	5.5%
Operating Pre-Tax Income	1,903	1,421	1,650	2,554	2,953
Operating Net Income to Comm S/Hold.	1,716	1,073	1,284	1,941	2,227
GAAP Net Income	1,493	1,115	1,284	1,941	2,227

## Balance Sheet Data (Dec)

(PEN Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	87,479	89,623	96,644	106,577	117,442
Average Interest Earning Assets	80,126	82,184	85,227	91,550	96,493
Total Gross Customer Loans	47,025	48,249	50,705	53,287	56,976
% change	5.2%	2.6%	5.1%	5.1%	6.9%
Total Customer Deposits	48,531	49,188	51,443	55,536	59,955
% change	-0.8%	1.4%	4.6%	8.0%	8.0%
Tangible Equity	9,349	9,950	10,859	12,350	13,898
Common Shareholders' Equity	9,349	9,950	10,859	12,350	13,898

## Key Metrics (Dec)

(PEN Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	5.25%	5.60%	5.65%	5.75%	5.88%
Effective Tax Rate	24.3%	21.4%	23.0%	24.5%	25.0%
Loan / Deposit Ratio	96.9%	98.1%	98.6%	96.0%	95.0%
Tangible Common Equity / Assets	10.7%	11.1%	11.2%	11.6%	11.8%
ROA	1.7%	1.3%	1.4%	1.9%	2.0%
ROE	15.8%	11.6%	12.3%	16.7%	17.0%
RoTE	15.8%	11.6%	12.3%	16.7%	17.0%
Dividend Payout Ratio	45.4%	48.3%	29.2%	23.2%	30.5%
Efficiency Ratio (Cost / Income Ratio)	52.3%	49.2%	49.2%	47.1%	44.9%

## Quality of Earnings (Dec)

(PEN Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	14.0%	22.6%	23.3%	23.0%	23.1%
NPLs plus Foreclosed Real Estate / Loans	3.6%	4.4%	4.7%	4.3%	4.4%
Loan Loss Reserves / NPLs	120.09%	111.13%	122.02%	116.82%	117.34%
Loan Loss Reserves / Total Loans	4.31%	4.87%	5.72%	5.08%	5.20%

## Company Sector

Banks-Retail

## Company Description

Intercorp Financial Services (IFS) is the fourth-largest private bank in Peru, the second player in consumer banking, with a leading position in the credit card business, the largest provider of payroll loans to public sector employees and the dominant player in annuities. This is along with a scalable digital platform already in place.

## Investment Rationale

We view IFS as a vehicle for those investors who want to participate in the potential growth and low credit penetration of Peru's economy and banking system. We think that Buy-rated IFS offers earnings bounce-back and at a more sustained level in coming years, supported by diversified earnings mix, a recovery in fixed-income securities once interest rates start to trend down, robust digital trends, and attractive valuation

## Stock Data

Average Daily Volume 34,312

## Quarterly Earnings Estimates

	2023	2024
Q1	2.66A	2.20E
Q2	2.85A	2.64E
Q3	1.68A	2.97E
Q4	2.47A	3.31E

## Key modeling assumptions

We continue to see net income rebound in 2024 to S\$1.3bn after gradually leaving behind the impact of El Niño, expecting recurring earnings growth of 15% in '24 and c.33% in 2025/2026, reaching an ROE of 17.0%. Key assumptions in our model are:

- **Earnings evolution and ROE:** After 4Q23 results and mgmt.'s 2024 expectations' announcement, we adjusted downward our 2024 NI estimate mainly to reflect higher provisions charges given the deterioration in the Peruvians' payment behavior (although normalizing in the next years supported by stronger economic activity). We forecast IFS to post recurring EPS growth of 15% in 2024 (roughly in-line with the implied earnings growth guidance), and earnings growth of c.33% in '25-26 supported by growing again in higher yield segments and normalizing cost of risk on the back of stronger economic activity.
- **Loan growth:** we estimate loan growth of 5% in 2024, accelerating from 3% in '23, still reflecting stricter lending at least during the 1H24, while more risk lending appetite in the 2H24 depending on the evolution of the economic activity. Our loan growth estimate will in-line with the company's guidance of mid-single digit growth. Meanwhile, we expect loan growth of 6% in 2025-2026 supported by a gradual economic recovery and better indebtedness in the Peruvians' families.
- **NII:** We expect stable NIMs in 2024 (same 5.6% as in '23), given IFS has been implementing stricter lending in the consumer segment, reducing the exposure into high yield segments. Meanwhile, on the positive side, NIMs should compensate lower yields on assets by lower funding costs backed by an easing cycle in the Soles portfolio. Furthermore, we expect NII to decelerate to 5% in 2024 (vs. 9% in '23), while to grow 8-9% in 2025-2025 by greater lending dynamics backed by better economic activity and been able to grow again in high margin segments.
- **Fees:** Expect high-single digit growth of 8% in '24 (vs. 5% in '23) supported by payments, credit/card fees, cash management related to SMEs, and insurance fees. Digital initiatives are helping to increase the penetration of the customer base and to generate a positive operating leverage.
- **Operating expenses:** we forecast opex to grow 5% in 2024 (vs. 4% in 2023), which will be roughly in-line with company's guidance, expecting mid-single digit growth. We expect roughly the same pace of growth over the next years, given the company is expected to maintain costs under control. Having said that, according to IFS, most of the opex growth today is related to data, technology, and investments (5x than what it used to be in the past).
- **NPL ratio:** NPL ratio is expected to deteriorate to 4.3% in 2024 (vs. 4.0% in 2023), reflecting a still challenging 1H24. Meanwhile, we see NPL improving by -30bp in 2025 (to 4.0%) given the stricter lending, although again deteriorating by +10bp in 2025 (to 4.1%), above pre-Covid levels observed in 2020, by expanding again into the retail segment.
- **Provision charges:** Management perceives El Niño is cooling down, pointing for a high probability of a low/none impact (vs. moderate-high before). However, given all the rescheduling that happened in 2023, a high cost of risk should remain in 1Q24. Importantly, cost of risk not is not expected to return to historical levels, but should be normalizing to 3.0-3.5% levels in the medium-term (above pre-pandemic levels) given the deterioration in the payment behavior of Peruvians. Furthermore, we expect cost of risk of 3.1% of average gross loans in 2025-2026.
- **Dividend payment:** We assume a dividend pay-out ratio of 35% (roughly in-line with historical levels), which will be equivalent to a DPS of USD3.25 and a dividend yield of 3.5%.
- **ROAE:** We expect an ROAE of 12% in 2024 (in-line with guidance), while a sustainable ROAE of 17% (vs. 17-18% guided).



**Exhibit 1: IFS – 2023 reported vs. 2024 mgmt. guidance vs. BofAe**

We expect double-digit recurring earnings growth in 2024

	2023	2024	
	Reported	Mgmt. Guidance	BofAe
Loan (ex-Reactiva), YoY growth	3%	mid-single digit	5%
<b>NIM (%)</b>	<b>35</b>	<b>+20bp</b>	<b>5</b>
Adjusted NIM (%)	3.2%	n/a	3.3%
<b>Cost of Risk (%)</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.3%</b>
ROAE	11.6%	12.0%	12%
<b>Implied net income \$bn</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>

Source: Company data and BofA Global Research estimates

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## Changes in earnings estimates

**Exhibit 2: IFS – Changes in earnings estimates**

We have adjusted downward our earnings in 24 mainly to reflect higher provision charges, although kept unchanged our 2025-2026 estimates

NS\$m	2024E			2025E			2026E		
	Old	New	Change	Old	New	Change	Old	New	Change
Net interest income	4,864	4,813	-1%	5,274	5,261	0%	5,687	5,677	0%
Commissions and fees, net	1,279	1,284	0%	1,379	1,393	1%	1,493	1,527	2%
Results from financial transactions	240	380	58%	260	380	46%	260	380	46%
Result from insurance, net	(244)	(202)	-17%	(280)	(202)	-28%	(280)	(203)	-28%
Total operating revenues	6,140	6,276	2%	6,633	6,833	3%	7,160	7,381	3%
Non-interest expense	2,901	2,902	0%	3,055	3,039	-1%	3,217	3,147	-2%
<b>Pre-provision profit</b>	<b>3,239</b>	<b>3,373</b>	<b>4%</b>	<b>3,578</b>	<b>3,793</b>	<b>6%</b>	<b>3,942</b>	<b>4,234</b>	<b>7%</b>
Provision for loan losses	1,554	1,979	27%	1,418	1,533	8%	1,467	1,616	10%
<b>Net income - reported</b>	<b>1,549</b>	<b>1,284</b>	<b>-17%</b>	<b>1,945</b>	<b>1,941</b>	<b>0%</b>	<b>2,229</b>	<b>2,227</b>	<b>0%</b>
 EPS - reported	 13.41	 11.12	 -17%	 16.84	 16.81	 0%	 19.31	 19.29	 0%
 <b>Gross loans</b>	 <b>53,341</b>	 <b>50,705</b>	 <b>-5%</b>	 <b>57,034</b>	 <b>53,287</b>	 <b>-7%</b>	 <b>60,984</b>	 <b>56,976</b>	 <b>-7%</b>
Total assets	98,477	96,644	-2%	108,549	106,577	-2%	119,674	117,442	-2%
Deposits	87,526	85,727	-2%	96,179	94,166	-2%	105,735	103,483	-2%
Equity	10,894	10,859	0%	12,312	12,350	0%	13,879	13,898	0%
 <b>ROAE - reported</b>	 <b>15.1%</b>	 <b>12.3%</b>	 <b>-270 bps</b>	 <b>16.8%</b>	 <b>16.7%</b>	 <b>0 bps</b>	 <b>17.0%</b>	 <b>17.0%</b>	 <b>-10 bps</b>
NIM	5.6%	5.6%	0 bps	5.6%	5.7%	10 bps	5.6%	5.9%	30 bps
Effective tax rate	26%	23%	-250 bps	26%	25%	-100 bps	26%	25%	-50 bps
Provisions/ Avg gross loans	3.1%	4.3%	120 bps	2.7%	3.1%	40 bps	2.6%	3.1%	50 bps
NPLs/ Gross loans	3.4%	4.3%	90 bps	3.1%	4.0%	90 bps	2.8%	4.1%	130 bps
LLR/ NPLs	124%	122%	-230 bps	119%	117%	-230 bps	120%	117%	-280 bps

Source: BofA Global Research estimates

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## Increasing our PO to USD\$31 (\$29 before)

We have increased our GGM-derived PO to USD\$31 (from USD\$29 before) to reflect a lower beta of 1.3x (vs. 1.4x before), after a lower probability of a moderate-strong El Niño (although remains elevated due to its low liquidity and still lower profitability vs. peers). Importantly, although we reduced our 2024 earnings estimates, 4Q23 results came in well above expectations, which left our 2024 stockholders' equity estimate relatively unchanged. At our new PO, IFS shares would provide 25% potential upside, and implies to trade at 10.5x '24E P/E and 1.2x '24E P/BV.

Our GGM assumes a COE of 14.6% and reflects a US-risk free rate of 3.5%, a country risk spread of 170bp (in-line with the EMBI – Emerging markets bond Index), inflation differential of 2.0%, an equity risk premium of 5.7% and a beta of 1.3x.

**Table 1: Price objective derivation – COE and Gordon Growth Model**

Implied PO of US\$31

<b>Beta (x)</b>	<b>1.3</b>
US Treasury/10yr (bp)	350
Peru risk spread (bp)	170
Inflation differential (bp)	200
Equity risk premium - ERP (bp)	570
<b>Cost of equity (%)</b>	<b>14.6%</b>
<b>Sustainable growth rate (%)</b>	<b>4%</b>
<b>ROAE (%)</b>	<b>17%</b>
<b>Implied target P/BV [(ROE-g)/(COE-g)]</b>	<b>1.2x</b>
<b>Price objective (US\$)</b>	<b>31</b>
<i>Upside – potential (%)</i>	<b>20%</b>
Price Ps (02/14/2024)	US\$25.79

Source: BofA Global Research

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**Exhibit 3: IFS – Income Statement**

Expect sustainable ROAE of 17%

S\$m	2023	2024E	2025E	2026E	Growth rates (YoY)				
					22/21	23/22	24/23	25/24	26/25
Net interest income	4,603	4,813	5,261	5,677	19%	9%	5%	9%	8%
Net interest margin	5.6%	5.6%	5.7%	5.9%					
Commissions and fees, net	1,194	1,284	1,393	1,527	38%	5%	8%	9%	10%
Results from financial transactions	328	380	380	380					
Result from insurance, net	(178)	(202)	(202)	(203)	-2%	-33%	13%	0%	1%
<b>Operating revenue</b>	<b>5,946</b>	<b>6,276</b>	<b>6,833</b>	<b>7,381</b>	<b>1%</b>	<b>21%</b>	<b>6%</b>	<b>9%</b>	<b>8%</b>
Non-interest expense	2,765	2,902	3,039	3,147	17%	4%	5%	5%	4%
Efficiency ratio	47%	46%	44%	43%					
<b>Op inc bfr provs and taxes</b>	<b>3,181</b>	<b>3,373</b>	<b>3,793</b>	<b>4,234</b>	<b>-13%</b>	<b>42%</b>	<b>6%</b>	<b>12%</b>	<b>12%</b>
Provision for loan losses	1,982	1,979	1,533	1,616	22%	139%	0%	-23%	5%
Provisions/ Avg. gross loans	4.5%	4.3%	3.1%	3.1%					
Non-operating income (expense)	222	256	293	336					
<b>Earnings before taxes</b>	<b>1,421</b>	<b>1,650</b>	<b>2,554</b>	<b>2,953</b>	<b>-5%</b>	<b>-25%</b>	<b>16%</b>	<b>55%</b>	<b>16%</b>
Income tax and social contribution	304	380	626	738					
Effective tax rate	21%	23%	25%	25%					
Translation effect	4	20	20	20					
Extraordinary income/loss	(42)	0	0	0					
<b>Net income</b>	<b>1,073</b>	<b>1,284</b>	<b>1,941</b>	<b>2,227</b>	<b>-4%</b>	<b>-37%</b>	<b>20%</b>	<b>51%</b>	<b>15%</b>
<b>Net income before extra</b>	<b>1,115</b>	<b>1,284</b>	<b>1,941</b>	<b>2,227</b>	<b>0%</b>	<b>-25%</b>	<b>15%</b>	<b>51%</b>	<b>15%</b>
<b>EPS -- reported</b>	<b>9.29</b>	<b>11.12</b>	<b>16.81</b>	<b>19.29</b>	<b>-4%</b>	<b>-37%</b>	<b>20%</b>	<b>51%</b>	<b>15%</b>
<b>EPS -- before extra</b>	<b>9.66</b>	<b>11.12</b>	<b>16.81</b>	<b>19.29</b>	<b>0%</b>	<b>-25%</b>	<b>15%</b>	<b>51%</b>	<b>15%</b>
BV per share	86.19	94.06	106.98	120.38	-2%	6%	9%	14%	13%
ROAE	11.1%	12.3%	16.7%	17.0%					
ROAE - recurring	11.6%	12.3%	16.7%	17.0%					
ROAA	1.2%	1.4%	1.9%	2.0%					
ROAA - recurring	1.3%	1.4%	1.9%	2.0%					
Dividends per share	4.49	3.25	3.89	5.88					

**Exhibit 3: IFS – Income Statement**

Expect sustainable ROAE of 17%

Source: Company data and BofA Global Research estimates

**Growth rates (YoY)**

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**Exhibit 4: IFS – Balance Sheet**

Expect mid-single digit loan growth

S\$m	2023	2024E	2025E	2026E	Growth rates (YoY)				
					22/21	23/22	24/23	25/24	26/25
<b>ASSETS</b>									
Cash and cash equivalents & interbank funds	10,344	11,529	12,850	14,322	-21%	-23%	11%	11%	11%
Investments in securities	26,722	28,925	31,309	33,890	-7%	17%	8%	8%	8%
<b>Gross loans</b>	<b>48,249</b>	<b>50,705</b>	<b>53,287</b>	<b>56,976</b>	<b>5%</b>	<b>3%</b>	<b>5%</b>	<b>5%</b>	<b>7%</b>
Loan loss reserves	2,349	2,902	2,705	2,962					
<b>Total interest earning assets</b>	<b>82,965</b>	<b>88,257</b>	<b>94,741</b>	<b>102,227</b>	<b>-4%</b>	<b>2%</b>	<b>6%</b>	<b>7%</b>	<b>8%</b>
Fixed assets	1,294	1,397	1,509	1,630					
Other assets	5,364	6,990	10,327	13,586					
<b>Total assets</b>	<b>89,623</b>	<b>96,644</b>	<b>106,577</b>	<b>117,442</b>	<b>-3%</b>	<b>2%</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>
<b>LIABILITIES</b>									
Demand deposits	13,376	13,989	15,103	16,304					
Time deposits	17,289	18,081	19,520	21,073					
Other Deposits	767	802	866	935					
<b>Total deposits</b>	<b>49,188</b>	<b>51,443</b>	<b>55,536</b>	<b>59,955</b>	<b>-1%</b>	<b>1%</b>	<b>5%</b>	<b>8%</b>	<b>8%</b>
Bonds, notes and other obligations	5,552	6,248	7,033	7,915					
Interbank loans	9,146	10,332	11,672	13,187					
<b>Total interest-bearing liabilities</b>	<b>63,885</b>	<b>68,023</b>	<b>74,241</b>	<b>81,057</b>	<b>-3%</b>	<b>0%</b>	<b>6%</b>	<b>9%</b>	<b>9%</b>
Other liabilities	15,729	17,704	19,925	22,426					
<b>Total liabilities</b>	<b>79,615</b>	<b>85,727</b>	<b>94,166</b>	<b>103,483</b>	<b>-3%</b>	<b>2%</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>
<b>SHAREHOLDERS EQUITY</b>									
<b>Equity</b>	<b>10,008</b>	<b>10,918</b>	<b>12,410</b>	<b>13,959</b>	<b>-2%</b>	<b>6%</b>	<b>9%</b>	<b>14%</b>	<b>12%</b>

Source: Company data and BofA Global Research estimates

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**Exhibit 5: IFS – Financial indicators**

Expect sustainable ROAE of 17%

	2023	2024E	2025E	2026E
<b>Income Statement</b>				
Net interest margin	5.6%	5.6%	5.7%	5.9%
Fees/ Core revenues	20%	20%	20%	21%
Fees/ Noninterest expense	43%	44%	46%	49%
Fees/ Avg. Earning assets	1.5%	1.5%	1.5%	1.6%
Efficiency ratio	47%	46%	44%	43%
Operating expenses/ Avg. earning assets	3.4%	3.4%	3.3%	3.3%
Effective tax rate	21%	23%	25%	25%
Dividend payout ratio	30%	35%	35%	35%
<b>Profitability</b>				
ROAE	11.1%	12.3%	16.7%	17.0%
ROAE - recurring	11.6%	12.3%	16.7%	17.0%
ROAA - recurring	1.3%	1.4%	1.9%	2.0%
<b>Balance Sheet</b>				
Loans/ Total assets	54%	52%	50%	49%
Securities/ Total assets	30%	30%	29%	29%
Loans/ Deposits	98%	99%	96%	95%
Cash and equivalents/ Deposits	54%	56%	56%	57%
Equity/ Assets	11%	11%	12%	12%
<b>Asset Quality</b>				
NPL/ Gross loans	4.0%	4.3%	4.0%	4.1%
LLR/ NPL	111%	122%	117%	117%
Provisions/ Avg. gross loans	4.5%	4.3%	3.1%	3.1%
<b>Capital</b>				
Tier I ratio	11.8%	12.0%	12.1%	12.3%

Source: Company data and BofA Global Research estimates



**Exhibit 5: IFS – Financial indicators**  
Expect sustainable ROAE of 17%

**2023      2024E      2025E      2026E**

BofA GLOBAL RESEARCH





## Price objective basis & risk

### IFS (IFS)

Our price objective for IFS of US\$31 per share is derived from the Gordon Growth Model, assuming a COE of 14.6% (reflecting a US risk-free rate of 3.5%, Peru country risk of 170bp, and beta of 1.3x (lower liquidity than peers), a sustainable ROE of 17% (in line with our estimates, and below company's medium-term target of 18%) and 4% growth in perpetuity

Downside risks are 1) asset quality deterioration under a weaker macro scenario, 2) political noise calling for early elections, 3) a potential currency mismatch & changes in interest rates, and 4) regulatory risks on the insurance business.

Upside risks are 1) stronger economic activity, 2) entering the SME and unbanked segments, while maintaining solid asset quality trends, 3) improved efficiencies by migrating to digital channels, 4) pro-market economic policies.

## Analyst Certification

We, Ernesto Gabilondo, Antonio Ruetter 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.

### Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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	GENTERA* 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
<b>NEUTRAL</b>				
	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



## Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Nubank	NU	NU US	Mario Pierry
	Porto Seguro	PSGUF	PSSA3 BZ	Mario Pierry
<b>UNDERPERFORM</b>				
	Banco Chile-ADR	BCH	BCH US	Ernesto Gabilondo
	Banco de Chile	XHND	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	XCBD	SANB11 BZ	Mario Pierry
	Santander Brasil	BSBR	BSBR US	Mario Pierry
	Supervielle	SUPV	SUPV US	Ernesto Gabilondo
	Supervielle	XAZFF	SUPV AR	Ernesto Gabilondo
<b>RSTR</b>				
	Bancolombia	CIB	CIB US	Ernesto Gabilondo
	Bancolombia	XAFF	PFBCOLO CB	Ernesto Gabilondo
	Cielo	CIOX	CIEL3 BZ	Mario Pierry
	Cielo	CIOXY	CIOXY US	Mario Pierry

**iQmethod<sup>SM</sup> 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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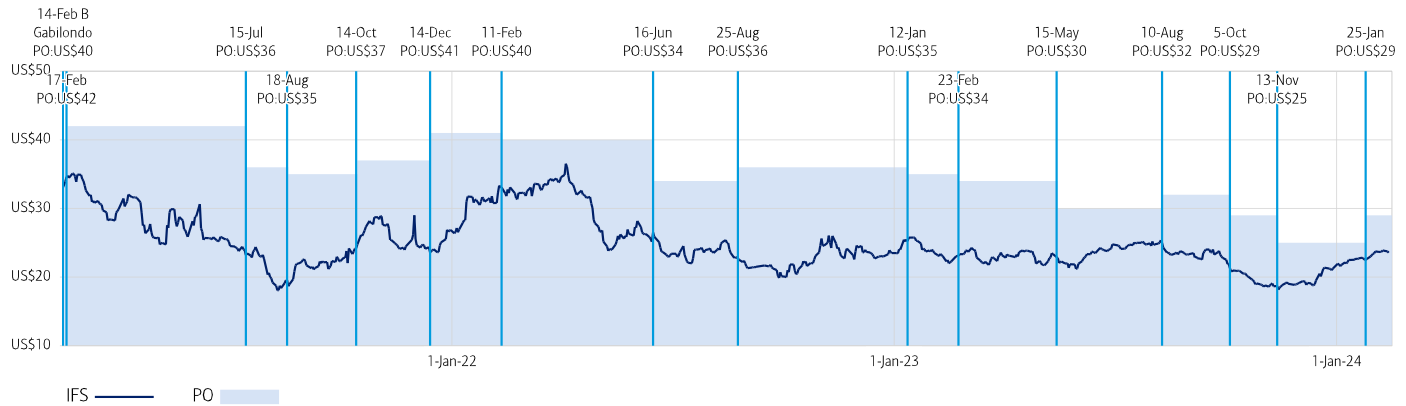
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 <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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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