

Banco Macro

Earnings hit record high in 4Q23 (although unlikely to repeat in 2024)

Maintain Rating: UNDERPERFORM | PO: 1,620.00 ARS | Price: 3,979.95 ARS

4Q benefited from abnormally high gains on securities

Reported net income of AR\$460bn significantly increased QoQ and YoY, and came significantly above expectations. 4Q23 earnings expansion was mainly explained by i) abnormally high income from securities benefiting from a positive valuation in government securities (AR\$895bn gain vs. a loss of AR\$55bn in 3Q23), and ii) higher results from associates and joint ventures (driven by Itau Argentina acquisition below book value), which more than offset higher expenses, provision charges and monetary losses. Furthermore, ROE jumped to 103% from 24.8% in 3Q23, and from 8.7% in 3Q22. Accumulated earnings increased 4.4x YoY to AR\$587bn, while ROAE stood at 33%. Finally, we detect Banco Macro maintains a strong balance sheet, reflecting a CET1 ratio of 32.8% (implying an excess capital of AR\$1.35trn), and a superior reserve coverage ratio of 201% (vs. 134% in 3Q23).

Key operating highlights

Loan Growth (+): advanced 16% QoQ and +13% YoY (well above BofAe), reflecting the best lending activity across the rest of the other listed Argentine banks. We noticed better YoY activity in commercial loans (overdrafts, discounted documents, and leasing), offsetting still weak lending activity in retail loans (credit cards, mortgages, pledge, and personal loans).

Net interest income (-): NII declined 29% YoY (+6% QoQ), and came 10% below our estimates, as the benefits from government gains were largely registered in income from securities. Furthermore, NIM eroded -560bp QoQ to 16.9%.

Asset Quality (-): NPL ratio modestly improved +10bp QoQ to 1.3%. We noticed an improvement of -10bp in consumer loans (to 1.35%), which was partially offset by a deterioration of +10bp in commercial loans (to 1.20%). Nonetheless, provision charges more than doubled QoQ (significantly above BofA), reflecting a cost of risk of 3.6% of average loans (vs. 1.6% in 3Q23), while the reserve coverage increased to 201% from 134% in 3Q23.

Fees (+): grew only 5% YoY (2% above BofAe) supported by credit fees, mutual funds, and securities fees.

Opex (-): jumped 67% YoY (+51% QoQ), and came well above our expectations, growing above inflation, mainly due to higher costs associated to employee benefits (compensation and bonuses) and administrative expenses (higher directors and auditors fees)

Tax rate (+): declined to 31% from 61% in 3Q23 on higher tax benefits.

Maintain our Underperform rating

Banco Macro reported record high earnings results, although driven by abnormally high gains on securities which are unlikely to repeat in 2024. Underperform.

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Stock Data

Price (Common / ADR)	3,979.95 ARS / 36.69 USD
Price Objective	1,620.00 ARS / 20.00 USD
Date Established	27-Feb-2024 / 27-Feb-2024
Investment Opinion	C-3-7 / C-3-7
52-Week Range	607.68 ARS - 4,649.90 ARS
Market Value (mn)	2,621,048 ARS
Free Float	35.2%
Average Daily Value	1.72 USD
Shares Outstanding (mn)	658.6 / 65.9
BofA Ticker / Exchange	BCVMF / BUE
BofA Ticker / Exchange	BMA / NYS
Bloomberg / Reuters	BMA AR / BMA.BA
ROE (2023E)	26.9%

NI: Net Income

NII: Net Interest Income

NIM: Net Interest Margin

ATM: Automated Teller Machine

A/Q: Asset Quality

ArPs: Argentine peso

ROE: Return of Equity

FX: Foreign Exchange

U/P: Underperform

Exhibit 2: Banco Macro – 4Q23 results

Earnings hit record high in 4Q23 supported by abnormally high income from securities

ArP\$ mn	4Q/22	3Q/23	4Q/23E	4Q/23A	YoY	QoQ	vs. BofAe
Net interest income	260,343	172,743	204,999	183,691	-29%	6%	-10%
Fee income	53,142	54,404	54,103	55,570	5%	2%	3%
Income from securities	-9,952	-55,523	450,000	895,361	-9096%	-1713%	99%
Fx gains	95,279	364,947	380,000	182,749	92%	-50%	-52%
Non-interest expense	103,173	114,128	115,651	172,629	67%	51%	49%
Provision for loan losses	7,888	7,456	6,960	18,182	131%	144%	161%
Results from net monetary position	-177,405	-330,979	-493,762	-525,815	196%	59%	6%
Non-operating income (expense)	-43,923	-54,850	-53,000	69,769	-259%	-227%	-232%
Net income - reported	51,709	11,471	293,768	459,653	789%	3907%	56%
EPS - reported	80.92	17.95	459.73	719.33	789%	3907%	56%
Gross loans	1,930,135	1,871,483	1,729,117	2,171,533	13%	16%	26%
Total assets	6,509,802	5,684,365	5,812,329	6,719,072	3%	18%	16%
Deposits	4,033,938	3,079,808	2,937,314	3,370,241	-16%	9%	15%
Equity	1,595,676	1,544,491	1,803,176	2,044,164	28%	32%	13%
ROAE - reported	8.7%	24.9%	70.4%	102.5%	9377 bps	7759 bps	3205 bps
NIM	23.9%	22.5%	19.7%	16.9%	-700 bps	-560 bps	-280 bps
Efficiency ratio	27%	22%	16%	14%	-1360 bps	-880 bps	-271 bps
Effective tax rate	22%	61%	30%	31%	931 bps	-2910 bps	142 bps
Cost of Risk	1.6%	1.6%	1.6%	3.6%	196 bps	204 bps	205 bps
NPLs/ Gross loans	1.3%	1.4%	1.4%	1.3%	3 bps	-10 bps	-10 bps
LLR/ NPLs	151%	134%	127%	201%	4957 bps	6698 bps	7417 bps

Source: Company data and BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk**Banco Macro (BCVMF)**

Our price objective of ArPs1,620/share (US\$20/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 500bp and beta of 1.0x), 4% growth in perpetuity and a sustainable ROE of 15%.

Downside risks are: 1) execution risk, as the bank transitions from a high inflation and high interest rate environment, and 2) asset quality deterioration. Upside risks are: 1) stronger loan growth, 2) improved asset quality, and 3) lower inflation levels.

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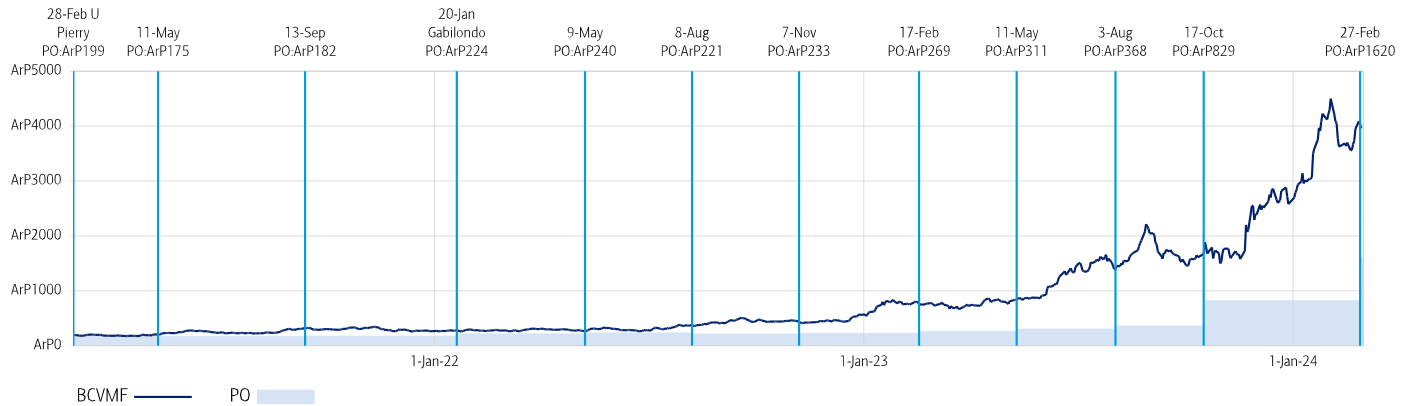
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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