

XP Inc.

Inflows failed to pick-up in 4Q; we expect improvement in coming quarters

Maintain Rating: BUY | PO: 31.00 USD | Price: 25.36 USD

Lowest level of retail inflows since '16

XP reported operating figures for 4Q23, showing i) weakening retail inflows, but ii) continued increase in AUC and in active clients. Retail net inflows fell to R\$12bn, compared to R\$14bn in 3Q. The figure is below our R\$15bn forecast and 60% below '22 levels, pressured by the still high-rate environment and competition. Total inflows reached R\$19bn, including R\$7bn of corporate inflows. AUC reached R\$1.1tn (+19% YoY, +4% QoQ and +2% vs BofAe), boosted by assets appreciation of R\$23bn. Of concern, inflows decelerated despite continued increase in the IFA network and the integration of Modal in July. The active client base expanded 120k QoQ to 4.5mn, representing the strongest adds since 3Q22. Finally, NPS remained flattish QoQ at 72, but below a high of 77 in '21. See Figure 1 below for more details.

Slight improvement in AUC mix

On a positive note, equities represented 31% of total assets under custody, higher than 29% in 3Q23. The contribution of fixed income investments fell for the first time since '21 (33% of total AUC vs 34% in 3Q23 and 32% in 4Q22). Retail daily average trades remained flattish QoQ.

Banking expanding at a solid (but decelerating) pace

The number of active cards reached 1.2mn (+68% YoY vs +106% in 3Q). Card TPV increased +10% QoQ, benefiting from seasonality (but growth decelerated to +44% YoY from +61% YoY in 3Q). The average ticket continued to fall (R\$3.4k vs R\$4.6 in 4Q22). The loan portfolio expanded 23% (in line with growth posted in 3Q), but the NPL ratio deteriorated to 0.3% from 0.1% in 3Q. Pension funds AUC grew 21% YoY, supported by XP's own funds (+23% YoY). Finally, the number of active insurance policies increased 36% YoY (decelerating from +45% YoY in 3Q23).

We maintain our Buy rating

The figures continued to reflect a high-rate environment, as the first cuts in Selic were insufficient to drive greater demand for riskier products. We expect inflows to pick-up in coming months, as interest rates return to single digits. We maintain our Buy rating.

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Stock Data

Price	25.36 USD
Price Objective	31.00 USD
Date Established	16-Jan-2024
Investment Opinion	C-1-9
52-Week Range	10.30 USD -27.71 USD
Mrkt Val / Shares Out (mn)	13,759 USD / 542.6
Free Float	93.2%
Average Daily Value	152.11 USD
BofA Ticker / Exchange	XP / NAS
Bloomberg / Reuters	XP US / XP.QQ
ROE (2023E)	23.4%
ESGMeter™	Medium

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AUC: assets under custody

TPV: total payment volume

NPS: net promoter score

NPL: non-performing loans

IFA: independent financial advisor

Exhibit 1: XP Inc. 4Q23 operating figures (R\$bn)

AUC and client base roughly in line with BofAe in 4Q23

R\$ bn	4Q22	3Q23	4Q23E	4Q23A	YoY	QoQ	vs. BofAe
Active clients (EOP, th)	3,877	4,413	4,488	4,531	17%	3%	1%
Net client adds (th)	72	400	75	120	65%	-70%	58%
Total AUC (EOP)	946	1,080	1,104	1,122	19%	4%	2%
Inflows - retail	29	48	15	12	-60%	-76%	-23%
Inflows - others	2	0	0	7	nmf	nmf	nmf
Inflows	31	48	15	19	-40%	-61%	24%
Inflows per month (retail)	9.6	16.0	5.0	3.8	-60%	-76%	-23%
Market appreciation QoQ	-10	8	9	23	nmf	175%	160%
Loan Portfolio	17.1	19.9	na	21.0	23%	6%	n.a.
Card TPV	8.2	10.7	na	11.8	44%	10%	n.a.
Pension funds	61	67	na	73	21%	9%	n.a.

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH

Price objective basis & risk

XP Inc. (XP)

Our PO of \$31 is based on a target P/E multiple of 18x our '24 GAAP EPS estimate of \$1.68. Our target multiple is the midpoint of multiples during a high-rate environment and recent M&A transactions.

Downside risks are: 1) increased competition from incumbents and new players may lead to margin pressure, and limit XP's growth and profitability, 2) all of XP's revenues are denominated in BRL, and thus are vulnerable to FX volatility, and 3) potential share overhang as Itaúsa divests its stake.

Upside risks are: 1) continued growth of AUC as it gains share from incumbent banks, which should support solid growth over the medium to long-term, 2) the development of new banking products such as credit cards, credit, insurance, and pension, which could support revenue growth.

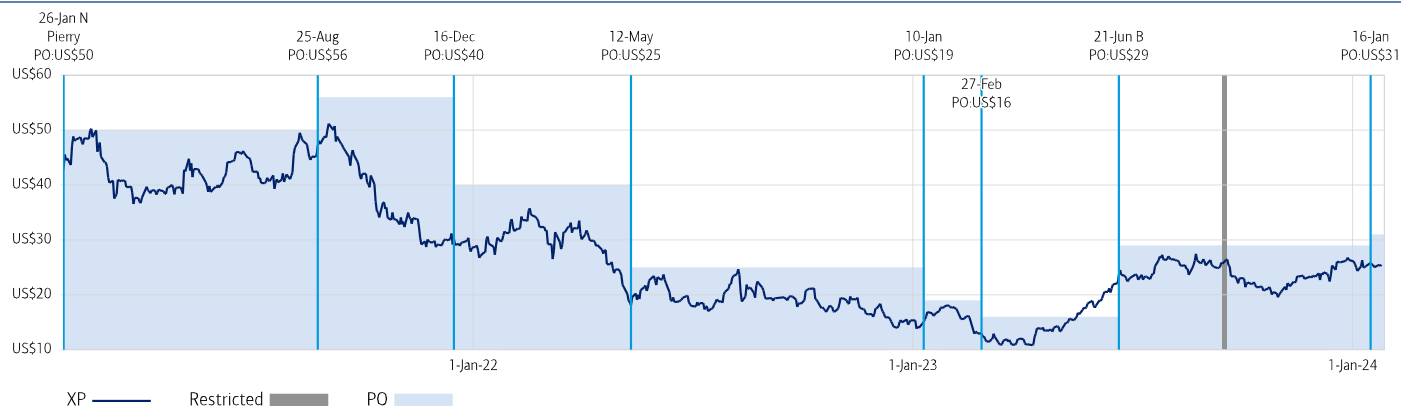
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XP Inc. (XP) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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

^{R1} 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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