

Itau Unibanco

Solid operating trends in 4Q23; '24 guidance suggests 12% EPS growth

Maintain Rating: BUY | PO: 40.00 BRL | Price: 33.36 BRL

Recurring net income of R\$9.4bn; ROE of 21.2%

Recurring net income of R\$9.4bn rose 23% YoY and came in line with BofAe, with ROE of 21.2% reaching the highest level in the last four years. Operating trends remained solid: i) total NII rose 9% YoY, ii) NPL improved 20bp QoQ and coverage increased, iii) fees and insurance grew 8% YoY and iv) opex remained under control. On a negative note, loan book remained flattish YoY (4% below BofAe). Itau announced additional dividend payment of R\$11bn (payout of 60% in '23), and a new buyback program of up to 75mn shares (0.8% of total shares). All in, we see Itau's superior ROE and execution skills supporting the stock's premium valuation. Buy.

Guidance suggests 12% earnings growth in '24

The mid-point of '24 guidance yields NI of c.R\$40bn (21.1% ROE), in line with our estimates and consensus. The guidance suggests a modest acceleration in loan growth (6.5-9.5% from 3% in '23), relatively stable Client NIM (Client NII growth of 4.5-7.5% should match avg. loan growth) and lower CoR (provisions expected to fall 1-9%). Trading gains should range between R\$3-5bn (vs. R\$3.3bn in '23), and fee income and opex are expected to grow in line with '23 (5-8% vs 5.3%, and 4-7% vs. 6%). Exhibit 1.

Key operating highlights

Loan book (-): remained flattish YoY (vs. +2% in 3Q23) and QoQ. Individuals book growth decelerated to 4% YoY (vs. 6% in 3Q), with good performances from personal loans (14%) and mortgages (7%), offset by a flattish performance from credit card and payroll loans. The corporate book remained unchanged YoY, while the LatAm portfolio shrunk 8% YoY following the sale of the Argentina operation.

NII (+): grew faster than loan growth at 9% YoY (vs. 10% in 3Q23), driven by: i) market NII 12% YoY growth on higher trading gains and ii) Client NII 9% YoY expansion, supported by better product mix and spreads.

NPL (+): improved 20bp QoQ to 2.8%, led by the individuals book performance (-50bp QoQ), reflecting NPL improvement on riskier loans (credit card, personal and auto loans). Meanwhile, corporate and SME NPLs remained stable. Provision charges came in line with BofAe and decreased 7% YoY, as Itau faced high provisions in 4Q22 due to the Americanas event. Coverage ratio increased to 216% (vs. 209% in 3Q23).

Fees (=): accelerated growth to 7% YoY (from 3% in 3Q23), supported by advisory and brokerage services (+46% YoY) and cards (+12%), partially offset by LatAm (-13%) and current account (-6%). Insurance results grew 11% YoY on strong premium bonds performance (+27% YoY) and lower loss ratio.

Opex (=): grew 5% YoY (+6% in 3Q), in line with BofAe, as personnel and admin expenses growth were offset by lower LatAm related expenses.

Capital (+): CET1 ratio improved 60bp QoQ to 13.7%.

05 February 2024

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Stock Data

Price (Common / ADR)	33.36 BRL / 6.62 USD
Price Objective	40.00 BRL / 8.00 USD
Date Established	16-Jan-2024 / 16-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	22.74 BRL - 33.97 BRL
Market Value (mn)	327,028 BRL
Free Float	99.5%
Average Daily Value	143.32 USD
Shares Outstanding (mn)	9,803.0 / 9,803.0
BofA Ticker / Exchange	ITUBF / SAO
BofA Ticker / Exchange	ITUB / NYS
Bloomberg / Reuters	ITUB4 BZ / ITUB4.SA
ROE (2023E)	20.8%

CET1: core equity tier 1

NPL: non-performing loans

NII: net interest income

SME: small and medium enterprises

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Timestamp: 05 February 2024 08:37PM EST

Exhibit 1: '24 Guidance

Guidance implies net income of R\$40bn (+12% YoY)

	2024E	
	Guidance	BofA
Total credit portfolio	6.5% to 9.5%	10%
Financial margin with clients	4.5% to 7.5%	8%
Financial margin with Market	R\$3.0 to 5.0bn	R\$4.0bn
Cost of credit	R\$33.5bn to 36.5bn	R\$35.6bn
Fees and insurance	5.0% to 8.0%	5%
Non-interest expenses	4.0% to 7.0%	5%
Effective tax rate	29.5% to 31.5%	31.0%
Net income (R\$bn)*	R\$39.9bn	R\$40.5bn
YoY growth*	12%	14%
ROE*	21.1%	21.3%

Source: BofA Global research and Company reports. * Management does not provide guidance for net income or ROE, figures shown are based on our estimates.

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4Q23 review**Exhibit 2: Itau Unibanco - 4Q23 earnings summary**

Net income in line with BofAe

R\$ mn	4Q/22	3Q/23	4Q/23E	4Q/23A	YoY	QoQ	vs. BofAe
Margin with clients	24,227	25,559	26,283	26,293	9%	3%	0%
Margin with market	748	715	700	840	12%	17%	20%
Net interest income	24,975	26,275	26,983	27,134	9%	3%	1%
Fee income	10,427	10,694	10,948	11,197	7%	5%	2%
Net insurance	2,051	2,191	2,297	2,281	11%	4%	-1%
Other non-interest income	(2,306)	(2,291)	(2,384)	(2,547)	10%	11%	7%
Non-interest expense	14,563	14,742	15,406	15,344	5%	4%	0%
Provision for loan losses	9,805	9,263	9,237	9,150	-7%	-1%	-1%
Earnings before taxes	10,778	12,863	13,201	13,571	26%	6%	3%
Extraordinary income	(312)	(1,501)	(280)	(229)	-27%	-85%	-18%
Net income - reported	7,356	7,539	8,949	9,172	25%	22%	2%
Net income - recurring	7,668	9,040	9,229	9,401	23%	4%	2%
EPS - reported	0.75	0.77	0.91	0.94	25%	22%	2%
EPS - before extra	0.78	0.92	0.94	0.96	23%	4%	2%
Gross loans	906,188	901,167	946,225	907,362	0%	1%	-4%
Total assets	2,469,958	2,678,896	2,738,871	2,696,522	9%	1%	-2%
Deposits	871,438	932,284	950,930	951,352	9%	2%	0%
Equity	160,925	174,042	180,251	180,788	12%	4%	0%
ROAE - reported	18.5%	17.6%	20.2%	20.7%	220 bp	310 bp	50 bp
ROAE - before extra	19.3%	21.1%	20.8%	21.2%	190 bp	10 bp	40 bp
NIM	4.7%	4.5%	4.5%	4.6%	-20 bp	0 bp	10 bp
Efficiency ratio	41%	40%	41%	40%	-110 bp	30 bp	-40 bp
Effective tax rate	27%	29%	29%	29%	180 bp	50 bp	10 bp
Provisions/ Avg gross loans	4.4%	4.1%	4.0%	4.0%	-30 bp	-10 bp	0 bp
NPLs/ Gross loans	2.9%	3.0%	2.9%	2.8%	-10 bp	-20 bp	-10 bp
LLR/ NPLs	212%	209%	209%	216%	330 bp	620 bp	640 bp

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH

Price objective basis & risk

Itau Unibanco (ITUBF / ITUB)

Our price objective (PO) for Itau of R\$40/US\$8 is derived from the Gordon Growth model, assuming a sustainable ROE of 21%, a COE of 13.1%, and 4% growth in perpetuity. Our USD/ADR PO is derived from the local PO converted at an FX rate of 5.0.

Downside risks to our PO are 1) weaker economic activity could negatively impact loan growth, 2) corporate NPL deterioration requiring higher than anticipated provision charges, and 3) regulatory changes could be detrimental to profitability. Upside risks include: 1) stronger than forecasted loan portfolio growth, 2) lower than anticipated provision charges and, 3) better than expected insurance results

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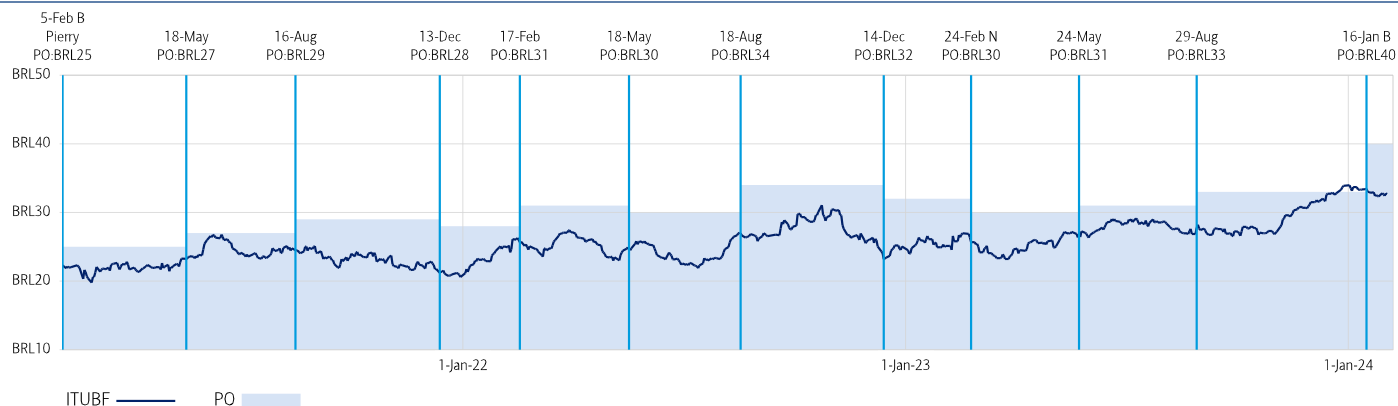
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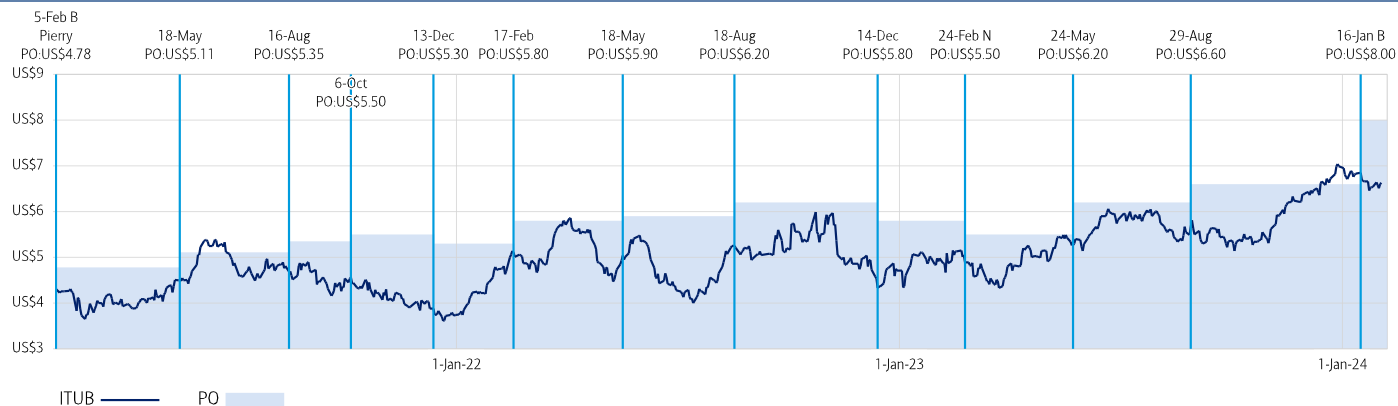
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Itau Unibanco (ITUBF) Price Chart



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Itau Unibanco-A (ITUB) 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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
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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Underperform	N/A	≥ 20%

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