

IFS

# Big 4Q23 earnings beat; ready to take-off

Maintain Rating: BUY | PO: 29.00 USD | Price: 23.55 USD

## 4Q23 NI beat backed by lower provisions, WM, and insurance

IFS reported 4Q23 NI of S\$285mn advanced 47% QoQ (-25% YoY), and came well above our expectations and market consensus. 4Q earnings beat was mainly explained by i) a recovery in the wealth management and insurance businesses, and ii) lower-than-expected provision charges due to the probability of a none/low impact from El Niño. 2023 recurring net income declined 25% YoY for a recurring ROAE of 11.6% (vs. 8-10% guided), declining from recurring ROAE of 15.8% in 2022.

## Mixed profitability across IFS subsidiaries

We noticed mixed 4Q23 net earnings in IFS subsidiaries: i) +-31% YoY at bank level (7% ROAE)—limited by provisions related to El Niño, and ii) -45% QoQ in payments (7% ROAE), although a recovery in the WM business to S\$25mn and 11% ROAE (vs. a loss of S\$18mn in 3Q23) and stronger insurance results, 3.8x QoQ (139% ROAE). Meanwhile, consolidated ROAE improved to 11.6% from 8.2% in 3Q23.

## Key operating highlights

**Loan Growth (-):** advanced 3%, and came below our estimates, explained by softer lending dynamics in credit cards and mortgage loans, as well as weak activity in commercial loans. Indeed, soft lending activity was explained by tightening credit standards and weak economic trends (although both should start to revert).

**NII (-):** declined 2% YoY (-4% QoQ), and came 5% below BofAe, on softer lending dynamics. Also, we noticed NIM pressure of 20bp QoQ to 5.4%, mainly explained by lower interest-earning assets related to cash and inter-bank funds.

**Asset Quality (-):** NPL ratio modestly deteriorated +10bp QoQ to 2.6%. Meanwhile, provision charges rose only 6% QoQ, and came well below our expectations, reflecting a cost of risk of 5.1% of average gross loans (vs. 4.9% in 3Q23), which we attribute to lower-than-expected losses related to El Niño. Full year cost of risk of 4.5% came at the mid-point of the company's guidance range of 4.2-4.8%.

**Fees (=):** -11% YoY (relatively stable QoQ), and came roughly in-line with our expectations, explained by lower commission from credit card, banking, and collection services, as well as higher fees paid to foreign banks.

**Opex (=):** opex contracted 5% YoY (stable QoQ), and came roughly in-line with BofA, supported by tight management expenses in the banking business.

**Tax rate (=):** behaved relatively stable at 12%.

## Maintain our Buy rating

4Q earnings beat was driven by lower provisions needed for El Niño, while stronger results in subsidiaries (wealth management and insurance). We expect a positive reaction from investors to the results, while we wait for 2024 guidance in tomorrow's conference call. Buy

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**Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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### Stock Data

Price	23.55 USD
Price Objective	29.00 USD
Date Established	25-Jan-2024
Investment Opinion	B-1-7
52-Week Range	17.94 USD -25.60 USD
Mkt Val / Shares Out (mn)	2,719 USD / 115.4
Free Float	29.4%
Average Daily Value	0.71 USD
BofA Ticker / Exchange	IFS / NYS
Bloomberg / Reuters	IFS US / IFS.N
ROE (2023E)	9.4%
ESGMeter™	Medium

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Mgmt.: Management

NI: Net Income

NII: Net Interest Income

CoR: Cost of Risk

ROE: Average Return on Equity

SME: Small and Medium Enterprise

WM: Wealth Management

Izipay: Payment's business

**Exhibit 2: IFS – 4Q23 results**

4Q23 earnings beat on lower provisions needed for El Niño and a recovery in the wealth management business

<b>NS\$ mn</b>	<b>3Q/22</b>	<b>3Q/23</b>	<b>4Q/23E</b>	<b>4Q/23A</b>	<b>YoY</b>	<b>QoQ</b>	<b>vs. BofAe</b>
Net interest income	1,149	1,168	1,187	1,124	-2%	-4%	-5%
Commissions and fees, net	323	291	291	288	-11%	-1%	-1%
Results from financial transactions	-153	24	25	151	0%	528%	506%
Result from insurance, net	-151	-29	-34	-24	-84%	-16%	-28%
Total operating revenues	1,168	1,454	1,469	1,539	32%	6%	5%
Non-interest expense	730	689	695	691	-5%	0%	-1%
Provision for loan losses	278	581	787	616	122%	6%	-22%
Other income	283	85	36	36	-87%	-58%	0%
<b>Net income - reported</b>	<b>382</b>	<b>194</b>	<b>67</b>	<b>285</b>	<b>-25%</b>	<b>47%</b>	<b>328%</b>
<b>EPS - reported</b>	<b>3.31</b>	<b>1.68</b>	<b>0.58</b>	<b>2.47</b>	<b>-25%</b>	<b>47%</b>	<b>328%</b>
Gross loans	47,025	47,852	51,441	48,249	3%	1%	-6%
Total assets	87,479	89,359	90,936	89,623	2%	0%	-1%
Deposits	48,531	49,075	49,566	49,188	1%	0%	-1%
Equity	9,349	9,578	9,644	9,950	6%	4%	3%
<b>ROAE - reported</b>	<b>16.2%</b>	<b>8.2%</b>	<b>2.8%</b>	<b>11.7%</b>	<b>-456 bps</b>	<b>348 bps</b>	<b>890 bps</b>
NIM	5.7%	5.7%	5.7%	5.4%	-26 bps	-23 bps	-21 bps
Efficiency ratio	63%	47%	47%	45%	-1760 bps	-244 bps	-241 bps
Effective tax rate	24%	12%	12%	12%	-1169 bps	64 bps	64 bps
Cost of Risk	2.4%	4.9%	6.7%	5.1%	269 bps	27 bps	-153 bps
NPLs/ Gross loans	3.1%	2.5%	2.6%	2.6%	-50 bps	10 bps	0 bps
LLR/ NPLs	159%	182%	174%	174%	1410 bps	-890 bps	0 bps

Source: Company data and BofA Global Research estimates

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**Price objective basis & risk****IFS (IFS)**

Our price objective for IFS of US\$29 per share is derived from the Gordon Growth Model, assuming a COE of 15.2% (reflecting a US risk-free rate of 3.5%, Peru country risk of 170bp, and beta of 1.4x (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**

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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%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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