

## Bradesco

# The bottom was even lower; 30% miss in 4Q; '24 guidance short of Consensus

Maintain Rating: NEUTRAL | PO: 19.00 BRL | Price: 16.60 BRL

## Net income c.30% below BofAe; ROE of 7.2%

Recurring net income of R\$2.9bn (ROE of 7.2%) decreased 38% QoQ and came 29% below our estimates. Pre-tax income was even weaker (-51% QoQ) but tax credits prevented a weaker print. Operating trends remained pressured, with limited loan book expansion and revenue generation, while provision charges remained high. NPLs improved, supported by a sharp increase in write-offs. Other expenses came R\$1.1bn above BofAe, pressured by legal contingencies and insurance provisions. The bank booked non-recurring expenses of R\$1.2bn, related to the branch network restructuring and contingent liabilities; reported net income was R\$1.7bn (4.2% ROE). All in, results and '24 guidance suggest that improvement in profitability should be slower than expected. We stay at Neutral as valuation (1.0x P/B) provides limited downside.

## '24 guidance well below BofAe/Consensus

The mid-point of '24 guidance yields NI of R\$18bn (+10% YoY), 16%/20% below our R\$21.5bn forecast and Consensus of R\$22.4bn, implying an ROE of 11%. Most guidance metrics suggest improvement from '23: i) loan book growth of 7-11% (vs. -2% in '23), ii) NII growth of 3-7% (-2% in '23), iii) fee growth of 2-6% (flat in '23), iv) opex at 5-9% (10% in '23) and v) provision charges ranging from R\$35-39bn (vs. 39.5bn in '23). On insurance, guidance suggests growth between 4-8%, down from 21% in '23.

## Key operating highlights

**Loan Growth (-):** shrunk 4% YoY (vs. -3% in 3Q23), with a weak performance on the corporate and SME books (-15% and -7%). Individuals' book grew only 1% YoY, reflecting weakness across all lines, mainly auto and personal loans (-8% and -6%)

**NII (-):** total NII came in line with BofAe and declined 3% YoY (same pace of 3Q23), but with a worse Client NII performance (-12% YoY vs -10% in 3Q23), and a better Market NII contribution (R\$696mn vs. R\$23mn in 3Q23). The pressured Client NII reflects the bank's conservative approach on growth impacting overall spreads, and Market NII improvement kept its gradual improvement pace.

**Asset Quality (=):** NPL of 5.2% improved 90bp QoQ, reflecting a sharp increase in write-offs (to 9.0% of loans from 6.6% in 3Q23). Provision charges increased 15% QoQ while the coverage ratio remains pressured at 165%.

**Insurance (+):** results increased 10% YoY, on solid premium growth (+11% YoY), and lower selling expenses (-17% YoY), while financial results weakened (-2% YoY).

**Fees (-):** fell 2% YoY (7% below BofAe), pressured by contraction on checking accounts and deceleration on cards, custody, brokerage, and consortium.

**Expenses (+):** opex grew 3% YoY (in line with BofAe), as higher personnel expenses (impacted by the collective bargain agreement) was partially offset by controlled administrative expenses. Other expenses reached R\$2.4bn (vs R\$1.5bn in 4Q22 and BofAe with R\$1.3bn), pressured by legal contingencies and insurance provisions.

**CET1 (-):** fell 10 bp QoQ to 11.7%.

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.**

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### Stock Data

Price (Common / ADR)	16.60 BRL / 3.35 USD
Price Objective	19.00 BRL / 3.80 USD
Date Established	29-Aug-2023 / 29-Aug-2023
Investment Opinion	B-2-7 / C-2-7
52-Week Range	12.39 BRL - 17.74 BRL
Market Value (mn)	176,677 BRL
Free Float	97.6%
Average Daily Value	114.50 USD
Shares Outstanding (mn)	10,643.2 / 10,643.2
BofA Ticker / Exchange	BRDPF / SAO
BofA Ticker / Exchange	BBD / NYS
Bloomberg / Reuters	BBDC4 BZ / BBDC4.SA
ROE (2023E)	11.0%

A/Q: Asset quality

ALM: asset & liability management

BBDC: Bradesco

CET1: Common equity tier 1

IoC: interest on capital

NII: Net interest income

NPL: Non-performing loans

SME: Small and medium enterprise

## 4Q23 review

### Exhibit 1: Bradesco - 4Q23 earnings summary

Net income came 29% below BofAe

R\$ mn	4Q/22	3Q/23	4Q/23E	4Q/23A	YoY	QoQ	vs. BofAe
NII with clients	17,480	15,836	15,442	15,432	-12%	-3%	0%
NII with market	-803	23	500	696	nmf	2926%	39%
<b>Net interest income</b>	<b>16,677</b>	<b>15,859</b>	<b>15,942</b>	<b>16,128</b>	<b>-3%</b>	<b>2%</b>	<b>1%</b>
Fee income	9,251	9,112	9,659	9,028	-2%	-1%	-7%
Net insurance, pension, cap.	4,300	4,624	4,716	4,745	10%	3%	1%
Other non-interest income	(1,469)	(1,571)	(1,342)	(2,447)	67%	56%	82%
Non-interest expense	13,977	13,596	14,182	14,431	3%	6%	2%
Provision for loan losses	14,881	9,188	10,102	10,524	-29%	15%	4%
Earnings before tax	(71)	5,256	4,707	2,566	nmf	-51%	-45%
Extraordinary income	(158)	-	-	(1,175)	nmf	nmf	nmf
<b>Net income - reported</b>	<b>1,437</b>	<b>4,621</b>	<b>4,042</b>	<b>1,703</b>	<b>18%</b>	<b>-63%</b>	<b>-58%</b>
<b>Net income before extra</b>	<b>1,595</b>	<b>4,621</b>	<b>4,042</b>	<b>2,878</b>	<b>80%</b>	<b>-38%</b>	<b>-29%</b>
<b>EPS - reported</b>	<b>0.13</b>	<b>0.43</b>	<b>0.38</b>	<b>0.16</b>	<b>19%</b>	<b>-63%</b>	<b>-58%</b>
<b>EPS - before extra</b>	<b>0.15</b>	<b>0.43</b>	<b>0.38</b>	<b>0.27</b>	<b>81%</b>	<b>-38%</b>	<b>-29%</b>
EPADR (US\$) - reported	0.03	0.09	0.08	0.03	30%	-62%	-57%
EPADR (US\$) - before extra	0.03	0.09	0.08	0.06	98%	-37%	-28%
Gross loans	656,431	626,529	642,976	627,241	-4%	0%	-2%
Total assets	1,830,247	1,931,295	1,965,280	1,964,052	7%	2%	0%
Deposits	609,574	623,260	635,268	642,689	5%	3%	1%
Equity	154,263	160,801	164,035	161,182	4%	0%	-2%
<b>ROAE - reported</b>	<b>3.7%</b>	<b>11.5%</b>	<b>10.0%</b>	<b>4.2%</b>	<b>54 bp</b>	<b>-732 bp</b>	<b>-572 bp</b>
<b>ROAE - before extra</b>	<b>4.1%</b>	<b>11.5%</b>	<b>10.0%</b>	<b>7.2%</b>	<b>305 bp</b>	<b>-440 bp</b>	<b>-280 bp</b>
NIM	3.7%	3.4%	3.4%	3.4%	-25 bp	0 bp	4 bp
Efficiency ratio	48.6%	48.5%	48.9%	52.6%	396 bp	405 bp	362 bp
Effective tax rate	nmf	10%	12%	-15%	nmf	nmf	nmf
Provisions/ Avg. gross loans	9.1%	5.9%	6.4%	6.7%	-243 bp	85 bp	35 bp
NPLs/ Gross loans	4.3%	6.1%	6.1%	5.2%	90 bp	-90 bp	-90 bp
LLR/ NPLs	205%	155%	152%	165%	-3931 bp	1052 bp	1295 bp

Source: Company reports and BofA Global Research estimates.

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## Price objective basis & risk

### Bradesco (BRDPF / BBD)

Our price objective (PO) for Bradesco of R\$19/US\$3.8 is derived from the Gordon Growth Model, assuming a sustainable ROE of 16%, a COE of 14.3%, and 4% growth in perpetuity. Our PO implies a target '24E P/BV multiple of 1.1x. Our USD/ADR PO is derived from the local PO converted at a 5.0 FX rate.

Downside risks to our PO are 1) weaker economic activity could negatively impact loan growth, 2) corporate NPL deterioration, and 3) regulatory changes could be detrimental to profitability. Upside risks include: 1) stronger than forecasted loan portfolio growth, 2) stronger than expected Selic rate cuts benefiting Market NII and, 3) lower than expected provision charges.

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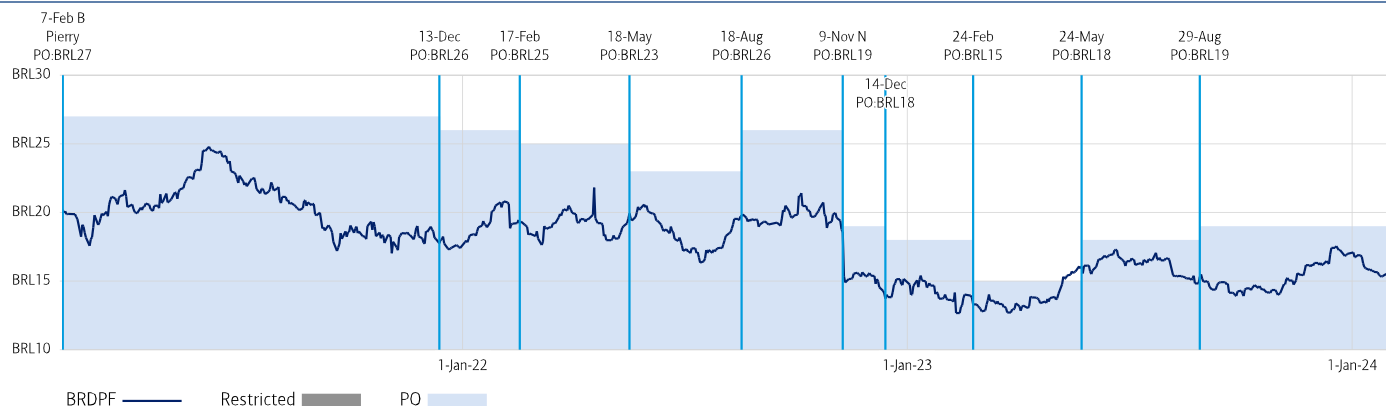
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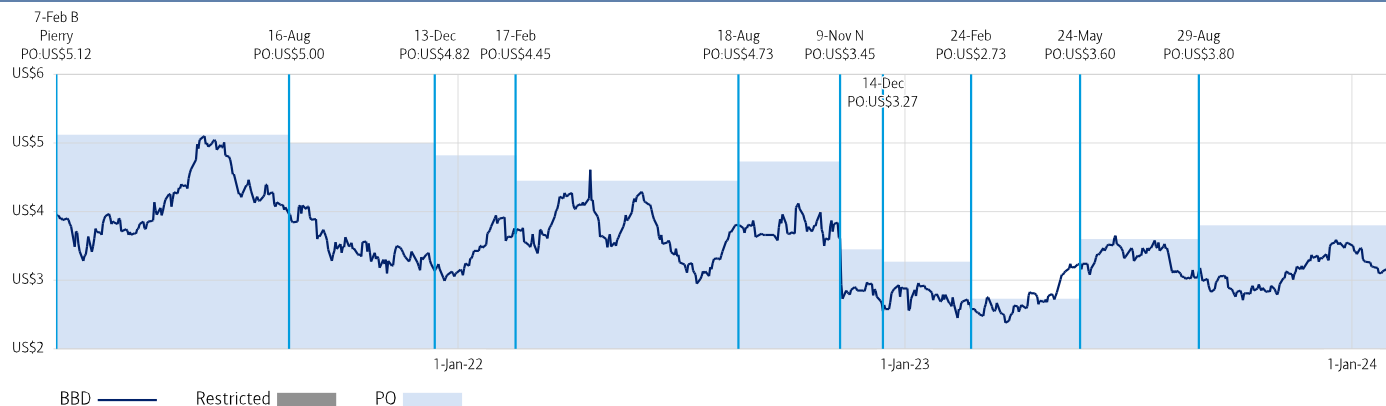
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### Bradesco -A (BBD) Price Chart



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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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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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