

XP Inc.

Revenue acceleration offset by higher expenses; 4Q23 just below BofAe

Maintain Rating: BUY | PO: 31.00 USD | Price: 24.61 USD

Net income of R\$1.0bn, 4% below BofAe

Net income of R\$1.0bn came 4% lower than 3Q23 and BofAe, even considering tax credits of R\$45mn. Net revenue grew 29% YoY (in line with BofAe), driven by strong M&A revenues boosting issuer services results and offsetting lower than expected retail revenues. COGS was pressured by products and channel mix, while SG&A was negatively impacted by higher-than-expected bonus and tough comps from 4Q22. All in, EBT margin decreased to 24.6% (-340bp QoQ). While weak inflows and revenue generation were already expected, pressured costs and expenses could weigh negatively on shares. Nonetheless, we maintain our Buy rating as we expect stronger volumes and revenue generation in 2H24, leading to operating leverage gains.

Key operating highlights

Operational. figures were released on January 26, see [inflows failed to pick-up in 4Q](#)

Retail AUC and clients (=): AUC reached R\$1.1tn (+19% YoY, +4% QoQ), supported by assets appreciation of R\$23bn. Retail net inflow of R\$12bn decreased from R\$14bn in 3Q23, despite the increase in IFA network. The active client base expanded 120k QoQ to 4.5mn, representing the strongest adds since 3Q22.

Banking (-): revenue grew 21% YoY, decelerating from 52% in 3Q23 and accounted for 16% of total retail (same level from 4Q22). Compared to 3Q23, revenue growth decelerated on all products: i) cards (30% YoY vs. 77% in 3Q23), ii) pension plans (1% vs. 15%), iii) credit (-4% vs. 24%) and iv) insurance (46% vs. 72%).

Retail revenue yield (+): decreased 6bp QoQ to 1.14%, pressured by lower floating results (lower Selic rate) and revenues from the Expert event booked in 3Q23.

Gross revenues (=): increased 29% YoY and came in line with BofAe. However, the revenue mix came different from our expectations. Issuer services was a positive surprise (+85% YoY) driven by strong M&A revenues, while retail expanded 24% YoY, but came 7% below BofAe reflecting pressured equities and banking revenues.

COGS (=): increased 16% YoY and came 3% above BofAe, yielding a gross margin of 68.1%, lower than 70.1% in 3Q23, but better than 65.1% in 4Q22. XP booked provisions of R\$30mn related to Modal, and adjusting for this event, COGS came in line with BofAe.

SG&A (-): came 8% above BofAe and increased 36% YoY, mainly explained by card incentives booked in 4Q22. Adjusting by this effect, SG&A would have increased 12% YoY. SG&A for '23 of R\$5.3bn remained within the provided guidance (R\$5.0-5.5bn), even considering Modal related expenses that were not considered in the guidance.

Tax rate (+): XP booked tax credits of 5% (vs. -6% in 3Q23 and 6% in 4Q22), while the "normalized" tax rate of 11% remained well below 3Q23 and 4Q22 levels of 17%.

27 February 2024

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Stock Data

Price	24.61 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
Mkt Val / Shares Out (mn)	13,352 USD / 542.6
Free Float	93.2%
Average Daily Value	120.44 USD
BofA Ticker / Exchange	XP / NAS
Bloomberg / Reuters	XP US / XP.OQ
ROE (2023E)	23.4%
ESGMeter™	Medium

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4Q23 review

Exhibit 1: XP Inc – 4Q23 earnings summary

Net income came 4% below BofAe

R\$ mn	4Q22	3Q23	4Q23E	4Q23A	YoY	QoQ	vs. BofAe
Retail and issuer services	2,549	3,179	3,382	3,152	24%	-1%	-7%
Institutional	357	386	389	413	16%	7%	6%
Issuer services	275	519	311	508	85%	-2%	63%
Other	156	281	201	236	51%	-16%	17%
Gross revenues	3,337	4,364	4,284	4,309	29%	-1%	1%
Net revenues	3,177	4,132	4,056	4,046	27%	-2%	0%
COGS	1,110	1,236	1,260	1,292	16%	5%	3%
Gross profit	2,067	2,896	2,796	2,753	33%	-5%	-2%
Selling	48	50	69	59	25%	19%	-14%
Payroll	349	396	404	393	13%	-1%	-3%
Bonus	378	486	384	462	22%	-5%	20%
SG&A	1,135	1,541	1,429	1,539	36%	0%	8%
EBITDA	932	1,355	1,367	1,215	30%	-10%	-11%
Adjusted EBITDA	1,113	1,521	1,534	1,381	24%	-9%	-10%
D&A	46	71	91	82	81%	16%	-10%
EBT	738	1,157	1,140	995	35%	-14%	-13%
Net income - GAAP	782	1,087	1,089	1,040	33%	-4%	-4%
Net income - non -GAAP	892	1,179	1,193	1,149	29%	-3%	-4%
EPS (R\$)	1.37	2.00	1.96	1.88	38%	-6%	-4%
EPS (US\$)	0.25	0.40	0.40	0.39	51%	-4%	-3%
EPS - adjusted (R\$)	1.56	2.17	2.15	2.07	33%	-5%	-4%
EPS - adjusted (US\$)	0.29	0.44	0.44	0.43	46%	-3%	-3%
Gross margin	65.1%	70.1%	68.9%	68.1%	300bp	-202bp	-88bp
EBT margin	23.2%	28.0%	28.1%	24.6%	137bp	-341bp	-352bp
Adj. effective tax rate	15.8%	18.1%	17.0%	11.1%	-471bp	-693bp	-587bp
Net margin	24.6%	26.3%	26.8%	25.7%	108bp	-59bp	-113bp
Active clients - EOP (th)*	3,877	4,413	4,488	4,531	17%	3%	1%
Net client adds (th)*	72	400	75	118	64%	-71%	57%
			0	0			
Total AUC - EOP (R\$bn)*	946	1,080	1,104	1,122	19%	4%	2%
Retail revenue	2,549	3,179	3,382	3,152	24%	-1%	-7%
Revenue yield	1.09%	1.21%	1.24%	1.14%	5bp	-6bp	-9bp

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%

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%

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