

Grupo Financiero Galicia

2Q earnings magnified by gains on securities and FX

Maintain Rating: UNDERPERFORM | PO: 183.00 ARS | Price: 1,130.15 ARS

2Q continued to benefit from income from securities

Reported NI of AR\$57.9bn more than doubled QoQ and came 5x higher when compared to 2Q22, and came 14% above our recently revised estimates. 2Q23 earnings beat was mainly explained by higher income from securities on higher rates, greater FX gains, and a sequentially lower loss in the net monetary position. Operating trends remain weak, reflecting a YoY contraction in loans, while weaker asset quality trends (NPL deterioration and big jump in provision charges). ROAE for the quarter increased to 25.3% from 9.7% in 1Q23 and from 5.0% in 2Q22.

Key operating highlights

Loan Growth (=): contracted 14% YoY (+2% QoQ), and came roughly in-line with our expectations, reflecting weaker lending dynamics in mortgages, pledge loans, personal loans, credit cards, and financing of exports. Meanwhile, loans to the private sector at bank level (76% of total loans) declined 13% YoY (relatively unchanged QoQ) impacted by the i) decrease in peso-denominated loans, lower foreign currency loans, other financing in foreign currency, and ii) a contraction in credit cards of 10% YoY.

Net interest income (+): more than doubled YoY (+42% QoQ), well above loan growth, and came modestly above our expectations. Stronger NII was explained by investment on securities (benefiting from higher rates) and loan re-pricing, which more than offset weak lending volumes.

Asset Quality (-): NPL ratio rose +20bp QoQ to 3.1%, due to asset quality deterioration of +40bp in credit cards (to 4.4%). Meanwhile, provision charges rose 18% QoQ, and came well above our expectations, reflecting a cost of risk of 4.3% of average gross loans (vs. 3.6% in 1Q23). With higher NPLs, the reserve coverage declined to 147% from 167% in 1Q23.

Fees (+): rose 16% QoQ and +31% YoY, and came above our estimates, reflecting greater deposit accounts and collections fees, as well as fees from bundles of products.

Opex (=): advanced 3% QoQ (relatively unchanged) YoY and came roughly in-line with our estimates, reflecting personnel and administrative expenses under control.

Tax rate (+): declined to 30% from 36% in 1Q23, on higher tax benefits.

Maintain Underperform rating

We continue to see challenges related to the Argentina's macro-outlook (high inflation and interest rates), which is translating into no real loan growth. We believe 2Q23 results should be taken with a grain of salt, as results are unlikely to repeat next year under a lower interest rate environment. Underperform.

22 August 2023

Equity

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Stock Data

Price (Common / ADR)	1,130.15 ARS / 15.54 USD
Price Objective	183.00 ARS / 5.01 USD
Date Established	3-Aug-2023 / 3-Aug-2023
Investment Opinion	C-3-7 / C-3-7
52-Week Range	225.00 ARS - 1,147.00 ARS
Market Value (mn)	1,469,494 ARS
Average Daily Value	6.37 ARS
Shares Outstanding (mn)	1,300.3 / 119.3
BofA Ticker / Exchange	GGABF / BUE
BofA Ticker / Exchange	GGAL / NAS
Bloomberg / Reuters	GGAL AR / GGAL.BA
ROE (2023E)	14.9%

FX: Foreign Exchange

CoR: Cost of risk

NPL: Non-performing loan ratio

NII: Net Interest Income

NI: Net Income

ROAE: Average Return on Equity

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Exhibit 2: Galicia – 2Q23 results

2Q23 earnings beat explained stronger fx gains and a lower loss in the net monetary position

ArP\$ mn	2Q/22	1Q/23	2Q/23E	2Q/23EA	YoY	QoQ	vs. BofAe
Net interest income	88,038	140,580	193,389	198,940	126%	42%	3%
Fee income	41,786	47,021	48,431	54,779	31%	16%	13%
Income from securities	83,055	68,471	68,471	32,741	-61%	-52%	-52%
Fx gains	3,877	15,094	15,094	34,278	784%	nm	127%
Insurance	4,440	4,982	4,883	4,816	8%	-3%	-1%
Non-interest expense	80,596	79,555	81,146	81,716	1%	3%	1%
Provision for loan losses	21,842	18,645	14,911	21,919	0%	18%	47%
Results from net monetary position	-95,709	-131,085	-143,456	-124,598	30%	-5%	-13%
Other income (other expenses)	-8,465	-11,446	-11,446	-14,093	66%	23%	23%
Net income - reported	11,037	22,437	50,733	57,972	425%	158%	14%
EPS - reported	9.25	18.80	42.51	48.57	425%	158%	14%
Gross loans	2,236,840	1,885,000	1,909,426	1,922,383	-14%	2%	1%
Total assets	4,783,854	4,703,308	4,784,183	4,858,914	2%	3%	2%
Deposits	3,006,264	2,292,087	2,315,008	2,998,796	0%	31%	30%
Equity	864,546	940,642	956,376	893,616	3%	-5%	-7%
ROAE - reported	5.0%	9.7%	21.4%	25.3%	2028 bps	1563 bps	389 bps
NIM	19.8%	24.3%	25.0%	29.1%	929 bps	476 bps	409 bps
Efficiency ratio	36%	29%	25%	25%	-1134 bps	-371 bps	53 bps
Effective tax rate	23%	36%	36%	30%	687 bps	-579 bps	-579 bps
Cost of Risk	3.8%	3.6%	3.7%	4.3%	50 bps	69 bps	65 bps
NPLs/ Gross loans	2.6%	2.9%	2.7%	3.1%	45 bps	21 bps	40 bps
LLR/ NPLs	188%	167%	179%	147%	-4105 bps	-2017 bps	-3188 bps

Source: Company data and BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Grupo Financiero Galicia (GGABF)

Our price objective of ArPs183/share (US\$5.01/ADS converted at 365 FX rate) is derived from the Gordon Growth Model, assuming a COE of 22.7% (reflecting a US risk-free rate of 3.5%, Argentina country risk of 900bp (vs. EMBI at 2,302bps), inflation differential of 450bp and beta of 1.0x), 4% growth in perpetuity, and a sustainable ROE of 8%.

Downside risks are: high inflation and gradual economic recovery reduces earnings visibility and could lead to asset quality deterioration, especially due to the bank's outsized exposure in credit cards. Upside risks: stronger lending dynamics, better asset quality, and lower inflation levels

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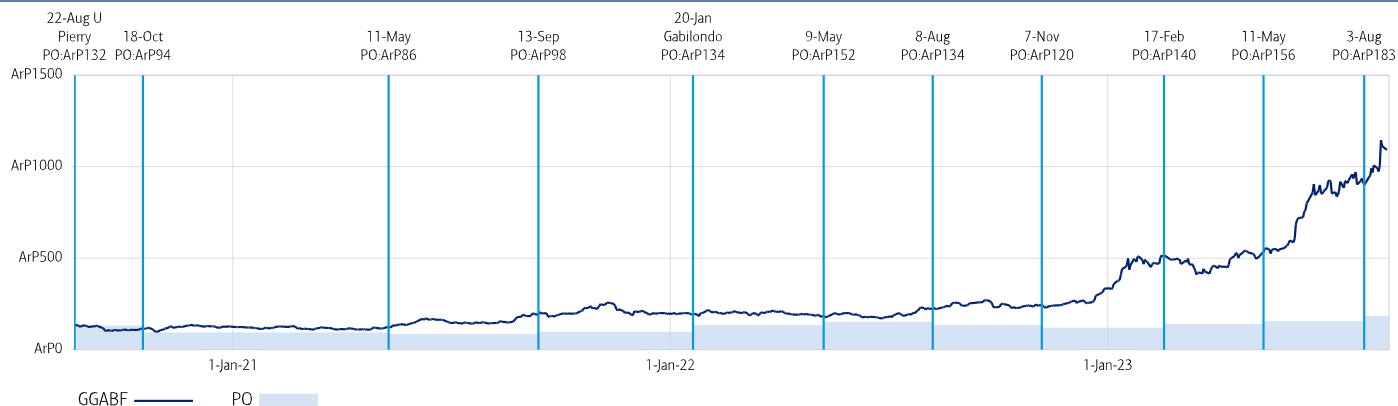
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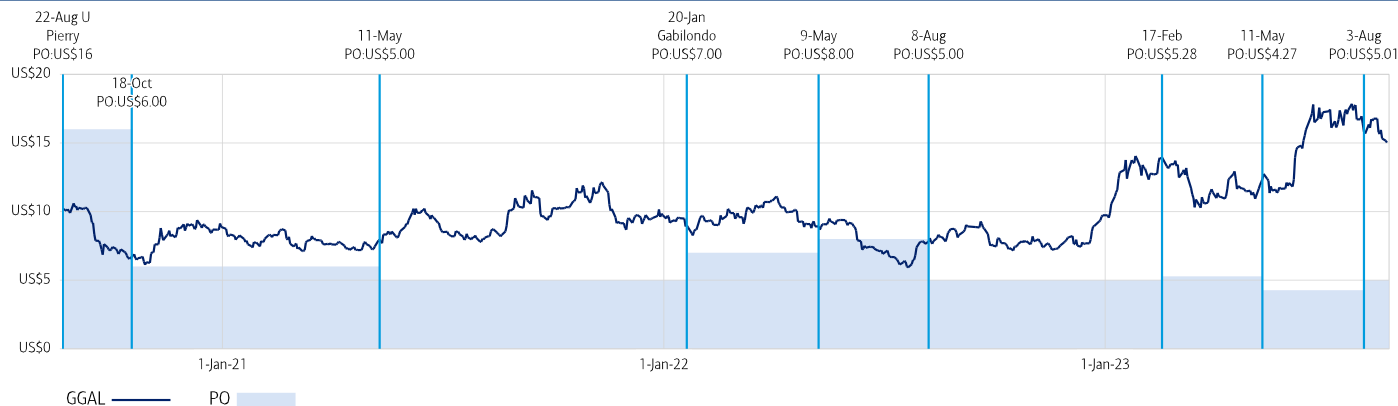
Grupo Galicia (GGABF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	98	50.52%	Buy	81	82.65%
Hold	45	23.20%	Hold	33	73.33%
Sell	51	26.29%	Sell	37	72.55%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

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Sell	831	23.59%	Sell	385	46.33%

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