

## Credicorp Ltd

## 4Q23 earnings impacted by El Niño; '24 outlook looks more promising

Maintain Rating: BUY | PO: 179.00 USD | Price: 152.10 USD

## NI limited by softer revenue and provision charges

NI of S\$842mn declined 20% YoY (10.6% ROAE), and came in 7% above BofAe / 3% below market consensus. 4Q earnings showed softer core revenues (NII + fees) and a goodwill impairment of S\$72mn in Mibanco Colombia, although lower-than-expected provision charges related to El Niño. 2023 net income grew 4% YoY for an ROAE of 15.8%, declining from 16.9% in 2022.

## 2024 guidance implies earnings growth of 20%

Management anticipated an ROAE of ~17% in 2024, which implies earnings of S\$5.8bn and growth of 20%, which is 7% above our estimate of S\$5.4bn and 13% above consensus estimate of S\$5.2bn. Guidance implies: i) resilient NIM (vs. -20bp of BofAe), ii) a reduction in the cost of risk (although waiting for details in tomorrow's call), and iii) higher loans and fees growth as the economy reactivates.

## Key operating highlights

**Loan Growth (-):** -2% YoY, came in 2% below BofAe, modestly improving from -4% in 3Q23. If excluding the impact of government programs (Reactiva loans of S\$4.2bn) and FX, structural loans grew 1% YoY, at the low end of the guidance range of 1.0-4.0%, limited by weak demand for long-term financing and stricter lending at Mibanco.

**NII (-):** +3% QoQ and 7% YoY, and 2% below BofAe, and above structural loan growth, supported by retail loans and investments in sovereign bonds benefiting from higher rates. As such, NIM expanded +10bp QoQ and 40bp YoY (to 6.0%).

**Insurance (+):** 36% YoY growth was mainly driven by the Life business.

**Asset Quality (+):** Loan delinquency ratio improved -20pb QoQ to 4.2. Nonetheless, provision charges, advanced 28% QoQ and +61 YoY (27% below BofAe), anticipating expected losses related to El Niño. Cost of risk stood at 3.2% of average gross loans (vs. 2.5% in 3Q23 and 4.3% expected). 2024 CoR stood at 2.5% below the guidance range of 2.6-2.9%. Furthermore, the reserve coverage increased to 135% from 126% in 3Q23.

**Fees (-):** grew 10% YoY (relatively unchanged YoY), and was 3% below BofAe, limited by lower fees from Mibanco, wealth management and corporate finance, and Atlantic Security Bank.

**Opex (-):** grew 9% QoQ and 10% YoY, and came in 3% above our expectations, affected by a goodwill impairment of S\$72mn in Mibanco Colombia.

**Tax rate (-):** 34% (vs. 27% expected), affected by higher taxes at Grupo Pacifico and at the investment and advisory unit.

## Maintain our Buy rating

2024 net income guidance is above our estimates and consensus, although we expect more details on cost of risk in tomorrow's conference call. Maintain Buy.

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**Refer to important disclosures on page 4 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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## Stock Data

Price	152.10 USD
Price Objective	179.00 USD
Date Established	25-Jan-2024
Investment Opinion	B-1-7
52-Week Range	116.42 USD -160.15 USD
Mkt Val / Shares Out (mn)	12,138 USD / 79.8
Free Float	52.0%
Average Daily Value	27.41 USD
BofA Ticker / Exchange	BAP / NYS
Bloomberg / Reuters	BAP US / BAP.N
ROE (2023E)	15.8%
ESGMeter™	Medium

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NIM: Net Interest Margin

NII: Net Interest Income

CoR: Cost of Risk

NII: Net Interest Income

NI: Net Income

SME: Small and Medium Enterprise

AUM: Assets Under Management

**Exhibit 1: Credicorp – 4Q23 results**

4Q23 above BofAe, but modestly below consensus, reflecting softer-than-expected core revenues and a goodwill impact

<b>S\$ mn</b>	<b>4Q/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	3,135	3,254	3,427	3,348	7%	3%	-2%
Fee income	895	976	1,015	986	10%	1%	-3%
Other non-interest income	520	651	667	594	14%	-9%	-11%
Non-interest expense	2,261	2,244	2,401	2,468	9%	10%	3%
Provision for loan losses	731	918	1,605	1,173	61%	28%	-27%
<b>Net income - reported</b>	<b>1,057</b>	<b>1,238</b>	<b>785</b>	<b>842</b>	<b>-20%</b>	<b>-32%</b>	<b>7%</b>
<b>EPS - reported</b>	<b>13.26</b>	<b>15.52</b>	<b>9.85</b>	<b>10.55</b>	<b>-20%</b>	<b>-32%</b>	<b>7%</b>
<b>EPADR (US\$) - reported</b>	<b>3.65</b>	<b>3.83</b>	<b>4.31</b>	<b>4.31</b>	<b>18%</b>	<b>13%</b>	<b>0%</b>
Gross loans	148,626	145,129	150,113	144,976	-2%	0%	-3%
Total assets	236,750	238,459	239,315	238,840	1%	0%	0%
Deposits	147,021	148,472	149,166	147,705	0%	-1%	-1%
Equity	28,998	31,268	32,053	32,460	12%	4%	1%
<b>ROAE - reported</b>	<b>15.1%</b>	<b>16.2%</b>	<b>9.9%</b>	<b>10.6%</b>	<b>-450 bps</b>	<b>-560 bps</b>	<b>65 bps</b>
NIM	5.6%	5.9%	6.0%	6.0%	40 bps	10 bps	-6 bps
Efficiency ratio	49.7%	46.0%	47.0%	50.1%	40 bps	410 bps	308 bps
Effective tax rate	31%	27%	27%	34%	320 bps	730 bps	726 bps
Provisions/ Avg gross loans	1.9%	2.5%	4.3%	3.2%	130 bps	70 bps	-111 bps
NPLs/ Gross loans	4.0%	4.4%	4.6%	4.2%	20 bps	-20 bps	-40 bps
LLR/ NPLs	133%	126%	165%	129%	-330 bps	350 bps	-3579 bps

**Source:** Company data and BofA Global Research estimates

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## Price objective basis & risk

### Credicorp Ltd (BAP)

Our price objective for Credicorp of US\$179 ADR is based on a Gordon Growth valuation model. The main inputs are sustainable ROE of 18%, cost of equity of 13.4% and growth of 4%. Our PO implies a target P/BV of 1.5x

Downside risks to our PO are (1) unfriendly economic policies, and (2) higher deterioration in the bank's retail, SME and microfinance portfolio. Meanwhile, upside risk imply (1) a faster economic growth supported by metals and domestic economy, (2) lower asset quality deterioration, and (3) and pro-market economic policies announced by the new administration.

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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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Underperform	N/A	≥ 20%

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