

Brazilian Financial Institutions

What are Brazilian investors thinking? Feedback from recent meetings

Industry Overview

Investors positioned for a lower rate environment

We met with 30 investment funds in Rio and São Paulo last week. The mood was upbeat, especially following the Ibovespa's 18% rally (in USD) since late October. Investors are positioned for a declining rate environment and thus preferred higher beta names. While they liked the top down set up for the banks, they were selective on the sector. Surprisingly, potential regulatory headwinds, such as the removal of IOC tax benefit and interest rate cap on credit cards, were not a source of concern. Itau and BTG were consensus longs on solid earnings momentum and visibility, despite their relative premium valuations. XP appeared preferred over B3. Positioning in payment stocks was light and conviction was low, despite recent rally. Nubank continues to be heavily debated, with a positive bias. Insurance stocks were mainly viewed as a funding source.

Banks – Bradesco skepticism at all-time highs

Skepticism on Bradesco was at all-time highs among investors we met. Investors were questioning how much of the bank's recent problems are structural rather than cyclical and are anxiously waiting for the new CEO's strategic vision. Views on Banco do Brasil were mixed. While some investors were concerned about an expected earnings slowdown in '24, others were still attracted by the high dividend yield (c.10%) and discounted valuation (c.4x P/E).

Payments – low conviction despite recent rally

Positioning in payment companies remain light given the sector's structural issues. However, the recent sector rally (+57% in USD in past 7 weeks) is "forcing" investors to revisit the cases. There was low conviction on Stone's ability to meet '27 guidance, but the delivery of '24 guidance could increase management's credibility. Cielo's valuation is appealing, although the stock needs a corporate event to unlock value. PagSeguro appears "stuck in the middle," not the cheapest but also not the fastest earnings growth.

Capital markets – XP preferred over B3

XP remains preferred over B3 by investors. While earnings momentum should improve for both names in a lower rate environment and both names have the potential for re-rating, investors see more operating leverage in XP's business model.

Nubank – momentum trumps valuation

Nubank's business model is well liked, although there still is strong debate on fundamental valuation. However, most investors we met think that short-term earnings momentum is likely to remain strong, supporting stock price performance.

Insurance – funding source

Positioning in the insurance sector is light, as the sector is viewed as defensive. A few investors were attracted by BBSeguridade's valuation and dividend yield, while concerns on Porto Seguro are rising, given an expected peak in the auto cycle.

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