

Bradesco

R\$7bn IOC Declaration - Anticipated and Not Material

Bradesco just declared R\$7bn gross interest on capital (R\$0.66 DPS) or 4% dividend yield, totalling R\$11.3bn year-to-date proceeds ([link](#)), or 62% payout assuming our R\$18.3bn estimates. Though the headline may call some investors attention, we recall Bradesco had already paid and provisioned for R\$8.6bn in 9M23. This mean the incremental quarterly IOC for income tax tailwind, or capital headwind is around ~R\$2.7bn, in line to past quarters R\$2.8-2.9bn range. In summary, we believe this should not be material for capital or 4Q23 tax rate. On potential near-term NII headwind, most cash disbursement (R\$5bn) will take place in June 28th (last year the supplementary portion was paid in March), with only R\$2bn being paid January 2nd, despite shares trading ex-dividend now (December 22nd). This six month cash retention at 11% avg. rates imply ~R\$300mn NII or ~0.4% of total for 2024, small but any benefit matters. For tax rate, we believe IOC benefit will only reflect the incremental R\$2.7bn amount, thus similar to past quarters. For capital this should not be relevant neither, in our view. Assuming no capital generation in 4Q23, we estimate 20bps CET1 ratio headwind from the R\$2.7bn incremental IOC. However, considering Bradesco generates R\$4.8bn (JPM) and considering RWA growth should be timid (due to lackluster loan growth) we expect CET1 ratio to move up in 4Q23. Regarding dividends, we believe market focus is on Banco do Brasil and Itau Unibanco potential payout increases. Bradesco YTD dividend yield is 6.5% and the company is trading at 1.1x 23E P/BV.

Latin American Financials

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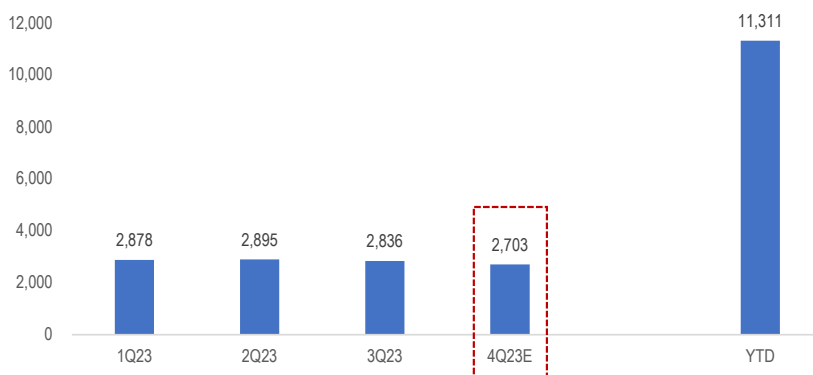
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Figure 1: Bradesco had already partially provisioned for this IOC payment in 9M23

R\$ mn



Source: Company reports and J.P. Morgan Estimates

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap (\$ mn)	Price CCY	Price	Rating		Price Target			
					Cur	Prev	Cur	End Date	Prev	End Date
Banco Bradesco	BBDC4 BZ	35,199.81	BRL	16.31	OW	n/c	19.00	Dec-24	n/c	n/c
Banco Bradesco ADR	BBD US	35,332.01	USD	3.32	OW	n/c	—	—	n/c	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 11 Dec 23.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: IOC paid this quarter should not be material for capital - CET1 ratio should move up with earnings retention

R\$ mn

	3Q23	(-) IOC accumulated (Dec 11th)	(+) IOC booked in 9M23	(+) Est. Earnings 4Q23	4Q23E
CET1	111,642	(11,311)	8,608	4,895	113,835
RwA	942,435				942,435
CET1 ratio	11.8%				12.1%

Source: Company reports and J.P. Morgan Estimates

Adj. EPS Estimate Changes

			FY23E			FY24E		
Company	BBG Ticker	CCY	Prev	Cur	Δ	Prev	Cur	Δ
Banco Bradesco	BBDC4 BZ	BRL	1.72	1.72	-	2.24	2.24	-
Banco Bradesco ADR	BBD US	USD	0.36	0.36	-	0.46	0.46	-

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Banco Bradesco (*Overweight; Price Target: R\$19.00*)

Investment Thesis

We like Bradesco's leading banking franchise as well as its product and distribution diversity. Bradesco operates Brazil's largest insurance business. Bradesco also jointly controls Cielo through an agreement with Banco do Brasil. Bradesco has been recently investing in digital channels such as Next, Digio, improving its retail broker, among others. Top line and asset quality have been challenging lately, but we believe current valuation multiples reflect those issues, thus we maintain our Overweight rating.

Valuation

Our Dec 2024 price target of R\$19 per share represents 1.2x 2023E BV and 8.5x 2024E P/E.

As with most banks under our coverage, our price target is based on two equally weighted methodologies. First, we use a two-stage residual income model, which values a company's excess returns (expected ROE minus cost of equity multiplied by average shareholders' equity) over a 10-year period (2024-33) and a terminal period (beyond 2033). These excess results are discounted back to year-end 2023 at the company's estimated cost of equity in order to determine the 2023 year-end fair value.

Second, since a positive correlation exists between expected returns on equity and price-to-book value multiples, we also use a regression of risk-adjusted ROEs to price-to-book value multiples for a cross-section of Latin American banks as an additional valuation methodology. In particular, we regress forecast 2024 and 2025 risk-adjusted ROE against price-to-book value multiples. We then apply this multiple to forecast 2023 book value to derive a year-end 2024 fair value estimate.

For Bradesco, key assumptions used in our residual income model include a long-term ROE of 16.5%, a cost of equity of 14.0%, and a perpetual growth rate of 6.0%.

Risks to Rating and Price Target

For Bradesco, as an Overweight-rated stock, risks are to the downside.

Downside risks include (i) more challenging than expected asset quality, never returning to past historical levels; (ii) policy moves that adversely impact growth or profitability; (iii) tougher competition from neobanks or public banks; (iv) worse-than-expected expense performance, among others.

Banco Bradesco: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E	Income Statement - Quarterly	1Q23A	2Q23A	3Q23A	4Q23E	
Net interest income	63,980	66,383	65,634	72,314	78,881	Net interest income	16,653A	16,556A	15,859A	16,566	
Non interest income	40,870	47,008	48,593	49,035	51,522	Non interest income	11,112A	12,466A	12,334A	12,681	
Net revenues	104,850	113,391	114,227	121,349	130,403	Net revenues	27,765A	29,022A	28,193A	29,247	
Provisions	(15,035)	(32,297)	(38,184)	(32,666)	(32,119)	Provisions	(9,517)A	(10,316)A	(9,188)A	(9,163)	
Non interest expense	(49,654)	(53,453)	(55,046)	(57,261)	(59,721)	Non interest expense	(13,404)A	(13,716)A	(13,765)A	(14,161)	
Employee costs	(21,397)	(23,405)	(24,598)	(25,458)	(26,476)	Employee costs	(6,031)A	(6,155)A	(6,206)A	(6,206)	
Adj. PBT	39,957	27,772	21,069	31,423	38,562	Adj. PBT	4,883A	5,007A	5,256A	5,923	
Income taxes	(13,478)	(6,758)	(2,374)	(7,249)	(10,026)	Income taxes	(499)A	(393)A	(534)A	(948)	
Minority interest	(265)	(333)	(381)	(360)	(350)	Minority interest	(104)A	(96)A	(101)A	(80)	
Adj. Net profit	25,843	20,633	18,314	23,814	28,186	Adj. Net profit	4,280A	4,518A	4,621A	4,895	
Reported EPS	2.79	2.03	1.72	2.24	2.65	Reported EPS	0.40A	0.42A	0.43A	0.46	
Adj. EPS	2.79	2.03	1.72	2.24	2.65	Adj. EPS	0.40A	0.42A	0.43A	0.46	
DPS	1.00	1.00	1.04	1.12	1.12	DPS	0.27A	0.27A	0.27A	0.23	
Diluted shares outstanding	9,263	10,166	10,642	10,642	10,642	Diluted shares outstanding	10,642A	10,642A	10,642A	10,642	
Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E	Balance Sheet	1Q23A	2Q23A	3Q23A	4Q23E	
Cash and cash equivalents	20,704	19,847	18,142	19,637	21,208	Cash and cash equivalents	19,885A	19,414A	17,786A	18,142	
Net loans	467,989	488,591	477,558	521,563	563,811	Net loans	479,878A	462,930A	470,273A	477,558	
PP&E	11,759	11,753	12,224	14,893	15,944	PP&E	12,119A	11,884A	11,589A	12,224	
LT investments	749,981	779,883	796,598	879,295	949,639	LT investments	758,732A	792,197A	777,169A	796,598	
Other assets	444,784	530,173	667,166	720,500	776,528	Other assets	593,412A	597,595A	654,479A	667,166	
Total assets	1,695,217A	1,830,247A	1,971,687A	1,55,889A	1,327,131	Total assets	1,864,026A	1,884,020A	1,931,296A	1,971,687	
Total deposits	572,790	593,186	629,572	700,986	757,065	Total deposits	589,001A	591,747A	612,915A	629,572	
Borrowings	113,524	119,119	115,472	124,991	134,990	Borrowings	113,844A	119,407A	113,208A	115,472	
Total liabilities	1,546,452A	1,674,236A	1,806,526A	1,978,821A	2,133,631	Total liabilities	1,706,871A	1,722,842A	1,768,583A	1,806,526	
Shareholder equity	147,121	154,263	163,249	175,155	191,435	Shareholder equity	155,321A	159,317A	160,801A	163,249	
Total Liabilities and Shareholder Equity	1,695,217A	1,830,247A	1,971,687A	1,55,889A	1,327,131	Total Liabilities and Shareholder Equity	1,864,026A	1,884,020A	1,931,296A	1,971,687	
Book Value Per Share	15.18	14.50	15.34	16.46	17.99	Book Value Per Share	14.59A	14.97A	15.11A	15.34	
Tangible Book Value Per Share	14.19	13.23	13.45	14.56	16.09	Tangible Book Value Per Share	12.67A	13.07A	13.22A	13.45	
Balance Sheet Gearing	FY21A	FY22A	FY23E	FY24E	FY25E	Asset Quality/Capital	FY21A	FY22A	FY23E	FY24E	FY25E
Loans/Deposits	81.7%	82.4%	75.9%	74.4%	74.5%	Loan loss reserves/Loans	(8.8%)	(10.6%)	(11.0%)	(9.4%)	(9.3%)
Investment/Assets	43.2%	43.4%	41.5%	40.6%	40.8%	NPLs/Loans	3.4%	5.2%	7.5%	5.9%	5.0%
Loan/Assets	32.4%	35.9%	34.2%	32.4%	32.1%	Loan loss reserves/NPLs	316.8%	225.7%	170.0%	152.4%	172.0%
Customer deposits/Liabilities	37.0%	35.4%	34.8%	35.4%	35.5%	NPL y/y growth	54.1%	63.1%	42.4%	(15.8%)	(7.4%)
LT debt/Liabilities	3.5%	3.3%	3.0%	2.8%	2.8%	Tier 1 ratio	13.7%	12.4%	13.1%	13.1%	12.5%
Ratio Analysis (%)	FY21A	FY22A	FY23E	FY24E	FY25E	Ratio Analysis (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest margin	8.7%	9.6%	9.2%	9.2%	9.3%	Return on equity (ROE)	17.8%	13.7%	11.5%	14.1%	15.4%
Non interest income/Net revenue	39.0%	41.5%	42.5%	40.4%	39.5%	Return on assets (ROA)	1.5%	1.2%	1.0%	1.2%	1.3%
Non interest income/Avg. Assets	2.4%	2.7%	2.6%	2.4%	2.3%	Return on tangible equity (ROTE)	20.0%	15.5%	13.2%	16.0%	17.3%
Efficiency ratio	47.4%	47.1%	48.2%	47.2%	45.8%	Tax rate	33.7%	24.3%	11.3%	23.1%	26.0%
Leverage ratio	7.8%	6.8%	6.8%	6.8%	7.0%	Net loans y/y growth	16.0%	4.4%	(2.3%)	9.2%	8.1%
Revenue/Assets	6.3%	6.4%	6.0%	5.9%	5.8%	Assets y/y growth	3.1%	8.0%	7.7%	9.3%	7.9%
RORWA	2.9%	2.1%	1.9%	2.3%	2.4%	RWA y/y growth	11.0%	1.9%	1.5%	9.3%	16.6%
Avg. RWA	906,009	962,469	978,727A	1,031,894A	1,167,297	Deposits y/y growth	4.3%	3.6%	6.1%	11.3%	8.0%
Avg. IEA	636,388	708,145	716,003	744,065	791,467	Net interest income y/y growth	1.3%	3.8%	(1.1%)	10.2%	9.1%
Gross Loans	513,225	546,332	536,364	575,804	621,868	IE assets/Assets	38.0%	40.2%	37.7%	36.1%	35.3%
P/BV (x)	1.1	1.1	1.1	1.0	0.9	LLP/Loans	(2.8%)	(5.1%)	(5.9%)	(4.9%)	(4.5%)
Adj. P/E (x)	5.8	8.0	9.5	7.3	6.2	Equity/Assets	8.6%	8.5%	8.4%	8.2%	8.2%
Dividend yield	6.1%	6.1%	6.4%	6.9%	6.9%	Cost/Assets	3.0%	3.0%	2.9%	2.8%	2.7%
Dividend payout	35.8%	49.3%	60.6%	50.0%	42.2%	Assets/Equity	11.5	11.7	12.0	12.2	12.2

Source: Company reports and J.P. Morgan estimates.
Note: R\$ in millions (except per-share data). Fiscal year ends Dec

Banco Bradesco ADR: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly					
	FY21A	FY22A	FY23E	FY24E	FY25E		1Q23A	2Q23A	3Q23E	4Q23E	
Net interest income	11,834	12,923	13,795	14,547	15,016	Net interest income	3,247A	3,331A	3,553	3,664	
Non interest income	7,557	9,152	9,974	9,543	9,489	Non interest income	2,167A	2,508A	2,604	2,695	
Net revenues	19,392	22,075	23,768	24,090	24,505	Net revenues	5,414A	5,839A	6,157	6,359	
Provisions	(2,774)	(6,223)	(7,935)	(6,110)	(5,639)	Provisions	(1,856)A	(2,075)A	(2,052)	(1,952)	
Non interest expense	(9,185)	(10,397)	(11,417)	(11,597)	(11,629)	Non interest expense	(2,614)A	(2,759)A	(2,993)	(3,050)	
Employee costs	(3,958)	(4,553)	(5,046)	(5,106)	(5,105)	Employee costs	(1,176)A	(1,238)A	(1,323)	(1,309)	
Adj. PBT	7,395	5,481	4,428	6,382	7,237	Adj. PBT	952A	1,007A	1,112	1,356	
Income taxes	(2,495)	(1,351)	(480)	(1,401)	(1,954)	Income taxes	(97)A	(79)A	(100)	(203)	
Minority interest	(49)	(65)	(73)	(70)	(65)	Minority interest	(20)A	(19)A	(17)	(17)	
Adj. Net profit	4,782	4,056	3,875	4,911	5,218	Adj. Net profit	835A	909A	995	1,136	
Reported EPS	0.49	0.40	0.36	0.46	0.49	Reported EPS	0.08A	0.09A	0.09	0.11	
Adj. EPS	0.49	0.40	0.36	0.46	0.49	Adj. EPS	0.08A	0.09A	0.09	0.11	
DPS	0.18	0.19	0.21	0.23	0.22	DPS	0.05A	0.05A	0.05	0.05	
Diluted shares outstanding	9,690	10,166	10,642	10,642	10,642	Diluted shares outstanding	10,642A	10,642A	10,642	10,642	
Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E	Balance Sheet	1Q23A	2Q23A	3Q23E	4Q23E	
Cash and cash equivalents	3,716	3,754	4,122	4,125	4,325	Cash and cash equivalents	3,900A	4,007A	4,213	4,122	
Net loans	83,999	92,422	101,661	101,562	107,509	Net loans	94,108A	95,555A	101,745	101,661	
PP&E	2,111	2,223	2,690	3,006	3,117	PP&E	2,377A	2,453A	2,665	2,690	
LT investments	134,614	147,524	169,858	173,341	181,755	LT investments	148,793A	163,520A	172,766	169,858	
Other assets	117,377	138,525	168,343	167,979	176,854	Other assets	155,385A	160,542A	169,986	168,343	
Total assets	304,274	346,211	405,050	408,532	429,049	Total assets	365,549A	388,887A	410,995	405,050	
Total deposits	102,810	112,208	127,384	131,065	137,427	Total deposits	115,507A	122,144A	129,307	127,384	
Borrowings	20,376	22,533	25,353	25,372	26,604	Borrowings	22,326A	24,647A	25,914	25,353	
Total liabilities	277,572	316,700	371,114	374,783	393,419	Total liabilities	334,730A	355,617A	376,199	371,114	
Shareholder equity	26,407	29,181	33,556	33,398	35,262	Shareholder equity	30,460A	32,885A	34,400	33,556	
Total Liabilities and Shareholder Equity	304,274	346,211	405,050	408,532	429,049	Total Liabilities and Shareholder Equity	365,549A	388,887A	410,995	405,050	
Book Value Per Share	2.73	2.74	3.15	3.14	3.31	Book Value Per Share	2.86A	3.09A	3.23	3.15	
Tangible Book Value Per Share	-	-	-	-	-	Tangible Book Value Per Share	-	-	-	-	
Balance Sheet Gearing	FY21A	FY22A	FY23E	FY24E	FY25E	Asset Quality/Capital	FY21A	FY22A	FY23E	FY24E	FY25E
Loans/Deposits	81.7%	82.4%	79.8%	77.5%	78.2%	Loan loss reserves/Loans	(8.8%)	(10.6%)	(11.1%)	(10.3%)	(9.4%)
Investment/Assets	43.2%	43.4%	42.2%	42.2%	42.4%	NPLs/Loans	3.4%	5.2%	6.4%	5.9%	5.1%
Loan/Assets	28.7%	30.0%	29.0%	28.0%	27.7%	Loan loss reserves/NPLs	319.2%	225.1%	186.8%	174.5%	179.8%
Customer deposits/Liabilities	37.0%	35.4%	34.3%	35.0%	34.9%	NPL y/y growth	43.5%	71.9%	36.1%	(8.4%)	(9.1%)
LT debt/Liabilities	3.5%	3.3%	3.0%	2.8%	2.8%	Tier 1 ratio	13.7%	12.4%	12.9%	13.0%	12.4%
Ratio Analysis (%)	FY21A	FY22A	FY23E	FY24E	FY25E	Ratio Analysis (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest margin	9.0%	9.9%	9.5%	9.5%	9.3%	Return on equity (ROE)	17.7%	14.6%	12.4%	14.7%	15.2%
Non interest income/Net revenue	39.0%	41.5%	42.0%	39.6%	38.7%	Return on assets (ROA)	1.5%	1.2%	1.0%	1.2%	1.2%
Non interest income/Avg. Assets	2.4%	2.8%	2.7%	2.3%	2.3%	Return on tangible equity (ROTE)	20.0%	15.5%	13.6%	16.7%	17.1%
Efficiency ratio	47.4%	47.1%	48.0%	48.1%	47.5%	Tax rate	33.7%	24.6%	10.8%	21.9%	27.0%
Leverage ratio	7.5%	7.0%	7.0%	6.5%	6.8%	Net loans y/y growth	8.1%	10.0%	10.0%	(0.1%)	5.9%
Revenue/Assets	6.2%	6.8%	6.3%	5.9%	5.9%	Assets y/y growth	(4.0%)	13.8%	17.0%	0.9%	5.0%
RORWA	2.8%	2.3%	2.0%	2.4%	2.4%	RWA y/y growth	3.4%	7.4%	10.2%	0.9%	13.4%
Avg. RWA	168,282	177,452	193,158	203,395	217,976	Deposits y/y growth	(2.8%)	9.1%	13.5%	2.9%	4.9%
Avg. IEA	108,293	119,951	137,063	142,628	144,191	Net interest income y/y growth	(1.9%)	9.2%	6.7%	5.5%	3.2%
Gross Loans	92,119	103,345	114,330	113,228	118,724	IE assets/Assets	34.9%	36.9%	36.5%	35.1%	34.4%
P/BV (x)	1.2	1.2	1.1	1.1	1.0	LLP/Loans	(3.1%)	(6.4%)	(7.3%)	(5.4%)	(4.9%)
Adj. P/E (x)	6.7	8.3	9.1	7.2	6.8	Equity/Assets	8.7%	8.5%	8.4%	8.2%	8.2%
Dividend yield	5.6%	5.9%	6.3%	6.9%	6.6%	Cost/Assets	3.0%	3.2%	3.0%	2.9%	2.8%
Dividend payout	37.4%	48.8%	57.1%	50.0%	44.8%	Assets/Equity	11.5	11.7	12.0	12.2	12.2

Source: Company reports and J.P. Morgan estimates.
Note: \$ in millions (except per-share data). Fiscal year ends Dec

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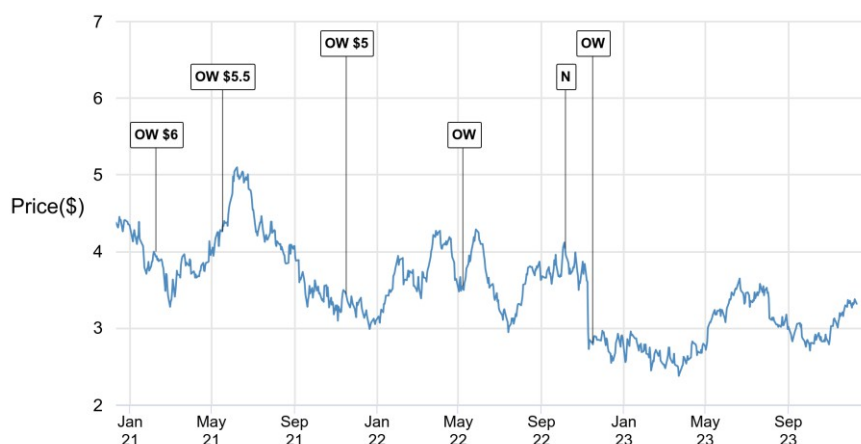
Banco Bradesco (BBDC4.SA, BBDC4 BZ) Price Chart



Date	Rating	Price (R\$)	Price Target (R\$)
14-Jan-21	OW	26.68	31
08-Feb-21	OW	25.87	34
18-May-21	OW	25.00	33
09-Aug-21	OW	23.71	32
17-Nov-21	OW	20.66	29
21-Feb-22	OW	21.31	27
09-May-22	OW	18.10	23
15-Aug-22	OW	19.53	22
07-Oct-22	N	20.97	22
16-Nov-22	OW	15.16	21
13-Feb-23	OW	12.67	19
05-Jul-23	OW	16.54	18
06-Aug-23	OW	15.45	20
17-Nov-23	OW	15.57	19

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 30, 2014. All share prices are as of market close on the previous business day.

Banco Bradesco ADR (BBD, BBD US) Price Chart



Date	Rating	Price (\$)	Price Target (\$)
08-Feb-21	OW	4.00	6
18-May-21	OW	4.26	5.5
17-Nov-21	OW	3.45	5
09-May-22	OW	3.55	--
07-Oct-22	N	4.04	--
16-Nov-22	OW	2.81	--

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 30, 2014. All share prices are as of market close on the previous business day.

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