

Capital Markets Argentina

Financial

Banco Macro 2Q19

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BMA 2Q19

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August 19

Date: 08/20/2019

ARS 178.80 / USD 32.32

Target Price: ARS 278.50

Rating

Market Performer

Price Range (ARS)

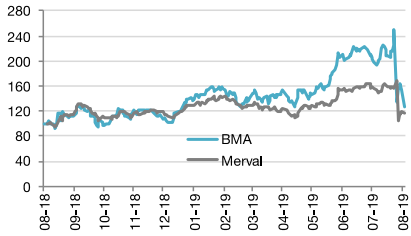
52 wk. Min.	52 wk. Max.
130.35	350.85

Variation %

Min.	Max.
37.2	-49.0

Price BMA vs. Merval

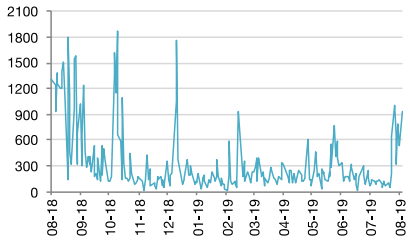
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS ($)	P/E (x)	P/BV (x)
2018	39,645	15,777	17.9	24.7	7.2	2.1
2019e	52,058	23,016	15.0	36.0	5.0	2.1
2020e	62,469	29,143	15.1	45.6	3.9	2.5

Share Outstanding (million)	639	52-week Return	27.6%
ADRs Outstanding (million)	64	EPS (TTM)	36.7
Market Cap. (million)	114,324	P/E (TTM)	4.9
Loans / Deposits (%)	63%	P/BV (MRQ)	1.8
Enterprise Value (million)	154,740	Dividend Yield	5.6%

Source: Company's financial statements; Bloomberg.

Mixed Results that Confirm Leliq-Dependence

Banco Macro (Buenos Aires/NYSE:BMA) posted mixed results in 2Q19.

Although earnings lie 124% on top of 2Q18 figures, they lie 4% below the previous quarter's profit, which included the effect of the Prisma transaction.

Excluding such one-off result, QoQ earnings growth stood at 37%.

As it has been the case in recent quarters, a relevant portion of 2Q18 profit stemmed from the interest obtained from Central Bank Leliqs, while the financial margin from the commercial banking side remains on a negative trend.

This way, securities income (+376% YoY; 57% QoQ) accounts today for 48% of the bank's financial income, while loan interest income (41% YoY; 2% QoQ) accounts for just 46%, with a growth pace well below inflation.

The above-mentioned performance reflects a credit market that remains stagnant.

While deposits rose 4% between quarters, private-sector credit showed no growth.

In terms of asset quality, the ratio of non-performing loans to total credit stood at 2.1% as of June 2019 (1.4% in 2Q18; 2% in 1Q19), with loan-loss coverage of 116%.

Outlook

The Good: Long-Term Prospects

As discussed in previous reports, the Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential remains intact.

Moreover, in the case of Banco Macro, its wide branch network throughout the whole country, and the fact that the bank is the financial agent of some provincial governments, provides a double exposure to regional economies, something positive in periods of a strong agro sector.

The Bad: Dependent on High-Yield Central Bank Leliqs

However, this does not escape the fact that the current political and economic uncertainty in Argentina has translated into a lower intrinsic valuation of Banco Macro's share price. Recent events have triggered an unprecedented escalation in discount rates applied on local assets, especially in the case of bank shares.

As mentioned, a great share of 2018 and 2019 profit does not stem from the traditional commercial banking activity, but from holdings of Central Bank Leliqs with unusually high yields. Any government decision that could change the current scheme would have a strong impact on results.

Opinion: High-Risk Scenario Means Lower Valuation and Increased Volatility

Economic stagnation, on the one hand, and extraordinarily high yields on Central Bank Leliqs, on the other, have created a dependency of the Argentine banking industry on this type of securities in terms of profitability.

In addition, current political and economic uncertainty reflects on a lower intrinsic valuation and increased volatility of the share price.

APPENDIX

DCF Valuation

(ARS M)	2018	2019e	2020e	2021e
Net Income	15,777	23,016	29,143	34,827
Loan Loss Provision	1,112	1,624	1,299	1,126
Result from Securities Valuation	473	1,599	480	566
Depreciation and Amortization	150	37	39	41
Operating Cash Flow	**16,566**	**23,079**	**30,002**	**35,428**
Sources of Funds	**109,794**	**67,150**	**76,748**	**84,367**
Deposits	93,825	59,489	68,412	73,171
Financial Liabilities	15,969	7,662	8,336	11,196
Uses of Funds	**78,456**	**75,953**	**86,286**	**82,378**
Loans	46,216	35,775	53,662	53,662
Securities	31,430	39,278	31,633	27,626
CapEx	809	900	990	1,089
Free Cash Flow (FCF)	**47,904**	**14,276**	**20,464**	**37,417**
Terminal Value (USD)				3.0%
Cost of Equity (USD)	26.60%	16.60%	16.40%	15.40%
Discounted FCF	**47,904**	**13,196**	**16,223**	**25,484**
Present Value of FCF	59,318			
Present Value of Terminal Value	62,724			
Cash	96,427			
Firm Value	**218,469**			
Financial Liabilities	40,416			
Equit Value	**178,053**			
Shares Outstanding (M)	639			
Target Price	**278.50**			

Source: Own elaboration based on market data and information provided by the company.

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Relative Valuation

(ARS)	GGAL	BMA	BBAR	BHIP	SUPV
Market					
Price Local Share	84.35	178.80	95.05	14.55	37.75
Shares Outstanding (M)	1,427	639	612.66	1,500	457
Market Cap (M)	120,348	114,324	58,233	21,825	17,241
52w Average Daily Volume (M)	1.6	0.3	0.1	0.2	1.0
52w Return (%)	-3.8	27.6	-4.5	15.9	-33.2
YTD Return (%)	-18.3	9.1	-30.3	23.8	-40.4
52w High	174.55	350.85	183.45	19.00	84.60
52w Low	74.45	130.35	89.00	8.85	36.30
Valuation Ratios					
P/E (ttm)	4.1	4.9	3.1	12.8	4.0
P/BV (mrq)	1.6	1.8	1.2	2.1	0.9
Dividend Yield (%)	1.7	5.6	1.7	1.1	1.8
Balance Sheet (mrq)					
Total Assets (M)	586,567	401,032	392,892	83,822	166,145
Total Loans (M)	262,174	178,851	186,616	39,414	74,082
Total Liabilities (M)	526,323	338,296	344,082	73,328	146,750
Total Deposits (M)	409,171	284,259	285,202	29,617	112,638
Shareholder's Equity (M)	60,244	62,736	48,776	10,271	19,394
BV per Share	52.9	98.1	79.6	6.8	42.5
Loans YoY Growth (%)	21	15	33	-13	6
Deposits YoY Growth (%)	57	58	48	10	49
Asset Quality (mrq)					
NPL / Total Loans (%)	4.6	2.1	2.7	13.3	5.1
LLR / NPL (%)	108.0	116.1	112.9	52.2	107.7
Public-Sector / Total Assets (%)	27.2	24.2	20.6	22.7	27.1
Total Loans / Total Deposits (%)	64.1	62.9	65.4	133.1	65.8
Results (ttm)					
Net Interest Income (M)	13,051	52,327	37,815	990	7,335
Net Fee Income (M)	12,085	12,738	6,799	3,933	5,346
Administrative Expenses (M)	22,148	22,171	19,516	4,642	14,630
Net Income (M)	25,559	23,451	18,732	1,703	4,334
EPS	20.51	36.68	30.58	1.14	9.49
Efficiency (ttm)					
Net Fee Income / Adm. Expense (%)	54.6	57.5	34.8	84.7	36.5
ROA (%)	4.4	5.8	4.8	2.0	2.6
ROE (%)	42.4	37.4	38.4	16.6	22.3

Source: Own elaboration based on market data and information provided by the companies.

Annual Financial Statements

(ARS M)	2018	2019e	2020e	2021e
Income Statement				
Net Interest Income	39,645	52,058	62,469	74,963
Net Fee Income	11,133	12,803	14,723	16,932
Administrative Expenses	17,138	21,937	26,325	31,590
Pre-Tax Profit	22,742	32,881	38,858	46,436
Income Tax	6,965	9,864	9,714	11,609
Net Income	**15,777**	**23,016**	**29,143**	**34,827**
ROA	4.6%	5.4%	5.7%	5.6%
ROE	28.9%	42.7%	63.5%	63.2%
Efficiency Ratio	65.0%	58.4%	55.9%	53.6%
Balance Sheet				
Cash	74,766	19,403	11,712	11,233
Securities	67,220	106,498	138,131	165,757
Loans	178,875	214,650	268,312	321,975
Bank Premises and Equipment	9,003	9,903	10,893	11,983
Total Assets	**342,883**	**428,603**	**514,324**	**617,189**
Deposits	237,954	297,443	365,855	439,026
Financial Liabilities	39,982	47,644	55,980	67,176
Total Liabilities	**288,245**	**374,718**	**468,398**	**562,077**
Shareholders' Equity	**54,638**	**53,885**	**45,926**	**55,112**

Source: Own elaboration based on market data and information provided by the company.

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Quarterly Financial Statements

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	16,785	12,931	9,093	30%	85%
Net Fee Income	3,391	3,310	2,711	2%	25%
Administrative Expenses	7,217	5,229	3,993	38%	81%
Net Income	**7,032**	**7,343**	**3,137**	**-4%**	**124%**
ROA (ttm)	5.8%	5.0%	4.6%	84 bps	122 bps
ROE (ttm)	37.4%	31.5%	25.0%	588 bps	1240 bps
Efficiency Ratio	47.0%	63.3%	67.9%	-1631 bps	-2091 bps
Balance Sheet					
Cash and Due from Banks	96,427	75,309	50,310	28%	92%
Securities	1,980	2,964	1,340	-33%	48%
Loans	178,851	177,717	155,621	1%	15%
Total Assets	**401,032**	**390,298**	**271,735**	**3%**	**48%**
Deposits	284,259	272,611	179,473	4%	58%
Financial Liabilities	40,416	43,883	32,796	-8%	23%
Total Liabilities	**338,296**	**328,208**	**221,345**	**3%**	**53%**
Shareholder's Equity	**62,736**	**62,090**	**50,390**	**1%**	**25%**
Equity / Total Liabilities	18.5%	18.9%	22.8%	-37 bps	-422 bps
NPL / Total Loans	2.1%	2.0%	1.4%	9 bps	74 bps
LLR / NPL	116.1%	119.2%	149.3%	-309 bps	-3316 bps
Exposure to Public Sector	24.2%	28.6%	17.7%	-445 bps	649 bps

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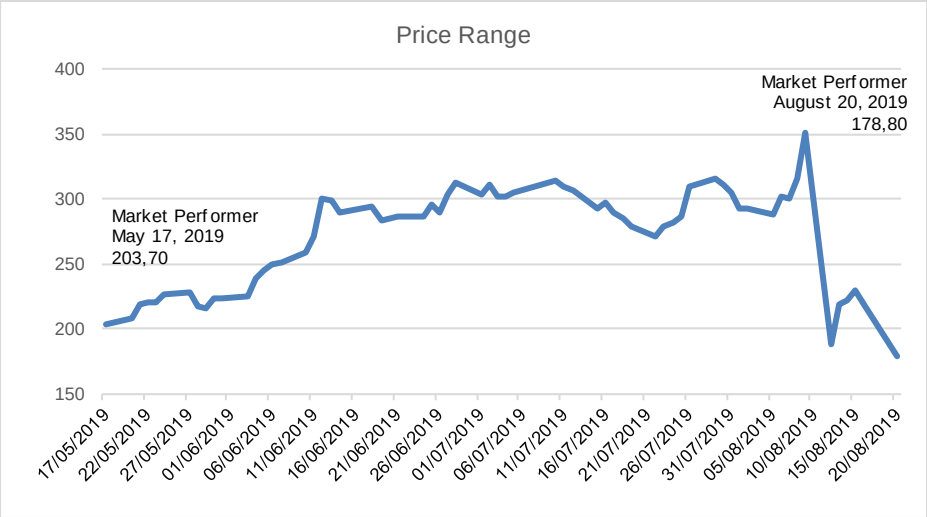
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Underperfor	9%

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