Capital Markets Argentina

Financial

BYMA 2Q19

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BYMA 2Q19

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August 19

Market Price (08/13/2019)

AR$ 225.00

Target Price (12 months)

AR$ 380.00 (+69%)
(previous: AR$ 490.00)

Rating

Market Performer

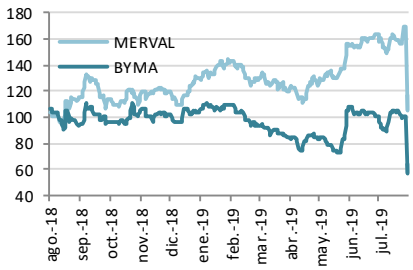
Price Range (AR$)

52 wk Min.	52 wk Max.
200.25	390.50

Variation %

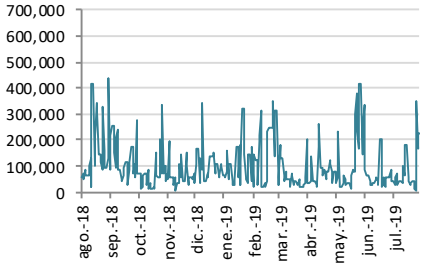
Minimum	Maximum
+12%	-42%

Prece BYMA vs. Merval
Last Year (100=Beginning of the Period)



Source: Bloomberg

Daily Volume
Last Twelve Months



Source: Bloomberg

	Op. Income (AR$ M)	Net Income (AR$ M)	EV/Op. Inc. (x)	EPS (AR$)	P/E (x)	P/BV (x)
2018	$ 830	$ 3,360	22.9x	$ 44,07	5.7x	1.8x
2019e	$ 1,344	$ 2,869	12.8x	$ 37,63	6.0x	1.3x
2020e	$ 2,339	$ 3,934	7.3x	$ 51,60	4.4x	1.0x

Shares Outstanding (millions)	76.25	Dividend Yield (12 meses)	0.5%
Market Cap (AR$ millions)	17,156	YTD Return (%)	-39.2%
Float (%)	70%	P/E (TTM)	4.7x
Enterprise Value (AR$ millions)	17,156	EPS (TTM - AR$)	$ 48.16

Source: Company's financial statements; Bloomberg.

New products launching overshadowed by poor operating drivers

Bolsas y Mercados Argentinos (BYMA) reported a quarterly net result in line with expectations. The effort to generate new businesses did not offset the deterioration in trading volume and assets under custody.

Prospects were negatively affected by political risk and deterioration in the main economic drivers, resulting in a lower DCF target price. In terms of relative valuation, P/E (NTM) reached 4.9x, which is much lower than the region's average (12.7x).

To simplify comparison, historical numbers are used in this analysis unless otherwise specified. Net income reached AR$ 707.6 million (-30.1% q/q, -23.3% y/y), highlighting the negative impact on financial income of the peso's appreciation, partially offset by the operating result growth, affiliated companies income and the recognition of an extraordinary tax credit.

BYMA's operating income reached AR$ 684.4 million (+10.2% q/q, +39.1% y/y). **Revenue from the depository business** (Caja de Valores) continues to represent 73% of total operating income. Assets under custody grew only 6% y/y due to the low issuance of both corporate and sovereign debt. The replacement of securitized debt by IMF credit implies a progressive reduction in securities that require custody services. The greater amount of bond coupon payments allowed revenues from this line of business to still grow 44% y/y.

Revenue from the exchange grew to AR$ 187.8 million (+30.3 y/y, +15.2 q/q). In nominal terms, trading volume is still affected, growing 4% y/y in equity and 44% y/y in fixed income (PPT segment), despite the recovery during the month of June. CEDEARs (local depositary receipts) accounted for 18% of the average daily trading volume (ADTV) in equities, due to the initiation of the Market Makers program.

Market data revenue increased 155% y/y, partly explained by the peso devaluation (contracts are in dollars). There was a significant increase in margin loans during the quarter, while future dollar contracts began to be traded. Regarding the latter, BYMA reached a 10% market share, intending to reach between 25 and 30% within the next 12 months.

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Operating margin stood at 41% for the last 12 months, falling slightly from the previous quarter, while the company keeps the 2020 target at 50%. Expenses increased 21.3% q/q and 42.4% y/y, driven mainly by IT development and software maintenance. The increase in interconnection with other CSD's generated extra expenses during the quarter.

Financial income fell almost 27% y/y, due to the peso appreciation (BYMA's investment portfolio is 90% denominated in dollars). 69% of financial income came from time deposit investments. BYMA's investment portfolio was correctly positioned for the Argentine elections, with investments in US and Brazilian bonds. The sudden increase in country risk premium would have had a low impact in the value of the portfolio.

According to the new accounting standards that allow inflation adjustments, revenues would have fallen by 3.0% y/y, excluding financial income. Caja de Valores' revenues represented, inflation adjusted, 72.96% of the total, while they dropped by 8.4% y/y according to adjusted standards. Exchange revenues, meanwhile, fell by 16.6% y/y according to the new regulations. The net result would have decreased 96.9% y/y.

Business expansion: The company continues to emphasize the future's market development, firstly on currencies (real-peso, dollar-peso) to facilitate foreign investors' trading. The sectoral indices that are already on stage would allow the development of futures contracts. The settlement bank that would manage CDV's liquidity and financial investment is expected to start operations during this year; approval from regulators (BCRA) is still pending.

Outlook: The probable change of administration in the October presidential elections puts at risk the progress towards further development of the Argentine capital market. In regulatory terms, both the opening of the capital market and the development of new products by BYMA are at risk. Additionally, a drop in trading volume and in corporate issuances is expected.

BYMA can generate value through the derivatives market expansion and by achieving greater efficiencies for traders. An adequate investment portfolio management, with a conservative approach, is a plus in a context of high volatility in the domestic market.

- **Pros**: New products' launching; efficiency improvement despite macroeconomic drivers' deterioration; good investment portfolio management in the wake of a volatility event.
- **Cons:** Deterioration in trading volume and assets under custody, in real terms; political risk after the probable change of administration to a not so market-friendly government.
- **Rating: Market Performer.** Valuation in line with Merval index.

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Valuation: discounted cash flow **(DCF)** valuation yields a 12-month target price of **AR$ 380.00** (previous TP: AR$ 490.00). The target price reduction is due, on the one hand, to the deterioration in expectations of trading volume and assets under custody, as well as to the increase in country and political risk.

Revenue projections are based on estimates of assets under custody, market capitalization of domestic securities, both as % of GDP, and trading volume as % of domestic capitalization.

	2Q 2019	2023e	
Assets Under Custody (% of GDP)	22.0%	20.0%	Below regional peers
Market Capitalization (% of GDP)	11.6%	20.0%	Below regional peers
Total Traded Volume as % of Local Market Cap (Equities)	8.8%	10.0%	Below regional peers

The target price is sensitive to changes in country risk premium due to the impact of variations in the discount rate of the cash flow from operations. In the BYMA valuation process, the value of liquid investments is not affected by changes in the discount rate as they are already valued at market price.

Price sensivity to country risk premium

Country RP	Discount rate (WACC)	Target price (12 months)	% vs current price
1,700	23.00%	AR$ 386.70	+72%
1,750	23.50%	AR$ 383.80	+71%
1,800	**24.00%**	**AR$ 380.00**	**+69%**
1,850	24.50%	AR$ 378.50	+68%
1,900	25.00%	AR$ 376.00	+67%

In relative terms, BYMA looks cheap compared to its regional peers. Considering the expected NTM results, the forward P/E ratio is 4.9x, while peer group's median is 12.7x.

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Earnings Summary (Millions of ARS except per share value metrics)	vs Expected			vs Previous Quarter	
	2Q19	2Q19e	Diff.	1Q19	Diff.
Total Operating Revenue	**$ 684,4**	**$ 722,8**	**-5%**	**$ 422,6**	**+62%**
Central Securities Depository Income	$ 496,6	$ 494,6	+0%	$ 288,9	+72%
Exchange Income	$ 187,8	$ 228,2	-18%	$ 133,7	+40%
EBIT	$ 260,1	$ 321,6	-19%	$ 186,1	+40%
EBIT Margin	**38%**	**45%**	**-650bps**	**44%**	**-603bps**
Total Financial Income	**$ 456,2**	**$ 279,7**	**+63%**	**$ 457,1**	**-0%**
Financial income	$ 395,5	$ 264,7	+49%	$ 449,5	-12%
Gain/loss from equity interest	$ 60,7	$ 15,0	+305%	$ 7,6	+696%
Pretax Income	$ 716,3	$ 601,3	+19%	$ 643,2	+11%
Pretax Margin (on Op. Rev. + Fin. Income)	**63%**	**60%**	**+282bps**	**73%**	**-1.032bps**
Extraordinary results	$ 108,3				
Adjusted EBT	$ 608,0	$ 601,3	+1%	$ 643,2	-5%
Income Tax	$ 8,6	$ 175,9	-95%	$ 167,6	-95%
Income Tax Rate	**1%**	**29%**	**-2.805bps**	**26%**	**-2.485bps**
Net Income - Controlling interest	$ 707,6	$ 425,4	+66%	$ 475,6	+49%
Net Margin (on Op. Rev. + Fin. Income)	**62%**	**42%**	**+1.960bps**	**54%**	**+798bps**
Adjusted Net Income - Controlling interest	$ 599,3	$ 425,4	+41%	$ 475,6	+26%
Adjusted Net Margin (on Op. Rev. + Fin. Income)	**53%**	**42%**	**+1.010bps**	**54%**	**-152bps**
Shares Outstanding	76,25	76,25	+0%	76,25	+0%
EPS	**$ 9,28**	**$ 5,58**	**+66%**	**$ 6,24**	**+49%**

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Estimates summary (Millions of ARS except per share value metrics)	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**
Total Operating Revenue	**$ 3.072,3**	**$ 5.013,1**	**$ 7.041,7**	**$ 9.208,3**	**$ 11.793,5**
Y/Y growth	*50%*	*63%*	*40%*	*31%*	*28%*
Central Securities Depository Income	$ 2.120,1	$ 2.854,8	$ 3.703,7	$ 4.622,6	$ 5.313,5
Exchange Income	$ 952,3	$ 2.158,3	$ 3.337,9	$ 4.585,7	$ 6.480,0
EBIT	$ 1.344,0	$ 2.339,5	$ 3.520,8	$ 4.696,2	$ 6.132,6
EBIT Margin	**44%**	**47%**	**50%**	**51%**	**52%**
Total Financial Income	**$ 2.831,7**	**$ 2.883,4**	**$ 2.663,4**	**$ 2.759,0**	**$ 3.244,4**
Financial income	$ 2.796,9	$ 2.811,4	$ 2.580,6	$ 2.667,9	$ 3.144,2
Gain/loss from equity interest	$ 34,8	$ 72,0	$ 82,8	$ 91,1	$ 100,2
Pretax Income	$ 4.175,7	$ 5.222,9	$ 6.184,2	$ 7.455,2	$ 9.377,0
Pretax Margin (on Op. Rev. + Fin. Income)	**71%**	**66%**	**64%**	**62%**	**62%**
Income Tax	$ 1.306,0	$ 1.287,7	$ 1.525,3	$ 1.841,0	$ 2.319,2
Income Tax Rate	**32%**	**25%**	**25%**	**25%**	**25%**
Net Income - Controlling interest	$ 2.869,0	$ 3.934,3	$ 4.657,7	$ 5.612,9	$ 7.056,1
Net Margin (on Op. Rev. + Fin. Income)	**49%**	**50%**	**48%**	**47%**	**47%**
Shares Outstanding	$ 76,3	$ 76,3	$ 76,3	$ 76,3	$ 76,3
EPS	**$ 37,63**	**$ 51,60**	**$ 61,09**	**$ 73,61**	**$ 92,54**

Investment portfolio (Millions of ARS)	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**
Public Securities	$ 4.874,6	$ 7.246,9	$ 6.128,0	$ 8.670,7	$ 7.063,3
Private Securities	$ 557,2	$ 670,2	$ 860,6	$ 1.120,9	$ 477,0
Total Securities	$ 5.431,7	$ 7.917,1	$ 6.988,5	$ 9.791,6	$ 7.540,3
Cash	$ 11.206,5	$ 17.145,9	$ 14.654,9	$ 15.450,3	$ 22.875,7
Equity investments in associates	$ 452,9	$ 501,9	$ 1.568,8	$ 1.350,3	$ 1.348,0
Liabilities to be deducted	$ 12.122,3	$ 18.699,7	$ 15.946,1	$ 18.377,9	$ 25.210,9
Net investment Portfolio	**$ 4.968,8**	**$ 6.865,2**	**$ 7.266,2**	**$ 8.214,3**	**$ 6.553,1**
Y/Y growth	*67%*	*103%*	*88%*	*113%*	*51%*

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As from August 13, 2019, the formula is:	
Outperform: expected to perform above the underlying country index	
Perform: expected to perform in-line with the underlying country index	**X**
Underperform: expected to perform below the underlying country index	

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Perform	67%
Underperform	9%

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