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Financial

Grupo Financiero Galicia 2Q19

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Date: 08/20/2019

ARS 84.85 / USD 15.14

Target Price: ARS 142.00

Rating

Market Performer

Price Range (ARS)

52 wk. Min. **52 wk. Max.**

74.45 174.55

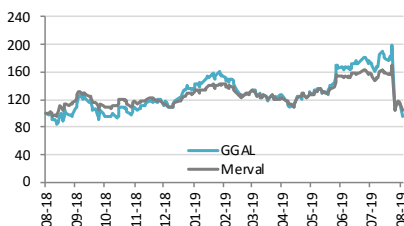
Variation %

Min. **Max.**

13.3 -51.7

Price GGAL vs. Merval

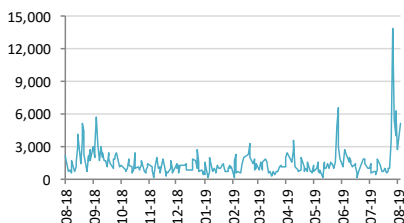
Last Year (100=Beginning of Period)



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	19,247	11,537	7.3	8.1	10.4	2.9
2019e	11,593	27,416	3.3	19.2	4.4	1.6
2020e	13,912	30,807	2.9	21.6	3.9	1.3

Share Outstanding (million)	1,427	52-week Return	-3.8%
ADRs Outstanding (million)	143	EPS (TTM)	20.5
Market Cap. (million)	120,348	P/E (TTM)	4.1
Loans / Deposits (%)	72%	P/BV (MRQ)	1.6
Enterprise Value (million)	260,593	Dividend Yield	1.7%

Source: Company's financial statements; Bloomberg.

Good EPS Growth, but based on Securities Income

Grupo Financiero Galicia (BYMA/NASDAQ:GGAL) posted a net gain of ARS 11.6 billion in 2Q19, 316% y/y and 28% higher q/q. As it is usually the case, such result is mostly attributable to its stake in Banco Galicia, which obtained a profit of ARS 10.1 billion (415% YoY; 29% QoQ).

Turning to Banco Galicia's result, net financial income dropped 83% (-55% QoQ) in 2Q19, due to a stagnant credit market and higher funding costs, especially in the case of certificates of deposits. This way, the financial margin from the commercial banking business remains on a negative trend.

Securities income, in contrast, continued its upward trend, and today accounts for nearly half of the bank's financial income, amounting to over ARS 17.5 billion (+ARS 16.1 billion YoY; 15% QoQ). This was the result of a larger position in Central Bank Leliqs and higher yields on these securities.

The above-mentioned performance reflects a credit market that remains stagnant. While deposits showed no growth in the last quarter, private-sector credit fell 2%. In terms of asset quality, the ratio of non-performing loans to total credit stood at 4.6% as of June 2019 (2.3% in 2Q18; 3.9% in 1Q19), with loan-loss coverage of 108%.

Outlook

The Good: Long-Term Prospects

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 of the domestic banking industry remains intact. Moreover, in terms of solvency, the domestic banking industry presents healthy capitalization figures.

In addition, in the case of Grupo Financiero Galicia, its strength in consumer-oriented financial products and services, both through Banco Galicia as well as through Tarjetas Regionales (a non-banking credit card subsidiary), provides the company with a strategic market position that could turn very profitable if and when the so-desired economic recovery arrives.

The Bad: High Exposure to Economic Cycle and Leliq-Dependence

However, it is this same exposure to the domestic economic cycle that in times of recession means lower gains and lower growth for Grupo Financiero Galicia. As mentioned above, today, a great share of the company's 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.

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

The current combination of economic stagnation and political and economic uncertainty in Argentina has triggered an unprecedented escalation of discount rates applied on local assets, especially in the case of banks and financial companies with an extra risk stemming from their Leliq-dependence. This reflects on a lower intrinsic valuation and increased volatility of the share price.

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APPENDIX

DCF Valuation

(ARS M)	2018	2019e	2020e	2021e
Net Income	11,472	27,186	30,707	35,578
Loan Loss Provision	6,511	13,022	16,929	20,314
Depreciation and Amortization	837	1,088	1,143	1,200
Operating Cash Flow	13,859	27,132	35,000	41,828
Sources of Funds	208,950	92,672	108,849	120,213
Deposits	160,467	72,260	86,712	93,649
Financial Liabilities	48,483	20,411	22,136	26,564
Uses of Funds	133,518	106,615	112,522	116,001
Loans	80,590	12,164	76,632	73,056
Securities	49,372	91,169	33,429	40,114
CapEx	3,556	3,282	2,462	2,831
Free Cash Flow (FCF)	89,291	13,189	31,326	46,040
Terminal Value (USD)				3.0%
Cost of Equity (USD)	26.60%	16.60%	16.40%	15.40%
Discounted FCF	89,291	12,192	24,835	31,358
Present Value of FCF	81,859			
Present Value of Terminal Value	93,904			
Cash	127,019			
Firm Value	302,782			
Financial Liabilities	100,214			
Equit Value	202,568			
Shares Outstanding (M)	1,427			
Target Price	142.00			

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

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	19,247	11,593	13,912	16,694
Net Fee Income	10,248	12,298	14,142	16,264
Administrative Expenses	18,117	23,552	28,263	33,915
Pre-Tax Profit	16,509	36,555	41,076	47,571
Income Tax	5,023	9,139	10,269	11,893
Net Income	11,537	27,416	30,807	35,678
ROA	2.3%	4.4%	4.1%	4.0%
ROE	27.6%	36.7%	34.4%	33.2%
Efficiency Ratio	56.6%	52.2%	50.0%	48.0%
Balance Sheet				
Cash	142,049	149,151	156,609	164,439
Securities	75,974	167,143	200,571	240,686
Loans	243,276	255,440	332,072	405,128
Bank Premises and Equipment	13,129	16,411	18,873	21,704
Total Assets	509,012	626,085	751,302	901,562
Deposits	361,302	433,562	520,275	613,924
Financial Liabilities	90,270	110,681	132,818	159,381
Total Liabilities	467,267	551,375	661,650	793,980
Shareholders' Equity	41,745	74,710	89,652	107,582

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	820	1,838	4,699	-55%	-83%
Net Fee Income	3,066	3,350	2,460	-8%	25%
Administrative Expenses	6,721	5,417	4,216	24%	59%
Net Income	10,107	7,839	1,962	29%	415%
ROA	4.4%	3.1%	2.1%	129 bps	230 bps
ROE	42.4%	33.7%	21.3%	868 bps	2116 bps
Efficiency Ratio	45.6%	61.8%	58.3%	-1622 bps	-1273 bps
Balance Sheet					
Cash	127,019	130,542	91,103	-3%	39%
Securities	148,049	109,013	30,650	36%	383%
Loans	262,174	267,178	217,506	-2%	21%
Total Assets	586,567	567,477	376,771	3%	56%
Deposits	409,171	410,170	261,270	0%	57%
Financial Liabilities	100,214	89,985	70,283	11%	43%
Total Liabilities	526,323	515,875	340,329	2%	55%
Shareholder's Equity	60,244	51,602	36,442	17%	65%
Equity / Total Liabilities	11.4%	10.0%	10.7%	144 bps	74 bps
NPL / Total Loans	4.6%	3.9%	2.3%	69 bps	236 bps
LLR / NPL	108.0%	104.1%	102.3%	388 bps	573 bps
Public-Sector Exposure	27.2%	21.9%	8.9%	536 bps	1836 bps

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

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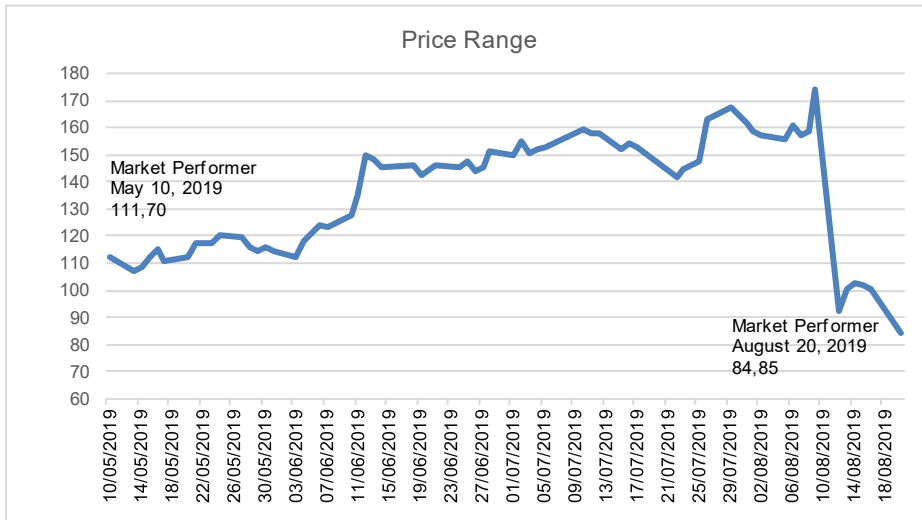
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