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Financial

BANCO SUPERVIELLE 2Q19

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Date: 08/23/2019

ARS 37.05

Target Price: ARS 62.90

Rating

Market Performer

Price Range (ARS)

52 wk. Min. 52 wk. Max.

36.30 84.60

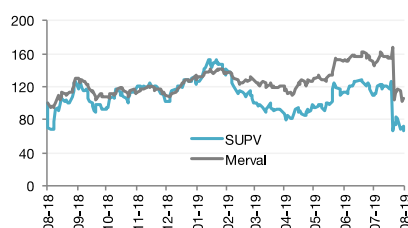
Variation %

Min. Max.

2.1 -56.2

Price SUPV vs. Merval

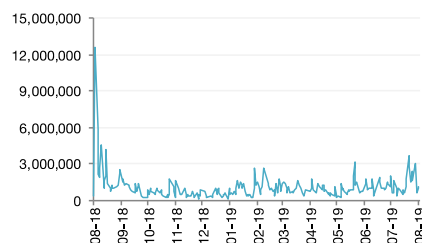
Last Year (100=Beginning of Period)



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	10,462	3,030	41.3	6.6	5.6	1.0
2019e	7,111	4,438	35.4	9.7	3.8	0.8
2020e	9,184	3,493	46.4	7.6	4.8	0.7

Share Outstanding (million)	457	52-week Return	-32.9%
ADRs Outstanding (million)	N/A	EPS (TTM)	9.5
Market Cap. (million)	16,922	P/E (TTM)	3.9
Loans / Deposits (%)	66%	P/BV (MRQ)	0.9
Enterprise Value (million)	41,830	Dividend Yield	1.8%

Source: Company's financial statements; Bloomberg.

SUPV: Securities Income and FX Gains Save the Quarter

Grupo Supervielle (BYMA:SUPV) posted mixed results in 2Q 2019. Earnings amounted to ARS 1.9 billion, +302% y-o-y, and 210% q-o-q. It is worth noticing that 2Q19 results include ARS 664 million in inflation adjustment driven by the income tax provision, which translated into a negative effective tax rate, augmenting the quarter's net income.

In terms of net interest income, while 2Q19 figures grew 13% between quarters, they dropped more than 50% in annual terms. This was the result of a steep increment in financial expenses (169% YoY), mainly due to higher interest rates on time deposits, which greatly outpaced the growth of financial income (53% YoY).

In a context of commercial banking business stagnation, a relevant portion of 2Q19 profit stemmed from securities income, totaling more than ARS 4.9 billion, versus a loss of ARS 509 million in the same quarter of 2018. The bank also posted a profit of ARS 271 million from FX results, compared to a loss of ARS 328 million in the previous quarter.

Such performance is in part the result of a credit market that remains stagnant. While deposits rose only 3% between quarters (49% YoY), private-sector credit showed no growth in the quarter (0.2% QoQ) and grew below inflation in annual terms (8% YoY). The ratio of non-performing loans to total credit stood at 5.1% as of June 2019 (3.6% in 2Q18; 5.3% in 1Q19), meaning a clear worsening of asset quality figures, although there was a mild recovery in the last quarter. Loan-loss coverage is 107%.



The Good: Relative Valuation

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 terms of solvency, the domestic banking industry presents healthy capitalization figures.

In the case of Grupo Supervielle, its stock trades at a lower relative valuation in terms of P/E and P/BV ratios than its local peers. For further details, see the Relative Valuation chart later in this report.

The Bad: Dependent on High-Yield Central Bank Leliqs

As mentioned, a great share of the bank's profit does not stem from the traditional commercial banking business 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.

High-Risk Scenario Means Lower Valuation and Increased Volatility

The current scenario of political and economic uncertainty in Argentina has triggered an unprecedented escalation of discount rates, lower intrinsic valuation of domestic assets, and increased stock price volatility.

APPENDIX

DCF Valuation

(ARS M)	2018	2019e	2020e	2021e
Net Income	3,030	4,438	3,493	3,894
Loan Loss Provision	4,221	5,909	7,091	8,154
Depreciation and Amortization	355	532	558	586
Operating Cash Flow	7,605	10,878	11,143	12,635
Sources of Funds	44,791	22,199	27,867	30,100
Deposits	38,497	18,981	22,777	24,600
Financial Liabilities	6,294	3,218	5,090	5,500
Uses of Funds	22,659	33,411	31,655	36,791
Loans	18,348	3,152	24,583	28,762
Securities	3,708	30,224	6,800	7,821
CapEx	603	36	272	208
Free Cash Flow (FCF)	29,737	-334	7,354	5,943
Terminal Value (USD)				3.0%
Cost of Equity (USD)		26.90%	16.90%	16.70%
Discounted FCF	29,737	-308	5,811	4,024
Present Value of FCF	13,056			
Present Value of Terminal Value	14,115			
Cash	26,482			
Firm Value	53,653			
Financial Liabilities	24,908			
Equit Value	28,745			
Shares Outstanding (M)	457			
Target Price	62.90			

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	80.80	170.70	92.85	13.75	37.05
Shares Outstanding (M)	1,427	639	613	1,500	457
Market Cap (M)	115,283	109,145	56,885	20,625	16,922
52w Average Daily Volume (M)	1.6	0.3	0.1	0.2	1.0
52w Return (%)	-6.5	19.0	-6.7	13.6	-32.9
YTD Return (%)	-21.8	4.1	-31.9	17.0	-41.5
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)	3.9	4.7	3.0	12.1	3.9
P/BV (mrq)	1.5	1.7	1.2	2.0	0.9
Dividend Yield (%)	1.7	5.9	1.7	1.2	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	10,462	7,111	9,184	11,815
Net Fee Income	4,639	5,474	6,569	7,554
Administrative Expenses	11,844	15,397	18,476	21,802
Pre-Tax Profit	3,408	4,676	4,209	4,902
Income Tax	815	701	1,179	1,471
Net Income	3,030	4,438	3,493	3,894
ROA	2.1%	2.6%	1.7%	1.6%
ROE	17.6%	21.5%	14.1%	13.1%
Efficiency Ratio	39.2%	35.6%	35.6%	34.6%
Balance Sheet				
Cash	33,688	28,634	30,066	31,569
Securities	15,112	45,336	52,137	59,957
Loans	78,792	81,944	106,527	135,289
Bank Premises and Equipment	1,777	1,813	2,085	2,293
Total Assets	141,116	169,339	203,206	243,848
Deposits	94,906	113,887	136,665	161,264
Financial Liabilities	22,993	26,211	31,301	36,801
Total Liabilities	123,945	148,734	178,481	214,178
Shareholders' Equity	17,170	20,604	24,725	29,670

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	1,371	1,218	2,898	13%	-53%
Net Fee Income	1,459	1,432	1,150	2%	27%
Administrative Expenses	4,396	3,598	2,761	22%	59%
Net Income	1,909	615	475	210%	302%
ROA	2.6%	1.8%	1.9%	84 bps	74 bps
ROE	22.3%	16.3%	14.5%	604 bps	781 bps
Efficiency Ratio	33.2%	39.8%	41.7%	-661 bps	-847 bps
Balance Sheet					
Cash	26,482	31,052	19,693	-15%	34%
Securities	41,912	35,216	13,655	19%	207%
Loans	74,082	73,722	70,180	0%	6%
Total Assets	166,145	163,849	120,789	1%	38%
Deposits	112,638	109,677	75,673	3%	49%
Financial Liabilities	24,908	27,113	24,452	-8%	2%
Total Liabilities	146,750	146,063	105,288	0%	39%
Shareholder's Equity	19,394	17,786	15,501	9%	25%
Equity / Total Liabilities	13.2%	12.2%	14.7%	104 bps	-151 bps
NPL / Total Loans	5.1%	5.3%	3.6%	-19 bps	145 bps
LLR / NPL	107.7%	100.0%	89.9%	768 bps	1781 bps
Exposure to Public Sector	27.1%	23.5%	13.8%	355 bps	1326 bps

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

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