



Itaú Unibanco Holding S.A. ADR (ITUB)

Updated December 7th, 2020 by Felix Martinez

Key Metrics

Current Price:	\$6.13	5 Year CAGR Estimate:	5.6%	Market Cap:	\$58.4 B
Fair Value Price:	\$7.10	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	12/01/20
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.0%	Dividend Payment Date:	01/14/20
Dividend Yield:	0.8%	5 Year Price Target	\$7.65	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

Itaú Unibanco Holding S.A. is headquartered in Sao Paulo, Brazil. The company trades on the New York Stock Exchange with the ticker symbol ITUB. The company was formed when Banco Itaú and Unibanco decided to merge in November 2008. Since then, Itaú is the largest financial conglomerate in the Southern Hemisphere and the tenth-largest bank in the world by market value, in addition to being the largest Latin American bank by assets and market capitalization. The bank has operations across South America and other places like the United States, Portugal, Switzerland, China, Japan, and others. Itaú currently employs over 96,000 people across the world and has a market capitalization of \$58 billion. The company pays a dividend monthly but at different rates. Itaú Unibanco reports its earnings in Brazilian Real currency. In this report, we will convert all financial numbers into United States Dollars.

On November 3rd, 2020, Itaú Unibanco reported third-quarter fiscal year 2020 results. The company reported an increase in both recurring net income and operating revenues. Recurring net income was up 19.6%, and operating revenues were up 1.4% compared to the last quarter. However, for the nine months of FY2020, recurring net income is down -38%, and revenue is slightly down -2.7% compared to the first nine months of FY2019. The most significant contributor to the decrease in net income was the loss in Provision for Loan Losses. The Company experienced a provision loan loss of \$4.783 million for the nine months and only \$2.664 million in the nine months of FY2019. This represents an increase of 80% in provision for loan losses. These losses were due to the macroeconomic changes in the second half of March, which generated higher provision expenses in the company's operations for both Brazil and Latin America. Itaú Unibanco also saw lower financial margin and card services, driven by the migration towards lower-spread products and higher expenses caused by the collective wage agreement executed in September 2020. Return on Equity (ROE) also saw a decrease in the quarter. In 3Q19, ROE was 23.5%, and for this quarter, it came in at 15.7%. However, the company's Efficiency Ratio (E.R.) did increase slightly from 51.8% in 2Q20 to 55%. Itaú is expected to earn \$0.33 per share for the full year. However, we will be using normalized earnings for the year because of the current economic status. We will use normalized earnings of \$0.71 to obtain a more reasonable fair price.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.78	\$0.78	\$0.68	\$0.67	\$0.77	\$0.66	\$0.75	\$0.79	\$0.70	\$0.64	\$0.33	\$0.76
DPS	\$0.12	\$0.21	\$0.30	\$0.21	\$0.24	\$0.18	\$0.30	\$0.54	\$0.56	\$0.42	\$0.08	\$0.08
Shares¹	9991	9977	9956	9955	9986	9934	9849	9818	9774	9785	9793	9793

For the past ten years, Itaú Unibanco has seen its earnings decrease at a compound annual growth rate of -2.2%. We have estimated a modest EPS growth rate of 1.5% for the next five years. This will put 2025 earnings at \$0.76 a share. The growth will be driven by a more considerable increase in demand deposits, which has caused the bank's loan/deposits ratio to fall to 76%, much lower than 3Q19. Another driver in earnings growth is the fact that Itaú Unibanco is positioning itself as a regional money center in Latin America as the company saw an increase in revenue in

¹ Share count is in millions.

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this region. Itaú has about 30% of loans outstanding outside of Brazil, which allows the company to benefit from growth in emerging Latin American markets.

The company's dividend is very inconsistent because it is converted to USD. In addition, Itaú Unibanco had to cut its dividend from \$0.42 a share to \$0.08. We are not expecting Itaú Unibanco to increase its dividend.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.9	10.8	11	10.1	9.3	6.0	9.1	11	13.0	14.3	8.6	10.0
Avg. Yld.	1.1%	2.5%	4.1%	3.1%	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.8%	1.0%

For the ten-year average, shares have traded with an average P/E ratio of 10.9x earnings. However, we think a PE of 10x is fair. At the current price, Itaú currently has a P/E of 8.6x this year's normalized earnings. The dividend yield has been as high as 6.2% in 2017 and as low as 1.1% in 2010. With the dividend being cut for the year, Itaú Unibanco's current yield is 0.8%, which is much lower than the ten-year average of 4.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

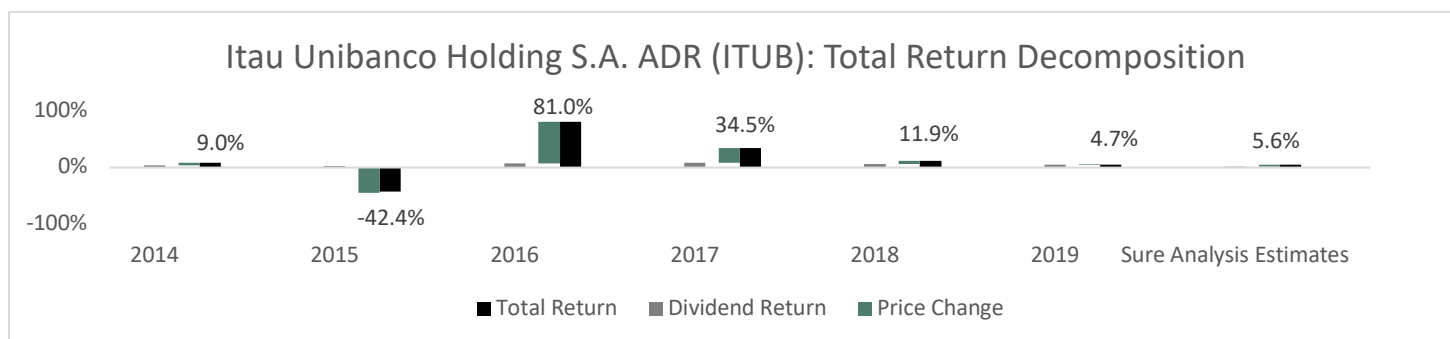
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	15%	27%	44%	31%	31%	27%	40%	68%	80%	66%	11%	10%

Itaú Unibanco does not have an economic moat. Bank moats are achieved through cost advantages like funding, operational, credit, and regulatory. Also, bank moats are created in the banking system in which the company operates. The Brazilian banking system is poor because of its unfriendly regulatory prospect, worsening macroeconomic prospects, and bleak political conditions. Itaú does have a competitive advantage as it is the largest bank in Latin America. During the Great Recession, Itaú Unibanco saw earnings decrease from \$0.57 a share in 2007 to \$0.46 a share in 2008, which decreased by -19%. However, in 2019, the company reported earnings of \$0.57 a share, or an increase of 24%. The stock price shows a different story. From high to low, the stock price dropped -62.6% in ten months. Itaú has an S&P Credit Rating of BB-, which is not an investment-grade rating. The Debt to Equity ratio (D/E) is 2.3, so it is relatively high. Itaú Unibanco does have total assets of \$415,394 million compared to \$386,737 in total Liabilities, giving an Assets to Liabilities ratio of 1.1. Overall, Itaú Unibanco has a satisfactory Balance Sheet.

Final Thoughts & Recommendation

Itaú has a decent Balance Sheet to withstand the current economic headwind. However, earnings have been very volatile throughout the past ten years, affecting the total return rate for an investor. We anticipate a return rate for the next five years to be about 5.6% per year, with most of this coming from valuation expansion. Thus, we rate Itaú Unibanco as a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	37,555	42,790	39,469	35,532	37,125	26,808	33,114	33,256	27,940	28,700
SG&A Exp.	15,875	17,103	15,519	15,015	14,740	11,430	11,599	12,742	11,925	11,572
D&A Exp.	1,203	1,295	1,122	1,083	1,083	864	937	991	981	903
Net Profit	6,574	8,263	6,474	7,626	9,174	7,862	6,235	7,251	6,853	6,877
Net Margin	17.5%	19.3%	16.4%	21.5%	24.7%	29.3%	18.8%	21.8%	24.5%	24.0%
Free Cash Flow	-18,741	-6,757	23,049	13,935	35,976	-11,327	6,965	6,155	7,400	7,841
Income Tax	3,108	2,174	2,165	2,016	2,957	(2,410)	3,939	2,300	1,367	870

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	430	439	466	434	423	322	415	433	401	407
Cash & Equivalents	65,506	73,166	49,449	50,374	38,954	29,187	38,992	44,247	40,700	38,812
Goodwill & Int. Ass.	1,735	2,050	2,276	3,254	3,040	2,108	5,239	5,849	4,988	4,900
Total Liabilities (\$B)	390	398	429	398	386	293	374	390	362	370
Long-Term Debt	63,335	77,862	82,388	77,489	73,551	63,310	69,390	67,311	58,999	69,352
Shareholder's Equity	38,952	39,621	36,980	35,157	37,281	28,336	36,892	39,643	35,295	34,023
D/E Ratio	1.63	1.97	2.23	2.20	1.97	2.23	1.88	1.70	1.67	2.04

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.7%	1.9%	1.4%	1.7%	2.1%	2.1%	1.7%	1.7%	1.6%	1.7%
Return on Equity	20.3%	21.0%	16.9%	21.1%	25.3%	24.0%	19.1%	18.9%	18.3%	19.8%
ROIC	5.7%	7.5%	5.4%	6.6%	8.2%	7.7%	6.2%	6.6%	6.6%	6.7%
Shares Out.	9991	9977	9956	9955	9986	9934	9849	9818	9774	9785
Revenue/Share	3.76	4.29	3.96	3.57	3.72	2.70	3.36	3.39	2.86	2.93
FCF/Share	(1.88)	(0.68)	2.32	1.40	3.60	(1.14)	0.71	0.63	0.76	0.80

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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