



Grupo Aval Acciones y Valores S.A. (AVAL)

Updated January 24th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$6.60	5 Year CAGR Estimate:	11.6%	Market Cap:	\$5 B
Fair Value Price:	\$7.10	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/28/21
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date:	02/09/21
Dividend Yield:	4.9%	5 Year Price Target	\$9.50	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Grupo Aval, ticker AVAL, is a Colombian holding company engaged in various financial activities, including banking, telecommunications, and real estate in Colombia and Central America. The Company's majority owner is Luis Carlos Sarmiento, who owns about 80% of the company's shares. Mr. Luis continues to run the company with help from his son, Luis Carlos Sarmiento Gutierrez, whom Mr. Luis is grooming to control the family conglomerate eventually. The company was founded in 1998 when its name was changed from Administraciones Bancarias. Some of the well-known companies that Grupo Aval owns sufficient amounts of voting stock in are Banco de Bogota, Banco Popular, and BAC Credomatic with operations in Costa Rica, Panamá, Nicaragua, Guatemala, El Salvador, Honduras and the U.S. State of Florida. The Company has been paying monthly dividends since 2014, but the dividend amount varies because it is paid out in Colombian Peso. Grupo Aval has a market cap of \$4.99 billion and earned \$6.184 billion in revenue in 2019. Note that Grupo Aval reports earnings in Colombian Peso, which we convert it into USD.

On November 18th, 2020, Group Aval reported third quarter and year to date results. Grupo Aval earned \$1.42 billion in total interest income for the quarter, representing a 3.4% increase from the third quarter of 2019. For the nine months, the Company saw a 6.3% increase in total interest income year over year from \$4.16 billion to now \$4.42 billion. Net interest income was also up for the nine months and for the quarter, 6.2% and 7.1%, respectively. The increase is the result of a considerable rise in bond issues for the first nine months and the quarter. Bonds issued increase 28.9% year to date when compared to the first nine months of 2019. After all expenses and income tax expenses, net income was down for the quarter from \$0.38 billion to now \$0.26 billion or a decline of -6.4%. For the nine months, net income after expenses and tax were also down -20.9%. The net interest margin was down from 5.7% to now 5.1% for the quarter. The efficiency ratio was down from 47.9% in 3Q19 to now 44.0%. Grupo Aval highlighted news that COVID-19 related quarantines in different countries where the company operates are beginning to be lifted.

We estimate that Grupo will earn \$0.53 per share for fiscal year 2020. However, we will be using a normalized average of the past three years of earnings to give us \$0.71 per share for FY2020. We are using \$0.71 per share in our calculations to adjust for the current economic environment.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	\$0.71	\$0.64	\$0.65	\$0.61	\$0.79	\$0.72	\$0.53	\$0.95
DPS	---	---	---	---	\$0.17	\$0.43	\$0.39	\$0.40	\$0.34	\$0.35	\$0.35	\$0.41
Shares¹	---	---	---	---	770.0	765.0	763.0	761.0	758.0	758.0	758.0	758.0

As South America and Central America region begin to lift COVID-19 restrictions, we expect Grupo Aval to grow at a 6% earnings growth for the next five years. We estimate that 2025 full-year earnings could be \$0.95 a share. This is a much better rate than what the company has been averaging over the past five years. The five-year compound annual growth rate (CAGR) for the company is 2.1%.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Grupo Aval Acciones y Valores S.A. (AVAL)

Updated January 24th, 2021 by Felix Martinez

The company's dividend is very inconsistent because it is converted to USD. Grupo Aval continued to pay its dividend during the 2020 COVID-19 pandemic, which is very impressive considering numerous banks either cut or suspended their dividend.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	14.6	10.2	12.2	14	7.5	12.2	9.3	10.0
Avg. Yld.	---	---	---	---	1.6%	6.5%	4.9%	4.7%	5.7%	4.0%	4.9%	4.3%

Shares have traded with an average P/E ratio of 11.2x earnings in the last five years. However, we think a PE of 10x is fair. At the current price, Grupo Alva currently has a P/E of 9.3x this year's normalized earnings. Thus, the company looks slightly undervalued based on our calculation. The dividend yield has been as high as 6.5% in 2015 and as low as 1.6% in 2014. Considering that the current S&P dividend yield is 1.55%, Grupo Aval's 4.9% yield appears comparative attractive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

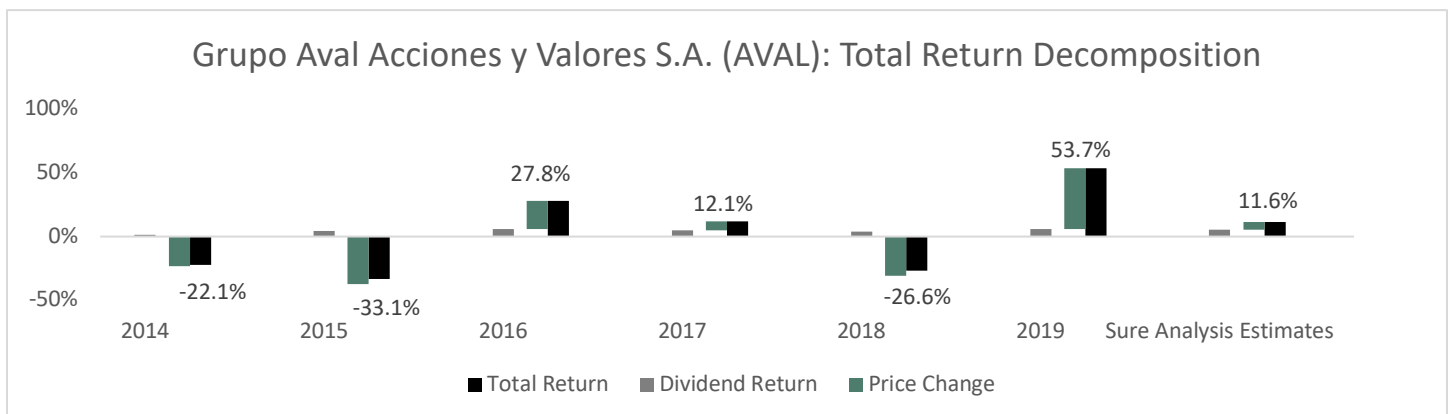
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	24%	67%	60%	66%	43%	49%	66%	43%

Grupo Aval 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 a company operates. The Colombian banking system is poor because of its unfriendly regulatory prospect, worsening macroeconomic prospects, and bleak political conditions. Aval does have a competitive advantage as it is the largest bank in Colombia. We do not have data during the Great Recession, but during the COVID-19 pandemic, the company has fair pretty well as it continued to pay out its monthly dividends. Grupo Aval currently does not have an S&P Credit Rating. The debt-to-equity ratio (D/E) is 3.1, which is relatively high. The company does have total assets of \$78.6 billion compared to \$69.4 billion in total liabilities, giving an assets-to-liabilities ratio of 1.1. Overall, Grupo Aval has a satisfactory balance sheet.

Final Thoughts & Recommendation

Grupo Aval appears able to withstand the current economic headwind. However, earnings have been very volatile. We anticipate a total return over the next five years of 11.6% per year, with most of this coming from earnings growth and the dividend yield. We rate Grupo Aval as a hold at the current price. While the 11.6% annual total return expectation is above average, we do not believe it fully compensates potential investors for the risk of investing in a foreign conglomerate like Grupo Aval.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Grupo Aval Acciones y Valores S.A. (AVAL)

Updated January 24th, 2021 by Felix Martinez

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	49,966	4,498	5,165	17,359	5,976	13,784	7,254	6,060	6,868	6,584
SG&A Exp.	18,340	1,858	2,059	6,759	3,066	4,991	2,843	2,230	2,351	2,192
D&A Exp.	1,825	203	231	760	419	762	347	306	325	397
Net Profit	7,175	708	854	2,598	1,210	2,005	954	667	988	928
Net Margin	14.4%	15.7%	16.5%	15.0%	20.3%	14.5%	13.1%	11.0%	14.4%	14.1%
Free Cash Flow	16,754	2,155	2,475	9,927	3,492	9,141	389	1,276	2,486	1,201
Income Tax	6,231	624	767	2,297	1,206	1,845	917	596	729	638

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	49,888	57,535	72,002	80,890	75,293	69,337	74,841	78,531	79,980	85,044
Cash & Equiv.	5,016	6,036	7,557	7,577	7,271	7,126	7,411	7,294	8,669	9,170
Accounts Rec	925	968	1,234	675	763	459	622	602	687	676
Goodwill	1,570	1,605	1,603	3,686	3,409	3,219	3,462	3,607	4,271	4,903
Total Liabilities	45,211	53,325	66,879	72,151	66,302	62,007	66,604	69,942	70,877	74,873
Accounts Payable	1,290	779	858	278	337	464	538	604	569	573
Long-Term Debt	9,801	10,954	14,273	16,370	15,012	15,401	15,480	15,271	15,992	16,971
Shareholder's Equity	2,359	4,210	5,123	5,327	5,754	4,662	5,211	5,407	5,479	6,054
D/E Ratio	4.15	2.60	2.79	3.07	2.61	3.30	2.97	2.82	2.92	2.80

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	16.9%	1.3%	1.3%	3.4%	1.6%	2.8%	1.3%	0.9%	1.2%	1.1%
Return on Equity	329%	21.6%	18.3%	49.7%	21.8%	38.5%	19.3%	12.6%	18.2%	16.1%
ROIC	61.4%	4.8%	4.9%	11.7%	4.9%	8.6%	4.1%	2.8%	4.0%	3.6%
Shares Out.	---	---	---	---	770.0	765.0	763.0	761.0	758.0	758.0
Revenue/Share	71.67	5.52	5.57	18.66	7.76	18.01	9.51	7.96	9.06	8.69
FCF/Share	24.03	2.64	2.67	10.67	4.53	11.94	0.51	1.68	3.28	1.58

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.