



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

Updated April 11th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$6.30	5 Year CAGR Estimate:	8.6%	Market Cap:	\$7.01 B
Fair Value Price:	\$6.10	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/01/21
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	04/13/21
Dividend Yield:	4.8%	5 Year Price Target	\$8.16	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 \$7.01 billion and made \$5.58 billion in revenue in 2020. Note that Grupo Aval reports earnings in Colombian Peso, which we converted into USD.

On March 11th, 2021, Group Aval reported fourth quarter and Full Year (FY)2020 results. Grupo Aval earned \$1.33 billion in total interest income for the quarter, representing a (6.5)% decrease in the fourth quarter of 2019. The Company saw a 63.4% increase in total interest income from \$5.39 billion to now \$5.58 billion for the year. Net income was also up for the year and for the quarter year over year, 6.0% and 5.4%, respectively. After a big decrease in gross fee income in 2Q20 because of COVID-19 restrictions, gross fee income recovered during the last quarter, growing 10% compared to the previous quarter, but it decreased by 4.1% for the year to 2019. Total assets for the year ended with an increase of 15.8%. The growth in assets was mainly driven by a 12.4% year-over-year growth in total loans.

The Company made \$0.57 per share in earnings for the year, which is lower by (20.8)% vs. FY2019. We estimate that Grupo will earn \$0.61 per share for the fiscal year 2021. This will be an increase of 7% compared to FY2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	\$0.71	\$0.64	\$0.65	\$0.61	\$0.79	\$0.72	\$0.57	\$0.61	\$0.82
DPS	---	---	---	\$0.17	\$0.43	\$0.39	\$0.40	\$0.34	\$0.35	\$0.32	\$0.25	\$0.29
Shares¹	---	---	---	770.0	765.0	763.0	761.0	758.0	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 2026 full-year earnings could be \$0.82 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 (1.3)%.

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.

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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	14.6	10.2	12.2	14	7.5	12.2	12.1	10.3	10.0
Avg. Yld.	---	---	---	1.6%	6.5%	4.9%	4.7%	5.7%	4.0%	4.7%	4.8%	3.6%

Shares have traded with an average P/E ratio of 11.6x 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 10.3. Thus, the company looks slightly overvalued 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 1.47%, Grupo Aval's 4.8% yield appears comparative attractive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

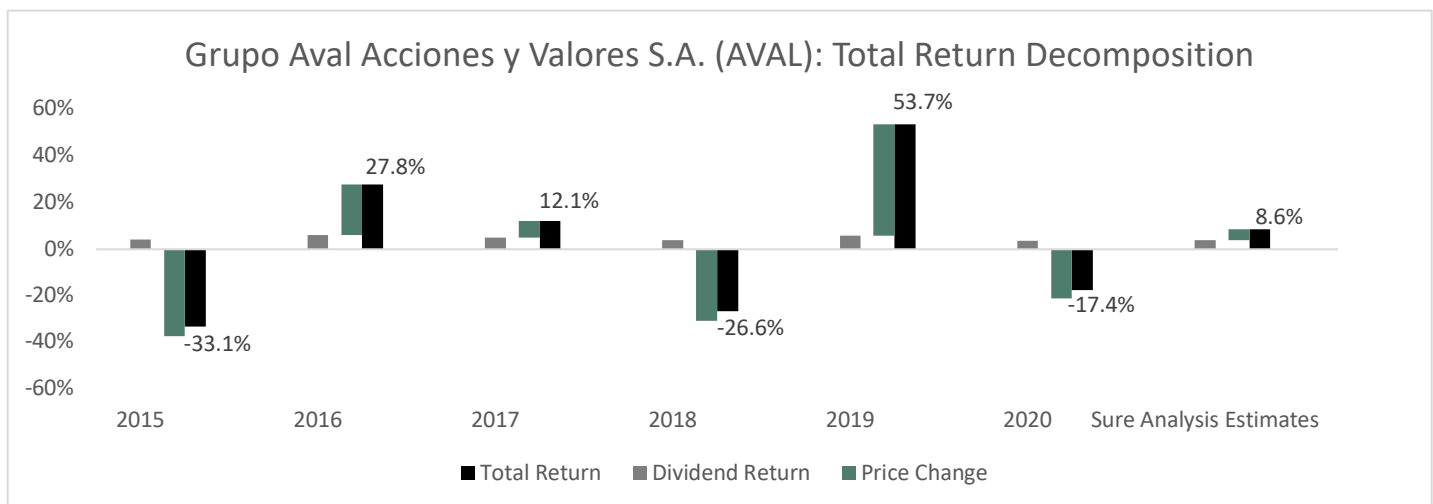
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	24%	67%	60%	66%	43%	49%	56%	41%	36%

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 flawed 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 \$76.9 billion compared to \$67.7 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 headwinds. However, earnings have been very volatile. We anticipate a total return over the next five years of 8.6% 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 8.6% annualized total return expectation is 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



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4498	5165	17359	5976	13758	7254	6060	6868	6584	6271
SG&A Exp.	1858	2059	6759	3066	4991	2843	2230	2351	2192	2026
D&A Exp.	203	231	760	419	762	347	306	325	397	382
Net Profit	708	854	2598	1210	2005	954	667	988	928	640
Net Margin	15.7%	16.5%	15.0%	20.3%	14.6%	13.1%	11.0%	14.4%	14.1%	10.2%
Free Cash Flow	2155	2475	9927	3492	9141	389	1276	2486	1201	2180
Income Tax	624	767	2297	1206	1845	917	596	729	638	502

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	57535	72002	80890	75293	69337	74841	78531	79980	85044	94286
Cash & Equiv.	6036	7557	7577	7271	7126	7411	7294	8669	9170	9912
Accounts Rec	968	1234	675	763	459	622	602	687	671	707
Goodwill	1605	1603	3686	3409	3219	3462	3607	4271	4903	5409
Total Liabilities	53325	66879	72151	66302	62007	66604	69942	70877	74873	83937
Accounts Payable	779	858	278	337	464	538	604	569	573	620
Long-Term Debt	10954	14273	16370	15012	15387	15470	15263	15986	16968	17371
Shareholder's Equity	4210	5123	5327	5754	4662	5211	5407	5479	6054	6032
D/E Ratio	2.60	2.79	3.07	2.61	3.30	2.97	2.82	2.92	2.80	2.88

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.3%	1.3%	3.4%	1.6%	2.8%	1.3%	0.9%	1.2%	1.1%	0.7%
Return on Equity	21.6%	18.3%	49.7%	21.8%	38.5%	19.3%	12.6%	18.2%	16.1%	10.6%
ROIC	4.8%	4.9%	11.7%	4.9%	8.6%	4.1%	2.8%	4.0%	3.6%	2.3%
Shares Out.	---	---	---	770.0	765.0	763.0	761.0	758.0	758.0	758.0
Revenue/Share	5.52	5.57	18.66	7.76	17.97	9.51	7.96	9.06	8.69	8.29
FCF/Share	2.64	2.67	10.67	4.53	11.94	0.51	1.68	3.28	1.58	2.88

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

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