



Itaú Unibanco Holding S.A. ADR (ITUB)

Updated May 26th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$5.49	5 Year CAGR Estimate:	0.5%	Market Cap:	\$50.9 B
Fair Value Price:	\$4.80	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	05/25/21
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	06/12/21
Dividend Yield:	1.79%	5 Year Price Target	\$5.17	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	220%

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 world's tenth-largest bank by market value, and 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, etc. Itaú currently employs over 96,000 people across the world and has a market capitalization of \$50.9 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 May 3rd, 2021, Itaú Unibanco reported first-quarter results for the fiscal year 2021 results. The Company reported an increase in both operating revenues and net income before tax. Operating revenues were up 2.8% compared to the first quarter of FY2020. The biggest driver in the increase of operating revenues was Managerial financial margin, which saw a 4.7% increase compared to 1Q20. This segment makes up 66% of operating revenues. The cost of credit was a lot less for the quarter. The Company reported a cost of credit of \$(773) million compared to a loss of \$(1882) million year over year. Income before tax also improved with an increase of 124% compared to the FY2020 first quarter. Overall, the Company continues to increase its loan portfolio, which was up 2.5% in Brazil. Part of the increase was the mortgage loans which grew by 12.1% in the quarter.

The recurring managerial result reached \$1.2 billion in the first quarter of 2021, an 18.7% increase from the previous quarter. Recurring managerial return on equity was 18.5% compared to 16.1% in 4Q20 and 15.7% in 3Q20.

The Company also increased its monthly dividend from \$0.0026 per share per month to now \$0.008 per share per month. This represents a dividend increase of 220%.

Itaú earned \$0.35 per share for the full year, a meaningful decrease of (48)% compared to FY2019. However, we expect The Company to earn \$0.48 per share for the entire year of 2021. This is still lower than what the Company made pre-COVID-19.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.78	\$0.68	\$0.67	\$0.77	\$0.66	\$0.75	\$0.79	\$0.70	\$0.64	\$0.35	\$0.48	\$0.52
DPS	\$0.21	\$0.30	\$0.21	\$0.24	\$0.18	\$0.30	\$0.54	\$0.56	\$0.42	\$0.05	\$0.09	\$0.09
Shares¹	9977	9956	9955	9986	9934	9849	9818	9774	9785	9793	9793.0	9793.0

Itaú Unibanco has seen its earnings decrease at a compound annual growth rate of (8.5)% for the past ten years. We have estimated a modest EPS growth rate of 1.5% for the next five years. This will put 2026 earnings at \$0.52 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 4Q19. Another driver in earnings growth is that Itaú Unibanco positions itself as a regional money center in Latin America. The Company saw an increase in revenue in this region. Itaú

¹ Share count is in millions.

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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, but it recently grew its dividend by a substantial amount.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.8	11	10.1	9.3	6	9.1	11	13.0	14.3	17.3	11.4	10.0
Avg. Yld.	2.5%	4.1%	3.1%	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.8%	1.7%

For the ten-year average, shares have traded with an average P/E ratio of 11.2x earnings. However, we think a PE of 10x is fair. At the current price, Itaú currently has a P/E of 11.4x this year's earnings. The dividend yield has been as high as 6.2% in 2017 and as low as 1.1% in 2010. Since the dividend has been increased for the year, Itaú Unibanco's current yield is 1.79%, but it is still much lower than the ten-year average of 4.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

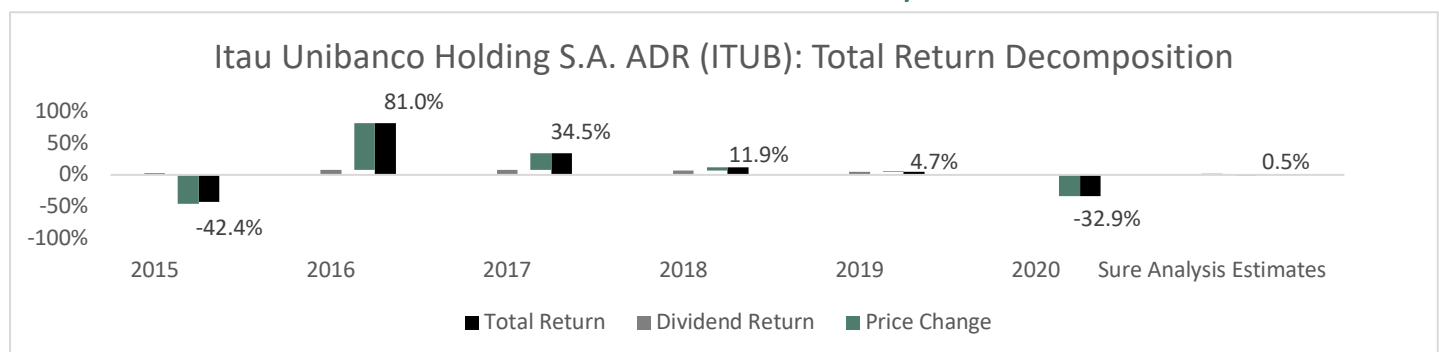
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	27%	44%	31%	31%	27%	40%	68%	80%	66%	14%	19%	17%

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 flawed 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 fell 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 2.1, so it is relatively high. However, the D/E ratio is improving. 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 an investor's total return rate. We anticipate a return rate for the next five years to be about 0.5% per year, with most of this coming from dividends. Thus, we rate Itaú Unibanco as a Sell at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	37,555	42,790	39,469	35,532	37,125	33,114	33,256	27,940	28,700	18,738
SG&A Exp.	15,875	17,103	15,519	15,015	14,740	115,99	12,742	11,925	11,572	8,507
D&A Exp.	1,203	1,295	1,122	1,083	1,083	937	991	981	903	731
Net Profit	6,574	8,263	6,474	7,626	9,174	6,235	7,251	6,853	6,877	3,702
Net Margin	17.5%	19.3%	16.4%	21.5%	24.7%	18.0%	21.8%	24.5%	24.0%	19.8%
Free Cash Flow	-18,741	-6,757	23,049	13,935	35,976	6,965	6,155	7,400	7,841	10,616
Income Tax	3,108	2,174	2,165	2,016	2,957	39,39	2,300	1,367	870	-1,927

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	430	439	466	434	423	415	433	401	407	388
Cash & Equivalents	65,506	73,166	49,449	50,374	38,954	38,992	44,247	40,700	38,812	36,924
Goodwill & Int. Ass.	1,735	2,050	2,276	3,254	3,040	5,239	5,849	4,988	4,900	3,333
Total Liabilities (\$B)	390	398	429	398	386	374	390	362	370	359
Long-Term Debt	63,335	77,862	82,388	77,489	73,551	69,550	67,451	59,049	69,402	56,643
Shareholder's Equity	38,952	39,621	36,980	35,157	37,281	36,892	39,643	35,295	34,023	27,504
D/E Ratio	1.63	1.97	2.23	2.20	1.97	1.89	1.70	1.67	2.04	2.06

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.7%	1.9%	1.4%	1.7%	2.1%	1.7%	1.7%	1.6%	1.7%	0.9%
Return on Equity	20.3%	21.0%	16.9%	21.1%	25.3%	19.1%	18.9%	18.3%	19.8%	12.0%
ROIC	5.7%	7.5%	5.4%	6.6%	8.2%	6.2%	6.6%	6.6%	6.7%	3.8%
Shares Out.	9991	9977	9956	9955	9986	9849	9818	9774	9785	9793
Revenue/Share	3.76	4.29	3.96	3.57	3.72	3.36	3.39	2.86	2.93	1.91
FCF/Share	(1.88)	(0.68)	2.32	1.40	3.60	0.71	0.63	0.76	0.8	1.08

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

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