



# Banco Bradesco S.A. (BBD)

Updated August 4<sup>th</sup>, 2021 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$4.70	<b>5 Year CAGR Estimate:</b>	2.7%	<b>Market Cap:</b>	\$50.2 B
<b>Fair Value Price:</b>	\$4.20	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	09/02/21 <sup>1</sup>
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.4%	<b>Dividend Payment Date:</b>	10/08/21
<b>Dividend Yield:</b>	5.1%	<b>5 Year Price Target</b>	\$4.2	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Banco Bradesco offers various banking products and financial services to individuals, corporations, and businesses in Brazil and internationally. The company's two main segments are banking and insurance, including checking and savings accounts, demand deposits, time deposits, as well as accident and property insurance products and investment products. The company generates around \$20 billion in annual revenues and is headquartered in Osasco, Brazil. All financials have been converted to USD unless otherwise specified.

On August 4<sup>th</sup>, 2021, Banco Bradesco reported its Q2 results for the period ending June 30<sup>th</sup>, 2021. The banking segment's net interest income was \$3.03 billion for the quarter, representing a 1.0% growth year-over-year. Income from insurance declined 57.5% year-over-year due to operating cost efficiencies, due to higher expenses as a result of the effects of COVID-19, which remained strong in Brazil during the quarter. The company's client base remained rather stable during the quarter, nonetheless.

Net income ended at \$1.21 billion, 63.2% higher than Q2-2020, due to the company suffering non-recurring expenses last year amid the pandemic outbreak. However, quarter-over-quarter, net income declined by 3.0% due to the insurance segment's weak performance. EPS for the quarter was \$0.13, relatively stable quarter-over-quarter. We have slightly lowered our FY2021 EPS expectations from \$0.56 to \$0.52 to reflect the quarter's overall performance. Results are likely to be relatively more robust going forward, though we remain cautious due to the continuous depreciation of the Brazilian Real against the dollar. We also expect FY2021 DPS of \$0.24, reflecting the company's historical dividend policy. However, the dividend remains unpredictable as investors get a paid fluctuating DPS rates every month.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$0.66	\$0.62	\$0.59	\$0.65	\$0.52	\$0.62	\$0.58	\$0.48	\$0.59	\$0.36	<b>\$0.52</b>	<b>\$0.52</b>
<b>DPS</b>	\$0.24	\$0.23	\$0.20	\$0.22	\$0.18	\$0.25	\$0.31	\$0.25	\$0.61	\$0.14	<b>\$0.24</b>	<b>\$0.24</b>
<b>Shares<sup>2</sup></b>	8,849	8,853	8,849	8,847	8,839	8,836	8,836	8,836	8,836	9,295	<b>9,710</b>	<b>10,000</b>

Banco Bradesco's EPS has been improving gradually in constant currency but shown as flat or reduced over the years when converted in USD due to BRL/USD depreciation. In Q2, the company reported it expanded its loan portfolio to \$140.0 billion, a 9.9% growth year-over-year, or 3.0% quarter-over-quarter. Additionally, its client base in its AGORA digital investment brokerage app grew by nearly 50% to 672.9K, with \$13.92 billion of invested funds. While we would typically price in positive growth in the company's EPS results, such growth could be wiped once again by FX changes.

Dividend payments are made on a monthly basis, which is quite rare for an international company. The company usually pays around \$0.0036 per share each month, accompanied by two special dividends per year, which define the final amount. It is worth noting that the company had consecutively grown its dividend annually from 2012 to 2019, but again, FX changes have distorted that amount. Our \$0.24 FY2021 DPS estimate reflects the company's historical

<sup>1</sup> Estimated dividend dates based on past dividend dates.

<sup>2</sup> Share count 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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tendency to pay out a little less than half of its net income. This year, the company has already paid nine dividends, averaging around \$0.0035 each and a special dividend of \$0.1025.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.9	16.1	15.1	16.2	11.7	10.8	12.1	13.5	13.2	11.8	9.0	8.0
Avg. Yld.	2.1%	2.3%	2.2%	2.1%	3.0%	3.7%	4.5%	3.9%	7.8%	3.5%	5.1%	5.8%

Banco Bradesco's historical P/E has remained quite consistent over the past decade, hovering in the mid-teens, averaging 13.7. On the one hand, the company's constant growth and monthly payouts, which provide rather predictable returns, could point towards a valuation appreciation. On the other hand, the fact the company is based outside of the U.S. (governance and reporting issues) and the continuous weakening of the Brazilian Real rightfully drags the valuation lower. We retain our fair multiple at 8, as we feel investors can find high-quality U.S. banks at very attractive valuation multiples. To account for BBD's relatively higher risks, a P/E of 8 should be quite fair.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	36%	37%	34%	34%	35%	40%	54%	53%	103%	39%	46%	46%

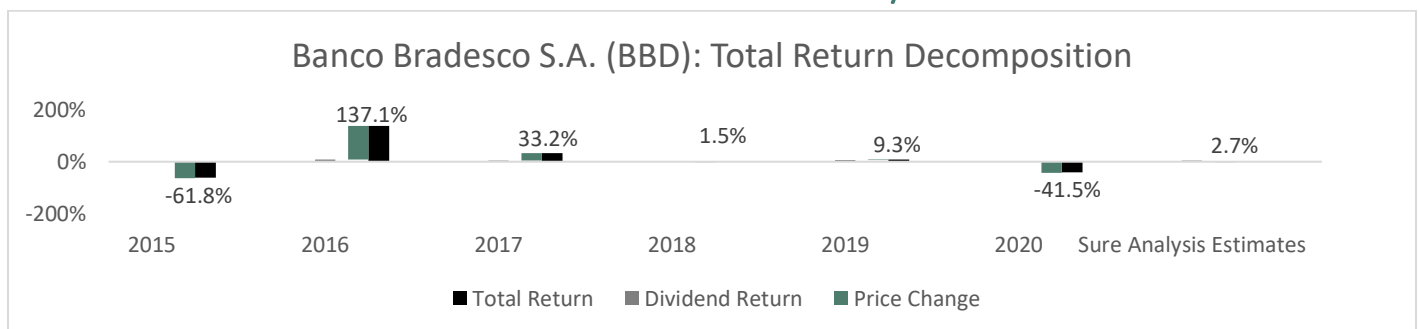
While Banco Bradesco's dividend is not consistent and will continue to vary based on the company's underlying results and FX changes, a base level (\$0.0036/month) should be considered quite safe, being well-covered by the company's cash from operations. The company continued to pay its base monthly rate even under the Great Financial Crisis, despite its financials suffering along with the rest of its sector.

The company's Basel ratio currently stands at 14.1% (the minimum capital ratio banks must maintain to ensure solvency is 8%), which makes for a healthy capital structure. Liquidity coverage stands at 156%, also ample to ensure available funds if needed.

## Final Thoughts & Recommendation

Banco Bradesco S.A. is a well-managed financial services company. In its original Sao Paulo listing, the stock has delivered investors positive returns over the years when valued in constant currency. However, for American investors, the company's underlying growth has been wiped out by the non-stop depreciation of BRL/USD – hence our neutral estimates. Our expected annualized returns come out at around 2.7%, powered solely by its monthly dividend, offset by a potential valuation headwind. Considering the currency risks involved, we require more substantial expected returns for the security to appear compelling. Shares earn a sell rating as a result.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	26,405	30,899	30,970	26,813	28,953	20,314	27,785	28,509	24,430	25,183
<b>SG&amp;A Exp.</b>	10,419	13,421	11,972	11,378	11,338	8,485	9,559	12,802	10,765	11,217
<b>D&amp;A Exp.</b>	1,104	1,265	1,275	1,273	1,248	899	1,054	1,428	1,323	1,488
<b>Net Profit</b>	5,581	6,543	5,786	5,755	6,518	5,539	5,159	5,343	4,563	5,333
<b>Net Margin</b>	21.1%	21.2%	18.7%	21.5%	22.5%	27.3%	18.6%	18.7%	18.7%	21.2%
<b>Free Cash Flow</b>	-17,628	-25,148	24,211	44,014	33,185	-20,009	14,080	9,351	-3,285	-6,285
<b>Income Tax</b>	2,960	2,103	2,096	851	1,666	-2,637	4,011	2,010	741	-1,976

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets (\$B)</b>	356.5	386.9	389.5	354.1	349.5	259.1	366.2	369.5	336.9	342.5
<b>Cash &amp; Equivalents</b>	47,872	17,087	11,093	9,454	9,692	7,518	9,489	9,918	32,497	31,881
<b>Acc. Receivable</b>	---	1,493	1,178	897	767	499	557	910	171	41
<b>Goodwill &amp; Int.</b>	3,200	3,867	3,712	3,473	2,828	1,870	4,853	4,882	4,162	3,659
<b>Total Liab (\$B)</b>	326.3	355.1	354.8	323.7	318.6	236.2	333.8	333.9	304.7	308.9
<b>Long-Term Debt</b>	26,091	39,177	44,751	42,104	47,910	42,162	64,883	58,213	56,232	58,510
<b>Total Equity</b>	30,187	31,690	34,659	30,367	30,861	22,918	32,348	35,427	32,068	33,569
<b>D/E Ratio</b>	0.86	1.24	1.29	1.39	1.55	1.84	2.01	1.64	1.75	1.74

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	1.7%	1.8%	1.5%	1.5%	1.9%	1.8%	1.7%	1.5%	1.3%	1.6%
<b>Return on Equity</b>	22.9%	21.2%	17.4%	17.7%	21.3%	20.6%	18.7%	15.8%	13.5%	16.2%
<b>ROIC</b>	9.6%	10.3%	7.7%	7.6%	8.6%	7.7%	6.4%	5.6%	5.0%	5.9%
<b>Shares Out.</b>	8,849	8,853	8,849	8,847	8,839	8,836	8,836	8,836	8,836	9,295
<b>Revenue/Share</b>	3.03	3.49	3.50	3.03	3.27	2.30	3.14	3.23	2.76	2.85
<b>FCF/Share</b>	(2.02)	(2.84)	2.73	4.97	3.75	(2.26)	1.59	1.06	(0.37)	(0.71)

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

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