



Banco Bradesco S.A. (BBD)

Updated February 9th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$4.31	5 Year CAGR Estimate:	3.8%	Market Cap:	\$41.76 B
Fair Value Price:	\$4.20	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/02/22
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	04/07/22
Dividend Yield:	4.6%	5 Year Price Target	\$4.20	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	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 February 9th, 2022, Banco Bradesco reported its Q4 results for the period ending December 31st, 2021. The banking segment's net interest income came in at \$3.20 billion for the quarter, representing a 1.8% growth year-over-year. Income from insurance also grew by 54.6% to \$670 million. The strong increase reflects last year's adversely impacted results related to Covid-19. Sequentially, insurance income grew 9.8% amid most of the recovery materializing in the previous two quarters. The company's client base remained rather stable during the quarter.

Recurring net income came in at \$1.25 billion, 2.8% lower compared to last year, due to higher operating and tax expenses. However, recurring net income grew by 34.7% to \$4.96 billion for the full year, a new record for the company. EPS for the quarter was \$0.13, a cent higher quarter-over-quarter, contributing to FY-2021 reaching \$0.41.

We forecast FY2022 EPS of \$0.42 based on management's guidance for the year, which includes 10% to 14% loan portfolio expansion and 2% to 6% growth in fees and commission income. 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 FY2022 dividends of \$0.20 per share, reflecting the company's historical dividend policy. However, the dividend remains unpredictable as investors distributions deal with currency fluctuations.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.62	\$0.59	\$0.65	\$0.52	\$0.62	\$0.58	\$0.48	\$0.59	\$0.36	\$0.41	\$0.42	\$0.42
DPS	\$0.23	\$0.20	\$0.22	\$0.18	\$0.25	\$0.31	\$0.25	\$0.61	\$0.14	\$0.15	\$0.20	\$0.20
Shares¹	8,853	8,849	8,847	8,839	8,836	8,836	8,836	8,836	8,853	9,689	9,689	10,000

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 Q4, the company reported it expanded its loan portfolio to R\$812.7 billion (\$153.8 billion), an 18.3% growth year-over-year, or 5.1% quarter-over-quarter. Additionally, its client base in its AGORA digital investment brokerage app grew by 35.7% to 743.2K, with \$12.61 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

¹ 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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again, FX changes have distorted that amount. Our \$0.20 FY2022 DPS estimate reflects the company's historical tendency to pay out a little less than half of its net income. We don't expect any dividend growth ahead.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.1	15.1	16.2	11.7	10.8	12.1	13.5	13.2	11.8	10.9	10.3	10.0
Avg. Yld.	2.3%	2.2%	2.1%	3.0%	3.7%	4.5%	3.9%	7.8%	3.5%	3.2%	4.6%	4.8%

Banco Bradesco's historical P/E has remained quite consistent over the past decade, hovering in the mid-teens, averaging 13.1. On the one hand, the company's modest 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 expect the stock continue trading with a P/E of around 10, but investors can find high-quality U.S. banks trading at equally attractive valuation multiples.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	34%	34%	35%	40%	54%	53%	103%	39%	37%	48%	48%

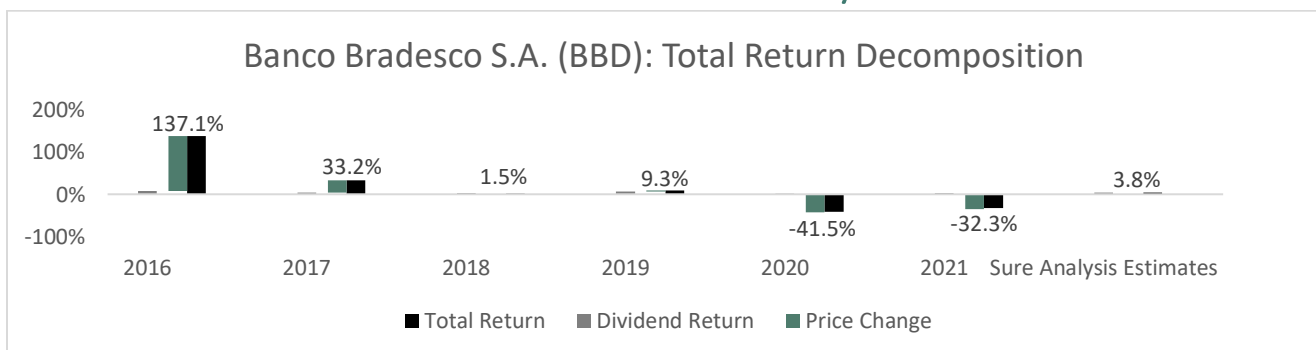
While Banco Bradesco's dividend is not consistent and will continue to vary based on the company's underlying results and FX changes, a base level (\$0.0036/month) should be considered quite safe, being well-covered by the company's cash from operations. The company continued to pay its base monthly 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 15.8% (the minimum capital ratio banks must maintain to ensure solvency is 8%), which makes for a healthy capital structure. Liquidity coverage stands at 128.1%, 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 to 3.8%, powered solely by its monthly dividend and relatively stable valuation assumptions ahead. Shares earn a sell rating as a result. Still, we warn that Banco Bradesco has multiple risks attached to its investment case.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	26,405	30,899	30,970	26,813	28,953	20,314	27,785	28,509	24,430	25,183
SG&A Exp.	10,419	13,421	11,972	11,378	11,338	8,485	9,559	12,802	10,765	11,217
D&A Exp.	1,104	1,265	1,275	1,273	1,248	899	1,054	1,428	1,323	1,488
Net Profit	5,581	6,543	5,786	5,755	6,518	5,539	5,159	5,343	4,563	5,333
Net Margin	21.1%	21.2%	18.7%	21.5%	22.5%	27.3%	18.6%	18.7%	18.7%	21.2%
Free Cash Flow	-17,628	-25,148	24,211	44,014	33,185	-20,009	14,080	9,351	-3,285	-6,285
Income Tax	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
Total Assets (\$B)	356.5	386.9	389.5	354.1	349.5	259.1	366.2	369.5	336.9	342.5
Cash & Equivalents	47,872	17,087	11,093	9,454	9,692	7,518	9,489	9,918	32,497	31,881
Acc. Receivable	---	1,493	1,178	897	767	499	557	910	171	41
Goodwill & Int.	3,200	3,867	3,712	3,473	2,828	1,870	4,853	4,882	4,162	3,659
Total Liab (\$B)	326.3	355.1	354.8	323.7	318.6	236.2	333.8	333.9	304.7	308.9
Long-Term Debt	26,091	39,177	44,751	42,104	47,910	42,162	64,883	58,213	56,232	58,510
Total Equity	30,187	31,690	34,659	30,367	30,861	22,918	32,348	35,427	32,068	33,569
D/E Ratio	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
Return on Assets	1.7%	1.8%	1.5%	1.5%	1.9%	1.8%	1.7%	1.5%	1.3%	1.6%
Return on Equity	22.9%	21.2%	17.4%	17.7%	21.3%	20.6%	18.7%	15.8%	13.5%	16.2%
ROIC	9.6%	10.3%	7.7%	7.6%	8.6%	7.7%	6.4%	5.6%	5.0%	5.9%
Shares Out.	8,849	8,853	8,849	8,847	8,839	8,836	8,836	8,836	8,836	9,295
Revenue/Share	3.03	3.49	3.50	3.03	3.27	2.30	3.14	3.23	2.76	2.85
FCF/Share	(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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