



Itaú Unibanco Holding S.A. ADR (ITUB)

Updated March 10th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$4.90	5 Year CAGR Estimate:	10.2%	Market Cap:	\$43.3 B
Fair Value Price:	\$5.90	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/01/22
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	05/12/22
Dividend Yield:	2.70%	5 Year Price Target	\$7.53	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 has been the most prominent financial conglomerate in the Southern Hemisphere, 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 worldwide and has a market capitalization of \$43.3 billion. The company pays a dividend monthly but at different rates. Itaú Unibanco reports its earnings in Brazilian Real currency. This report will convert all financial numbers into United States Dollars.

On February 11th, 2022, Itaú Unibanco reported fourth-quarter and full-year results for 2021. The company reported an increase in Operating revenue from \$1,066 million in 4Q2020 to \$1,417 million last quarter, increasing 32.9% year-over-year. For the year, operating revenue is up 9.4% compared to the entire year of 2020. The recurring managerial return on equity was 20.2%, while the return reached 20.9% in Brazil. Loan operations continued to grow, and the company loan portfolio was up 7.9% in Brazil and 6.7% in consolidated. The individual loan portfolio was up 9.5% in the quarter. Also, the credit card portfolio increased 15.5%, with seasonality pushing it higher at the end of the year. The bank continues to make significant headway on the digital front. In the fourth quarter, 63% of products purchased by individuals were made digitally. Net income for the quarter was up 32.9% versus the fourth quarter of FY2020. For the year, net income is up 45% versus 2020. The company had a historical record with the issuance of 4.8 million cards. Personal loans grew 9.6%, with significant increases in credit lines with better spreads, such as overdraft and consumer credit. Mortgage loans grew 8.3% this quarter, with a high production level throughout 2021.

Itaú earned \$0.52 per share for the entire year of 2021, a meaningful increase of 78% compared to FY2020. Thus, we expect the company to earn \$0.59 per share for the whole year of 2022. This is still lower than what the company made pre-COVID-19.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.68	\$0.67	\$0.77	\$0.66	\$0.75	\$0.79	\$0.70	\$0.64	\$0.35	\$0.52	\$0.59	\$0.75
DPS	\$0.30	\$0.21	\$0.24	\$0.18	\$0.30	\$0.54	\$0.56	\$0.42	\$0.05	\$0.05	\$0.09	\$0.09
Shares¹	9956.0	9955.0	9986.0	9934.0	9849.0	9818.0	9774.0	9785.0	9793.0	9780.0	9780.0	9780.0

Itaú Unibanco has seen its earnings decrease at a compound annual growth rate of (2.9)% for the past ten years. We have estimated a modest EPS growth rate of 5.0% for the next five years. This will put 2027 earnings at \$0.75 per share. The growth will be driven by a more considerable increase in demand deposits and loans. 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 has about 30% of loans outside of Brazil, allowing the company to benefit from growth in emerging Latin American markets.

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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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11	10.1	9.3	6	9.1	11	13.0	14.3	17.3	7.2	8.3	10.0
Avg. Yld.	4.1%	3.1%	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.4%	2.7%	1.2%

For the ten-year average, shares have traded with an average P/E ratio of 10.8x earnings. However, we think a PE of 10x is fair. At the current price, Itaú currently has a P/E of 8.3x 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 2.70%, but it is still much lower than the ten-year average of 4.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

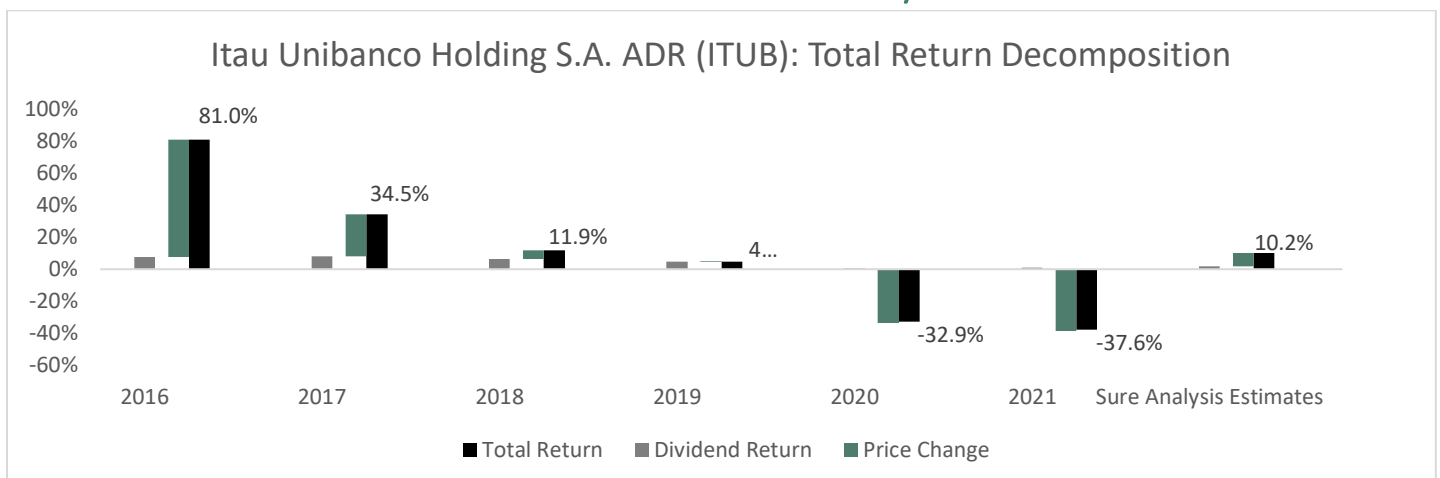
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	44%	31%	31%	27%	40%	68%	80%	66%	14%	10%	15%	12%

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 per 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. The stock price dropped -62.6% in ten months from high to low. 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. 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 investors' total return rate. We anticipate a return rate for the next five years to be about 10.2% per year, most of this coming from dividends. Thus, we rate Itaú Unibanco as a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	39,124	35,365	36,971	26,671	32,951	33,011	27,474	28,237	18,372	22,624
SG&A Exp.	15,519	15,015	14,740	11,430	11,599	12,742	11,708	11,370	8,327	8,528
D&A Exp.	1,122	1,083	1,083	864	937	991	981	903	731	786
Net Profit	6,474	7,626	9,174	7,862	6,235	7,251	6,853	6,877	3,702	4,969
Net Margin	16.5%	21.6%	24.8%	29.5%	18.9%	22.0%	24.9%	24.4%	20.2%	22.0%
Free Cash Flow	23,049	13,935	35,976	-11,327	6,965	6,155	7,390	7,825	10,616	9,475
Income Tax	2,165	2,016	2,957	-2,410	3,939	2,300	1,367	870	-1,927	2,571

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	466	434	423	322	415	433	401	407	388	371
Cash & Equivalents	49,449	50,374	38,954	29,187	38,992	44,247	40,700	38,812	36,924	39,303
Goodwill & Int. Ass.	2,276	3,254	3,040	2,108	5,239	5,849	4,988	4,900	3,333	3,788
Total Liabilities (\$B)	429	398	386	293	374	390	362	370	359	342
Long-Term Debt	82,388	77,489	73,551	63,310	69,550	67,451	59,049	69,402	56,643	56,681
Shareholder's Equity	36,980	35,157	37,281	28,336	36,892	39,643	35,295	34,023	27,504	27,428
LTD/E Ratio	2.23	2.20	1.97	2.23	1.89	1.70	1.67	2.04	388	2.07

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	1.7%	2.1%	2.1%	1.7%	1.7%	1.6%	1.7%	0.9%	1.3%
Return on Equity	16.9%	21.1%	25.3%	24.0%	19.1%	18.9%	18.3%	19.8%	12.0%	18.1%
ROIC	5.4%	6.6%	8.2%	7.7%	6.2%	6.6%	6.6%	6.7%	3.8%	5.8%
Shares Out.	9,956.0	9,955.0	9,986.0	9,934.0	9,849.0	9,818.0	9,774.0	9,785.0	9,793.0	9,780.0
Revenue/Share	3.93	3.55	3.70	2.68	3.35	3.36	2.81	2.89	1.87	2.30
FCF/Share	2.32	1.40	3.60	-1.14	0.71	0.63	0.76	0.80	1.08	0.96

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

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