



Banco Bradesco S.A. (BBD)

Updated February 11th, 2023 by Nikolaos Sismanis

2022 Key Metrics

Current Price:	\$2.45	5 Year CAGR Estimate:	3.0%	Market Cap:	\$26.7 B
Fair Value Price:	\$2.66	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	02/02/2023
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	03/08/2023
Dividend Yield:	1.5%	5 Year Price Target	\$2.66	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Sell

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 \$16 billion in annual revenues and is headquartered in Osasco, Brazil. All financials have been converted to USD unless otherwise specified.

On February 10th, 2023, Banco Bradesco reported its Q4 and full-year results for the period ending December 31st, 2022. The banking segment's net interest income came in at \$3.20 billion for the quarter, representing a 1.7% decline year-over-year. Income from insurance grew by 21.9% to \$824.5 million. The significant increase in insurance income was favored by the expansion of revenue in all lines of business and by the increase in financial income.

Recurring net income came in at \$0.31 billion, 75.9% lower compared to last year. The main reasons for this result were the performance of the market NII, which was negatively affected by the current level of the Selic (Special System for Settlement and Custody), the increase in expenses caused by the delinquency scenario, and the reinforcement of the complementary ALL (additional coverage provision).

EPS for the year came in at \$0.37, down from \$0.39 in fiscal 2021. We are forecasting FY2023 EPS of \$0.38, assuming higher net interest income due to rising interest rates. Still, we remain cautious due to the possibility of the Brazilian Real depreciating against the dollar.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.49	\$0.54	\$0.43	\$0.51	\$0.48	\$0.40	\$0.49	\$0.29	\$0.39	\$0.35	\$0.38	\$0.38
DPS	\$0.20	\$0.22	\$0.18	\$0.25	\$0.31	\$0.25	\$0.61	\$0.14	\$0.15	\$0.13	\$0.04	\$0.04
Shares¹	8,849	8,847	8,839	8,836	8,836	8,836	8,836	8,835	9,689	10,642	10,642	11,000

Banco Bradesco's EPS has been improving gradually in constant currency but is shown as flat or reduced over the years when converted into USD due to BRL/USD depreciation. In FY2022, the company reported it expanded its loan portfolio to R\$891.9 billion (\$171 billion), a 9.8% growth year-over-year, or 1.5% quarter-over-quarter. Additionally, its client base in its AGORA digital investment brokerage app grew by 19.2% to 886.2K, with \$13.2 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 one or 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. The annual dividend should be higher than our current DPS entry, which only includes the base monthly dividend. Due to the special payouts being unpredictable, we don't forecast them.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.1	16.2	11.7	10.8	12.1	13.5	13.2	11.8	10.9	9.2	6.4	7.0
Avg. Yld.	2.2%	2.1%	3.0%	3.7%	4.5%	3.9%	7.8%	3.5%	3.2%	3.8%	1.5%	1.4%

Banco Bradesco's historical P/E has remained quite consistent over the past decade, hovering in the mid-teens, averaging 12.4. On the one hand, the company's modest growth and monthly payouts, which provide rather predictable returns, could point towards a valuation appreciation. Rising interest rates should boost its interest income as well. On the other hand, the fact the company is based outside of the U.S. (lack of shareholder-interest prioritization) and the possibility of a weakening Brazilian Real rightfully drags the valuation lower. We consider the stock fairly priced at a P/E of 7, which implies a valuation tailwind from the current P/E of 6.4.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	41%	42%	49%	65%	64%	124%	48%	38%	37%	10%	10%

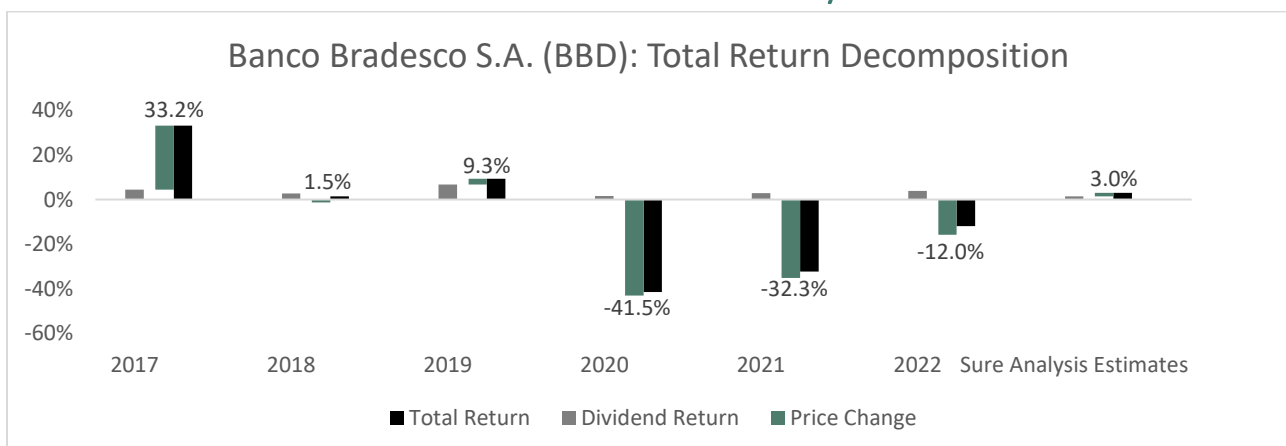
While Banco Bradesco's dividend is not consistent and will continue to vary based on the company's underlying results and FX changes, a base level (\$0.0033/month) should be considered quite safe, being well-covered by the company's cash from operations. The company continued to pay its base monthly 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 14.8% (the minimum capital ratio banks must maintain to ensure solvency is 8%), which makes for a healthy capital structure. Liquidity coverage stands at 160.1%, 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 continuous depreciation of BRL/USD – hence our neutral estimates. Our expected annualized returns come out to 3.0% through 2028, powered mainly by the monthly dividend and the possibility of a valuation tailwind ahead. Returns are likely to be higher due to special dividends, but, still, they are speculative and don't justify the underlying risks involved. Hence, shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	30,899	30,970	26,813	28,953	20,314	27,785	28,509	24,430	25,183	19,020
SG&A Exp.	13,421	11,972	11,378	11,338	8,485	9,559	12,802	10,765	11,217	7,258
D&A Exp.	1,265	1,275	1,273	1,248	899	1,054	1,428	1,323	1,488	1,072
Net Profit	6,543	5,786	5,755	6,518	5,539	5,159	5,343	4,563	5,333	4,303
Net Margin	21.2%	18.7%	21.5%	22.5%	27.3%	18.6%	18.7%	18.7%	21.2%	22.6%
Free Cash Flow	-25,148	24,211	44,014	33,185	-20,009	14,080	9,351	-3,285	-6,285	-19,760
Income Tax	2,103	2,096	851	1,666	-2,637	4,011	2,010	741	-1,976	1,759

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	386.9	389.5	354.1	349.5	259.1	366.2	369.5	336.9	342.5	300.7
Cash & Equivalents	17,087	11,093	9,454	9,692	7,518	9,489	9,918	32,497	31,881	23
Acc. Receivable	1,493	1,178	897	767	499	557	910	171	41	252
Goodwill & Int.	3,867	3,712	3,473	2,828	1,870	4,853	4,882	4,162	3,659	2,675
Total Liab (\$B)	355.1	354.8	323.7	318.6	236.2	333.8	333.9	304.7	308.9	273.7
Long-Term Debt	39,177	44,751	42,104	47,910	42,162	64,883	58,213	56,232	58,510	42,040
Total Equity	31,690	34,659	30,367	30,861	22,918	32,348	35,427	32,068	33,569	26,870
LTD/E Ratio	1.24	1.29	1.39	1.55	1.84	2.01	1.64	1.75	1.74	1.56

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.8%	1.5%	1.5%	1.9%	1.8%	1.7%	1.5%	1.3%	1.6%	1.4%
Return on Equity	21.2%	17.4%	17.7%	21.3%	20.6%	18.7%	15.8%	13.5%	16.2%	15.7%
ROIC	10.3%	7.7%	7.6%	8.6%	7.7%	6.4%	5.6%	5.0%	5.9%	6.2%
Shares Out.	8,853	8,849	8,847	8,839	8,836	8,836	8,836	8,836	9,295	10,670
Revenue/Share	3.49	3.50	3.03	3.27	2.30	3.14	3.23	2.76	2.85	1.78
FCF/Share	(2.84)	2.73	4.97	3.75	(2.26)	1.59	1.06	(0.37)	(0.71)	(1.85)

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

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