



Itaú Unibanco Holding S.A. ADR (ITUB)

Updated March 4th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$4.60	5 Year CAGR Estimate:	16.4%	Market Cap:	\$42.5 B
Fair Value Price:	\$6.80	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/01/23
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	8.1%	Dividend Payment Date:	04/13/23
Dividend Yield:	0.9%	5 Year Price Target	\$8.68	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

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 \$42.5 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 7th, 2023, Itaú Unibanco reported fourth-quarter and full year results for 2022. The company reported an increase in operating revenue compared to 4Q2021 by 13.2%. For the year, operating revenue has increased 14.3% year over-year compared to the full year of 2021. Recurring managerial result reached \$1.5 billion in the fourth quarter of 2022, a 5.1% decrease from the previous quarter. Recurring managerial return on equity was 19.3%, the same level of return determined for operations in Brazil. The loan portfolio was up 2.0% in Brazil and up 2.7% on a consolidated basis. Individual loan portfolio in Brazil was up 3.7% in the quarter. In the fourth quarter, the credit card portfolio, which is seasonally higher in the end of the year, was up 4.9%: a growth rhythm lower than that experienced in the end of 2021, driven by the more challenging economic scenario and the slowdown in card issuing activities over the year.

The company also announced a dividend increase of 3% on February 28th, 2023. We expect the company to earn \$0.68 per share for the whole year of 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.46	\$0.53	\$0.45	\$0.52	\$0.54	\$0.48	\$0.44	\$0.24	\$0.52	\$0.58	\$0.68	\$0.87
DPS	\$0.16	\$0.16	\$0.19	\$0.21	\$0.22	\$0.46	\$0.53	\$0.19	\$0.12	\$0.15	\$0.21	\$0.24
Shares¹	9955	9986.0	9934.0	9849.0	9818.0	9774.0	9785.0	9793.0	9780.0	9800.0	9800.0	9800.0

Itaú Unibanco has seen its earnings increase at a compound annual growth rate of 2.6% for the past ten years. We have estimated a modest EPS growth rate of 5.0% for the next five years. This will put 2028 earnings at \$0.87 per share. The growth will be driven by a more considerable increase in demand for 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 its loans outside of Brazil, allowing 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.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.1	9.3	6	9.1	11	13.0	14.3	17.3	7.2	8.2	6.8	10.0
Avg. Yld.	3.1%	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.4%	0.9%	0.9%	2.8%

For the ten-year average, shares have traded with an average P/E ratio of 10.86 earnings. However, we think a PE of 10x is fair. At the current price, Itaú currently has a P/E of 6.8x this year's earnings. The dividend yield was 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 0.9%, but it is still much lower than the ten-year average of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

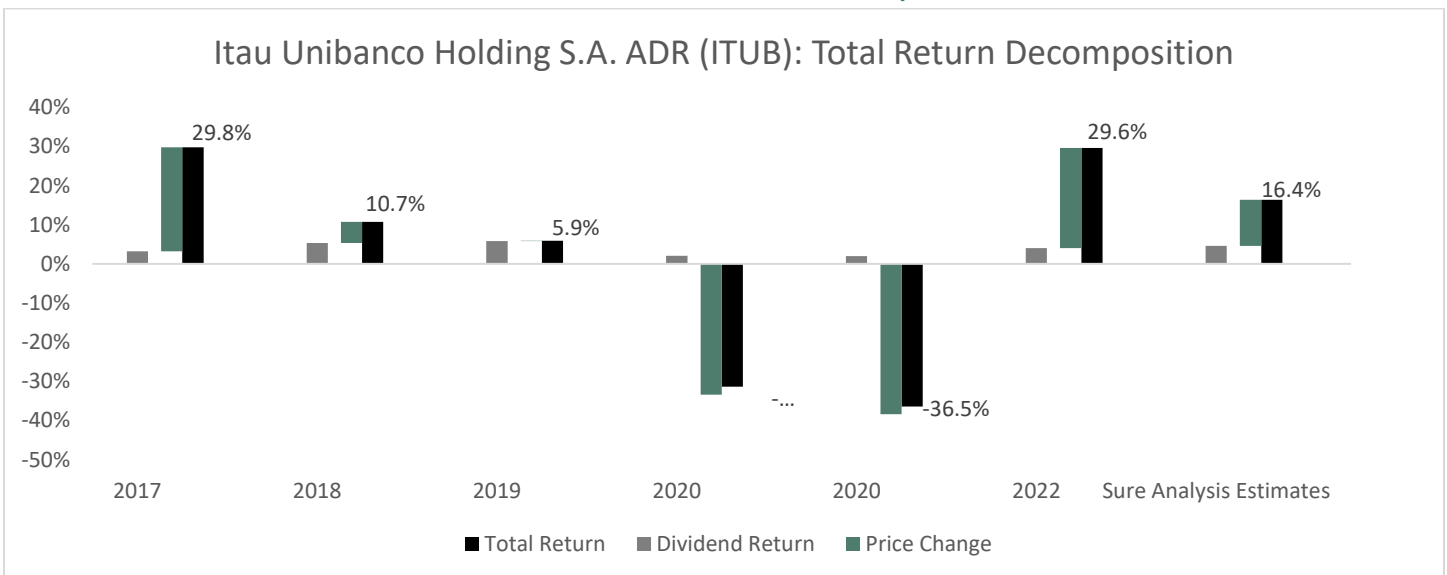
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	30%	42%	40%	41%	96%	120%	79%	23%	26%	31%	28%

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 2.6, which 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 16.4% per year. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	35,365	36,971	26,671	32,951	33,011	27,474	28,237	18,372	22,624	26,880
SG&A Exp.	15,015	14,740	11,430	11,599	12,742	11,708	11,370	8,327	8,528	10,078
D&A Exp.	1,083	1,083	864	937	991	981	903	731	786	930
Net Profit	7,626	9,174	7,862	6,235	7,251	6,853	6,877	3,702	4,969	5,760
Net Margin	21.6%	24.8%	29.5%	18.9%	22.0%	24.9%	24.4%	20.2%	22.0%	21.4%
Free Cash Flow	13,935	35,976	-11,327	6,965	6,155	7,390	7,825	10,616	9,475	23,558
Income Tax	2,016	2,957	-2,410	3,939	2,300	1,367	870	-1,927	2,571	1,318

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	434	423	322	415	433	401	407	388	371	439
Cash & Equivalents	50,374	38,954	29,187	38,992	44,247	40,700	38,812	36,924	39,303	39,850
Goodwill & Int. Ass.	3,254	3,040	2,108	5,239	5,849	4,988	4,900	3,333	3,788	684
Total Liabilities (\$B)	398	386	293	374	390	362	370	359	342	4,371
Long-Term Debt	77,489	73,551	63,310	69,550	67,451	59,049	69,402	56,643	56,681	406
Shareholder's Equity	35,157	37,281	28,336	36,892	39,643	35,295	34,023	27,504	27,428	80,191
LTD/E Ratio	2.20	1.97	2.23	1.89	1.70	1.67	2.04	388	2.07	31,762

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.7%	2.1%	2.1%	1.7%	1.7%	1.6%	1.7%	0.9%	1.3%	1.4%
Return on Equity	21.1%	25.3%	24.0%	19.1%	18.9%	18.3%	19.8%	12.0%	18.1%	19.5%
ROIC	6.6%	8.2%	7.7%	6.2%	6.6%	6.6%	6.7%	3.8%	5.8%	5.8%
Shares Out.	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	9,858.8
Revenue/Share	3.55	3.70	2.68	3.35	3.36	2.81	2.89	1.87	2.30	2.73
FCF/Share	1.40	3.60	-1.14	0.71	0.63	0.76	0.80	1.08	0.96	2.39

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

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