



# Itaú Unibanco Holding S.A. ADR (ITUB)

Updated August 27<sup>th</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$5.49	<b>5 Year CAGR Estimate:</b>	14.1%	<b>Market Cap:</b>	\$50.3B
<b>Fair Value Price:</b>	\$7.30	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	09/01/23
<b>% Fair Value:</b>	75%	<b>5 Year Valuation Multiple Estimate:</b>	5.9%	<b>Dividend Payment Date:</b>	10/12/23
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$9.32	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$50.3 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 August 8th, 2023, Itaú Unibanco reported second-quarter results for 2023. In Q2 2023, the company's recurring managerial result was \$8.7 billion, up 3.6% from the previous quarter. Return on equity stood at 20.9% consolidated and 21.5% in Brazil. The loan portfolio slightly dipped 0.1% consolidated, but would have risen 1.3% without forex effects. In Brazil, loans grew 1.2%, with personal loans up 3.8%, including a 1.9% rise in mortgage loans. The client margin grew by 3.7% to \$24.9 billion due to better portfolios, structured ops, and liability margins. Nonperforming loans over 90 days were at 3.0%, while 15-90 days overdue were at 2.5%. Credit costs increased 3.9% to \$9.4 billion due to higher provisions, balanced by recovered loans. Commissions, fees, and insurance operations rose 0.6%, driven by acquiring revenue and investment banking. Non-interest expenses rose 3.5%, and 106 branches closed in Brazil to optimize the network, resulting in 39.6% consolidated efficiency ratio and 37.7% in Brazil. Recurring managerial result increased by 14.2%, with return on equity at 20.8%. Favorable loan portfolios and adjusted mixes contributed to a 16.5% financial margin rise. Non-interest expenses increased 7.5%, while efficiency ratio decreased by 1.6 percentage points. These results highlight growth and strategic moves.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.46	\$0.53	\$0.45	\$0.52	\$0.54	\$0.48	\$0.44	\$0.24	\$0.52	\$0.58	<b>\$0.73</b>	<b>\$0.93</b>
<b>DPS</b>	\$0.16	\$0.16	\$0.19	\$0.21	\$0.22	\$0.46	\$0.53	\$0.19	\$0.12	\$0.15	<b>\$0.24</b>	<b>\$0.28</b>
<b>Shares<sup>1</sup></b>	9955	9986.0	9934.0	9849.0	9818.0	9774.0	9785.0	9793.0	9780.0	9800.0	<b>9800.0</b>	<b>9800.0</b>

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 \$0.93 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.

<sup>1</sup> 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	7.5	10.0
Avg. Yld.	3.1%	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.4%	0.9%	2.4%	3.0%

For the ten-year average, shares have traded with an average P/E ratio of 10.6x earnings. However, we think a PE of 10x is fair. At the current price, Itaú currently has a P/E of 7.5x 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 2.4%, but it is still much lower than the ten-year average of 3.5%.

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

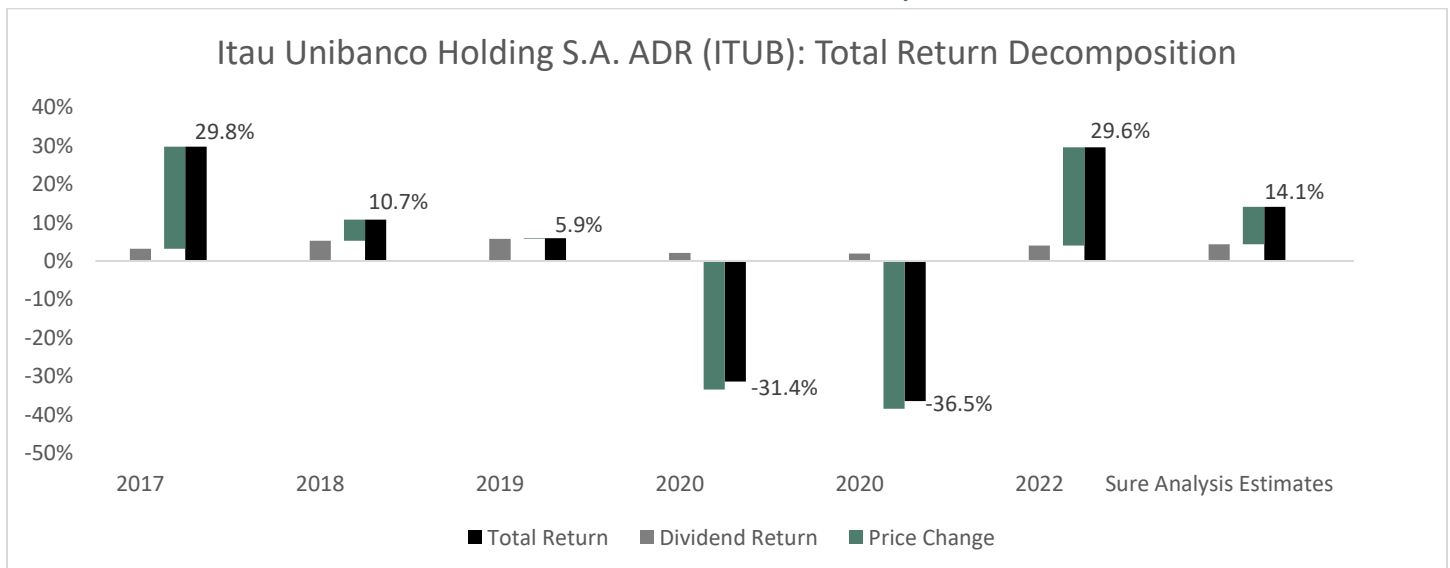
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	30%	42%	40%	41%	96%	120%	79%	23%	26%	33%	30%

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 2.5, 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 14.1% 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
<b>Revenue</b>	35,365	36,971	26,671	32,951	33,011	27,474	28,237	18,372	22,624	26,880
<b>SG&amp;A Exp.</b>	15,015	14,740	11,430	11,599	12,742	11,708	11,370	8,327	8,528	10,078
<b>D&amp;A Exp.</b>	1,083	1,083	864	937	991	981	903	731	786	930
<b>Net Profit</b>	7,626	9,174	7,862	6,235	7,251	6,853	6,877	3,702	4,969	5,760
<b>Net Margin</b>	21.6%	24.8%	29.5%	18.9%	22.0%	24.9%	24.4%	20.2%	22.0%	21.4%
<b>Free Cash Flow</b>	13,935	35,976	-11,327	6,965	6,155	7,390	7,825	10,616	9,475	23,558
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	434	423	322	415	433	401	407	388	371	439
<b>Cash &amp; Equivalents</b>	50,374	38,954	29,187	38,992	44,247	40,700	38,812	36,924	39,303	39,850
<b>Goodwill &amp; Int. Ass.</b>	3,254	3,040	2,108	5,239	5,849	4,988	4,900	3,333	3,788	684
<b>Total Liabilities (\$B)</b>	398	386	293	374	390	362	370	359	342	4,371
<b>Long-Term Debt</b>	77,489	73,551	63,310	69,550	67,451	59,049	69,402	56,643	56,681	406
<b>Shareholder's Equity</b>	35,157	37,281	28,336	36,892	39,643	35,295	34,023	27,504	27,428	80,191
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.7%	2.1%	2.1%	1.7%	1.7%	1.6%	1.7%	0.9%	1.3%	1.4%
<b>Return on Equity</b>	21.1%	25.3%	24.0%	19.1%	18.9%	18.3%	19.8%	12.0%	18.1%	19.5%
<b>ROIC</b>	6.6%	8.2%	7.7%	6.2%	6.6%	6.6%	6.7%	3.8%	5.8%	5.8%
<b>Shares Out.</b>	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
<b>Revenue/Share</b>	3.55	3.70	2.68	3.35	3.36	2.81	2.89	1.87	2.30	2.73
<b>FCF/Share</b>	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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