



Itaú Unibanco Holding S.A. ADR (ITUB)

Updated December 2nd, 2023 by Felix Martinez

Key Metrics

Current Price:	\$6.43	5 Year CAGR Estimate:	10.7%	Market Cap:	\$58.5 B
Fair Value Price:	\$7.30	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/01/23
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	01/12/24
Dividend Yield:	2.08%	5 Year Price Target	\$9.32	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 \$58.5 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 August 8th, 2023, Itaú Unibanco reported second-quarter results for 2023. In the third quarter of 2023, Itaú Unibanco reported a profit of \$1.8 million, reflecting an 11.9% increase compared to the same period in 2022. This growth can be attributed to several factors, including the expansion of the loan portfolio, leading to a rise in the financial margin with clients. Additionally, heightened commissions and fees, along with favorable results from insurance operations, contributed significantly.

As of September 2023, the total credit portfolio rose by 4.7% compared to the third quarter of 2022, reaching \$246 million. Noteworthy increases within the individual portfolio include a 17.9% growth in personal loans, a 12.1% surge in mortgages, and a 3.1% uptick in vehicle loans, showcasing the bank's progress in these segments.

Commissions and fees, coupled with results from insurance operations, experienced a 5.2% growth in the third quarter of 2023 compared to the same period in 2022. This expansion was fueled by various factors, including increased revenue from card services (both issuance and acquiring), higher consórcio administration fees, augmented income from investment banking operations, and a rise in earned premiums. Consequently, the result from insurance operations saw a substantial 19.0% growth during the same period.

However, the cost of credit in the third quarter of 2023 amounted to \$523 million, marking a 15.9% increase from the corresponding quarter in the previous year. This uptick was primarily driven by elevated provisions for loan losses in Brazil.

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	\$0.73	\$0.93
DPS	\$0.16	\$0.16	\$0.19	\$0.21	\$0.22	\$0.46	\$0.53	\$0.19	\$0.12	\$0.15	\$0.25	\$0.29
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 \$0.93 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

¹ Share count is in millions.

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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.

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	8.8	10.0
Avg. Yld.	3.1%	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.4%	0.9%	2.1%	3.1%

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 8.8x 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 2.08%, but it is still much lower than the ten-year average of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

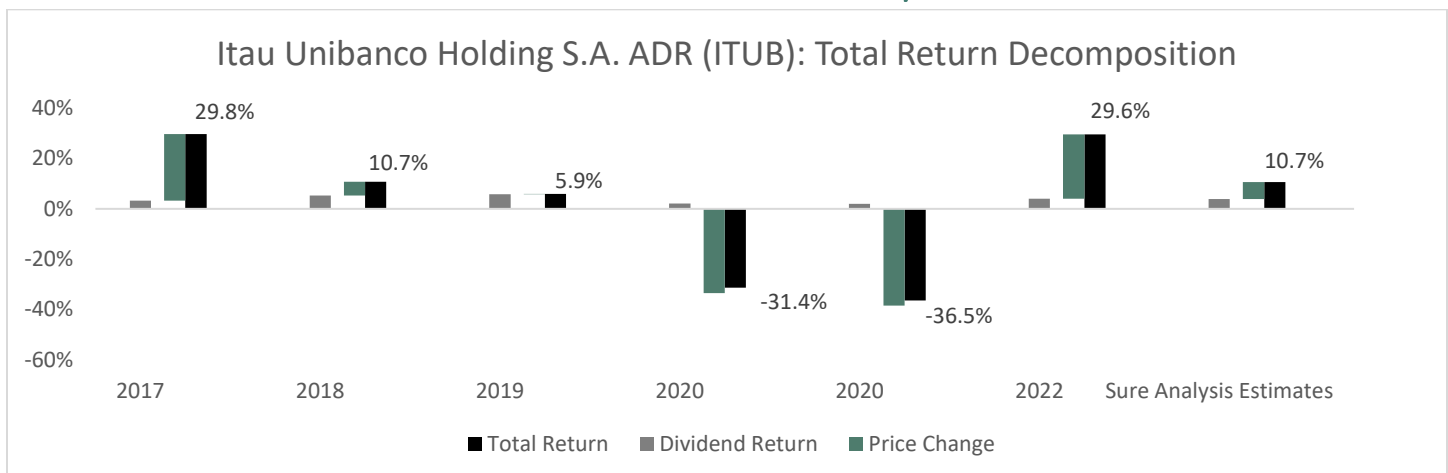
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	30%	42%	40%	41%	96%	120%	79%	23%	26%	34%	31%

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 10.7% 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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