



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

Updated August 28<sup>th</sup>, 2024 By Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$6.67	<b>5 Year CAGR Estimate:</b>	12.3%	<b>Market Cap:</b>	\$60.5 B
<b>Fair Value Price:</b>	\$7.50	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	09/03/24
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.4%	<b>Dividend Payment Date:</b>	10/05/24
<b>Dividend Yield:</b>	2.0%	<b>5 Year Price Target</b>	\$9.57	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	B	<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 \$60.5 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 5th, 2024, Itaú Unibanco reported second-quarter results for 2024. In the second quarter of 2024, the recurring managerial result reached \$1.8 billion, reflecting a 3.1% increase from the previous quarter. The consolidated recurring managerial return on equity was 22.4%, with Brazil's operations showing a slightly higher rate of 23.6%. The consolidated loan portfolio grew by 5.9%, with a 4.3% increase in Brazil. When excluding exchange rate variations, the consolidated loan portfolio rose by 2.7% for the quarter and 7.1% year-on-year. Notably, the individuals' loan portfolio in Brazil increased by 1.2% for the quarter and 3.2% year-on-year, despite challenges in the credit card segment due to risk management adjustments. The second quarter also saw significant growth in certain loan portfolios. The Uniclass and Personnalité segments experienced a 3% quarterly growth, contributing to a 17% increase year-on-year. Mortgage portfolios grew by 1.6%, while payroll loans increased by 0.8%. Large companies' loan portfolios saw an 8.6% surge, driven by higher demand for credit. These expansions positively impacted the margin with clients, which grew by 1.7%, closing at \$4.7 billion. Credit quality metrics remained stable, with non-performing loans over 90 days at 2.7%. Additionally, the ratio of non-performing loans between 15-90 days improved slightly, dropping by 0.1 percentage points to 2.3%.

On a year-on-year basis, the first half of 2024 showed a 15.5% increase in recurring managerial results and a 1.2 percentage point rise in recurring managerial return on equity. Income before taxes and minority interests rose by 21.7%, totaling \$5.3 billion. The growth in the loan portfolio, along with higher revenues from structured operations and increased financial margins, contributed to a 6.3% rise in the financial margin with clients. Commissions, fees, and insurance operations also saw an 8.1% increase year-on-year, driven by higher revenues from investment banking, asset management, and card issuer activities. Despite a 5.0% rise in non-interest expenses, the efficiency ratio improved by 1.1 percentage points.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$0.53	\$0.45	\$0.52	\$0.54	\$0.48	\$0.44	\$0.24	\$0.52	\$0.58	\$0.68	<b>\$0.75</b>	<b>\$0.96</b>
<b>DPS</b>	\$0.16	\$0.19	\$0.21	\$0.22	\$0.46	\$0.53	\$0.19	\$0.12	\$0.15	\$0.20	<b>\$0.43</b>	<b>\$0.50</b>
<b>Shares<sup>1</sup></b>	9986	9934	9849	9818	9774	9785	9793	9780	9800	9800	<b>9800.0</b>	<b>9800.0</b>

<sup>1</sup> Share count is in millions.

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Itaú Unibanco has seen its earnings increase at a compound annual growth rate of 2.8% for the past ten years. We have estimated a modest EPS growth rate of 5.0% for the next five years. This will put 2029 earnings at \$0.96 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's dividend is very inconsistent because it is converted to USD, but it recently grew its dividend.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.3	6	9.1	11	13.0	14.3	17.3	7.2	8.2	10.3	8.9	10.0
Avg. Yld.	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.4%	0.9%	2.8%	2.0%	5.2%

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 8.9x 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 2.0%, but it is still much lower than the ten-year average of 3.5%.

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

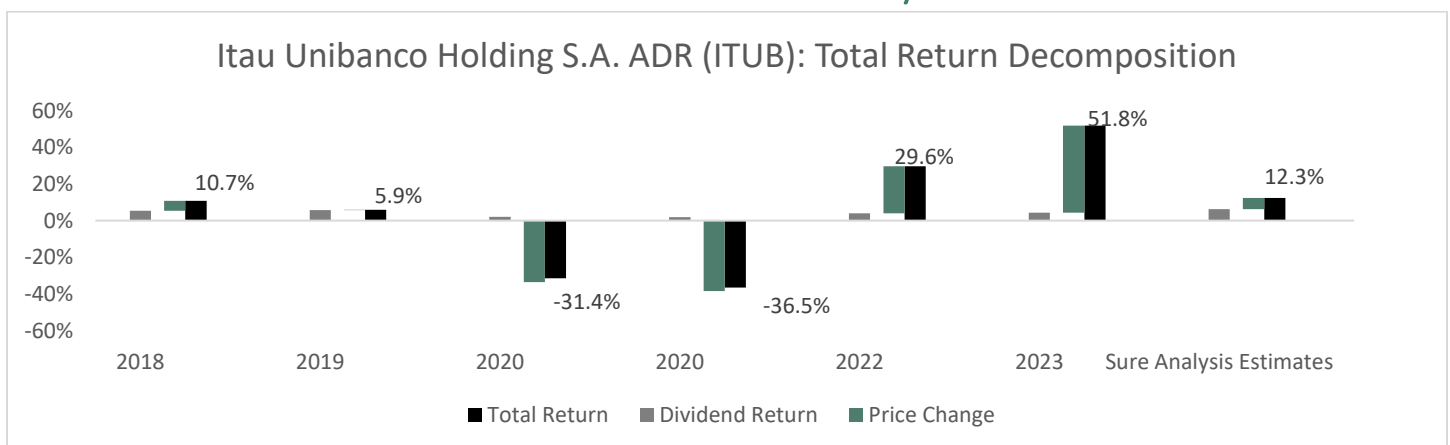
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	42%	40%	41%	96%	120%	79%	23%	26%	29%	57%	52%

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 1.4, which is a good level. 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 12.3% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	36,971	26,671	32,951	33,011	27,474	28,237	18,372	22,624	26,880	29,650
<b>SG&amp;A Exp.</b>	14,740	11,430	11,599	12,742	11,708	11,370	8,327	8,528	10,078	10,400
<b>D&amp;A Exp.</b>	1,083	864	937	991	981	903	731	786	930	1,132
<b>Net Profit</b>	9,174	7,862	6,235	7,251	6,853	6,877	3,702	4,969	5,760	6,633
<b>Net Margin</b>	24.8%	29.5%	18.9%	22.0%	24.9%	24.4%	20.2%	22.0%	21.4%	22.4%
<b>Free Cash Flow</b>	35,976	-11,327	6,965	6,155	7,390	7,825	10,616	9,475	23,558	13,680
<b>Income Tax</b>	2,957	-2,410	3,939	2,300	1,367	870	-1,927	2,571	1,318	1,167

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets (\$B)</b>	423	322	415	433	401	407	388	371	439	524
<b>Cash &amp; Equivalents</b>	38,954	29,187	38,992	44,247	40,700	38,812	36,924	39,303	39,850	47,060
<b>Goodwill &amp; Int. Ass.</b>	3,040	2,108	5,239	5,849	4,988	4,900	3,333	3,788	684	4,814
<b>Total Liabilities (\$B)</b>	386	293	374	390	362	370	359	342	4,371	483
<b>Long-Term Debt</b>	73,551	63,310	69,550	67,451	59,049	69,402	56,643	56,681	406	92,420
<b>Shareholder's Equity</b>	37,281	28,336	36,892	39,643	35,295	34,023	27,504	27,428	80,191	39,190
<b>LTD/E Ratio</b>	1.97	2.23	1.89	1.70	1.67	2.04	388	2.07		2.36

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	2.1%	2.1%	1.7%	1.7%	1.6%	1.7%	0.9%	1.3%	1.4%	1.4%
<b>Return on Equity</b>	25.3%	24.0%	19.1%	18.9%	18.3%	19.8%	12.0%	18.1%	19.5%	17.8%
<b>ROIC</b>	8.2%	7.7%	6.2%	6.6%	6.6%	6.7%	3.8%	5.8%	5.8%	5.4%
<b>Shares Out.</b>	9,986.0	9,934.0	9,849.0	9,818.0	9,774.0	9,785.0	9,793.0	9,780.0	9,859	9,867
<b>Revenue/Share</b>	3.70	2.68	3.35	3.36	2.81	2.89	1.87	2.30	2.73	3.01
<b>FCF/Share</b>	3.60	-1.14	0.71	0.63	0.76	0.80	1.08	0.96	2.39	1.39

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

### Disclaimer

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