



Itaú Unibanco Holding S.A. ADR (ITUB)

Updated November 23rd, 2024 By Felix Martinez

Key Metrics

Current Price:	\$5.85	5 Year CAGR Estimate:	15.7%	Market Cap:	\$53.6 B
Fair Value Price:	\$7.30	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/02/24
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Dividend Payment Date:	01/09/25
Dividend Yield:	2.9%	5 Year Price Target	\$9.32	Years Of Dividend Growth:	1
Dividend Risk Score:	F	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 \$53.6 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 November 5th, 2024, Itaú Unibanco reported third-quarter results for 2024. The company reported recurring managerial result for the third quarter of 2024 was approximately \$2.1 billion USD, reflecting a 6.0% increase from the previous quarter. The recurring managerial return on equity stood at 22.7% on a consolidated basis and 23.8% for operations in Brazil. Total assets grew by 2.6%, surpassing \$590 billion USD, while the loan portfolio increased by 1.9% globally and 2.1% in Brazil for the quarter, with year-on-year growth rates of 9.9% and 10.0%, respectively. Key drivers included personal, vehicle, and mortgage loans, which saw quarterly growth rates of 3.1%, 3.0%, and 3.9%, respectively. Credit card portfolios resumed growth, rising 1.7%, with the Uniclass and Personnalité segments showing robust 4.7% quarterly and 18.5% annual growth. Loans to small and medium enterprises increased by 4.1%, concentrated among higher-income companies. The financial margin with clients rose 4.5%, driven by loan portfolio expansion and wholesale structured operations. Credit quality continued to improve, with a 6.4% decline in the cost of credit, partly due to a \$98 million USD recovery from a corporate client. Non-performing loans over 90 days (NPL 90) decreased by 0.1 percentage points to 2.6% globally and 4.0% in Brazil for individuals, reflecting better credit card, personal loan, and vehicle financing performance. Short-term delinquencies (NPL 15-90) also fell by 0.1 percentage points to 2.2%. The very small, small, and middle-market loan portfolios saw improvements, with non-performing ratios declining to 2.5% (90+ days) and 1.5% (15-90 days). Revenue trends were mixed, with commissions and fees remaining stable while revenue from credit card activities, asset management, and insurance operations rose. Insurance operations grew 5.3% quarterly and 13.8% annually, bolstered by higher earned premiums, pension funds, and premium bond revenues. Non-interest expenses increased 5.8%, primarily due to wage adjustments and higher marketing costs, contributing to an efficiency ratio of 40.2% globally and 38.6% in Brazil. Year-to-date, recurring managerial results reached \$6.0 billion USD, up 16.4% from 2023, with a 6.7% rise in the financial margin with clients and a 7.6% growth in fees and insurance revenues.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.53	\$0.45	\$0.52	\$0.54	\$0.48	\$0.44	\$0.24	\$0.52	\$0.58	\$0.68	\$0.73	\$0.93
DPS	\$0.16	\$0.19	\$0.21	\$0.22	\$0.46	\$0.53	\$0.19	\$0.12	\$0.15	\$0.20	\$0.51	\$0.59
Shares¹	9986	9934	9849	9818	9774	9785	9793	9780	9800	9800	9800.0	9800.0

¹ 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 \$0.93 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'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	8.0	10.0
Avg. Yld.	3.3%	4.5%	4.4%	6.2%	6.1%	4.6%	0.9%	1.4%	0.9%	2.8%	2.9%	6.3%

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 8.0x 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 2.9%, but it is still much lower than the ten-year average of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

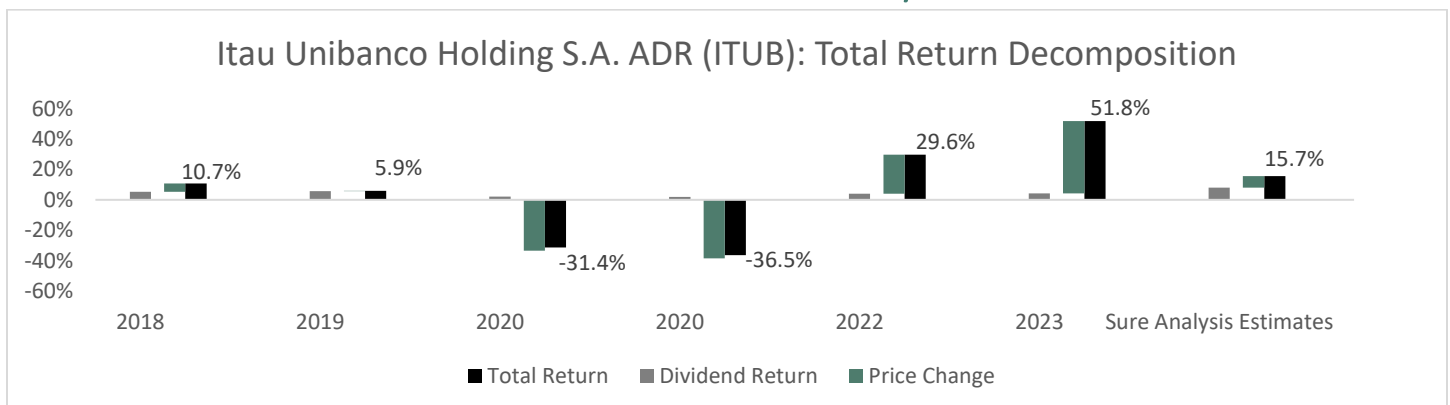
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	42%	40%	41%	96%	120%	79%	23%	26%	29%	70%	63%

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 2.4, 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 15.7% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	36,971	26,671	32,951	33,011	27,474	28,237	18,372	22,624	26,880	29,650
SG&A Exp.	14,740	11,430	11,599	12,742	11,708	11,370	8,327	8,528	10,078	10,400
D&A Exp.	1,083	864	937	991	981	903	731	786	930	1,132
Net Profit	9,174	7,862	6,235	7,251	6,853	6,877	3,702	4,969	5,760	6,633
Net Margin	24.8%	29.5%	18.9%	22.0%	24.9%	24.4%	20.2%	22.0%	21.4%	22.4%
Free Cash Flow	35,976	-11,327	6,965	6,155	7,390	7,825	10,616	9,475	23,558	13,680
Income Tax	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
Total Assets (\$B)	423	322	415	433	401	407	388	371	439	524
Cash & Equivalents	38,954	29,187	38,992	44,247	40,700	38,812	36,924	39,303	39,850	47,060
Goodwill & Int. Ass.	3,040	2,108	5,239	5,849	4,988	4,900	3,333	3,788	684	4,814
Total Liabilities (\$B)	386	293	374	390	362	370	359	342	4,371	483
Long-Term Debt	73,551	63,310	69,550	67,451	59,049	69,402	56,643	56,681	406	92,420
Shareholder's Equity	37,281	28,336	36,892	39,643	35,295	34,023	27,504	27,428	80,191	39,190
LTD/E Ratio	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
Return on Assets	2.1%	2.1%	1.7%	1.7%	1.6%	1.7%	0.9%	1.3%	1.4%	1.4%
Return on Equity	25.3%	24.0%	19.1%	18.9%	18.3%	19.8%	12.0%	18.1%	19.5%	17.8%
ROIC	8.2%	7.7%	6.2%	6.6%	6.6%	6.7%	3.8%	5.8%	5.8%	5.4%
Shares Out.	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
Revenue/Share	3.70	2.68	3.35	3.36	2.81	2.89	1.87	2.30	2.73	3.01
FCF/Share	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.

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