

BYMA – The Healthiest Financial Player Around, Buy

Following BYMA's 54% decline in USD terms since our last update report we are now upgrading our recommendation to "Buy" and reiterating our Target Price of ARS 400 per share. Considering that BYMA's current market cap is USD 274mn, net of cash the business would be valued at ~ USD 108mn, which we believe attractive considering that BYMA could earn ~ USD 35-45mn annual EBITDA in the next 5 years with no growth. We believe BYMA's low regulatory risk and solid cash position outweigh the market's low visibility environment for the next few years.

BYMA benefits from its leading position in the Custody business through Caja de Valores. One of the drawbacks we see to BYMA's story is related to the restriction Caja de Valores' has to distribute more than 10% of its net income as dividends. Any regulatory reform would require a Presidential decree or a bill passed through Congress, which we consider unlikely in the new political context.

In yesterday's aftermarket BYMA reported 3Q19 results. Net Income -without inflation adjustment- came at ARS 2,083mn (EPS ARS 27.61), +33% YoY, compared to our estimate of ARS 2,309mn. The bottom-line miss was explained mostly by higher-than-expected FX losses. After adjusting for inflation net income amounted to ARS 1,300mn (unchanged YoY in real terms). BYMA is currently trading at a 3.3x 2020E P/E and 2.7x EV/EBITDA 2020E (in USD terms).

BYMA reported 3Q19 EBITDA (nominal) of ARS 792mn, an increase of 40% QoQ fueled by strong interest income on third party deposits. The Company had on average USD 415mn third-party funds during the quarter (USD 368mn and ARS 2.4bn). Meanwhile, BYMA's own deposits increased to ~ USD 166mn from ~ USD 156mn in 2Q19, mostly invested in USD denominated securities (90% of total). BYMA posted an ARS 191mn loss on its own deposits (excluding FX results) affected by lower prices in Argentine bonds. Total revenues increased well below inflation, growing 13% YoY to ARS 1,233mn (+27% QoQ), while operating expenses increased 58% YoY to ARS 474mn (+3% QoQ) driven by higher salaries and USD-linked consultancy fees. Operating income decreased 4% YoY to ARS 758mn, resulting in an operating margin (excluding financial income from third party deposits) of 35%, shrinking ~300bps sequentially. Note that the company has set up a target margin of 50% to be achieved before 2020.

The Depository segment showed results in-line with our estimates, with assets under Custody (AUC) reaching ARS 3.7tn, decreasing 11% YoY (+4% QoQ) affected by lower prices. CSD revenues increased 2% QoQ to ARS 488mn (+32% YoY), well above AUC. We note that Custody revenues continue to increase above AUC growth.

The Exchange Business also posted results in-line with our estimates, with revenues at ARS 241mn (+49% YoY, +28% QoQ) vs our estimate of ARS 260mn. We note that Cedears volumes increased 64% QoQ (+1,043% YoY) to ARS 13.9bn fueled by the introduction of market makers in 2Q19. Equity traded volumes (excluding Cedears) increased 22% QoQ to ARS 61bn. Fixed income volumes (excluding OTC trading) amounted to ARS ~747bn, up 40% QoQ fueled by arbitrage opportunities between USD-denominated bonds and the official FX rate.

Buy (from Sell)

BYMA AR

Target Price: ARS 400

Last Price: ARS 284.5

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Exhibit 1: 319 Earnings Summary

ByMA	3Q19	3Q19E	A/E	2Q19	QoQ	3Q18	YoY
<i>Figures in ARS mn</i>							
CSD Business							
ADC Services	380	335	14%	372	2%	265	43%
ACRyP Services	9	9	0%	9	1%	8	15%
Additional Services	98	136	-27%	116	-15%	97	1%
CSD Revenues	488	480	2%	497	-2%	370	32%
Exchange Business							
Trading C&S fees	196	211	-7%	145	36%	132	48%
Market Data	17	20	-18%	18	-6%	16	6%
Other fees	28	29	-4%	26	9%	14	104%
Exchange Revenues	241	260	-7%	188	28%	162	49%
Interest income (from third party deposits)	504	400	26%	286	77%	562	-10%
Total Revenues	1,233	1139	8%	970	27%	1,094	13%
Operating Expenses	(474)	(462)	3%	(424)	12%	(301)	58%
EBITDA	792	697	14%	564	40%	813	-3%
Operating Income	758	677	12%	546	39%	791	-4%
Operating Margin (excl. Int income)	35%	37%		38%		43%	
Net Financial Income	1,264	1881	-33%	2	n.m	1,378	-8%
Earnings from participations in other companies	-20	8		169		7	
EBT	2,002	2566	-22%	716	179%	2,176	-8%
Income Tax	82	(257)		(9)		(614)	
Net Income	2,083	2309	-10%	708	194%	1,562	33%
EPS	\$ 27,61	\$ 30,60	-10%	\$ 9,38		\$ 20,49	

Operational Figures	3Q19	3Q19E	A/E	2Q19	QoQ	3Q18	YoY
<i>Figures in ARS mn</i>							
Custody							
Assets under Custody	3.714.876	3.587.905	4%	4.221.065	-12%	4.195.067	-11%
Exchange - ADTV by Asset Class							
Equity	1.123	1.192	-6%	1.012	11%	921	22%
Fixed Income	9.785	11.864	-18%	9.066	8%	7.049	39%

Source: Company filings; Cohen

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