

BMA1Q20 Earnings Report – Reiterating Hold

Argentina – Equity Research

June 15 2020

Banco Macro reported 1Q20 results. Earnings registered during the first quarter of 2020 were strong, with net income in local currency terms increasing 80% YoY coming at AR\$7 billion, representing an annualized ROE of 27%.

We are maintaining our HOLD recommendation on Banco Macro but lowering our target price to USD 23 per ADR. Following a 57% rally since April 27, shares of Banco Macro are now fairly priced in our view. In terms of valuation multiples, the stock is trading at 2021 P/E of 4.2x, representing a discount of 20% compared to the average of other Argentine banks. In our view, if the Argentine government finally reaches an agreement to restructure its debt, a virtuous cycle could begin for the economy. In that sense, we believe that Banco Macro is the best play among Argentine banks, based on its superior profitability, robust capitalization and healthy asset quality.

Net Interest income in the three month period ended December 31, 2019 jumped 7% YoY and reached AR\$21.3 billion. During 1Q20 the loan book declined 15% YoY to AR\$220 billion while deposits expanded 10% YoY to AR\$311 billion. The contraction of the loan book was primarily related to discounted documents (shedding 41% YoY, representing 11% of total loan book) and personal loans (falling 32% YoY, representing 26% of credit portfolio), partially offset by an increase of 95% in overdrafts (15% of loan book) and an expansion of 1% in credit cards (20% of loan book). In 1Q20 Banco Macro's accumulated net interest margin (NIM) was 19.2%, coming in below the 24.8% in 4Q19. It is worth noting that as at March 31, 2020 exposure to the public sector excluding leliqs was 5% of assets.

Net Service Fee Income shrank 7% QoQ and 17% YoY to AR\$4.4 billion. The decline in net income from services was mainly due to lower fees charged on deposit accounts and credit card fees which contracted 12% YoY. Administrative expenses reached AR\$2.7 billion, falling 17% YoY due to lower expenses related to employee benefits. As a result, the efficiency ratio measure as fees/administrative expenses improved to 36% in 1Q20 from 17.8% in 4Q19.

Asset quality during 1Q20 improved to 1.4% in 1Q20 compared to 2.0% in both 4Q19 and 1Q19. It is worth noting that the Central Bank adopted a new temporary measure in the context of the COVID-19 pandemic, to add a 60 day period to debtor classification before a loan is considered non-performing. Finally, the coverage ratio reached 173.5% in the three month period ended March 31, 2020 while write-offs over total loans stood at 0.22%.

BMA US

Target Price: USD23

Last Price: USD 21.16

Cohen Research
+51-11 5218 1100 int 152

Exhibit 1: 1Q20 Earnings Summary

Income Statement (ARS mn)	1Q20	4Q19	QoQ	1Q19	YoY
Net Interest Income	21.302	25.527	-17%	19.961	7%
Net Service Fee Income	4.431	4.616	-4%	5.130	-14%
Income from financial assets	-2.708	1.253	-316%	-8.174	-67%
Other operating income	1.099	1.011	9%	4.798	-77%
Loan Loss provisions	-861	-1.565	-45%	-1.577	-45%
Net operating revenue	23.263	30.842	-25%	20.138	16%
Personnel expenses	-4.726	-5.588	-15%	-4.852	-3%
Administrative expenses	-2.674	-3.693	-28%	-3.238	-17%
D&A	-836	-838	0%	-770	9%
Other operating expenses	-4.325	-5.182	-17%	-4.916	-12%
Operating income	10.702	15.541	-31%	6.362	68%
Income from associates & JV	21	165	-87%	41	-49%
Income Before Tax	11.018	10.594	4%	9.603	15%
Income Tax	-3.944	4.461	-188%	-5.675	-31%
Net income	7.074	6.133	15%	3.928	80%

Sales & Trading

Martin Durruty

Institutional Sales
mdurruty@cohen.com.ar
5218-1100, int 120

Santiago Ruiz Guiñazu

Institutional Sales
sruiz@cohen.com.ar
5218-1100, int 119

Ricardo Herrero

Head of Trading
rherrero@cohen.com.ar
5218-1100, int 123

Hernand Maidana

Trader
hmaidana@cohen.com.ar
5218-1100, int 125

Agustin Benitez

Trader
abenitez@cohen.com.ar
5218-1100, int 127

Research

Juan José Vazquez

Head of Research
jvazquez@cohen.com.ar
5218 1100 int 134

GGAL1Q20 Earnings Report – Reiterating Hold

Argentina – Equity Research

June 15, 2020

Grupo Financiero Galicia reported 1Q20 results with net income of ARS 8.3bn, increasing 624% QoQ but declining 22% YoY with an annualized ROE of 27.06%.

We are maintaining our HOLD recommendation on Grupo Financiero Galicia but lowering our target price to USD 11 per ADR. Following a 82% rally since April 27, shares of Grupo Financiero Galicia are now fairly priced in our view. In terms of valuation multiples, the stock is trading at 2021 P/E of 4.6x, representing a discount of 14% compared to the average of other Argentine banks. Although 1Q20 results were not good in our view, we highlight that the bank is strongly capitalized and NPLs are currently at healthy level. Furthermore, we believe that if the Argentine government finally reaches an agreement to restructure its debt, a virtuous cycle could begin for the economy. Provided GGAL national presence throughout the country, its strong franchise and its current solvency levels, the bank could benefit better than its competitors on a potential economic recovery.

During 1Q20 Net Interest Income stood at AR\$16.1 billion jumping 149% YoY. The increase was mainly due to AR\$1.9 billion higher public sector securities and of AR\$1.5 billion from repurchase agreement transactions. Moreover, Loans and Deposits fell 11% YoY and 21% YoY respectively. On a type of client basis, large corporations fell 10% YoY, individuals loans 8% YoY and SMEs 9% YoY. Market share in private sector loans reached 12.4% while deposits market share stood at 10.07%. Exposure to public sector during 4Q19 (excluding leliqs and repurchase agreements) stood at 5% of assets compared to 4% of assets in 1Q19. Income from financial instruments for the three-month period ended March 31, 2020 reached AR\$13.3 billion, down 43% YoY as a consequence of the decrease in results from government securities, due to a lower holding of LELIQ. In 1Q20 profit from gold and foreign currency differences stood at AR\$756 million compared to AR\$9 million in 1Q19. This result includes a AR\$751 million gain from foreign-currency trading.

Fee Income declined 19% YoY but administrative expenses jumped 7% in the same period. The most relevant decline in fees were those related to deposit accounts. Meanwhile, administrative expenses were fueled by higher maintenance and repairment of goods and IT for AR\$610 million compared to 1Q2019.

Non-Performing Loans improved 32 bp in 1Q20 to 3.63% from 3.95% of a year ago. It is worth noting that BCRA established a new temporary regulation regarding debtor classification during the COVID-19 pandemic, which extends grace periods in 60 days before a loan is classified as non-performing.

GGAL US

Target Price: USD 11

Last Price: USD 10.55

Exhibit 1: 1Q20 Earnings Summary

Income Statement	1Q20	4Q19	QoQ	1Q19A	YoY
Net Interest Income	16.137	16.453	-1,9%	6.481	149%
Net Service Fee Income	7.040	5.797	21,4%	8.742	-19%
Income from financial assets	14.140	9.236	53,1%	24.095	-41%
Other operating income	4.081	1.448	181,8%	9.793	-58%
Loan Loss provisions	4.922	5.200	-5,3%	4.050	22%
Net operating revenue	38.426	35.500	8,2%	46.087	-17%
Personnel expenses	6.128	7.377	-16,9%	6.199	-1%
Administrative expenses	6.181	8.054	-23,3%	5.776	7%
D&A	1.557	1.489	4,6%	1.248	25%
Other operating expenses	5.885	6.496	-9,4%	7.498	-22%
Operating income	18.675	12.084	54,5%	25.366	-26%
Results from the net Monetary Position	-5.340	-7.661	-30,3%	6.611	-181%
Income Tax	-4.799	-3.115	54,1%	8.087	-159%
Net income	8.536	1.308	552,6%	10.668	-20,0%
Other comprehensive income	212	159	33,3%	344	-38,4%
Net Comprehensive income	6.146	2.132	188,3%	10.334	-40,5%

Sales & Trading

Martin Durruty
Institutional Sales
mdurruty@cohen.com.ar
5218-1100, int 120

Santiago Ruiz Guiñazu
Institutional Sales
sruiz@cohen.com.ar
5218-1100, int 119

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Head of Trading
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Trader
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Research

Juan José Vazquez
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5218 1100 int 134