GGAL – Country Risk is Too High even for the Strongest Banking Franchise

We are initiating coverage of Grupo Financiero Galicia (GGAL) with a Neutral rating and a 12-month Target Price of USD 29 per ADR, which implies an upside of 17% (including a 1% dividend yield) from current prices. We view GGAL as a very strong franchise, although given the coming presidential elections and the premium at which the company trades relative to its peers (2.6x 1Q19 P/BV vs comps at 2.1x), we belive the risk-reward is balanced at current prices.

Our valuation is based on a Gordon Growth Model, which derives a target P/BV of 2.3x. We acknowledge that Argentine valuations are currently very dependent on the political outcome, especially in banks and utilities, given their businesses' nature. Our valuation is consistent with our base case scenario, which includes the re-election of Macri, stabilization of the currency and GDP growth returning to positive levels next year. That said, we might review our base case and assumptions following the primary elections to be held in August.

Grupo Financiero Galicia is a financial services holding company, and the owner of Banco Galicia (GALIAR). GALIAR is the largest Argentine private bank, measured by loans, and second measured by assets. GGAL also offers proprietary brand credit cards and consumer finance services through its subsidiary Tarjetas Regionales (83% ownership interest), as well as insurance (Galicia Seguros) and brokerage services (Galicia Administradora de Fondos). GGAL also has a very strong position in the agribusiness sector, with 18% of its corporate clients belonging to this segment, and has a 56% market share through its credit card "Tarjeta Galicia Rural".

2Q19 results expected to come way above consensus boosted by Leliq interest. We expect a very strong quarter for GGAL, with net income reaching ARS 8.5bn (vs ARS 5.0bn consensus), +39% QoQ (after adjusting 1Q19 results for the sale of Prisma). We forecast the bottom line to be fueled by higher interest earned on Leliqs, as a result of both higher interest rates (~69% average Leliq during 2Q19 vs 56% in 1Q19), an increased Leliq stock and an augmented spread between Leliq and Badlar (Leliq rate has increased ~1440bps on average during this quarter, vs ~875bps of the Badlar, as of May 27).

We expect higher growth at the Tarjetas Regionales subsidiary. Tarjeta Naranja is undertaking two major projects, that will completely change its business. First, Tarjetas Regionales has applied for Central Bank authorization to become a financial institution, which will allow the company to accept deposits from customers, which typically yield 0% interest. Secondly, Naranja is going through a process of becoming a digital bank, providing digital solutions to customers. The main objective is to evolve from a credit card company to a broad financial services company by being able to offer typical banking products as well as cross-selling opportunities (insurance, FIMA mutual funds, payment services, etc) to their current ~5mn customers.

Argentine assets will trade according to the political risk, in our view. The presidential elections to be held in August (PASO) and October (First Round), and eventually November will add a great amount of volatility to argentine assets, especially financials and utilities. GGAL is currently trading at a 2.6x 1Q19 P/BV, compared to 2.1x for the argentine banks with ADR listing. On a P/E basis, GGAL is trading at a 4.9x 2020E (in ARS), compared to its peers' 4.7x.

Neutral

GGAL US

Target Price: USD 29

Last Price: USD 25.00

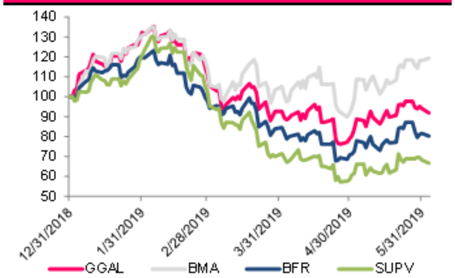
Market Data	
ADR Outstanding (mn)	143
Market Cap (USD bn)	3,6
YTD Return	-8%

Earnings & Valuation Metrics

	2018A	2019E	2020E
Net income adj (USD mn)	529	684	604
P/E	6,7x	5,2x	5,9x
P/BV	2,4x	2,1x	1,8x

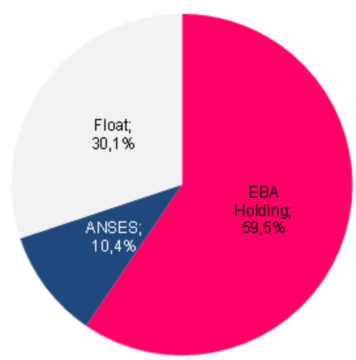
Source: Bloomberg, Cohen.
Note: 2019 Net Income excludes gain related to Prisma sale

GGAL YTD Price Performance vs Peers



Source: Bloomberg, Cohen. Returns as of 06/03/19

Ownership Structure (2018)



Source: GGAL, Cohen.

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Investment Thesis & Company Description

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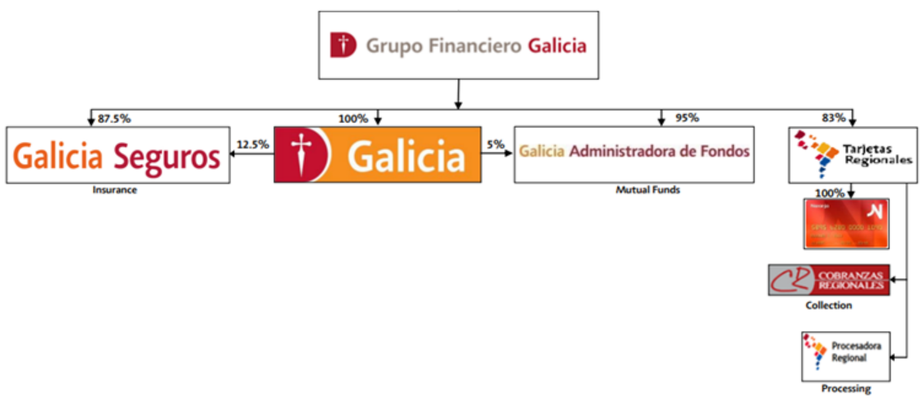
Grupo Financiero Galicia's History

Grupo Financiero Galicia was formed in 1999 as a holding company to hold the shares of Banco Galicia held by members of the Escasany, Ayerza and Braun families. Following GGAL's formation, the holding companies that held the shares in Banco Galicia on behalf of the owner families were merged into Grupo Financiero Galicia. In 2014, GGAL became the sole owner of Banco Galicia through the acquisition of GALIAR listed shares.

In August 2017, GGAL accepted a sale offer to acquire an extra 6% interest in Tarjetas Regionales for USD 49mn, which was completed in January 2018. In the meantime, GGAL approved a corporate reorganization, through which Banco Galicia divested its share in Tarjetas Regionales (77% of total), and the asset was incorporated into the Group. Consequently, and after the 6% stake acquisition, GGAL's ownership of Tarjetas Regionales amounts to 83%.

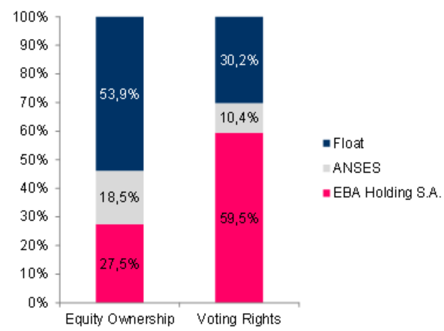
Grupo Financiero Galicia's operations is divided into four main businesses: i) Banco Galicia (banking services), ii) Tarjetas Regionales (credit cards), iii) Galicia Fondos (asset management), and iv) Sudamericana Holdings (insurance, through Galicia Seguros).

Exhibit 2: Corporate Structure



Source: GGAL; Cohen

Exhibit 1: Ownership Structure (2018)



Source: GGAL; Cohen

Exhibit 3: Key Executives

Name	Position	Age	First Year Appointment	Expiration of the Mandate
Board of Directors				
Eduardo J. Escasany	Chairman	68	2005	2022
Pablo Gutierrez	Vice-Chairman	59	2003	2022
Senior Management				
Pedro A. Richards	CEO - Director	66	2017	2022

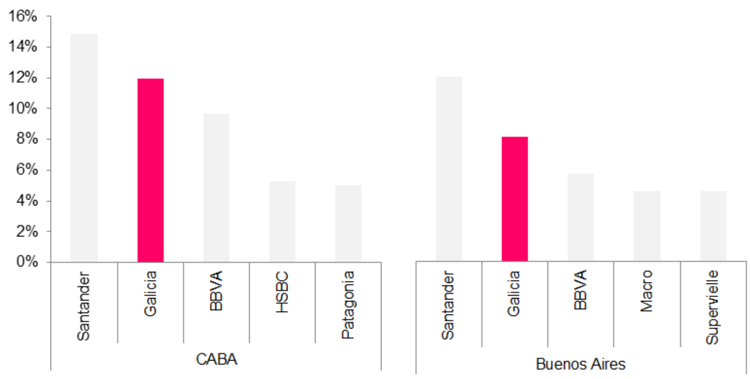
Source: GGAL; Cohen

i) Banco Galicia is GGAL's main asset, and was founded in 1905, and currently is the largest argentine private bank, measured by loans, and second measured by assets. In 1907 the bank was listed on the Buenos Aires Stock Exchange. Through a series of acquisitions, it entered the asset management business (FIMA mutual funds, now renamed Galicia Administradora de Fondos) and the issuance of proprietary brand credit cards (now merged under Tarjetas Regionales), now both businesses are structured under the Holding company, Grupo Financiero Galicia.

As of 1Q19, total assets amounted to ARS 567.5bn, of which 23% was cash, 29% financial securities and 45% net loans. Equity amounted to ARS 51.6bn, while financial leverage stood at 11x. Deposits stood at ARS 410bn (80% of total liabilities), of which 61% were sight deposits, and 37% time deposits.

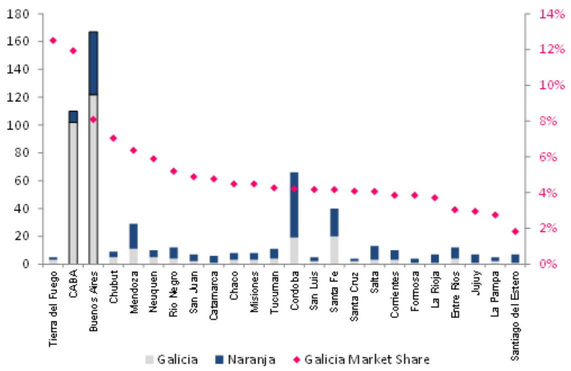
GALIAR has the second strongest branch position in both the Province of Buenos Aires (8% of total branches) and City (12%), Argentina's more dynamic regions. Banco Galicia also has a very strong position in the agribusiness sector, with 18% of its corporate clients belonging to this segment, and has a 56% market share through its credit card "Tarjeta Galicia Rural".

Exhibit 4: Banco Galicia Branch Market Share



Source: BCRA; Cohen

Exhibit 5: Branch Distribution & Market Share

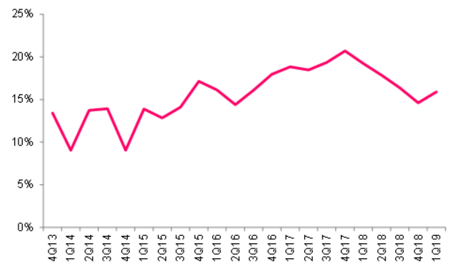


Source: BCRA; GGAL; Cohen

ii) Tarjetas Regionales is a holding company formed in 1999 that offers credit card and collection services to low-to-middle income clients through a series of subsidiaries, and has presence in all the provinces of Argentina. The main subsidiary is Tarjeta Naranja, which has combined all the Tarjetas Regionales credit card companies under the Naranja brand. As of March 2019, Tarjetas Regionales had 8.7mn issued credit cards, and is the largest proprietary brand credit card operator in Argentina.

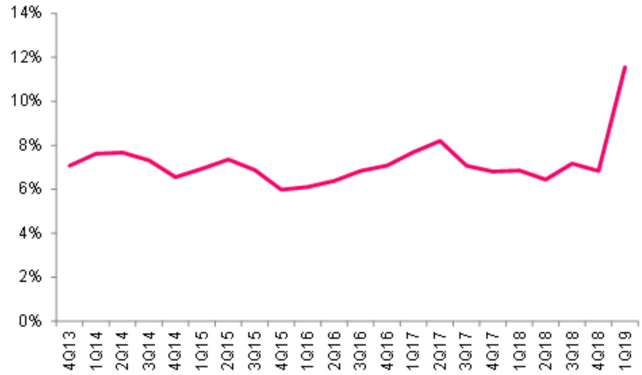
Tarjetas Regionales' Balance Sheet includes ARS 53.4bn assets, ARS 42.3bn liabilities and ARS 11.2bn equity. Assets are comprised mostly of the ARS 46.3bn credit card loan book, which weights 87% of total assets. Interest rates charged on credit card loans reprices on a monthly basis. Long-term financing is done mostly through the issuance of Badlar-linked bonds. Currently, Tarjetas Regionales, through Tarjeta Naranja and Tarjetas Cuyanas (now merged into Naranja) has ARS 15.4bn Badlar-linked bonds issued, of which ARS 5.3bn mature in 2019 and the remaining ARS 10.1bn between 2020 and 2022. The company has shown adequate profitability, with a 16% average Net Interest Margin (see Exhibit 6) and a 7% ROA (32% ROE, see exhibit 8) since 4Q13. Non-performing Loans (NPLs) averaged 7% of total loans, while the coverage ratio averaged 99%. However, in 1Q19 NPLs increased to 11.6% as a consequence of the ongoing recession and the related sharp disposable income deterioration, and the high interest rate environment. Coverage decreased to 92%, the lowest level since 2015. Asset quality and loan loss provisions, especially in companies with exposure to low-to-middle income segments, like Tarjeta Naranja, is one of the key metrics to monitor in the coming quarters, in our view.

Exhibit 6: Tarjetas Regionales NIM



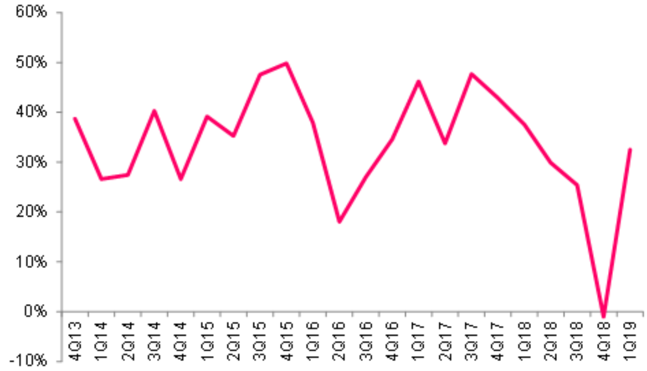
Source: GGAL; Cohen

Exhibit 7: Tarjetas Regionales NPL



Source: GGAL; Cohen

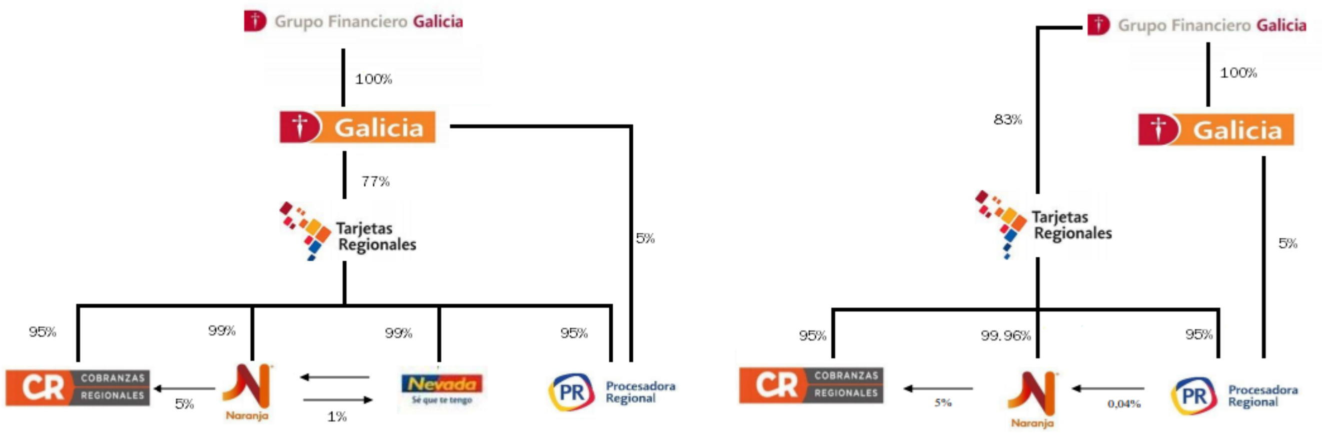
Exhibit 8: Tarjetas Regionales annualized ROE



Source: GGAL; Cohen

Originally Banco Galicia created Tarjetas Regionales to hold its interest in several regional credit card companies, which included Tarjeta Naranja, Tarjetas Cuyanas, Tarjetas del Mar (later sold), Tarjetas del Sur, Tarjeta Mira, among others. Through 2016, Tarjeta Naranja absorbed many of the companies, and only Tarjetas Cuyanas remained as a separate entity until August 2017, when the two companies approved a merger by which Cuyanas would merge into Tarjeta Naranja (which came effective in October 2017). At the same time, i) GGAL's Board approved a corporate reorganization (see Exhibit 9) of the Holding and Banco Galicia, which consisted of the divestiture of Banco Galicia's share in Tarjetas Regionales (77%), which would be held under Grupo Financiero Galicia; and ii) GGAL accepted a sale offer to acquire an extra 6% interest in Tarjetas Regionales for USD 49mn, which was completed in January 2018.

Exhibit 9: Tarjetas Regionales Structure Before & After Reorganization



Source: GGAL; Cohen.

Tarjeta Naranja is undertaking two major projects, which we view positively as they will enhance the Naranja brand while at the same time increasing profitability. First, Tarjetas Regionales has applied for Central Bank authorization to become a financial institution. This will allow the company to accept deposits from customers, which typically yield 0% interest. Recall, currently Naranja finances the majority of its operations through bonds, which bear Badlar + spread. By being able to fund a portion of its business at 0% interest, spreads could be substantially expanded. The company expects to launch savings accounts "Naranja Cuenta" this year.

Secondly, and related to the prior project, Naranja is going through a process of becoming a digital bank, providing digital solutions to customers. The main objective is to evolve from a credit card company to a broad financial services company by being able to offer typical banking products as well as cross-selling opportunities (insurance, FIMA mutual funds, payment services, etc) to their current ~5mn customers. Naranja has a very strong position in the interior of Argentina, specifically in Córdoba (where it was founded) and in the province of Buenos Aires.

iii) Galicia Administradora de Fondos manages the FIMA family mutual funds. As of March 31, 2019, Assets under management amounted to ARS 80.9bn.

iv) Sudamericana Holdings operates GGAL insurance services; providing property, casualty, life and retirement insurance, among others. GGAL owns an 87.5% equity interest.

Ownership Structure & Management

As of March 31, 2019, GGAL had 1,427mn outstanding shares of common stock, consisting of 2181.2mn Class A shares (5 votes per share) and 1,145.5mn Class B shares (1 vote per share). The Class A shares are owned entirely by EBA Holding, which also holds a 9.8% of the Class B shares, thus owning a 27.5% of total shares and 59.5% of total votes. EBA Holding is owned by members of the Escasany, Ayerza and Braun families and the Fundación Banco Galicia. The Argentine public pension system (ANSeS) owns 10.4% of voting rights, while the remaining 30.1% floats in the NASDAQ and in the local exchange, BYMA.

Mr. Eduardo J. Escasany is GGAL's Chairman of the Board, a position he has been holding since 2010. Mr. Escasany is an economist graduated from the Catholic University of Argentina, and has been involved with Galicia since 1973.

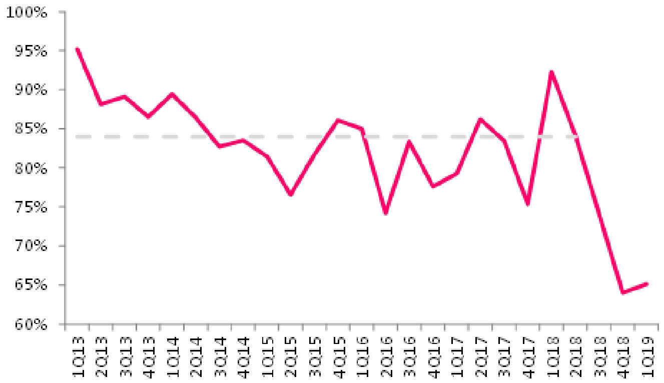
Mr. Pedro Richards is GGAL's CEO since April 2017, and has been associated with Banco Galicia since 1990.

Balance Sheet Overview: Funding, Deposits & Loans

Balance sheet is funded mostly with short-term deposits (66% of assets), which mostly include savings and checking accounts (40%) and time deposits (24%). The Group also has ARS 46.6bn of bonds outstanding (7%), ARS 65.6bn equity (11%) and the equivalent of 16% of assets in other liabilities. Bonds issued include i) a USD 250mn, subordinated note due 2026; ii) a USD 100mn Green Bond due 2025; iii) ARS 15.3bn notes issued in Banco Galicia and iv) ARS 15.4bn notes issued in Tarjeta Naranja. We note that the USD 250mn subordinated bond is callable in July 2021, and if the call option is not executed the bond will begin to bear the 5yr US treasury yield +715.6bps until maturity. Given that the subordinated notes currently are 100% included as Tier II capital, and after 2021 they begin to reduce their computable weight by 20% each year until maturity, GGAL has incentives to call them, in our view.

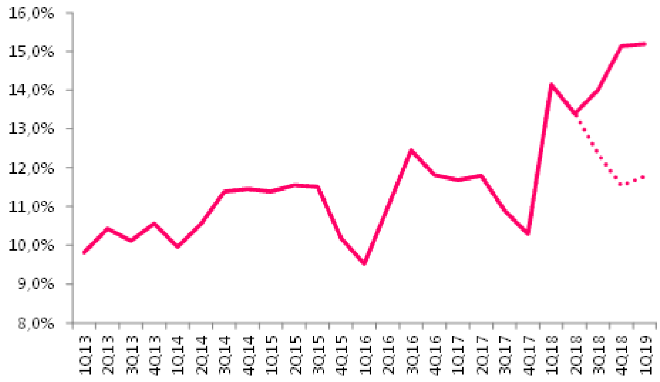
GALIAR has adequate capitalization levels, with ARS 25.7bn excess capital, a 15.2% and 11.2% regulatory capital and Tier 1 ratios, respectively. We note capital ratios among argentine banks are currently magnified, given the current higher exposure to Leliqs (18% of total assets) which have lower capital requirements than loans. Banco Galicia's risked weighted assets as percentage of total assets averaged 84% between 1Q13 and 2Q18, and currently they stand at 65%. When loan demand starts to pick up, regulatory capital requirements will likely begin to increase sharply. If we applied the average capital requirements, assuming a scenario of normalization in loan demand (see Exhibit 10), regulatory capital ratio would decrease to 11.8%, which still remains at a comfortable level compared to minimum requirements of 8-9%.

Exhibit 10: GALIAR Risked Weighted Assets / Total Assets



Source: GGAL, Cohen

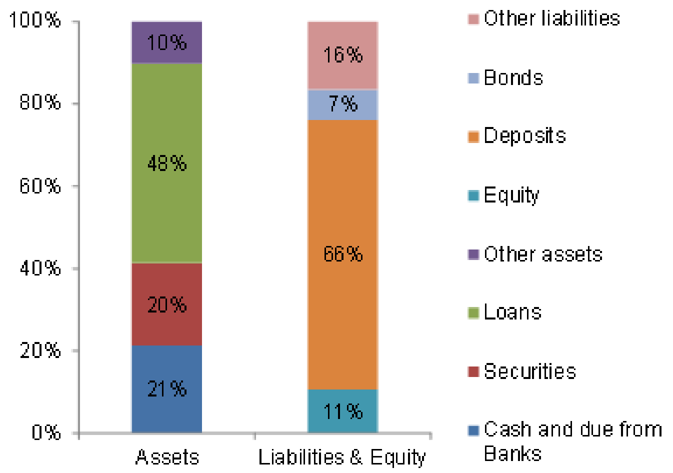
Exhibit 11: GALIAR Regulatory Capital Ratio



Source: GGAL, Cohen

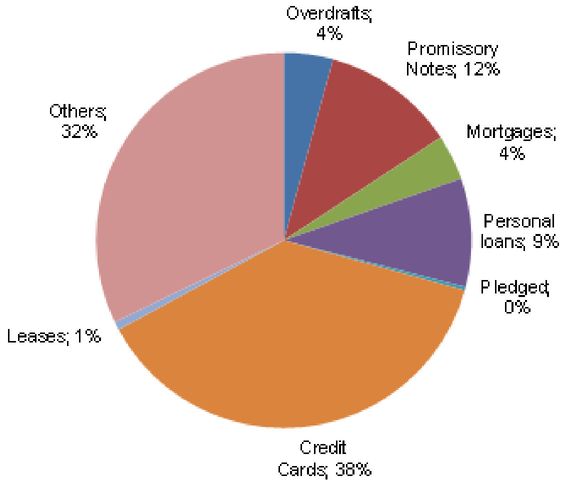
GGAL's assets, which amount to ARS 622.5bn, are comprised of i) ARS 131.8bn cash (21% of total), of which ARS 103.5bn are minimum legal reserve requirements held at the Central Bank; ii) ARS 10.2bn 125.7bn in financial assets (20%), mostly invested in 7-day Leliq notes (ARS 100bn) and ~ARS10.6bn in ARGTES 2020 (Bote2020, which Banks can compute as reserve requirements); iii) an ARS 301.5bn loan portfolio (48% of total assets) and iv) other assets (10% of total assets).

Exhibit 12: GGAL Balance Sheet Structure (1Q19)



Source: GGAL, Cohen

Exhibit 13: GGAL Loan Portfolio Breakdown (1Q19)



Source: GGAL, Cohen

In general, given the low level of banking intermediation in Argentina, there are limited products being offered. Galicia offers its retail customers traditional banking products and services, such as savings and checking accounts, time deposits, credit and debit cards, consumer finance loans (including personal loans), mortgage loans, pledged loans, overdrafts, and home and car insurance, among others. Grupo Financiero Galicia loan portfolio is balanced between commercial (47% of total) and consumer (53% of total) segments, and the loan portfolio is adequately diversified, with the biggest 10 customers weighting 10.6% of total.

The loan portfolio mostly bears fixed interest rates (85%), while 10% is inflation-linked and 5% is at variable rates. We note that a big portion of the fixed rate loan book reprices rapidly, given that credit card rates adjust on a monthly basis; and working capital lines (promissory notes and overdrafts) are repriced daily. The average ARS denominated loan book duration is 7 months.

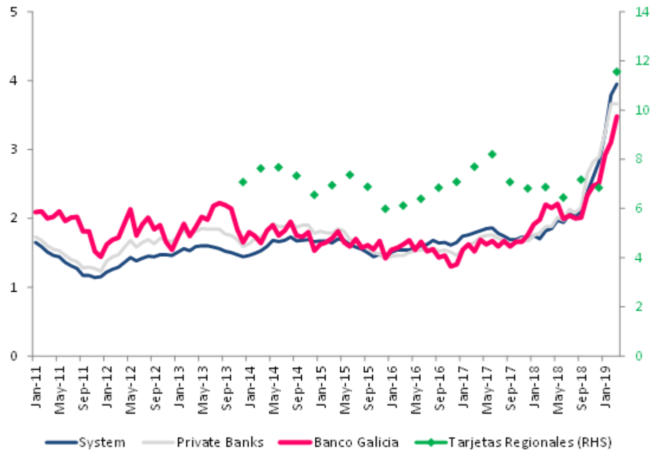
When comparing to the Argentine financial system, GGAL's loan portfolio is overweight in credit cards (38% of total private sector vs 18% for the Arg. System) and others (where the company includes exports financing), and underweight mostly in promissory notes (12% vs 35%) and personal loans (9% vs 19%). The Group has approximately 14.2 million credit cards outstanding as of 1Q19, up from 10.9mn in 1Q14 (5% CAGR).

Asset Quality & Profitability

Banco Galicia has shown a very healthy loan portfolio in the last years, with an NPL ratio ranging 1.5-2.0%, and its asset quality has mimicked the system's performance (~2.0% on average). As of March 2019, delinquency at GGAL stood at 5.1% of loans to the private sector (GALIAR 4%, Tarj. Regionales 11.6%), which compares to the system's 4.1%. We note that non-performing loans include a ARS 1.8bn to the distressed Molino Cañuelas, which is fully provisioned. The Bank is negotiating with the Company, and it expects to recover a portion of the loan in the coming months. Adjusting for this delinquent loan, NPL would be at 4.5% (GALIAR 3.3%, Tarj. Regionales 11.6%). For 2019-2020, we model NPLs to peak at 5.3% in 2Q19 (not assuming a renegotiation of the Molino Cañuelas loan), and then gradually decreasing towards 3.8% helped by the recovery of disposable income after the salary negotiations and lower expected monthly inflation rates.

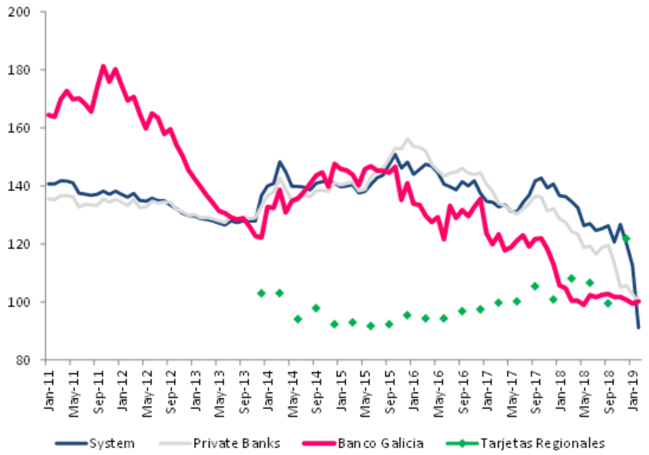
Regarding coverage, in the last years Banco Galicia has maintained adequate coverage levels. We model coverage (at the Holding level) to gradually increase towards 110%, a level indicated by management as comfortable.

Exhibit 14: Delinquent Loans over Total Financing (%)



Source: BCRA; GGAL, Cohen

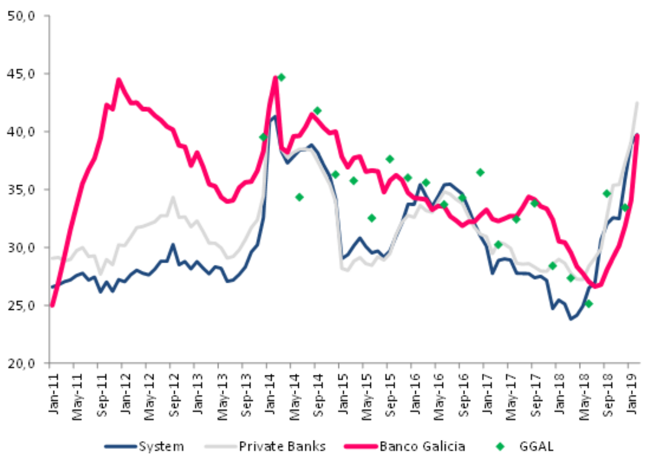
Exhibit 15: Coverage Ratio (%)



Source: BCRA; GGAL, Cohen

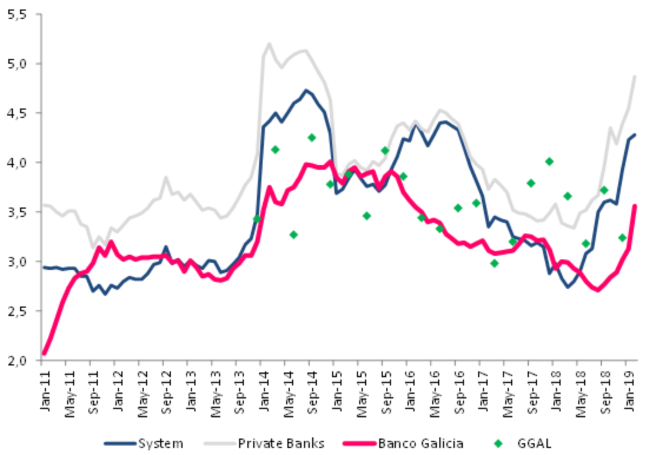
Over the last years, GGAL has shown profitability measures in-line with its peers. However, we expect net interest margins at both the Bank and the Argentine financial system to gradually decrease after 2020, when inflation and interest rates are expected to (finally) decrease. This spread reduction should be more than offset by increased lending volumes, thus being net positive for the bottom line.

Exhibit 16: Delinquent Loans over Total Financing (%)



Source: BCRA; GGAL, Cohen

Exhibit 17: Coverage Ratio (%)



Source: BCRA; GGAL, Cohen

The Argentine Financial System

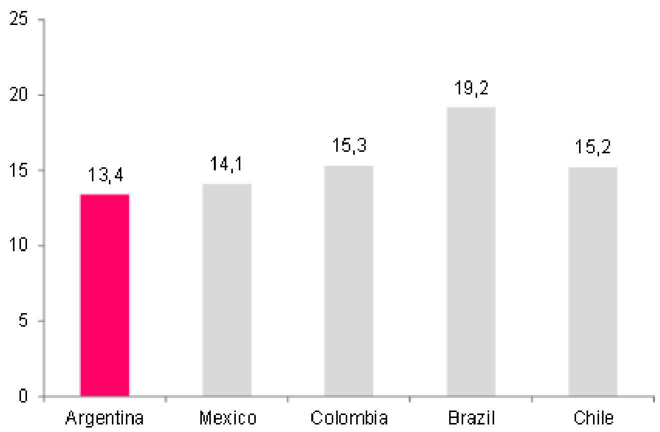
The domestic financial system is small and fragmented, as loans represent only 16% of GDP, well below the Latam peers (for example, domestic credit to the private sector would need to almost double to reach Mexico's level of 27% of GDP). Total loans to the private sector stand at USD ~49bn (ARS 2.22tn), of which 32% are USD-denominated; while private sector deposits amount to USD ~79bn (ARS 3.5tn), of which 30.5bn are in USD.

Argentina has 78 financial institutions, well above its peers when adjusting for system's size, and we believe the industry should consolidate in the coming years. However, when comparing ATMs and bank branches per 100k adults across Latam, we note that the Argentine financial system shows adequate levels, thus indicating that the actual infrastructure can support the system's expansion.

Banks are mostly funded through short-term deposits, mainly sight deposits (42% of total ARS deposits), and time deposits (55%). Sight deposits usually yield no interest. The Argentine financial system growth depends heavily on deposit levels, due to the small size of its capital market and the absence of foreign investments during the last years, especially before Macri took office. Recently, Grupo Financiero Galicia, its subsidiaries and other financial institutions have had access to global financial markets to obtain financing through the placement of debt securities.

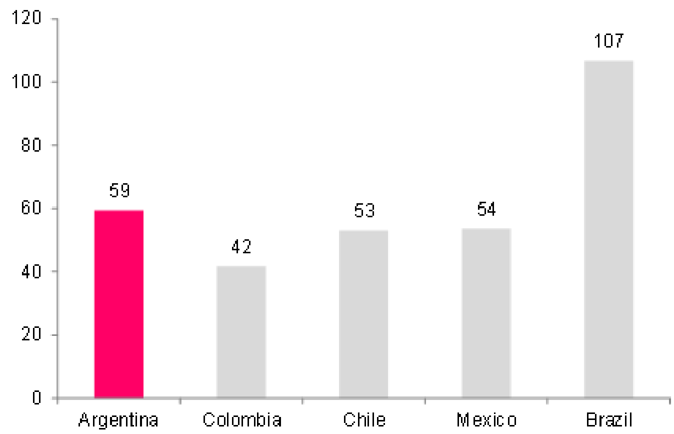
We believe the sustained levels of high inflation and macroeconomic volatility have been the principal obstacles to the development of private sector's long-term financing, given borrowers preferences to borrow at fixed rates while lenders' interest expenses are mostly at floating rates and thus would prefer to lend at floating rates.

Exhibit 18: Bank Branches per 100k Habitants



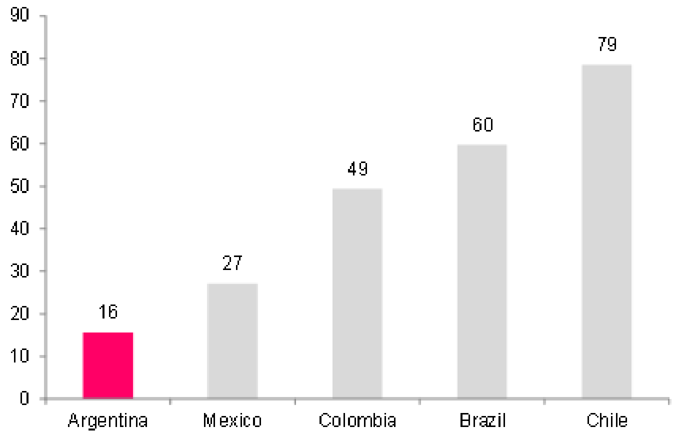
Source: World Bank; Cohen

Exhibit 19: ATMs per 100k Habitants



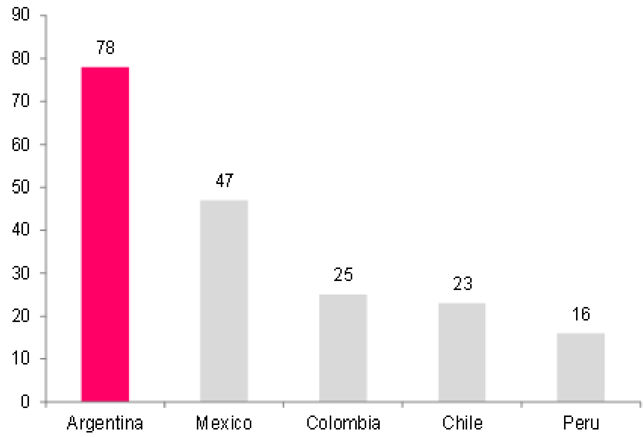
Source: World Bank; Cohen

Exhibit 20: Domestic Credit to Private Sector by Banks as % of GDP (2016)



Source: World Bank; Cohen

Exhibit 21: Number of Financial Entities (2016)



Source: World Bank; Cohen

Risks

*The presidential elections to be held in August (PASO) and October (First Round), and eventually November will add a great amount of volatility to Argentine assets, especially financials and utilities. We believe the economic crisis could worsen severely if Macri's re-election is seen as less likely, and thus all Argentine could experience severe losses.

*Leliqs could prove to be a double edged sword if loan demand does not resume. Currently, the Leliq stock outstanding amounts to ARS 1tn (USD ~26.3bn), and is growing at a 5.8% monthly rate (100% annual). Given the Central Bank's policy of 0% monetary base growth, it has to sterilize interest paid on Leliqs so that the monthly average monetary base keeps unchanged. While the high interest earned on Leliqs is positive for banks until loan demand resumes, it is still unclear if the stock outstanding can be defused successfully if loan demand does not resume without hampering banks profitability (e.g. an exchange for long-term bonds) or an acceleration of the inflation rate (if the ARS 1tn is released to the economy).

Valuation

We valued Grupo Financiero Galicia with a Gordon Growth Model, which derives a target P/BV of 2.3x. Our target P/BV multiple is driven by a 32% normalized ROE for the next three years, a Cost of Equity of 16.7% in USD terms, and a growth coefficient of 5.0%.

We believe that Argentine valuations are currently very dependent on the political outcome, especially in banks and utilities. Our base case scenario includes Macri's reelection, stabilization of the currency, GDP growth returning to positive levels and reaching 3% next year, with loans growing 10-15% in real terms after 2020. The Central Bank is effective in lowering inflation rates, which in term lowers interest rates towards low 20s by 2021.

On a relative basis, GGAL is trading at a 1.4x 2020E P/BV and at a 4.9x 2020E P/E (in ARS), which compares to the Argy peer average of 1.3x/4.7x '20 P/BV and P/E, respectively.

We note that if view on the political election is not favorable to the current Administration, the market could experience increased volatility, as there is still uncertainty in which would be the economic scenario under a new President.

Exhibit 22: Sensitivity Analysis

		Ke (%)						
		18,2	17,7	17,2	16,7	16,2	15,7	15,2
	4,0%	26	27	27	28	29	31	32
	4,5%	26	27	28	29	31	32	33
g	5,0%	27	27	28	29	31	32	35
	5,5%	27	28	29	31	32	33	35
	6,0%	27	28	29	31	33	35	36

Source: Cohen

Exhibit 23: Relative Valuation

Name	Ticker	P/BV 2018	P/BV 2019E	P/BV 2020E	P/E 2018	P/E 2019E	P/E 2020E
Argentina							
Banco Macro SA	BMA	2,6x	2,0x	1,5x	9,4x	5,8x	4,9x
Grupo Financiero Galicia SA	GGAL	2,9x	1,9x	1,4x	11,2x	4,8x	4,9x
Grupo Supervielle SA	SUPV	1,3x	1,1x	0,9x	6,5x	4,5x	3,7x
BBVA Banco Frances SA	FRAN	1,8x	1,7x	1,4x	8,3x	6,2x	5,9x
Banco Patagonia SA	BPAT	1,5x	N/A	N/A	4,8x	N/A	N/A
Banco Hipotecario SA	BHIP	2,1x	N/A	N/A	4,8x	6,3x	4,2x
Banco Santander Rio SA	BRIO	1,6x	N/A	N/A	3,9x	N/A	N/A
Avg Arg		**2,0x**	**1,7x**	**1,3x**	**7,0x**	**5,5x**	**4,7x**
Brazil							
Banco Bradesco SA	BBDC3	2,5x	1,9x	1,7x	8,0x	5,2x	4,7x
Banco Santander Brasil SA	SANB11	N/A	2,3x	2,1x	13,5x	12,0x	11,1x
Banco do Brasil SA	BBAS3	1,4x	1,3x	1,2x	11,6x	8,8x	7,7x
Itau Unibanco Holding SA	ITUB4	2,7x	2,6x	2,4x	6,8x	6,0x	5,4x
Avg Brazil		**2,2x**	**2,0x**	**1,8x**	**10,0x**	**8,0x**	**7,3x**
Colombia							
Bancolombia SA	BCOLO	1,5x	1,4x	1,2x	7,2x	6,1x	5,1x
Grupo Aval Acciones y Valores	AVAL	1,5x	1,4x	1,3x	6,0x	5,7x	5,1x
Avg Colombia		**1,5x**	**1,4x**	**1,3x**	**6,6x**	**5,9x**	**5,1x**
Chile							
Banco de Credito e Inversiones	BCI	1,8x	1,6x	1,5x	15,8x	14,1x	12,1x
Banco de Chile	CHILE	3,1x	2,8x	2,5x	17,1x	16,1x	14,4x
Credicorp Ltd	BAP	0,7x	0,7x	0,6x	4,5x	4,0x	3,6x
Banco Santander Chile	BSAN	2,8x	2,9x	2,6x	15,9x	15,2x	13,5x
Avg Chile		**2,1x**	**2,0x**	**1,8x**	**13,3x**	**12,3x**	**10,9x**
Mexico							
Grupo Financiero Inbursa SAB d	GFINBURO	1,2x	1,1x	1,0x	10,2x	9,7x	8,7x
Avg Mexico		**1,2x**	**1,1x**	**1,0x**	**10,2x**	**9,7x**	**8,7x**
Avg Latam ex. Arg		**1,7x**	**1,6x**	**1,5x**	**10,0x**	**9,0x**	**8,0x**

Source: Bloomberg; Cohen
Note: Estimates reflect Bloomberg consensus estimates, except for BMA & GGAL which reflects Cohen estimates.

Estimates

GGAL is expected to release its 2Q19 earnings results in August. We expect a very strong quarter, with net income reaching ARS 8.5bn (vs ARS 5.0bn consensus), +39% QoQ (after adjusting 1Q19 results for the sale of Prisma) fueled by higher interest earned on Leliqs, and a higher spread between Leliq and Badlar (Leliq has increased 1440bps on average during this quarter, vs 875bps of the Badlar, as of May 27).

We expect GGAL's loans and deposits to grow broadly in-line with the system, at 3% QoQ and 6% QoQ (in ARS), respectively, fueled by seasonality on savings accounts. The main revenue driver will likely be the Leliq interest income, as loan demand is virtually frozen. GGAL had ARS ~100bn in Leliqs as of 1Q19, and we expect this to increase to ARS 118bn as a consequence of higher deposits that are not allocated entirely into loans.

Asset quality will likely continue to deteriorate in 2Q19 given the ongoing economic backdrop, and we estimate NPLs to increase to 5.3% in 2Q19 from 5.1% in 1Q19, with coverage stable at 100%. Recall, GGAL has fully provisioned a ARS 1.8bn delinquent loan to Molino Cañuelas, and negotiations between the company and its lenders are going on. If renegotiated, GGAL could recognize a gain related to this loan, and the NPL ratio would decrease to 4.1%. We are not assuming any recovery from this loan in our estimates. Delinquency at Tarjetas Regionales is somewhat more of a concern, in our view, as it stood at ~12% in 1Q19, although this number is still lower than some of its consumer finance peers.

Exhibit 24: Cohen GGAL Estimates (ARS mn)

Balance Sheet (ARS mn)	2017A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019A	1Q20E	2Q20E	3Q20E	4Q20E	2020A	1Q21E	2Q21E	3Q21E	4Q21E	2021A
Cash and due from banks	58.943	143.309	131.824	140.554	146.468	166.098	166.098	163.858	176.104	178.694	195.737	195.737	200.871	216.414	221.916	243.964	243.964
Securities	28.978	75.989	108.810	129.012	125.938	123.510	123.510	139.745	151.621	150.136	169.153	169.153	172.859	175.754	162.895	165.531	165.531
Loans and other financings	194.534	286.952	301.477	309.941	335.770	380.198	380.198	390.978	420.660	449.888	505.990	505.990	528.190	567.359	607.804	672.836	672.836
Other securities	2.709	14.490	16.905	17.871	18.685	20.591	20.591	21.365	22.661	23.486	6.243	6.243	6.243	6.243	6.243	6.243	6.243
PPE & Intangible assets	10.706	14.629	18.302	18.697	19.237	19.770	19.770	20.103	20.437	20.770	21.104	21.104	21.796	22.474	23.138	23.789	23.789
Other assets	33.184	29.877	45.201	46.405	47.658	48.960	48.960	50.314	51.723	53.188	54.711	54.711	56.296	57.944	59.657	59.657	59.657
Total Assets	**329.054**	**565.246**	**622.520**	**662.481**	**693.756**	**759.126**	**759.126**	**786.364**	**843.204**	**876.161**	**952.937**	**952.937**	**986.255**	**1.046.189**	**1.081.654**	**1.172.021**	**1.172.021**
Deposits	200.717	360.097	407.769	433.119	453.491	509.015	509.015	526.298	574.440	596.005	661.789	661.789	682.581	734.170	756.443	833.693	833.693
Checking Accounts	33.210	39.854	39.513	41.093	43.970	48.367	48.367	50.977	55.345	58.129	65.952	65.952	68.964	74.006	77.219	86.248	86.248
Savings Accounts	100.416	198.891	210.981	227.704	234.363	269.880	269.880	274.772	302.369	310.158	341.566	341.566	347.804	376.304	382.979	420.343	420.343
Time Deposits	64.482	115.253	149.015	155.930	166.598	181.986	181.986	191.617	207.549	218.361	244.562	244.562	255.921	273.708	285.896	316.338	316.338
Others	2.006	6.098	8.261	8.392	8.559	8.782	8.782	8.932	9.177	9.357	9.709	9.709	9.892	10.152	10.350	10.764	10.764
Medium Term Notes	13.739	29.984	35.581	39.208	39.799	40.859	40.859	41.817	43.120	44.318	45.350	45.350	46.432	47.535	48.660	49.805	49.805
Subordinated Loan	4.828	9.768	10.983	11.500	12.023	12.518	12.518	12.923	13.633	14.250	14.720	14.720	15.235	15.768	16.320	16.892	16.892
Other liabilities	66.592	108.799	102.578	106.351	107.187	107.979	107.979	108.627	109.763	110.751	111.503	111.503	112.328	113.181	114.064	114.978	114.978
Total liabilities	**285.876**	**508.647**	**556.912**	**590.178**	**612.500**	**670.371**	**670.371**	**689.665**	**740.956**	**765.325**	**833.362**	**833.362**	**856.577**	**910.655**	**935.487**	**1.015.368**	**1.015.368**
Minority interest	1935	1721	1898	2.072	2.251	2.401	2.401	2.560	2.725	2.897	3.071	3.071	3.273	3.489	3.702	3.911	3.911
Shareholders' equity	**41.243**	**54.878**	**63.709**	**70.230**	**79.005**	**86.354**	**86.354**	**94.139**	**99.523**	**107.940**	**116.504**	**116.504**	**126.405**	**132.045**	**142.465**	**152.742**	**152.742**

Income Statement (ARS mn)	2017A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019A	1Q20E	2Q20E	3Q20E	4Q20E	2020A	1Q21E	2Q21E	3Q21E	4Q21E	2021A
Net Interest Income	**19.440**	**27.324**	**4.209**	**3.210**	**4.005**	**5.260**	**16.685**	**5.764**	**5.966**	**6.828**	**6.807**	**25.364**	**7.670**	**8.247**	**9.197**	**10.231**	**35.345**
Net Service Fee Income	**13.097**	**18.319**	**6.012**	**6.515**	**6.946**	**7.710**	**27.184**	**8.325**	**8.913**	**9.722**	**10.597**	**37.557**	**11.235**	**12.139**	**13.091**	**14.154**	**50.619**
Financial assets income	**7.112**	**18.191**	**15.687**	**18.842**	**18.285**	**15.019**	**67.833**	**14.622**	**14.676**	**13.961**	**13.787**	**57.045**	**14.407**	**14.186**	**13.086**	**11.906**	**53.584**
Other operating income	6.033	7.618	6.494	2.550	2.742	2.921	14.708	3.105	3.269	3.449	3.622	13.445	3.803	3.993	4.183	4.371	16.349
Loan Loss provisions	-4.604	-10.328	-7.561	-5.579	-5.246	-5.370	-23.757	-5.061	-4.819	-4.625	-4.481	-18.985	-4.201	-3.766	-4.040	-4.402	-16.409
Insurance income	2.055	2.386	672	732	791	846	3.041	901	955	1.007	1.058	3.921	1.111	1.166	1.222	1.277	4.775
Net operating revenue	**43.133**	**63.510**	**25.513**	**26.271**	**27.523**	**26.387**	**105.693**	**27.655**	**28.960**	**30.342**	**31.390**	**118.347**	**34.023**	**35.965**	**36.739**	**37.536**	**144.263**
Personnel expenses	-10.680	-14.002	-4.063	-4.363	-4.712	-5.042	-18.179	-5.369	-5.691	-6.004	-6.305	-23.370	-6.620	-6.951	-7.294	-7.650	-28.516
Administrative expenses	-9.771	-14.457	-4.065	-4.427	-4.781	-5.116	-18.389	-5.448	-5.775	-6.093	-6.397	-23.713	-6.717	-7.053	-7.388	-7.721	-28.879
D&A	-800	-1.186	-569	-702	-697	-699	-2.667	-701	-702	-704	-706	-2.813	-707	-722	-736	-749	-2.915
Other operating expenses	-8.302	-12.657	-4.260	-4.357	-4.542	-4.817	-17.976	-4.789	-5.014	-5.272	-5.497	-20.572	-5.546	-5.835	-6.130	-6.435	-23.947
Operating income	**13.580**	**21.208**	**12.556**	**12.421**	**12.791**	**10.714**	**48.482**	**11.348**	**11.777**	**12.269**	**12.484**	**47.878**	**14.432**	**15.403**	**15.191**	**14.980**	**60.007**
Income from associates & JV	13	52	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Before Tax	**13.593**	**21.260**	**12.556**	**12.421**	**12.791**	**10.714**	**48.482**	**11.348**	**11.777**	**12.269**	**12.484**	**47.878**	**14.432**	**15.403**	**15.191**	**14.980**	**60.007**
Income Tax	-4.335	-6.471	-3.341	-3.726	-3.837	-3.214	-14.119	-3.404	-3.533	-3.681	-3.745	-14.363	-4.330	-4.621	-4.557	-4.494	-18.002
Minority interest	-626	-362	-178	-174	-179	-150	-680	-159	-165	-172	-175	-670	-202	-216	-213	-210	-840
Net income	**8.632**	**14.427**	**9.037**	**8.521**	**8.775**	**7.350**	**33.683**	**7.785**	**8.079**	**8.417**	**8.564**	**32.844**	**9.901**	**10.567**	**10.421**	**10.277**	**41.165**

Source: Company Filings, Cohen

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