



Capital
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Financial

BBAR 2Q19

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BBAR 2Q19

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August 19

Date: 08/20/2019

ARS 95.05 / USD 5.08

Target Price: ARS 172.40

Rating

Market Performer

Price Range (ARS)

52 wk. Min. **52 wk. Max.**

89.00 183.45

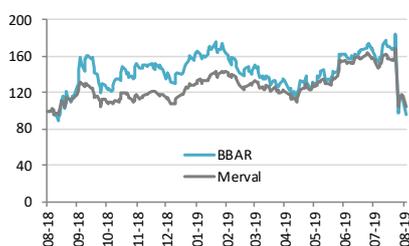
Variation %

Min. **Max.**

6.8 -48.2

Price BBAR vs. Merval

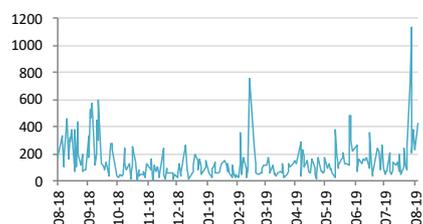
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS (\$)	P/E (x)	P/BV (x)
2018	26,129	9,614	7.3	15.7	6.1	1.5
2019e	39,434	19,217	3.4	31.4	3.0	1.1
2020e	48,792	22,599	3.0	36.9	2.6	0.9

Share Outstanding (million)	613	52-week Return	-4.5%
ADRs Outstanding (million)	204	EPS (TTM)	30.6
Market Cap. (million)	58,233	P/E (TTM)	3.1
Loans / Deposits (%)	65.4	P/BV (MRQ)	1.2
Enterprise Value (million)	114,825	Dividend Yield	1.7%

Source: Company's financial statements; Bloomberg.

Interesting Relative Valuation

BBVA Argentina (BYMA/NYSE:BMA) posted a net gain of ARS 6.8 billion in 2Q19, almost 220% higher y-o-y, and 13% q-o-q. It is worth recalling that the net income of 1Q19 included a one-off profit from the sale of 51% of the bank's stake in Prisma and the market valuation of the remaining 49%; excluding such impact, the growth in the quarter would have been 74%.

Net interest margin rose 117% in the last 12 months and 26% in the quarter. In terms of its composition, and as it has been the case in recent quarters, a relevant portion of 2Q19 profit stemmed securities income (616% YoY; 80% QoQ), which today accounts for 37% of the bank's total financial income. On the contrary, in the commercial banking business, loan interest income grew only 3% in the quarter (53% YoY) and accounts for 49% of total financial income.

Such performance is in part the result of a stagnant credit market. While deposits rose only 2% between quarters (48% YoY), private-sector credit showed almost no growth (0.7% QoQ) and grew below inflation in annual terms (15% YoY). The ratio of non-performing loans to total credit stood at 2.7% as of June 2019 (0.9% in 2Q18; 2.2% in 1Q19), with loan-loss coverage of 113%; although there is a clear worsening of asset quality figures, they remain within the lowest levels among its domestic peers.

Outlook

The Good: Relative Valuation

The Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential remains intact. Moreover, in terms of solvency, the domestic banking industry presents healthy capitalization figures.

In the case of BBVA Argentina, its stock presents a lower valuation in terms of P/E ratios than other Argentine banks and financial companies.

Something similar occurs in terms of P/BV ratios. BBVA Argentina, together with Grupo Financiero Supervielle (BYMA: SUPV), are among the banking stocks that have suffered the most in terms of valuation in the recent past. For further details, see the Relative Valuation chart later in this report.

The Bad: Dependent on High-Yield Central Bank Leliqs

Recent events in Argentina and the current scenario of political and economic uncertainty have triggered an unprecedented escalation of discount rates applied on local assets, with particular impact on banking stocks. As mentioned above, a great share of the bank's profit does not stem from the traditional commercial banking business, but from holdings of Central Bank Leliqs with unusually high yields. Any government decision that could change the current scheme would have a strong impact on results.

High-Risk Scenario Means Lower Valuation and Increased Volatility

Economic stagnation, on the one hand, and extraordinarily high yields on Central Bank Leliqs, on the other, have created a dependency of the Argentine banking industry on this type of securities in terms of profitability.

In addition, current's political and economic uncertainty reflects on a lower intrinsic valuation and increased volatility of the stock price.

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APPENDIX

DCF Valuation

(ARSM)	2018	2019e	2020e	2021e
Net Income	9,614	19,217	22,599	27,222
Loan Loss Provision	3,461	6,507	8,459	10,151
Depreciation and Amortization	876	1,139	1,253	1,379
Operating Cash Flow	13,951	26,863	32,311	38,751
Sources of Funds	125,273	28,176	57,203	67,346
Deposits	105,828	33,769	52,836	62,346
Financial Liabilities	19,444	-5,594	4,367	5,000
Uses of Funds	55,414	20,603	63,456	74,384
Loans	53,308	14,512	58,773	68,765
Securities	1,710	4,128	2,327	2,792
CapEx	396	1,963	2,356	2,827
Free Cash Flow (FCF)	83,810	34,436	26,058	31,713
Terminal Value (USD)				3.0%
Cost of Equity (USD)		26.90%	16.90%	16.70%
Discounted FCF	83,810	31,807	20,589	21,472
Present Value of FCF	62,159			
Present Value of Terminal Value	43,470			
Equit Value	105,629			
Shares Outstanding (M)	613			
Target Price	172.40			

Source: Own elaboration based on market data and information provided by the company.

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Relative Valuation

(ARS)	GGAL	BMA	BBAR	BHIP	SUPV
Market					
Price Local Share	84.35	178.80	95.05	14.55	37.75
Shares Outstanding (M)	1,427	639	612.66	1,500	457
Market Cap (M)	120,348	114,324	58,233	21,825	17,241
52w Average Daily Volume (M)	1.6	0.3	0.1	0.2	1.0
52w Return (%)	-3.8	27.6	-4.5	15.9	-33.2
YTD Return (%)	-18.3	9.1	-30.3	23.8	-40.4
52w High	174.55	350.85	183.45	19.00	84.60
52w Low	74.45	130.35	89.00	8.85	36.30
Valuation Ratios					
P/E (ttm)	4.1	4.9	3.1	12.8	4.0
P/BV (mrq)	1.6	1.8	1.2	2.1	0.9
Dividend Yield (%)	1.7	5.6	1.7	1.1	1.8
Balance Sheet (mrq)					
Total Assets (M)	586,567	401,032	392,892	83,822	166,145
Total Loans (M)	262,174	178,851	186,616	39,414	74,082
Total Liabilities (M)	526,323	338,296	344,082	73,328	146,750
Total Deposits (M)	409,171	284,259	285,202	29,617	112,638
Shareholder's Equity (M)	60,244	62,736	48,776	10,271	19,394
BV per Share	52.9	98.1	79.6	6.8	42.5
Loans YoY Growth (%)	21	15	33	-13	6
Deposits YoY Growth (%)	57	58	48	10	49
Asset Quality (mrq)					
NPL / Total Loans (%)	4.6	2.1	2.7	13.3	5.1
LLR / NPL (%)	108.0	116.1	112.9	52.2	107.7
Public-Sector / Total Assets (%)	27.2	24.2	20.6	22.7	27.1
Total Loans / Total Deposits (%)	64.1	62.9	65.4	133.1	65.8
Results (ttm)					
Net Interest Income (M)	13,051	52,327	37,815	990	7,335
Net Fee Income (M)	12,085	12,738	6,799	3,933	5,346
Administrative Expenses (M)	22,148	22,171	19,516	4,642	14,630
Net Income (M)	25,559	23,451	18,732	1,703	4,334
EPS	20.51	36.68	30.58	1.14	9.49
Efficiency (ttm)					
Net Fee Income / Adm. Expense (%)	54.6	57.5	34.8	84.7	36.5
ROA (%)	4.4	5.8	4.8	2.0	2.6
ROE (%)	42.4	37.4	38.4	16.6	22.3

Source: Own elaboration based on market data and information provided by the companies.

Annual Financial Statements

(ARS M)	2018	2019e	2020e	2021e
Income Statement				
Net Interest Income	26,129	39,434	48,792	60,345
Net Fee Income	4,796	6,570	7,884	9,067
Administrative Expenses	16,138	20,173	24,207	29,049
Pre-Tax Profit	13,733	27,453	32,284	38,889
Income Tax	4,027	8,236	9,685	11,667
Net Income	9,614	19,217	22,599	27,222
ROA	2.7%	4.8%	4.7%	4.7%
ROE	25.0%	36.2%	35.5%	35.6%
Efficiency Ratio	29.7%	32.6%	32.6%	31.2%
Balance Sheet				
Cash	99,105	91,177	95,735	100,522
Securities	7,506	11,634	13,961	16,753
Loans	181,399	195,911	254,684	323,449
Bank Premises and Equipment	9,816	11,779	14,135	16,962
Total Assets	354,716	400,829	480,994	577,193
Deposits	259,763	293,532	346,368	408,714
Financial Liabilities	36,191	30,597	34,964	39,964
Total Liabilities	316,157	347,773	417,327	500,793
Shareholders' Equity	38,529	53,056	63,667	76,401

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Quarterly Financial Statements

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	20,239	16,024	9,307	26%	117%
Net Fee Income	1,944	1,495	756	30%	157%
Administrative Expenses	5,663	4,757	3,577	19%	58%
Net Income	6,780	6,008	2,124	13%	219%
ROA	4.8%	3.6%	2.4%	114 bps	239 bps
ROE	38.4%	31.7%	19.4%	668 bps	1896 bps
Fee Income / Adm. Expenses	34.3%	31.4%	21.1%	290 bps	1318 bps
Balance Sheet					
Cash and Due from Banks	90,955	103,990	54,531	-13%	67%
Securities	6,591	2,050	2,736	222%	141%
Loans	186,616	185,306	162,123	1%	15%
Total Assets	392,892	387,742	268,228	1%	46%
Deposits	285,202	278,707	192,857	2%	48%
Financial Liabilities	56,592	63,014	46,595	-10%	21%
Total Liabilities	344,082	343,333	234,813	0%	47%
Shareholder's Equity	48,776	44,375	32,862	10%	48%
Equity / Total Liabilities	14.2%	12.9%	14.0%	125 bps	18 bps
NPL / Total Loans	2.7%	2.2%	0.9%	44 bps	180 bps
LLR / NPL	112.9%	114.4%	223.4%	-155 bps	-11057 bps
Exposure to Public Sector	20.6%	14.0%	10.8%	662 bps	979 bps

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