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Financial

**Banco Hipotecario 2Q19**

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# BHIP 2Q19

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August 19

Date: 08/23/2019

ARS 13.75

Target Price: ARS 17.20

## Rating

Market Performer

### Price Range (ARS)

52 wk. Min.      52 wk. Max.

8.85                      19.00

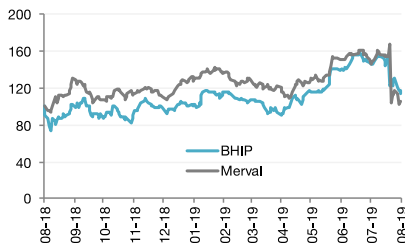
### Variation %

Min.                      Max.

55.4                      -27.6

### Price BHIP vs. Merval

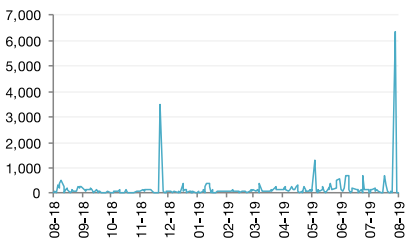
Last Year (100=Beginning of Period)



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	2,164	2,051	21.5	1.4	10.1	2.0
2019e	622	1,759	25.4	1.2	11.7	2.1
2020e	1,444	1,823	26.2	1.2	11.3	1.8

Share Outstanding (million)	1,500	52-week Return	13.6%
ADRs Outstanding (million)	N/A	EPS (TTM)	1.1
Market Cap. (million)	20,625	P/E (TTM)	12.1
Loans / Deposits	133%	P/BV (MRQ)	2.0
Enterprise Value (million)	58,980	Dividend Yield	1.2%

Source: Company's financial statements; Bloomberg.

## BHIP: High Relative Valuation and Poor Results

**Banco Hipotecario's (BYMA:BHIP) 2Q 2019** result confirmed a declining profitability trend and lower activity, initiated in previous quarters. Although the period's net income (ARS 616 million) lies above 1Q19 figures (ARS 36.5 million), it is only 20% higher than the profit obtained in 2Q18, well below the annual inflation rate.

Net interest income plummeted 77% in annual terms, and grew only 5% over the previous three months, which had already been a bad quarter. In a context of a stagnant commercial banking business, loan interest income showed no growth in the quarter (2% QoQ) and rose only 27% in the year, again below inflation.

Different was the case with securities income, which, due to a larger position in Central Bank Leliqs and higher yields paid by these bonds, rose 35% between quarters and 141% in the last 12 months. Similar to what has been the case in recent quarters, the bank posted a material loss of close to ARS 1 billion in terms of FX result.

Deposits grew only 2% in the last quarter and 10% year-on-year. Private-sector credit, in turn, dropped both in quarterly and annual terms (-5% QoQ; -13% YoY), deepening the activity slowdown witnessed in this and in previous quarters.

## 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.

### The Bad: High Relative Valuation; High NPLs; Leliq-Dependence

Banco Hipotecario presents P/E and P/BV valuation ratios that lie well above the values of its local peers. For further details, see the Relative Valuation chart later in this report.

In addition, Banco Hipotecario has seen a trend of worsening asset quality figures, reaching above-the-industry-average levels: in 2Q19, the ratio of non-performing loans to total credit stood at 13.3% (11.9% in 1Q19; 4.5% in 2Q18), with a rather low loan-loss coverage of 52%.

As mentioned, 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

The current scenario of political and economic uncertainty in Argentina has triggered an unprecedented escalation of discount rates, lower intrinsic valuation of domestic assets, and increased stock price volatility.

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## APPENDIX

### DCF Valuation

(AR\$ M)	2018	2019e	2020e	2021e
Net Income	2,051	1,759	1,823	2,090
Loan Loss Provision	1,829	3,201	3,841	4,417
Depreciation and Amortization	444	533	560	588
<b>Operating Cash Flow</b>	<b>4,324</b>	<b>5,493</b>	<b>6,224</b>	<b>7,095</b>
<b>Sources of Funds</b>	<b>15,466</b>	<b>-526</b>	<b>12,125</b>	<b>13,255</b>
Deposits	8,504	2,345	6,330	6,837
Financial Liabilities	6,962	-2,871	5,795	6,418
<b>Uses of Funds</b>	<b>7,193</b>	<b>-1,299</b>	<b>12,120</b>	<b>13,576</b>
Loans	4,222	-4,357	8,626	9,567
Securities	4,420	2,893	3,327	3,826
CapEx	-1,449	165	166	183
<b>Free Cash Flow (FCF)</b>	<b>12,598</b>	<b>6,265</b>	<b>6,229</b>	<b>6,774</b>
Terminal Value (USD)				3.0%
Cost of Equity (USD)		27.20%	17.20%	17.00%
<b>Discounted FCF</b>	<b>12,598</b>	<b>5,782</b>	<b>4,906</b>	<b>4,559</b>
Present Value of FCF	14,726			
Present Value of Terminal Value	11,091			
<b>Equit Value</b>	<b>25,817</b>			
Shares Outstanding (M)	1,500			
<b>Target Price</b>	<b>17.20</b>			

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

## Relative Valuation

(ARS)	GGAL	BMA	BBAR	BHIP	SUPV
<b>Market</b>					
Price Local Share	80.80	170.70	92.85	13.75	37.05
Shares Outstanding (M)	1,427	639	613	1,500	457
Market Cap (M)	115,283	109,145	56,885	20,625	16,922
52w Average Daily Volume (M)	1.6	0.3	0.1	0.2	1.0
52w Return (%)	-6.5	19.0	-6.7	13.6	-32.9
YTD Return (%)	-21.8	4.1	-31.9	17.0	-41.5
52w High	174.55	350.85	183.45	19.00	84.60
52w Low	74.45	130.35	89.00	8.85	36.30
<b>Valuation Ratios</b>					
P/E (ttm)	3.9	4.7	3.0	12.1	3.9
P/BV (mrq)	1.5	1.7	1.2	2.0	0.9
Dividend Yield (%)	1.7	5.9	1.7	1.2	1.8
<b>Balance Sheet (mrq)</b>					
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
<b>Asset Quality (mrq)</b>					
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
<b>Results (ttm)</b>					
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
<b>Efficiency (ttm)</b>					
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.

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## Annual Financial Statements

(ARS M)	2018	2019e	2020e	2021e
<b>Income Statement</b>				
Net Interest Income	2,164	622	1,444	2,165
Net Fee Income	3,468	3,988	4,786	5,503
Administrative Expenses	6,851	8,449	10,138	11,963
Pre-Tax Profit	2,812	2,271	2,418	2,774
Income Tax	754	522	604	693
<b>Net Income</b>	<b>2,051</b>	<b>1,759</b>	<b>1,823</b>	<b>2,090</b>
ROA	2.4%	2.2%	1.9%	1.8%
ROE	20.3%	18.2%	15.7%	15.0%
Efficiency Ratio	50.6%	47.2%	47.2%	46.0%
<b>Balance Sheet</b>				
Cash	8,833	10,158	10,666	11,199
Securities	19,288	22,181	25,508	29,334
Loans	43,567	39,210	47,836	57,403
<b>Total Assets</b>	<b>84,562</b>	<b>81,179</b>	<b>97,415</b>	<b>116,898</b>
Deposits	29,308	31,652	37,983	44,819
Financial Liabilities	39,866	36,995	42,790	49,208
<b>Total Liabilities</b>	<b>74,470</b>	<b>71,492</b>	<b>85,790</b>	<b>102,948</b>
<b>Shareholders' Equity</b>	<b>10,091</b>	<b>9,688</b>	<b>11,625</b>	<b>13,950</b>

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

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## Quarterly Financial Statements

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
<b>Income Statement</b>					
Net Interest Income	171	162	733	5%	-77%
Net Fee Income	1,086	900	923	21%	18%
Administrative Expenses	2,242	1,943	1,614	15%	39%
<b>Net Income</b>	<b>616</b>	<b>36</b>	<b>481</b>	<b>1587%</b>	<b>28%</b>
ROA	2.0%	1.8%	2.4%	19 bps	-38 bps
ROE	16.6%	15.8%	22.6%	75 bps	-600 bps
Efficiency Ratio	48.5%	46.3%	57.2%	215 bps	-871 bps
<b>Balance Sheet</b>					
Cash	7,976	6,862	6,262	16%	27%
Securities	20,360	21,519	16,322	-5%	25%
Loans	39,414	41,456	45,148	-5%	-13%
<b>Total Assets</b>	<b>83,822</b>	<b>85,259</b>	<b>81,717</b>	<b>-2%</b>	<b>3%</b>
Deposits	29,617	28,974	26,871	2%	10%
Financial Liabilities	38,355	40,615	39,154	-6%	-2%
<b>Total Liabilities</b>	<b>73,328</b>	<b>75,141</b>	<b>72,688</b>	<b>-2%</b>	<b>1%</b>
<b>Shareholder's Equity</b>	<b>10,271</b>	<b>9,906</b>	<b>8,719</b>	<b>4%</b>	<b>18%</b>
Equity / Total Liabilities	14.0%	13.2%	12.0%	82 bps	201 bps
NPL / Total Loans	13.3%	11.9%	4.5%	140 bps	880 bps
LLR / NPL	52.2%	51.9%	76.5%	30 bps	-2430 bps
Exposure to Public Sector	22.7%	22.8%	17.3%	-9 bps	539 bps

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

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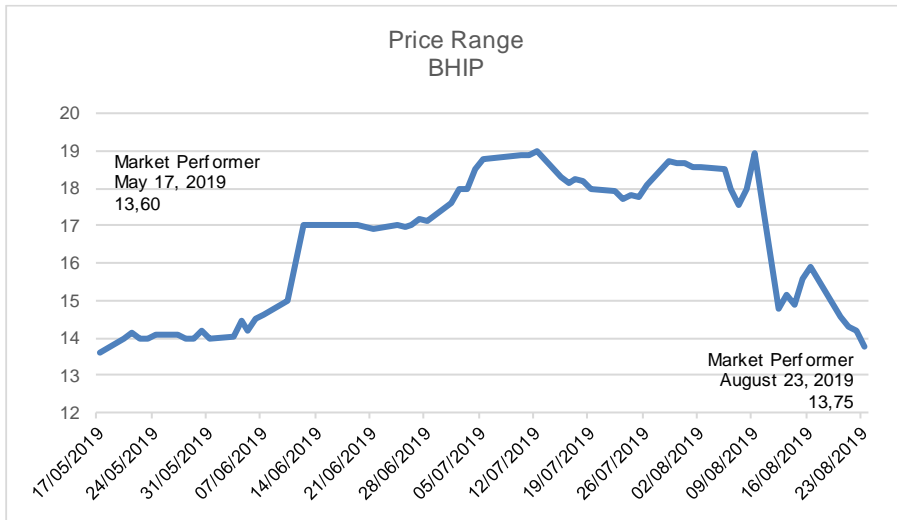
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Stock ratings are based on the analyst's expectation of the stock's total return during the twelve to eighteen months following assignment of the rating. This view is based on the target price, set as described below, and on the analyst's opinion, general market conditions and economic developments.



As from August 23, 2018, the formula is:	
<b>Outperform:</b> expected to perform above the underlying country index	
<b>Perform:</b> expected to perform in-line with the underlying country index	X
<b>Underperform:</b> expected to perform below the underlying country index	

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Ratings	Covered companies with Specific Rating
Outperform	24%
Perform	67%
Underperform	9%

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