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GRUPO FINANCIERO VALORES 2Q19

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GRUPO FINANCIERO VALORES 2Q19

September 19

Market Price (Sep 19, 2019)

ARS 6.39

Target Price (12 months)

ARS 8.90

Rating

Market Performer

Price Range (ARS)

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

4.97 8.95

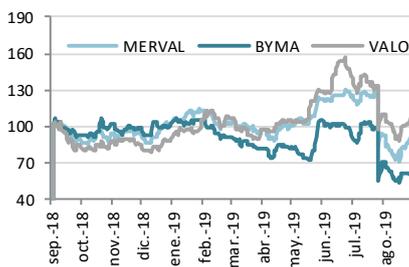
Variation %

Min. **Max.**

28.6 -28.6

Price VALO vs. Merval & BYMA

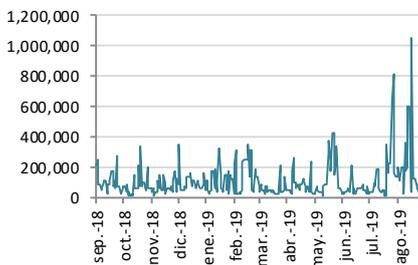
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Op. Revenue (ARS M)	Net Income (M)	EV/Op. Rev. (x)	EPS (ARS)	P/E (x)	P/BV (x)
2018	2,264	991	5.3x	\$ 1.16	4.1x	2.5x
2019e	3,632	2,213	6.6x	\$ 2.60	2.5x	1.4x
2020e	4,903	2,987	4.9x	\$ 3.51	1.8x	0.8x

Shares Outstanding (millions)	850.80	Dividend Yield (12 meses)	9.4%
Market Cap (ARS millions)	5,437	YTD Return (%)	32.6%
Float (%)	100%	P/E (TTM)	3.6x
Enterprise Value (ARS millions)	23,899	EPS (TTM - ARS)	\$ 1.76

Solid financial income, with regulatory and economic risks in sight

Grupo Financiero Valores (BYMA:VALO) achieved a quarterly profit of ARS 481.5 million (+161% y/y), in a context of high interest rates, a drop in the number of corporate issues and a weak peso. The appreciation of dollar-denominated assets together with a reduction in country risk during the first months of the year resulted in an extraordinary gain. Although the trusts segment was negatively affected, banking activity and custody of mutual funds boosted the net result.

Net interest income reached ARS 848.0 million (+151% y/y), driven mainly by investment result in public securities, which reached ARS 1,069.0 million (+223% y/y). In contrast, interest expenses increased to ARS 446.1 million (+229% y/y). Net fees accounted for ARS 127.6 million (+18% y/y), with income from mutual fund depository business (ARS 72.6 million, +19% y/y) standing out. On the other hand, loan fees, which include income from financial trusts, grew only 14% y/y. In this sense, the number of mutual funds and cash under the depository business continued its upslope trend, while financial trusts issuance declined markedly (see chart below). VALO saw its market share slightly reduced to 29.9% (-80bps vs 1Q 2019), while it managed to increase it by 4.3 pp. vs 2Q 2018.

VALO shows a relevant cash position, which represents 66% of its total assets. Cash grew by 169% y/y to ARS 21.6 billion, in line with the increase in deposits. The amount in foreign currency (ARS 21.3 billion, 98% of the total) covers customer deposits in hard currency.

The investment portfolio grew by 63% y/y, thanks to dollar-denominated securities. Public sector exposure as a percentage of total assets decreased from 40% in Q2 2018 to 20% in Q1 2019. Central Bank (BCRA) bills represent 18% of total assets.

Loan portfolio continues to be focused on commercial loans. Although there was an increase in non-performing loans from 0.2% in Q2 2018 to 0.8% in Q2 2019, the quality of the loan portfolio continues to be higher than the average of the sector's peers. In turn, VALO has a loan loss provision (LLP) ratio higher than 170%.

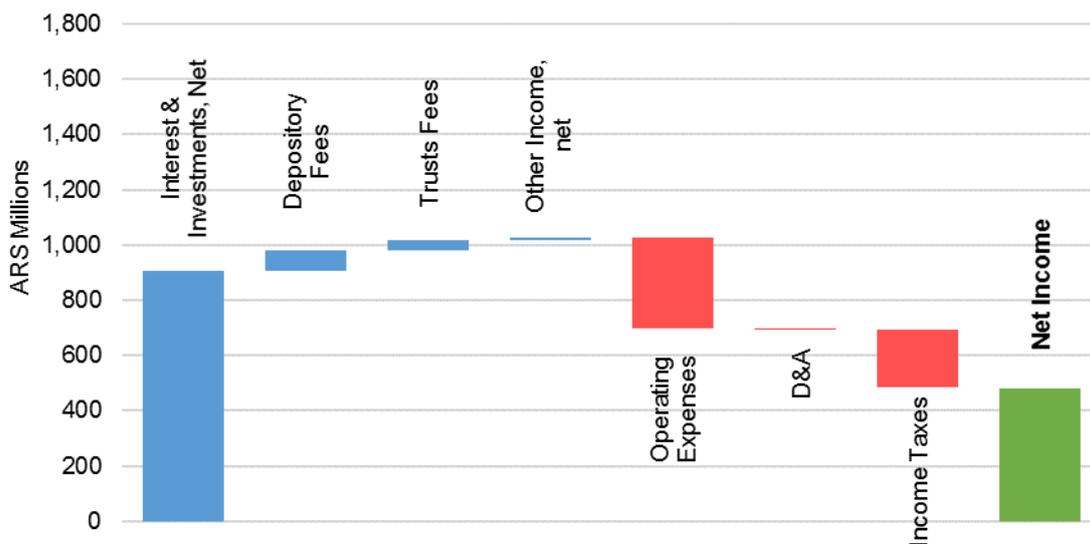
Deposits continue to be highly concentrated, with the top 10 clients representing 29.5% of the amount deposited. 99% of deposits are at a 1-month term.

Outlook: The high-rates scenario would contribute to the persistence of interest income growth, boosting the bank's net income in the short run. In contrast, the deterioration of the local economy and the level of political risk are negative factors for the development of the mutual fund industry and new Public offerings. In this sense, the sovereign debt maturities extension directly hit mutual funds and put the development of the industry in check. The medium-term outlook will depend on:

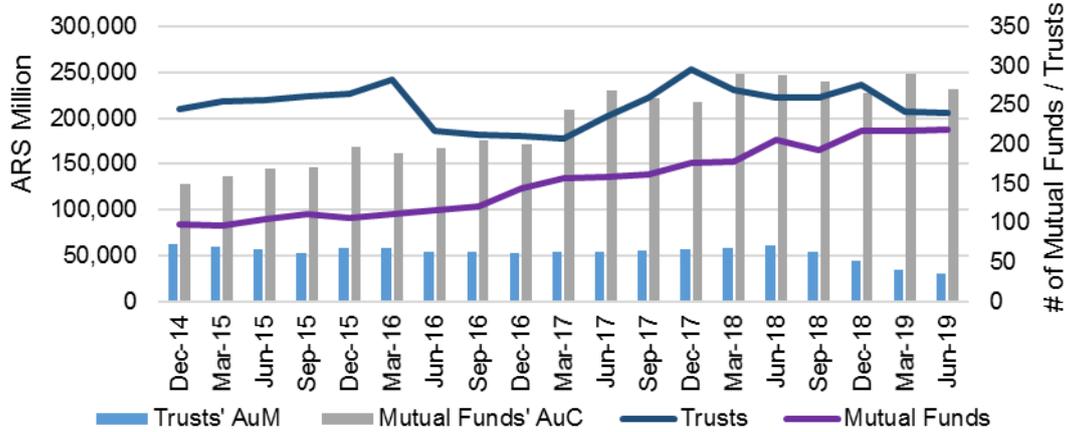
- Result of Presidential elections and the future of structural reforms: Presidential elections put at risk new laws for capital markets' development. It is still unknown whether Alberto Fernández, in case of winning the elections, would lead to further development of the local capital markets. With the current legal framework, VALO could benefit from the regulation of new investment vehicles, such as trusts on mortgage loans and funds that replicate sectorial indices, as well as the possibility of providing services to the new Negotiation Agents (NAs).
- Economic reactivation: The increase in new issues of financial trusts and corporate debt securities will also depend on the improvement in macroeconomic variables, especially consumption.

Valuation: VALO presents significant risks due to the possibility of changes in the current regulatory framework and due to the drop in economic activity. In relative terms, VALO is trading at a P/B of 2.1x and a P/E (TTM) of 3.6x, which implies a 20% premium in terms of book value (P/B) but at a 30% discount in terms of earnings (P/E) vs the banking sector average. In this context, we rate VALO as **Market Performer**, with a target price of ARS 8.90 per share, which results in a P/E multiple (using next 12 months earnings) of 3.6x.

Revenue & Expenses breakdown - 2Q 2019

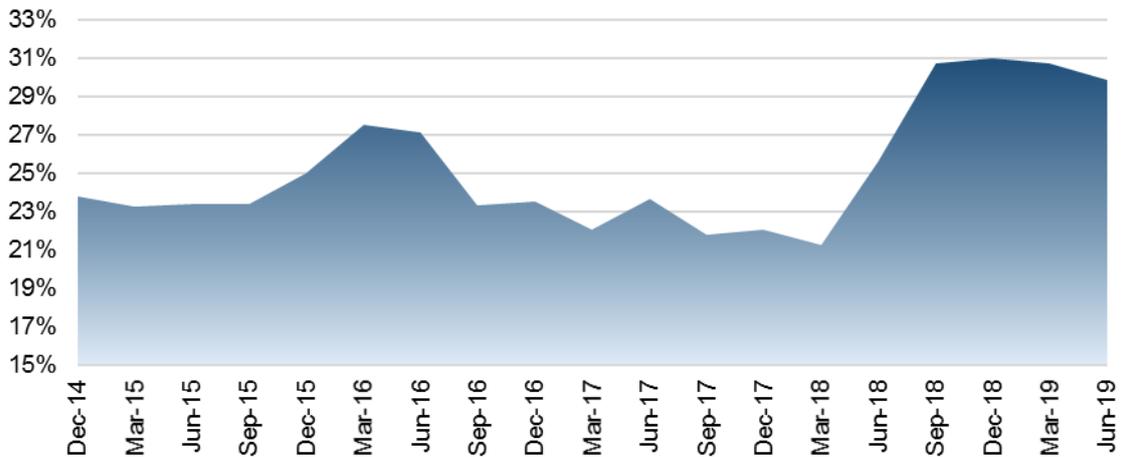


Mutual Funds' AuC & Trusts' AuM
In ARS million - at current prices*



Source: CMA based on Banco de Valores' financial statements.
*Adjusted by National CPI. Source: INDEC.

Mutual Funds' Market share - Assets under custody



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Financial Summary (ARS Millions)	Quarterly		Annual		
	2Q 2018	2Q 2019	2018	2019e	2020e
Interest Income	437	1,294	2,386	3,827	5,166
<i>Y/Y change</i>		196%		60%	35%
Interest Expense	-112	-446	-657	-1,055	-1,424
<i>Y/Y change</i>		299%		60%	35%
Net Interest Income	325	848	1,728	2,772	3,743
<i>Y/Y change</i>		161%		60%	35%
Fee Income	107	127	392	628	848
<i>Y/Y change</i>		18%		60%	35%
Fee Expense	-7	-8	-35	-56	-75
<i>Y/Y change</i>		25%		60%	35%
Net Fee Income	100	118	357	573	773
<i>Y/Y change</i>		18%		60%	35%
Operating Revenue	460	1,028	2,264	3,632	4,903
<i>Y/Y change</i>		123%		60%	35%
Operating Income	258	692	1,417	2,273	3,068
<i>Y/Y change</i>		168%		60%	35%
Income Tax	-79	-207	-426	-948	-1,280
Net Income	185	482	991	2,213	2,987
<i>Y/Y change</i>		161%		123%	35%
Cash	8,052	21,649	12,359		
<i>Y/Y change</i>		169%			
Investments	421	1,189	7,898		
<i>Y/Y change</i>		182%			
Loans	401	522	434		
<i>Y/Y change</i>		30%			
Deposits	11,371	28,507	17,070		
<i>Y/Y change</i>		151%			
Total Assets	14,275	32,750	20,608		
<i>Y/Y change</i>		129%			
Total Liabilities	12,765	30,530	18,463		
<i>Y/Y change</i>		139%			
Shareholders' Equity	1,511	2,220	2,146		
<i>Y/Y change</i>		47%			
Mutual Funds (#)	206	219	217		
Mutual Funds (cash amount)	158,197	231,735	185,999		
Financial Trusts (#)	259	240	276		
Financial Trusts (cash amount)	39,590	29,817	36,353		

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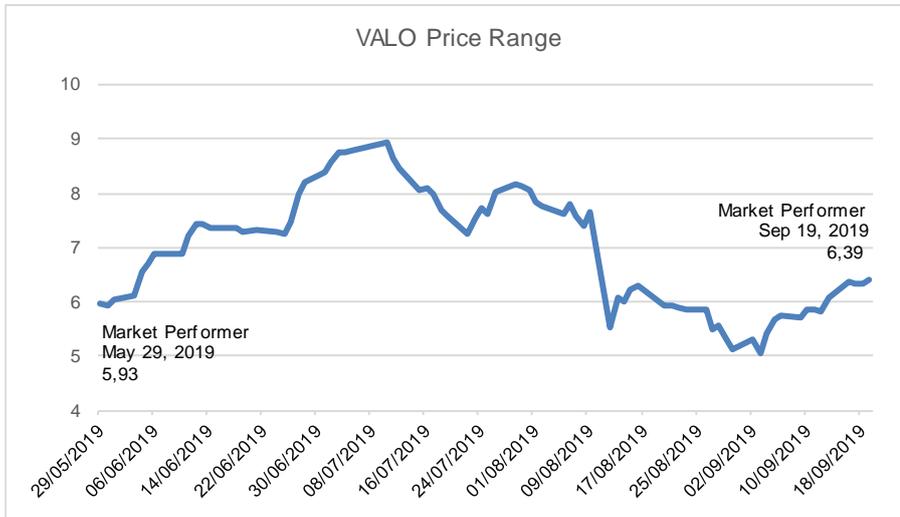
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Outperform: expected to perform above the underlying country index	
Perform: expected to perform in-line with the underlying country index	X
Underperform: expected to perform below the underlying country index	

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Perform	5%
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