

LatAm Financials Insights

Brazil banks: local sentiment deteriorating

Equities

Latin America
Financial

Local investors still overweight Brazilian banks, but with lower conviction

During a market trip in Brazil last week, it became apparent that the sentiment of local investors towards the banking sector has deteriorated, largely on the back of concerns over asset quality. Compared to an earlier marketing trip back in February 2015 when over 90% of local investors we meetings were overweight Brazilian banks, this time round only 63% of investors we had meetings with remained overweight. Several investors indicated that they had sold their positions in BBAS ahead of 1Q15 results although most still had exposure to Itau and Bradesco

Brazil non-banks financials: preference for resilience remains

Among LatAm non-banks financials, defensive names as BB Seguridade and Cielo remained the best owned. We see those companies as less exposed to the challenging macro in Brazil. For the exchanges we saw less conviction, especially for Bovespa, although some investors continue to like Cetip resilience.

Is regulatory risk decreasing for Cielo?

In 2014 regulators finished the job started in 2010, calling for the end of exclusivity of smaller brands, in particular Hiper, Elo and Amex. As acquirers adjust to this new scenario, effective in a few months, we ask what other regulatory risks are relevant. Regulatory adjustments are ongoing in the industry. That said, we do not expect a large change in the ecosystem in the short term. We have a Buy rating on Cielo. While volume growth is under pressure, we feel that pricing remains robust, which is the main issue to us in the current environment.

Weekly Performance (US\$ terms, closing prices as of Thursday, May 14th)

Best performer was Cetip up 5.1%, while the worst was BB down 5.4%.

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Figure 1: LatAm Financials coverage summary

	Rating	Price LC	Price Target LC	Upside (%)	Div.Yield 12M Fwd (%)	Mkt Cap (USD millions)	P/E 2015E	2016E	1-week USD	1-week	1-month	YTD	1-year
Banco do Brasil	Neutral (CBE)	25.96	28.00	7.9	6.6	24,848	6.1x	5.4x	-5.4	-6.8	7.1	11.4	15.3
Bradesco	Buy	31.62	39.10	23.7	4.1	53,327	8.8x	7.8x	1.4	-0.1	2.0	9.0	11.3
Itau Unibanco	Buy	38.01	48.00	26.3	4.1	70,226	8.8x	7.7x	2.2	0.7	3.5	12.8	15.9
Itaúsa	Buy	9.55	12.90	35.1	n.a.	19,635	n.a.	n.a.	1.2	-0.3	-0.1	4.9	19.4
Santander	Neutral	17.47	14.00	-19.9	4.9	22,178	12.6x	11.0x	3.1	1.6	15.7	32.0	19.8
Banorte	Buy	88.08	104.10	18.2	1.2	16,183	13.9x	11.9x	0.4	-0.9	1.4	9.6	-3.4
Banregio	Neutral	86.14	84.00	-2.5	1.8	1,871	16.4x	13.3x	3.4	2.0	7.8	15.9	13.8
Genera	Buy	26.19	33.00	26.0	0.0	2,860	13.6x	11.9x	2.9	1.5	0.5	-11.4	17.1
Inbursa	Buy	36.47	47.00	28.9	2.0	16,108	17.2x	13.9x	0.2	-1.1	-9.4	-4.1	1.9
Santander Mexico	Buy	30.03	37.80	25.9	3.5	13,475	13.0x	11.0x	-1.6	-2.9	-10.7	-1.8	-11.2
Bancolombia	Sell	45.96	41.60	-9.5	3.0	11,051	12.7x	10.9x	0.9	0.9	11.6	-2.9	-15.5
Credicorp	Buy	151.31	192.00	26.9	3.3	12,068	12.2x	10.7x	-1.2	-1.2	3.0	-4.5	-2.2
DaviVienda	Buy	26,600	35,000	31.6	0.0	4,943	10.4x	8.9x	-2.8	-1.7	0.8	-2.4	-4.5
Santander Chile	Neutral	22.19	21.50	-3.1	5.1	10,454	13.4x	11.3x	3.0	3.0	5.9	17.7	-7.2
BM&F Bovespa	Neutral	12.05	10.50	-12.9	5.0	7,648	14.2x	13.2x	-1.3	-2.7	-0.1	23.4	6.4
Bolsaa	Neutral	28.00	28.00	0.0	5.2	1,100	20.8x	19.0x	4.7	3.3	9.9	5.8	8.6
Cetip	Sell	34.86	30.00	-13.9	3.6	2,989	15.9x	15.6x	5.1	3.6	3.5	9.9	28.3
Cielo	Buy	42.30	48.00	13.5	1.3	26,635	23.7x	20.8x	2.0	0.5	3.1	23.2	34.7
BB Seguridade	Buy	36.38	39.50	8.6	4.2	24,305	19.2x	16.3x	2.3	0.8	2.5	16.2	33.5
Porto Seguro	Neutral	38.65	38.60	-0.1	4.8	4,174	12.5x	11.2x	1.5	0.0	3.1	29.5	22.8
Sul America	Neutral	14.19	14.50	2.2	5.0	1,615	8.0x	7.2x	4.7	3.2	-0.1	11.4	-13.5

Source: UBS and Bloomberg. Note: price as of May 14th.

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LatAm Financials Insights

1) Brazil banks: local sentiment deteriorating

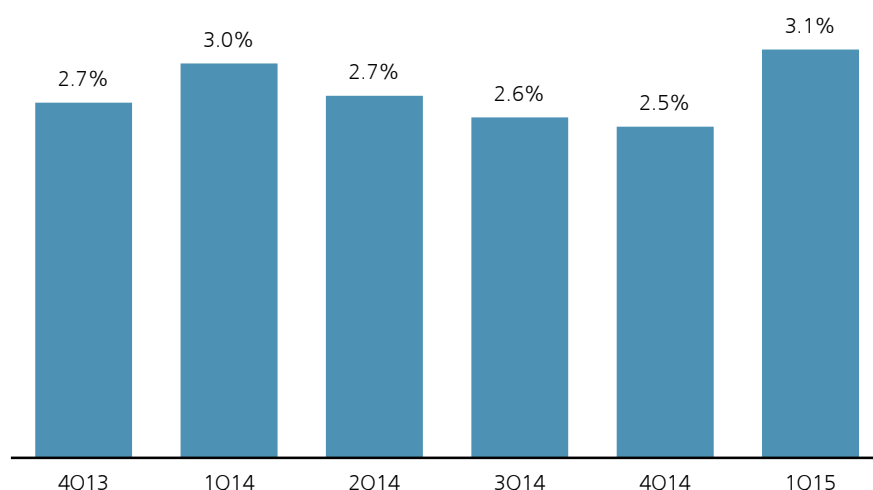
During a market trip in Brazil last week, it became apparent that the sentiment of local investors towards the banking sector has deteriorated. Compared to an earlier marketing trip back in February 2015 when over 90% of local investors we had meetings were overweight Brazilian banks, this time round only 63% of investors we had meetings with remained overweight.

Most investors we saw have been reducing their exposures to banks. Some indicated that the overweight banks stance reflected more a lack of conviction in investing in alternative sectors rather than being outright positive on the banks. Others emphasized that they were only slightly above benchmark on the sector although it was interesting to note that out of a total of 27 meetings, two clients who have been underweight banks throughout this year were looking to add to their banking positions although one suggested that they would still likely remain underweight.

At the stock level, several investors indicated that they had sold their positions in BBAS ahead of 1Q15 results although most still had exposure to Itau and Bradesco. In contrast, Santander Brasil was poorly held and for most investors had been off radar since last year's tender offer.

The overwhelming reason for local investors' more cautious stance was concern over deterioration in asset quality in light of a highly challenging macro outlook. A number of investors feared that the pick-up in loan loss provisions in 1Q15 could mark the start of a new NPL up-cycle and were particularly spooked by the sharp rise in the 15-90 day NPL ratio in the quarter. Rising unemployment could be the trigger for higher delinquency in consumer/retail.

Figure 2: 15-90 day NPL ratio (for the 4 large Brazilian listed banks)

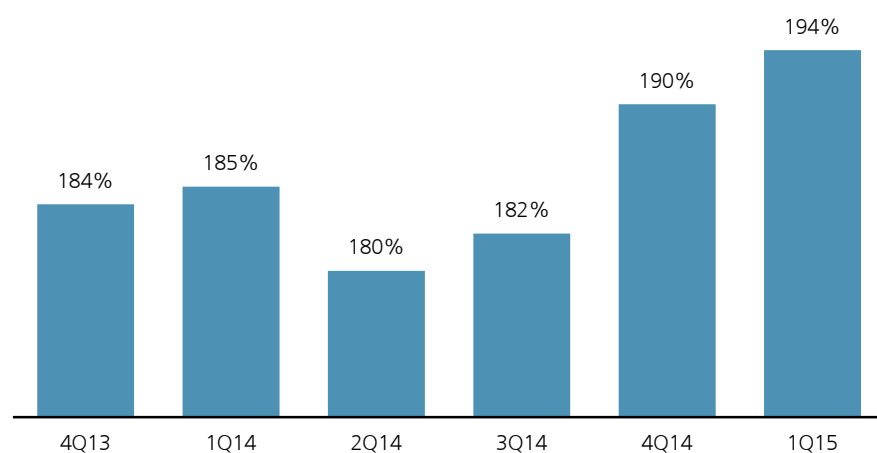


Source: Company data and UBS

Most investors accepted that banks' NIM/NII growth could rise further and help offset higher provisions especially with the rising Selic. They also acknowledged that banks' high and rising NPL coverage provides a buffer for any unexpected

decline in asset quality. However, many worried a sharp rise in system-wide NPL data would undermine market sentiment even if sector earnings remain resilient.

Figure 3: Brazilian banks' NPL coverage ratio (for the 4 large Brazilian listed banks)



Source: Company data and UBS

Another reason for the cautious stance was valuation that was cited by a few clients as being full especially if the local 10-year bond yield was used as part of COE calculation. Based on Bloomberg consensus estimates, Brazilian banks now trade on 9.2x PE (2015E) and 8.6x PE (2016E).

Other discussion points included:

- **Foreign interest:** whether foreign investors were interested in Brazilian banks, could we see rotation out from other sectors where there has been foreign buying interest?
- **The potential sale of HSBC's Brazilian's business:** what could it be worth (see link) and who could be possible buyers. Some investors expressed concerns that overlapping clients didn't make HSBC Brasil the best fit for Bradesco while potentially stretching Bradesco's capital base and thus could be an overhang on Bradesco's share price in the short term.
- **Santander Brasil's out-performance:** Although local investors had not looked at Santander Brasil recently they wanted to know why it has been the best performing bank in Brazil this year, out-performing the banking index by 20%.

We remain Neutral on Brazilian banks, maintaining a preference for private banks over public banks as we believe the former have more defensive loan books and are better placed to mitigate potentially higher provisions via stronger revenue growth. Itau is our top pick (best-in-class ROE); we also have a Buy on Bradesco (good costs control, earnings momentum) with Banco do Brasil (Neutral) being our least preferred bank (asset quality uncertainties).

2) Brazil non-banks financials: preference for resilience remains

Among LatAm non-banks financials, defensive names as BB Seguridade and Cielo remained the best owned.

- **BB Seguridade:** after strong 1Q15 a result, BB Seguridade remains one of the top picks given earnings resilience and still attractive growth prospects. Earnings momentum remains positive and we could see another round of earnings upwards revision by consensus. The potential listing of Caixa insurance business is still not seen as an overhang risk.
- **Cielo:** 1Q15 showed once again revenues resilience. The lower card volume growth is already priced in. Most questions revolved around prepayment, the JV and opex. For prepayment, volumes prepaid at 20% look sustainable even though management is guiding for a lower sustainable level. We conservatively forecast ~18% for 2015. The view on the JV with Banco do Brasil was more consensual (positive view in the long term) as it helps diversification. Opex controls showed some improvements in 1Q and we believe this corresponds to a new trends for 2015.
- **Bovespa:** No conviction on the name. The stock was owned as a hedge but at current prices it looks expensive. In terms of volumes, April numbers were viewed as positive. During 2015 derivatives volumes should help to offset still weak equities.
- **Cetip:** mixed views. While some investors continue to like the name given resilience, cash flow and dividends, others believe that GRV revenues are not macro resilient and we could see further downside with more migration to Sircof light. High opex growth was also a concern.
- **Porto Seguro:** despite good trends for auto insurance (competition under control and resilience) and strong 1Q15, investors see the stock as expensive.
- **SulAmerica:** despite good 1Q15 and recent measures to control claims, such as JV with Healthways, investors continue to avoid the name due lower flexibility on cost control (medical inflation still high and rising frequency of use). They could become more positive with structural changes in the industry.

Among non-banks, BB Seguridade and Cielo remains our top-picks given earnings resilience.

3) Investors are mostly concerned with regulations and competition

We think the debate is mostly around competition and the potential pricing compression it could cause. Regulatory risk was high in 2014, and is an ongoing feature in the card/payment market. We met recently with the Brazilian card/payment association and share below our main thoughts on regulations. Overall, we feel that the main regulatory risks (end of exclusivity and prepayment) are well flagged and known by the market.

Laundry list of regulatory risks; we expect no imminent change

- The end of exclusivity of smaller card brands (Elo, Hiper, Amex) was announced at the end of 2014 and should be effective within a few months. The business

model (VAN or full acquiring) has not been defined by the brands yet. VAN suggests that the company would simply capture and process transactions, becoming simply a technology provider. The full acquirer, in turn, groups the traditional affiliation function (sales force affiliating new merchants) with the processing (technology aspect). A VAN model typically suggests a lower revenue stream for the company. In our view, the regulator currently favours the full acquiring model, a scenario that we view as positive to Cielo and other acquirers.

- The second largest issue – and possible the one that the regulator is analyzing closely – is the credit card settlement period of T+28. Press articles and market participants have mentioned the possibility to cut this settlement period to T+1 (similar to debit). Howe remains a key topic for the regulator, even though any change is unlikely as it could impact negatively the consumer.
- The standardization of prepayment is a slightly technical topic, as most acquirers already use a standardized language to exchange data files. This issue revolves around the inability of some acquirers to obtain information of merchants about receivables, and consequently not being able to offer the prepayment. We think the standardization is a non-issue for large acquirers.
- Price differentiation has become less of an issue and would be ineffective. The Brazilian Congress discussed in 2014 the possibility to authorize merchants to charge different prices for different payment modes. In other words, payment in cash or in debit would incur a lower price compared to credit payments. The rationale was that cash/debit payers would not subsidize anymore credit payers, who allegedly belonged to higher income categories. This proposal is now waiting at the Lower House with no timeframe for approval. As flagged in our recent sector report, we think that price differentiation already exists de facto in Brazil, and we do not expect authorities to dis-incentivize the use of plastic in an economy where informality is already large. See our regulatory update in What merchants are really thinking?, April 6, 2015
- Finally, pricing controls (e.g. flat fee in debit) seem to be ruled out, even though we think the regulator remains concerned with a potential lack of contestability.

Key highlights of last week

Brazil

- **Banco do Brasil (Neutral, PT R\$28.0)** 1Q15 small beat on lower taxes. Recurring net income amounted to R\$3,025mn, 2.7% above our estimates and in line with consensus (R\$3,021mn), resulting in ROE of 15.3% (vs. 15.5% in 4Q14 and 13.9% in 1Q14). The positives were slightly higher NII (trading gains and volumes), improving efficiency and lower tax rate. The negatives: slightly lower spreads, higher provisions (+43.3% yoy), and higher NPL 15-90 days (+87bps qoq) although 90day NPL ratio and cost of risk only went up 2bp and 9bp respectively. ([Full report](#))

Key takeaways from conference call: 1) NIM stable this quarter: the positive effect of loan book re-pricing was offset by mix effects. Loan spreads were 10bps lower this quarter, but strong trading gains (inflation, fx exposure through Banco Patagonia and higher Selic rate) helped. 2) Mgmt is not concerned with asset quality. Higher NPL 15-90 days due to seasonality. NPL

90days up just 2bps driven by agribusiness (NPL for individuals and corporate decreased by 10bps). Guidance for provisions to loans (2.7-3.1%) is maintained. 3) Lower effective tax rate in the quarter due to the effect of non-taxable income of fx exposure (Banco Patagonia). For 2015FY we can expect 20-23% effective tax rate. 4) Core tier I at 8.68% (tier I at 11.36%). Fully implemented BIS III, tier I down 61bps to 10.75%.

- **BM&F Bovespa (Neutral, PT R\$10.5)** 1Q15 operations in line, beat on higher interest income. Net income was R\$280mn (+20%qoq and +9%yoy), 14% above UBSe (R\$246mn) and 6% above consensus (R\$264mn). The beat was due to stronger-than-expected financial income (+14%qoq, +28%yoy), while operating trends were roughly in line, with weaker volumes qoq, but good cost controls. Ebitda came in 2% below UBSe at R\$330mn, growing 5%qoq and decreasing 1%yoy. The EBITDA margin reached 63% in 1Q15, below the 5-year average of 68%. Most recent macro data suggest a challenging 2015, despite rising volumes in April. ([Full report](#))

Key takeaways from conference call: 1) Mgmt reiterated its guidance for opex growth of 0-4% in 2015 and capex. Company migrated from stock options to stock grants for its variable comp (share price brings volatility to that expense line), which is tax deductible. 2) Ongoing progress on new projects/products, but no new additional colour. iBalcao registers OTC derivatives, no guidance on revenue opportunity and still adding products to the platform. Focusing on reducing migration costs for clients. 3) Accounting change to the CME dividends received by BVMF. No material effect on earnings. Effective tax rate should be around 31% for 2015. No news on CME divestment. 4) Cash reached R\$4.3bn on balance sheet, o.w. R\$1.4bn is available funds. 5) R\$43.6mn investment to acquire 8.3% of Bolsa de Santiago. 6) No new news on the goodwill. Bovespa will appeal soon of the past decision but timing of CARF is uncertain. 7) Executed ~10% of the full year buyback program in 1Q, slowed down in April-May (dividend payments required cash), but aiming at distributing 100% of cash under the form of dividends or buybacks

- Cielo (Buy, PT R\$48): Meeting with Brazilian Card Association (ABECS) – All eyes on regulations. The end of exclusivity of smaller card brands (Elo, Hiper, Amex) should be effective “within a few months”, while the business model (VAN or full acquiring) has not been defined by the brands yet. The regulator currently favours the full acquiring model, a scenario that we view as positive to Cielo and other acquirers. Overall, we felt that the main regulatory risks (end of exclusivity and prepayment) were well flagged, and that the laundry list of other topics being discussed with the regulator would not bring imminent changes to the industry. ([Full report](#))
- LatAm Exchanges Tracker for April 2015. Overall Neutral stance on Exchanges. 1) Bovespa improving in equities and derivatives qoq. April equities volumes were R\$7.9bn, +18% vs 1Q15. Derivatives volumes were 3.1mn contracts, +13% vs 1Q15. Equities remain 4% below our FY estimate, derivatives are in line. Neutral rating. 2) Bolsa lower equities in April and derivatives still small. April equities volumes were Ps13.2bn, -10% vs 1Q15. Derivatives volumes were 45k contracts, -44% vs 1Q15. Neutral rating. Cost controls justify our Neutral rating. 3) Cetip: weak in auto, resilient in securities. We have a Sell rating on the weak auto data, which we think the market is not reflecting. ([Full report](#))

Mexico

- According to CEO Bosch, the Mexican Bolsa sees about Ps\$1bn in IPO's before July. Bosch says four companies have expressed interest in selling shares for the first time during May or June.

Andeans

Chile Central Bank has kept interest rate unchanged at 3%

Figure 4: Companies that have reported 1Q15

	EPS 1Q15			Actual vs.		4Q14	Our take
	Actual	UBSe	Consensus	UBSe	Consensus		
Banco do Brasil	1.03	1.03	1.03	2.7%	0.1%	0.2%	SMALL BEAT
BB Seguridade	0.47	0.41	0.41	15.9%	15.0%	4.7%	LARGE BEAT
Banorte	1.40	1.41	1.46	-0.8%	-4.9%	1.6%	IN LINE
BM&F Bovespa	0.22	0.20	0.21	13.8%	5.7%	20.2%	BEAT
Banregio	1.32	1.27	1.28	3.8%	3.0%	5.1%	SMALL BEAT
Bolsaa	0.32	0.29	0.33	11.8%	7.6%	n.a.	LARGE BEAT
Bradesco	0.85	0.85	0.85	-0.1%	0.6%	3.4%	IN LINE
Cetip		0.55	0.48	3.0%	6.3%	2.2%	SMALL BEAT
Cielo	0.48	0.43	0.45	13.5%	8.3%	13.6%	LARGE BEAT
Credicorp	2.86	2.71	2.85	5.7%	0.2%	35.0%	BEAT
Gentera	0.44	0.41	0.43	7.1%	3.6%	10.0%	BEAT
Inbursa	0.47	0.40	0.42	16.5%	13.5%	-19.0%	BEAT
Itau	1.05	1.01	1.02	4.0%	3.2%	3.9%	BEAT
Porto Seguro	0.71	0.61	0.67	17.8%	6.0%	-16.8%	BEAT
Santander Brasil	0.33	0.32	0.34	3.9%	0.4%	9.1%	SMALL BEAT
Santander Chile	0.33	0.30	0.33	9.8%	-0.4%	-31.2%	BEAT
Santander Mexico	0.47	0.48	0.50	-2.1%	-5.7%	-15.9%	MISS
SulAmerica	0.30	0.27	0.30	9.5%	-0.7%	-65.6%	BEAT
Average				7.5%	3.4%	-2.3%	

Source: UBS, companies and Bloomberg

Figure 5: Upcoming 1Q15 earnings release

	Rating	Price Target		EPS 1Q15		UBS vs. Cons.	1Q15 qoq growth	Report Date
		LC	4Q14	UBSe	Consensus			
Bancolombia	Sell	41.60	0.93	0.72	0.88	-17.6%	-22.5%	28-May
Davienda	Buy	35000.00	693.36	524.39	618.69	-15.2%	-24.4%	TBC

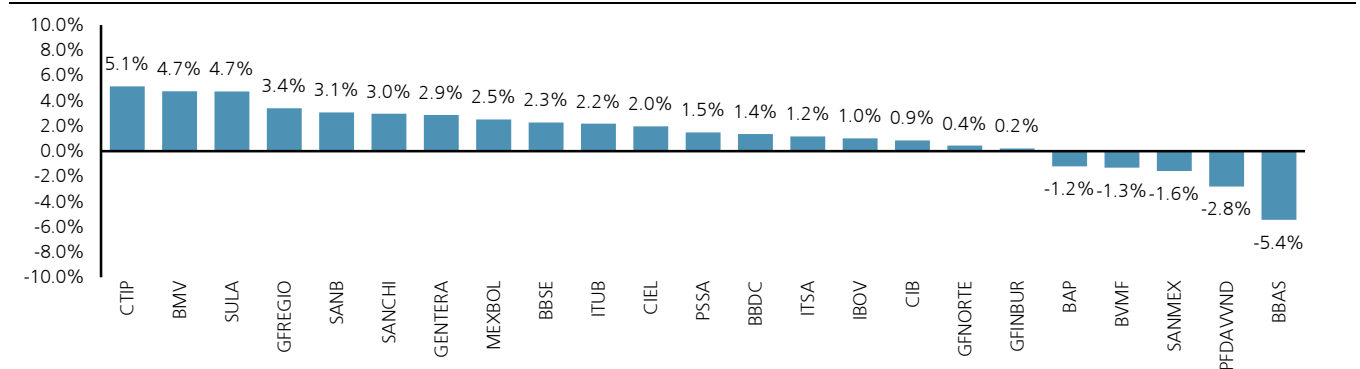
Source: UBS, companies and Bloomberg

Stock performance

Last week performance (05/07-05/14) – USD

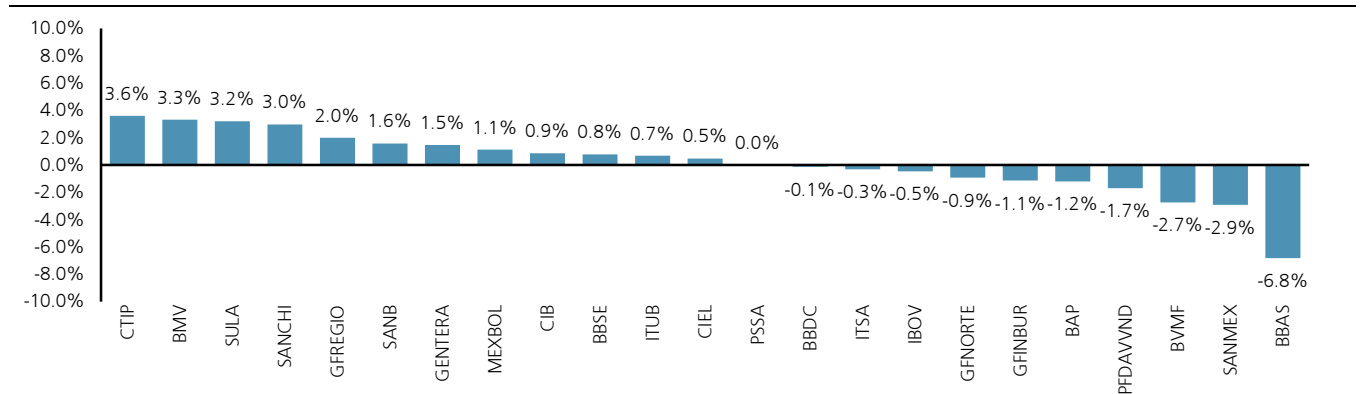
- Best: Cetip up 5.1%
- Worst: BB down 5.4%

Figure 6: Weekly share price performance (05/07-05/14) – USD



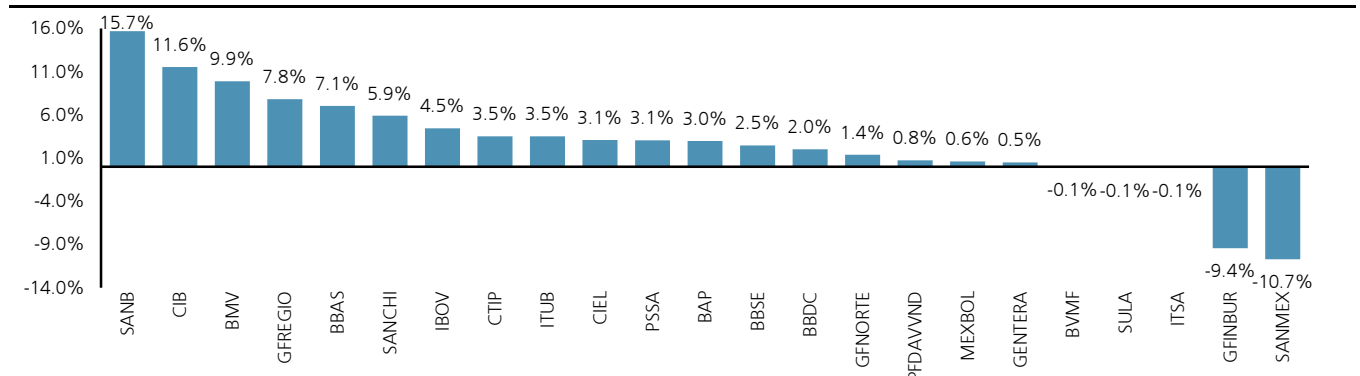
Source: Bloomberg and UBS

Figure 7: Weekly share price performance (05/07-05/14) – local currency



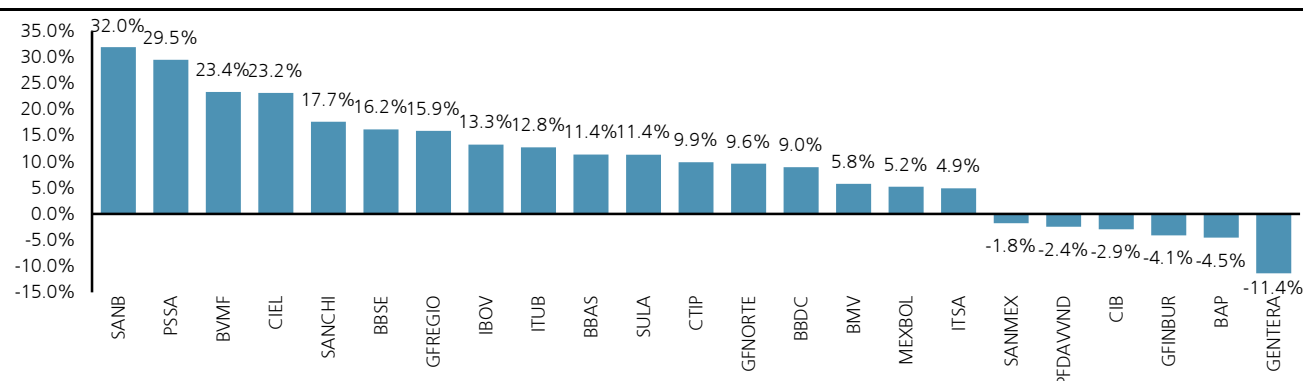
Source: Bloomberg and UBS

Figure 8: Monthly share price performance – local currency



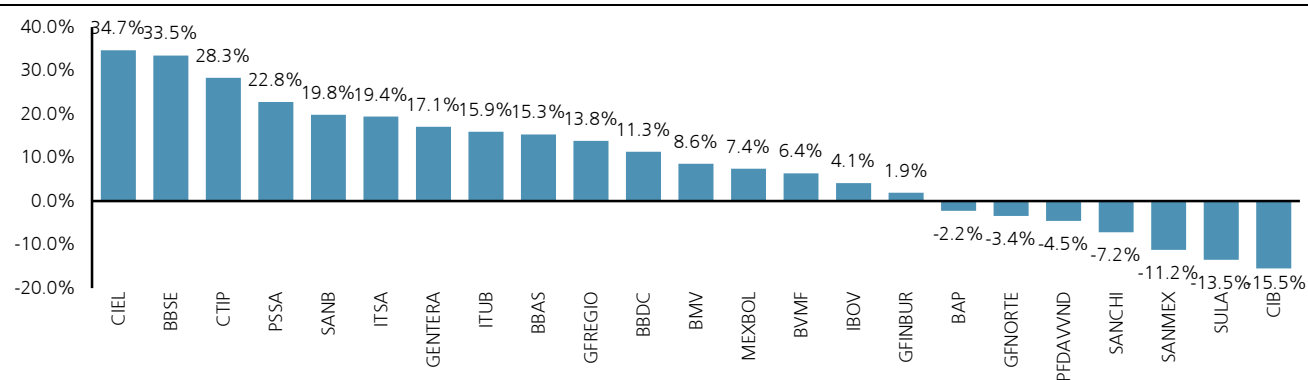
Source: Bloomberg and UBS

Figure 9: YTD share price performance – local currency



Source: Bloomberg and UBS

Figure 10: L12M share price performance – local currency



Source: Bloomberg and UBS

Liquidity Watch

Figure 11: LatAm Financials liquidity watch

Company	Ticker	Rating	Market Cap (US\$ mn)	Free Float (%)	Free Float (US\$ mn)	ADTV 5 Day (US\$ mn)	ADTV 3 Month (US\$ mn)	ADTV 6 Month (US\$ mn)	ADTV 6 Month Free Float (%)
ABC Brasil	ABCB4 BZ	Not Rated	287	70.1	201.5	0.8	1.0	1.0	0.5%
Banco Bradesco	BBDC4 BZ	Buy	53,327	61.6	32,865.6	54.1	85.0	97.4	0.3%
Banco do Brasil	BBAS3 BZ	Neutral (CBE)	24,848	30.4	7,544.0	58.0	50.3	52.8	0.7%
Banco Pine	PINE4 BZ	Not Rated	102	55.2	56.5	0.1	0.1	0.1	0.2%
Daycoval	DAYC4 BR	Not Rated	591	53.2	314.4	0.1	0.1	0.2	0.1%
Itau Unibanco	ITUB4 BZ	Buy	70,226	53.8	37,802.4	143.7	154.9	158.6	0.4%
Itaúsa	ITSA4 BZ	Buy	19,635	65.5	12,855.0	32.2	49.6	57.6	0.4%
Pan Americano	BPAN4 BZ	Not Rated	154	57.1	88.2	0.5	0.3	0.2	0.2%
Santander Brasil	SANB4 BZ	Neutral	22,178	24.2	5,356.1	3.9	3.6	4.6	0.1%
BTG Pactual	BTG11 BZ	Not Rated	8,788	100.0	8,787.9	9.5	9.2	11.7	0.1%
Banrisul	BRSR6 BZ	Not Rated	1,469	87.0	1,277.4	3.9	4.1	4.4	0.3%
BM&F Bovespa	BVMF3 BZ	Neutral	7,648	92.4	7,063.7	34.2	54.0	51.4	0.7%
Cetip	CTIP3 BZ	Sell	2,989	87.7	2,621.6	17.0	22.2	21.1	0.8%
Cielo	CIEL3 BZ	Buy	26,635	42.5	11,317.2	32.3	53.2	58.0	0.5%
BB Seguridade	BBSE3 BZ	Buy	24,305	33.8	8,215.2	73.6	57.0	56.1	0.7%
Porto Seguro	PSSA3 BZ	Neutral	4,174	29.5	1,230.6	7.2	7.0	6.1	0.5%
SulAmerica	SULA11 BZ	Neutral	1,615	37.7	608.6	3.5	3.8	4.0	0.7%
Brazil Average						67.7	78.5	83.2	0.4%
Banorte	GFNORTEO MM	Buy	16,183	81.4	13,179.5	27.0	40.2	47.7	0.4%
Gentera	GENTERA* MM	Buy	2,860	64.2	1,836.0	4.5	7.0	6.0	0.3%
Bolsa Mexicana	BOLSAA MM	Neutral	1,100	60.0	660.0	2.2	2.6	2.4	0.4%
First Cash Financial	FCFS US	Not Rated	1,515	92.0	1,393.2	6.9	9.9	9.7	0.7%
Santander Mexico	SANMEXB MM	Buy	13,475	24.9	3,355.2	8.1	7.1	7.4	0.2%
Banregio	GFREGIO MM	Neutral	1,871	25.5	477.2	2.3	2.9	2.8	0.6%
Inbursa	GFINBURO MM	Buy	16,108	34.5	5,555.7	8.1	9.0	8.6	0.2%
Findep	FINDEP* MM	Not Rated	211	27.3	57.7	0.1	0.0	0.0	0.0%
Mexico Average						13.3	17.5	19.7	0.3%
Banco de Bogota	BOGOTA CB	Not Rated	8,140	17.2	1,402.2	0.4	0.5	0.6	0.0%
Bancolombia	PFBICOLO CB	Sell	11,051	54.4	6,012.0	2.0	3.7	4.7	0.1%
Davienda	PFDVVND CB	Buy	4,943	23.0	1,136.9	1.2	1.4	1.6	0.1%
AFP Provida	PROVIDA CI	Not Rated	1,743	n.a.	n.a.	0.0	0.0	0.0	n.a.
Banco de Chile	CHILE CI	Not Rated	11,932	20.7	2,468	0.6	0.7	0.7	0.0%
BCI	BCI CI	Not Rated	5,590	29.2	1,632.2	1.4	2.0	3.5	0.2%
Corpbanca	BCA US	Not Rated	3,611	42.7	1,541.6	8.7	4.1	3.4	0.2%
Credicorp	BAP US	Buy	12,068	100.0	12,068.5	9.0	9.1	9.4	0.1%
Santander Chile	BCA US	Neutral	10,454	31.1	3,254.4	7.4	10.5	10.0	0.3%
Andeans Average						3.8	4.4	4.7	0.1%

Source: Bloomberg and UBS. Price as of May 14th.

Events Calendar

Figure 12: LatAm Financials events in the next four weeks

Monday, May 18	Tuesday, May 19	Wednesday, May 20	Thursday, May 21	Friday, May 22
Chile GDP 1Q	Mexico quarterly inflation report		Brazil April unemployment rate Mexico GDP 1Q	Brazil IBGE May Inflation rate Colombia overnight rate
Monday, May 25	Tuesday, May 26	Wednesday, May 27	Thursday, May 28	Friday, May 29
		Brazil April Credit Data	Mexico April unemployment rate ER: Bancolombia	Brazil GDP 1Q Chile April unemployment rate Colombia April unemployment rate
Monday, June 01	Tuesday, June 02	Wednesday, June 03	Thursday, June 04	Friday, June 05
Monday, June 08	Tuesday, June 09	Wednesday, June 10	Thursday, June 11	Friday, June 12

Source: Bloomberg, UBS

LatAm Financials Valuation Comps

Figure 13: LatAm banks Comps

BANKS	Ticker	Rating	Price (local)	Target price	Target	Mkt Cap (US\$ mn)	EPS		P/E		P/BV		Adj. ROE (%)		Dividend Yield 12m forward (%)
				(local)	upside (%)		2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	
Banco do Brasil	BBAS3.SA	Neutral (CBE)	26.0	28.0	6.0	24,848	4.2	4.8	6.1	5.4	0.9	0.8	14.9	15.4	6.5
Bradesco	BBDC4.SA	Buy	31.6	39.1	21.3	53,327	3.6	4.1	8.8	7.8	1.7	1.5	20.6	20.5	4.0
Itaú Unibanco	ITUB4.SA	Buy	38.0	48.0	24.2	70,226	4.3	4.9	8.8	7.7	1.9	1.6	23.1	22.8	4.1
Santander Brasil	SANB11.SA	Neutral	17.5	15.0	-15.5	22,178	1.4	1.6	12.6	11.0	1.1	1.1	9.0	10.0	4.9
BTG Pactual ⁽¹⁾	BBTG11.SA	Not Rated	29.8	n.a.	n.a.	8,788	4.3	5.0	6.7	5.8	1.2	1.1	n.a.	19.1	-
Banrisul ⁽¹⁾	BRSR6.SA	Not Rated	10.8	n.a.	n.a.	1,469	2.0	2.3	5.5	4.8	0.7	0.7	n.a.	14.9	-
Brazilian Banks						180,836	3.7	4.2	8.8	7.7	1.6	1.4	18.2	19.3	4.3
Gentera	GENTERA.MX	Buy	26.2	33.0	25.1	2,860	1.9	2.2	13.6	11.9	3.2	2.5	23.5	21.4	0.0
Banorte	GFNORTEO.MX	Buy	88.1	104.1	17.5	16,183	6.3	7.4	13.9	11.9	1.8	1.6	13.5	14.1	1.2
Inbursa	GFINBURO.MX	Buy	36.5	47.0	28.7	16,108	2.1	2.6	17.2	13.9	2.2	2.0	13.6	14.9	2.0
Santander Mexico	SANMEXB.MX	Buy	30.0	37.8	24.2	13,475	2.3	2.7	13.0	11.0	1.7	1.6	14.1	15.2	3.4
Banregio	GFREGIOO.MX	Neutral	86.1	84.0	-2.2	1,871	5.3	6.5	16.4	13.3	2.6	2.3	17.0	18.5	1.8
Mexican Banks						50,497	3.6	4.3	14.8	12.3	2.0	1.8	14.4	15.2	2.0
Bancolombia	CIB.N	Sell	46.0	54.0	18.4	11,051	3.6	4.2	12.7	10.9	1.5	1.4	12.1	13.4	3.0
Davivienda	DVL.p.CN	Buy	26,600	35,000	31.5	4,943	2,552	2,977	10.4	8.9	1.5	1.4	15.4	16.2	0.0
Credicorp	BAP.N	Buy	151.3	192.0	27.0	12,068	12.4	14.2	12.2	10.7	2.4	2.1	19.9	20.0	3.3
Banco de Chile ⁽¹⁾	CHLSN	Not Rated	71.7	n.a.	n.a.	11,932	5.8	6.4	12.1	11.1	2.5	2.4	16.1	21.6	5.3
Santander Chile	BSAC.K	Neutral	22.2	21.5	-4.4	10,454	1.7	2.0	13.4	11.3	2.3	2.1	17.9	19.7	5.1
Andean Banks						50,449	255.5	297.9	12.4	10.8	2.1	1.9	16.4	18.5	3.8
Europe					2.5	1,446,344			12.5	21.4	1.0	0.9	8.5	9.4	3.6
EMEA					6.4	320,442			12.1	11.6	1.2	1.1	11.9	14.2	2.8
Asia (ex-Japan)					6.5	2,020,812			8.5	7.8	1.2	1.1	15.4	15.0	3.8
Latin America					20.5	258,349			9.7	14.3	1.8	1.6	19.8	19.9	3.7
Developed					2.9	3,148,760			12.3	22.1	1.1	1.0	10.2	10.7	3.2
GEM					9.0	2,599,603			9.0	9.4	1.2	1.1	15.6	15.7	3.6
Global Average						5,748,363			11.2	18.5	1.1	1.0	11.7	12.1	3.3

Source: UBS and Bloomberg. (1) Bloomberg estimates. Price as of May 14th

Figure 14: LatAm non-banks financial Comps

	Ticker	Rating	Price	Target price	Target	Mkt Cap	EPS (Local)		P/E		P/BV		ROE (%)		EV/EBITDA		Dividend Yield	
			(local)	(local)	upside (%)		2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Cielo	CIEL3.SA	Buy	42.3	48.0	11.7	26,635	1.8	2.0	23.7	20.8	12.1	8.6	61.6	48.3	13.3	11.2	1.3	1.5
Average Brazilian Acquirers							1.8	2.0	23.7	20.8	12.1	8.6	61.6	48.3	13.3	11.2	1.3	1.5
VISA(1)	V.N	Not Rated	70.0	n.a.	n.a.	137,469	2.6	3.0	26.2	22.6	5.7	5.3	21.5	24.0	16.1	14.7	0.6	0.6
American Express	AXP.N	Neutral	80.8	82.0	2.3	85,595	5.6	5.8	14.7	14.1	3.8	3.8	26.4	26.6	-	-	1.4	1.5
Mastercard(1)	MA.N	Not Rated	93.8	n.a.	n.a.	107,098	3.5	4.1	26.3	21.9	13.0	10.6	55.8	55.0	17.2	14.8	0.5	0.5
US Card Associations							3.6	4.1	23.2	20.2	7.6	6.7	33.9	34.7	16.6	14.8	0.8	0.8
Global Payments(1)	GPN.N	Not Rated	104.6	n.a.	n.a.	8,189	4.8	5.4	21.1	18.7	6.5	5.0	30.4	28.8	13.2	12.9	0.1	0.1
Heartland Payment(1)	HPY.N	Not Rated	52.9	n.a.	n.a.	1,809	2.8	3.2	18.8	16.4	6.1	5.0	31.3	30.5	12.5	11.0	0.6	0.6
US Merchant Acquirers							4.4	5.0	20.7	18.3	6.4	5.0	30.6	29.1	13.1	12.5	0.2	0.2
Western Union(1)	WU.N	Not Rated	22.0	n.a.	n.a.	11,833	1.6	1.7	12.9	12.3	8.0	6.5	59.2	60.3	9.1	9.0	2.4	2.4
Euronet Worldwide Inc(1)	EEFT.US	Not Rated	18.7	n.a.	n.a.	1,086	2.9	3.3	20.6	18.2	3.9	n.a.	9.7	16.2	11.4	9.9	n.a.	n.a.
Other Payment Providers							1.7	1.8	13.5	12.8	8.0	6.5	59.2	60.3	9.1	9.0	2.4	2.4
BM&F Bovespa	BVMF3.SA	Neutral	12.1	10.5	(14.8)	7,648	0.6	0.7	14.2	13.2	1.1	1.1	8.0	8.6	12.2	10.1	4.0	5.0
Bolsa Mexicana	BOLSAA.MX	Neutral	28.0	28.0	(1.2)	1,100	1.3	1.5	20.8	19.0	3.1	3.0	14.7	16.0	12.0	11.0	4.7	5.2
CETIP	CTIP3.SA	Sell	34.9	30.0	(14.2)	2,989	1.8	2.0	15.9	15.6	4.6	4.2	30.7	28.0	11.7	10.5	3.6	4.1
Latam exchanges							1.0	1.1	15.3	14.3	2.2	2.1	14.4	14.3	12.0	10.3	4.0	4.8
Hong Kong E&C	0388.HK	Sell	275.8	235.0	(18.9)	41,574	6.5	6.4	42.5	43.3	14.8	14.1	35.1	32.4	32.4	32.6	2.1	2.1
Bursa Malaysia	BMYS.KL	Buy	8.4	9.8	15.2	1,243	0.4	0.4	23.6	20.4	6.0	5.9	25.1	28.6	16.1	13.8	4.0	4.7
Singapore Exc.	SGXL.SI	Sell	8.7	7.3	(17.0)	7,103	0.3	0.4	27.5	24.1	10.1	9.3	36.7	39.9	19.8	16.8	3.3	3.6
Asian exchanges							5.5	5.4	39.9	40.0	13.9	13.2	35.1	33.4	30.2	29.9	2.3	2.4
Porto Seguro	PSSA3.SA	Neutral	38.7	38.6	(0.8)	4,174	3.1	3.5	12.5	11.2	2.0	1.8	18.3	19.0	-	-	4.8	5.3
SulAmerica	SULA11.SA	Neutral	14.2	14.5	(0.1)	1,615	1.8	2.0	8.0	7.2	1.1	1.0	14.5	14.7	-	-	5.0	5.5
BB Seguridade	BBSE3.SA	Buy	36.4	39.5	6.9	24,305	1.9	2.2	19.2	16.3	8.3	7.4	45.7	48.1	-	-	4.2	4.9
Brazilian insurance companies							2.1	2.4	17.6	15.1	7.1	6.3	40.2	42.3			4.3	5.0
AIA Group	1299.HK	Neutral	50.4	53.8	2.7	78,242	0.3	0.4	18.9	17.4	2.6	2.3	13.7	13.4	-	-	1.2	1.4
China Life Insurance	2628.HK	Neutral	36.3	39.0	5.4	132,381	1.4	1.6	20.1	17.8	2.7	2.4	13.7	14.0	-	-	1.8	2.0
Ping An Insurance (Group)	2318.HK	Buy	108.1	127.5	15.5	127,482	5.5	6.3	15.7	13.7	2.6	2.1	18.0	16.6	-	-	1.1	1.3
Asian insurance							2.7	3.1	18.2	16.2	2.6	2.3	15.3	14.9			1.4	1.6

Source: UBS and Bloomberg. (1) Bloomberg estimates. Price as of May 14th.

Figure 15: Financials latest published reports

Date	Subject	Title
14-May-15	BM&F Bovespa	BM&F Bovespa "1Q15 operations in line, beat on higher interest income"
14-May-15	Banco do Brasil	Banco do Brasil "1Q15 small beat on lower taxes" (Neutral) Finch
13-May-15	Cielo	Cielo "Meeting with Card Association: all eyes on regulations" (Buy) De Mariz
13-May-15	LatAm exchanges	LatAm Exchanges Tracker - April 2015 "Improving equities at Bovespa, mixed ..."
10-May-15	LatAm Insights	LatAm Financials Insights "EM banks: NPL up; coverage down" Finch
7-May-15	Cetip	Cetip "1Q15 small beat: lower tax rate offsets weakening operating trends"
7-May-15	BB Seguridade	Key Call: BB Seguridade "1Q15 beat on strong financial income and pension" (Buy) Taddeo
7-May-15	Credicorp	Key Call: Credicorp "1Q15 beat on higher revenues" (Buy) Finch
5-May-15	Mexican Credit	Mexico Credit Tracker - March 2015 "Positive trends continue" Finch
5-May-15	Porto Seguro	Porto Seguro "1Q15 beat on higher revenues" (Neutral) Taddeo
5-May-15	Itau	Itau Unibanco "1Q15 beat from higher revenues; provisions up" (Buy) Finch
4-May-15	LatAm Insights	LatAm Financials Insights "The Threat of Disintermediation" Finch
29-Apr-15	Cielo	Cielo "1Q15 large beat confirms resilience of revenues" (Buy) De Mariz
29-Apr-15	SulAmerica	SulAmerica "1Q15 beat on higher premiums" (Neutral) Taddeo
29-Apr-15	Inbursa	Inbursa Key Call: "1Q15 beat on lower provisions" (Buy) Finch
29-Apr-15	Santander Chile	SanChile : "1Q15 weaker margins on lower inflation, core remains solid" Finch
29-Apr-15	Bradesco	Bradesco "1Q15 in line: NIM up; provisions also up" (Buy) Finch
28-Apr-15	Santander Mexico	SanMexico "1Q15 slightly disappointing on weaker revenues" (Buy) Finch
28-Apr-15	Santander Brasil	SanB "1Q15 small beat on lower costs, despite higher taxes" (Neutral) Finch
27-Apr-15	Banregio	Banregio "1Q15 small beat on stronger margins" (Neutral) De Mariz
27-Apr-15	Genera	Genera "1Q15: beat due to lower taxes and margin resilience" (Buy) De Mariz
23-Apr-15	Banorte	Banorte "1Q15 in line; mixed fundamental trends" (Buy) Finch
22-Apr-15	Bolsaa	Bolsa Mexicana "1Q15 Strong beat on lower expenses" De Mariz
16-Apr-15	Porto Seguro	Porto Seguro "Downgrading to Neutral on Valuation" Taddeo
15-Apr-15	Brazilian Banks	UBS Evidence Lab: Brazilian Banks "Card fees major source of diversification"
15-Apr-15	Latam Exchanges	LatAm Exchanges Tracker - March 2015 "Weak end to the quarter" De Mariz
12-Apr-15	LatAm Insights	LatAm Financials Insights "Are global banks about to leave LatAm?" Finch
9-Apr-15	Mexican Credit	Mexico Credit Tracker - February 2015 "Loan growth slightly lower" Finch
6-Apr-15	Cielo	"What are merchants really thinking?" (Buy) De Mariz
29-Mar-15	LatAm Insights	LatAm Financials Insights "Are global investors warming up to Brazilian banks?" Finch
25-Mar-15	Davivienda	Banco Davivienda "4Q: Beat on FX gains, operations strong" (Buy) De Mariz
23-Mar-15	Bolsaa	Bolsa Mexicana "Upgrading to Neutral, on better volumes and focus on cost"
22-Mar-15	LatAm Insights	LatAm Financials Insights "Why global banks are exiting emerging markets" Finch
19-Mar-15	Cetip	Downgrading to Sell, on weaker auto
19-Mar-15	Porto Seguro	Upgrading to Buy on positive Evidence
19-Mar-15	Brazilian Insurers	UBS Evidence Lab: Brazilian Insurers "How resilient is auto insurance?"
16-Mar-15	Brazilian Banks	UBS Evidence Lab: Brazilian Banks "Why we think auto credit risk remains low"
12-Mar-15	BB Seguridade	Key Call: BB Seguridade "3 reasons why BBSE is still a Buy" (Buy) Taddeo
11-Mar-15	Latam Exchanges	LatAm Exchanges Tracker - February 2015 "Volumes improve slightly in February"
9-Mar-15	Mexican Credit	Mexico Credit Tracker - January 2015 "Loan growth continues to pick up" Finch
8-Mar-15	LatAm Insights	LatAm Financials Insights "The growing importance of EM financials" Finch

Please go to the Company Overview Page on Client Portal for the latest research report.

Source: UBS

Statement of Risk

LatAm financials' performance is closed linked to the local economic conditions and changes in interest rate and foreign exchange. Also, Latin American financials may be affected by changes in regulatory framework and the overall local competition and foreign competition.

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Neutral	FSR is between -6% and 6% of the MRA.	43%	33%
Sell	FSR is > 6% below the MRA.	12%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Limited: Philip Finch; Peter Carter. **UBS Brasil CCTVM S.A.:** Frederic De Mariz; Mariana Taddeo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Banco Davivienda ⁵	DVI_p.CN	Buy	N/A	P26,600.00	14 May 2015
Banco do Brasil ^{5, 20, 22}	BBAS3.SA	Neutral (CBE)	N/A	R\$25.96	14 May 2015
Bancolombia ^{4, 5, 6, 16b}	CIB.N	Sell	N/A	US\$45.96	14 May 2015
Banorte ⁵	GFNORTEO.MX	Buy	N/A	P88.08	14 May 2015
Banregio ^{16a}	GFREGIOO.MX	Neutral	N/A	P86.14	14 May 2015
BB Seguridade	BBSE3.SA	Buy	N/A	R\$36.38	14 May 2015
BM&F Bovespa	BVMF3.SA	Neutral	N/A	R\$12.05	14 May 2015
Bolsa Mexicana ^{16a}	BOLSAA.MX	Neutral	N/A	P28.00	14 May 2015
Bradesco ^{16b}	BBDC4.SA	Buy	N/A	R\$31.62	14 May 2015
Cetip	CTIP3.SA	Sell	N/A	R\$34.86	14 May 2015
Cielo	CIEL3.SA	Buy	N/A	R\$42.30	14 May 2015
Credicorp ^{5, 16b}	BAP.N	Buy	N/A	US\$151.31	14 May 2015
Gentera ^{5, 16a}	GENTERA.MX	Buy	N/A	P26.19	14 May 2015
Inbursa ⁵	GFINBURO.MX	Buy	N/A	P36.47	14 May 2015
Itau Unibanco ^{16b}	ITUB4.SA	Buy	N/A	R\$38.01	14 May 2015
Itausa	ITSA4.SA	Buy	N/A	R\$9.55	14 May 2015
Odontoprev SA	ODPV3.SA	Neutral	N/A	R\$11.20	14 May 2015
Porto Seguro ²	PSSA3.SA	Neutral	N/A	R\$38.65	14 May 2015
Santander Brasil ^{4, 5, 16b}	SANB11.SA	Neutral	N/A	R\$17.47	14 May 2015
Santander Chile ^{2, 4, 5, 16b}	BSAC.K	Neutral	N/A	US\$22.19	14 May 2015
Santander Mexico ^{5, 16b}	SANMEXB.MX	Buy	N/A	P30.03	14 May 2015
SulAmerica	SULA11.SA	Neutral	N/A	R\$14.19	14 May 2015

Source: UBS. All prices as of local market close.

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