



Latam Equity Strategy:

Back to the Cyclical Future – Attractive Valuation in a Monetary Easing Cycle

2024 Outlook - Assuming Coverage

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Latam Equity Strategy; Back to the Cyclical Future - Attractive Valuation in a Monetary Easing Cycle

2024 Outlook - Assuming Coverage – If All You Have is 3 Minutes

- Key message.** We are assuming coverage of LatAm equities with a positive regional view, offering 21% total return potential in the index level using our bottom-up estimates (includes 5% dividend yield). The region is trading at 9.0x, one of the few in the world trading at discount to historical average (-15%) and in a sweet spot on the investment clock: controlled inflation and a monetary easing path in all the covered countries. This is expected to lead to a potential earnings acceleration of 22pp YoY in 2024 (despite the lower absolute EPS growth of vs EM). LatAm has a better ROE (16%) vs EM (11%). We are Overweight on Brazil and Chile, supported by our proprietary LatAm Scorecard, which ranks them the highest in terms of valuation and earnings momentum. We have a neutral allocation in Mexico, which ranks well on quality (the most structural country in our view with healthy fiscal and nearshoring trend). We have a more conservative view on Peru (neutral) and Colombia (underweight), due to lower liquidity and recent outperformance for the former and negative economic momentum in the latter. Our LatAm 10 Investment Picks Portfolio anticipates a 27% YE2024E total return potential and includes the following companies as top picks: Brazil's Equatorial, Banco do Brasil, Nubank, PRIO, Localiza, Vivara, Mexico's Arca Continental and Walmex, Chile's SMU and Peru's Credicorp.
- Seven Key Buy-side Themes for 2024:** **1)** The Five Pillars of Equity Investing – Our Proprietary LatAm Scorecard: Brazil, Chile & Mexico The Highlights; **2)** LatAm Countries Equity Strategy Snapshot: Themes & Top Picks by Region; **3)** Investment Clock: Sweet Spot for LatAm Countries – Controlled Inflation And Monetary Easing Path; **4)** Earnings Dilemma: Good Earnings Acceleration and Revision; Absolute Growth Below EM; **5)** Valuation: Latam Countries Are Trading at Higher Discounts to EMs; **6)** Know What You Are Buying - Sector Exposure and Valuation Comparison Among EM; **7)** Quality: LatAm Has a Better ROE Than EM
- Portfolio Managers' Book.** Taking advantage of our 63-person research team, we have built a portfolio based on a combination of bottom-up, quantitative, and top-down analyses. The Top Five Themes/Theses in our portfolio are: i) Infrastructure and Bond Proxies with Double-Digit Real IRRs (mainly utilities in Brazil); ii) Quality Cyclical (an early-mover call focused on higher-ROE domestic companies - Financials in Brazil/Peru, Consumer and Transportation in Brazil, iii) Reinvestment Opportunity Leaders: Secular Calls (secular growth trends in the services / financials); iv) Defensive Growth (attractive valued staples in Chile and Mexico) and v) FX Hedges and Commodities with Attractive Valuation (mainly commodity names with positive free cash flow). Our main overweight sectors are Utilities, Consumer (both Discretionary and Staples), Financials (Banks) and Energy. Portfolio Profile: Expecting the Sun After Clouds. With a beta slightly below 1.0x, we take a barbell-shaped approach to themes, focusing on bond proxies together with quality domestic names. Our portfolio favors a combination of attractive valuation versus historical (28% discount), higher EPS growth (21% vs 4% index level), and quality (ROE above 20%).
- The Thematic Investor: Eight Studies on LatAm.** **1)** The Top-Down Investor – How Latam Positions in The Global/EM Scenario; **2)** Price of Money: How Markets Have Performed Since U.S. Treasury Peaked; **3)** How Do Equity Markets and FX Relate in Latam?; **4)** Back to the Future? Global Equities have caught up to Latam and EM's Outperformance From Early 2000's; **5)** Is Latam a Commodities Play?; **6)** Latam's Positioning Among Emerging Markets; **7)** LatAm ESG: Brazil ranks well and **8)** MSCI February Index Rebalance – Brazil Is Granted Foreign Listing Approval (Positive).
- What Are We Expecting for the Region in 2024 – Country View.** We provide a detailed outlook, investment thesis pillars, themes, and risks to monitor, as well as preferences for each country. We also set our top picks and price targets for the main indexes in the region. We took advantage of our continental footprint in Latam, led by our Andean Strategist, Carolina Ratto, and our Mexican Strategist, Alejandro Fuchs, to explore and develop our strategy and allocation for the region. Risks & themes to monitor include Fiscal accounts in Brazil, Presidential Elections in Mexico (June), Debates over Pension and Tax reforms in Chile, the impact of El Nino in Peru and the reform agenda in Colombia.

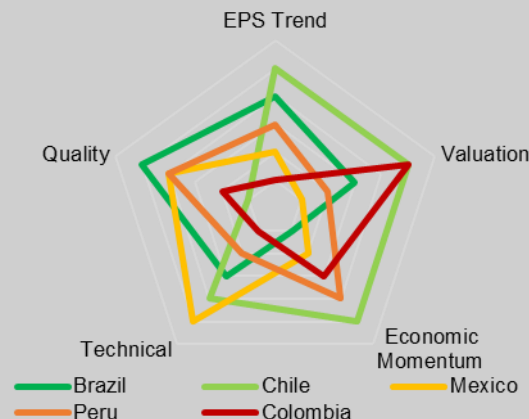
LatAm Trading at a Discount to Emerging Markets – Historical Average Suggests a Small Premium (P/E 12m Forward)



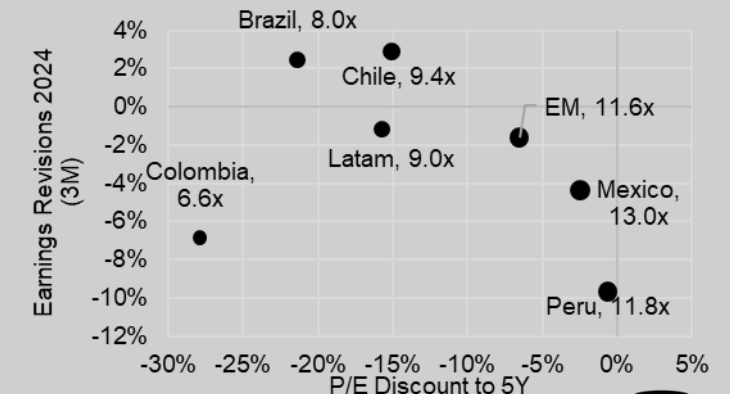
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Source: Itaú BBA, Bloomberg

LatAm Scorecard: Brazil, Chile, and Mexico as Highlights



Earnings Momentum and Valuation – Latam by Country



Latam Equity Strategy; Back to the Cyclical Future

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LatAm: Our Thesis and Key Conclusions

Seven Key Buy-side Themes for 2024:

- The Five Pillars of Equity Investing – Our Proprietary LatAm Scorecard: Brazil, Chile & Mexico The Highlights (Page 5)
- LatAm Countries Equity Strategy Snapshot: Themes & Top Picks by Region (Page 6)
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LatAm: Our Thesis and Key Conclusions

Brazil



Overweight: We assumed coverage of Brazilian equities with an overweight rating and an Ibovespa target price of 145,000 points for YE24, offering 20% total return potential. Our thesis is based on four pillars: i) an attractive consolidated valuation (Brazil at 8.0x 12-month-forward P/E, around 1.5 standard deviations below the historical average), even when considering the earnings yield gap vs. U.S. Treasuries and U.S. equities; ii) decent potential EPS growth in 2024 (13%), with slightly positive revisions and 82% of companies with EBITDA growing above inflation in 2024; iii) light market positioning, with delayed reallocation to equities (equity funds at 8% of total fund-industry AUM, vs. >10% recent peak); and iv) Itaú BBA Macro Team's forecasts still suggesting short-term Selic terminal rates in the single-digits (9.0%) amid fiscal uncertainties.

Chile



Overweight: Our positive view in this market relies on: i) the potential for aggressive interest rate cuts (-375 bps) to boost the economic and earnings recovery (to ~12% YoY growth) in the context of accelerating disinflation (from 13% in December 2022 to ~3.9% in December 2023 and the 2.8% estimated for December 2024); ii) potential inflows from retail investors (representing ~40% share of trading volume) due to a shift in their asset allocations in response to lower time deposit rates, even as local pension funds remain supported and increase their exposure to local equities (from 6.8% in December 2022 to 7.3% in December 2023); and iii) current valuation levels, with the market trading at a ~33% discount to five-year historical multiples.

Colombia



Underweight: Colombia is the most discounted market in the region (from a historic multiple perspective) and offers a juicy ~8% dividend yield. However, we prefer to stay on the sidelines due to of short-term contingent risks: i) among all the reforms proposed by the current government, we believe that the pension reform has the highest probability of being approved – yet this proposal could cost pension funds 60%-70% of their inflows and have a serious impact on market; ii) pension funds and foreign investors (together representing over ~50% of volume traded) have been net sellers over the past 12 months, and we do not foresee a significant change in this trend; and iii) given the low liquidity levels, there is still a risk of Colombia being reclassified as a frontier market. Our YE24 target for the COLCAP stands at 1,310, implying modest 5% upside, though we estimate the total return at ~13% including dividends

Mexico



Neutral: Mexico continues to demonstrate resilience in bottom-line growth, along with a stable political environment (despite the 2024 elections) and solid macro dynamics with healthy fiscal accounts. Despite trading at the highest multiple in LatAm at 13x, a premium to the region and actually to EM, we believe the nearshoring story, combined with the factors described above, presents a unique investment case for the country in the medium term. We continue to favor consumer names going into 2024 due to the sector's resilience and on increased social spending as outlined on 2024 fiscal budget. We expect 17% total return for Mexico.

Peru



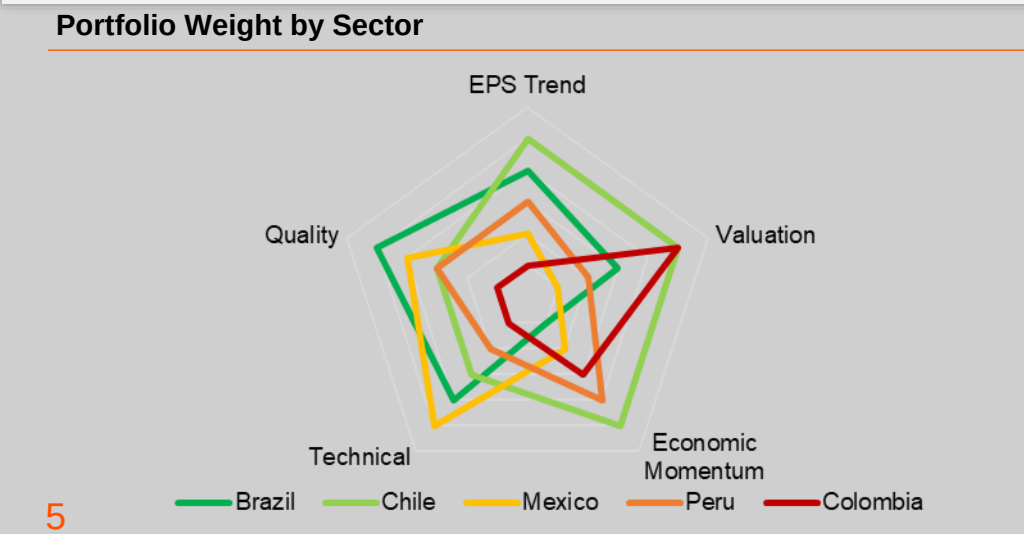
Neutral: We have a YE24 target for the SPBVL at 27,270 points, suggesting no material upside even considering a mild ~4% dividend yield. As mentioned in the Andean strategy report, there was room for more optimism on better macro conditions and greater political stability, but it all depends on the likelihood of a mild El Niño phenomenon that would also contribute to reducing the risk of social unrest. Market rallied in February driven by the banking sector, after both BAP and IFS improved their earnings guidance for this year, leaving room for upward revisions in consensus estimates for those stocks and for the market. Yet, contingency risk of an additional withdrawal of pension savings whose discussion in congress will resume in March prevent us from being positive on a flow's perspective. On valuation the stock market looks fair, though the cyclical sector remains highly discounted (both banks and cement), offering an attractive entry point if macro improvement is confirmed.

LatAm Countries - Total Return Potential

Country	Reference	Current Price	Target Price YE24	Upside	Div. Yield 2024E	Total Return
Brazil	IBOV	127,804	145,000	13.5%	6.4%	19.8%
Chile	IPSA	6,188	7,080	14.4%	6.0%	20.4%
Mexico	IPC	57,252	64,500	12.7%	4.2%	16.9%
Peru	SPBVL	28,341	27,270	-3.8%	4.0%	0.2%
Colombia	COLCAP	1,246	1,310	5.1%	7.9%	13.0%

The Five Pillars of Equity Investing – Our Proprietary LatAm Scorecard: Brazil, Chile & Mexico The Highlights

- **Our Latam Scorecard** is a **proprietary** model that quantifies and ranks each country in our coverage according to five categories: i) Earnings Trend; ii) Valuation; iii) Economic Momentum; iv) Technical Position; and v) Quality. The score for each category is defined by variables we deem relevant and can be easily tracked. Five things that caught our attention:
- **Brazil is the best-ranked country** due to its favorable EPS trend and quality, followed by Chile, which stands out in terms of valuation, and Mexico in terms of quality. Colombia is currently ranked the worst due to its weak economic momentum and quality.
- **Macro:** Every country in the region is expected to show controlled inflation in 2024, while central banks conduct monetary easing policies. GDP growth should average 2% in the region, with mixed acceleration/deceleration trends among countries. Mexico is expected to deliver the highest GDP growth.
- **Earnings Momentum:** Considering the three pillars of earnings momentum, we see LatAm with a good acceleration (23% on an index level), decent earnings growth (Brazil, Chile, Mexico, and Peru growing double digit) and slightly positive revisions (compared to negative revisions on EM).
- **Valuation:** LatAm is one of the few regions in the world that is trading at a discount to the historical average, along with China, while the World, EM, and US are trading in line or at a small premium to average. The current discount hovers around 16%, driven by Brazil and Chile.
- **Quality:** LatAm is expected to deliver a better ROE than EM in 2024 and has a superior 5-year average, driven by Brazil and Mexico, above 12% in 2024 and nearing 16% in its 5-year average.
- **Technical:** In the short-term, there seems to be profit-taking on LatAm following last year's rally, but allocation on EM indexes is still below historical average, and changes in the GEM industry towards reducing structural exposure to China and related countries, could leave room for the LatAm region.



		Brazil	Chile	Mexico	Peru	Colombia	LATAM	
							Weighted Avg.	Index Based
Earnings Trend	EPS Growth 2024E	12.8%	12.5%	10.5%	21.8%	-1.6%	12.1%	4.1%
	Rank	2	3	4	1	5		
	Earnings Revisions 24E (3M)	2.5%	2.9%	-4.3%	-9.7%	-6.9%	0.2%	-1.2%
	Rank	2	1	3	5	4		
	Earnings Acceleration (2024E vs. 2023)	38.0%	60.7%	8.7%	25.7%	20.0%	30.5%	23.0%
	Rank	2	1	5	3	4		
Valuation	P/E 12m Forward	8.0x	9.4x	13.0x	11.8x	6.6x	9.6x	9.0x
	P/E Premium to 5 Year Average	-21%	-15%	-2%	-1%	-28%	-15%	-16%
	Rank	2	3	4	4	1		
	Earnings Yield Gap (12m Forward)	1.7%	5.0%	-1.6%	1.7%	5.4%	1.0%	1.2%
	Rank	4	2	5	3	1		
	CAPE Ratio (Cyclically Adjusted P/E)	13.4x	9.6x	20.2x	n.a.	8.5x	14.8x	14.9x
	CAPE Ratio Discount to 5 Year Average	-20%	-19%	14%	n.a.	-18%	-10%	-11%
	Rank	1	1	4	5	1		
	P/B 12m Forward	1.3x	0.4x	2.0x	n.a.	0.8x	1.4x	1.2x
	P/B Premium to 5 Year Average	-20%	-61%	8%	n.a.	-21%	-14%	-23%
	Rank	3	1	4	5	2		
	Currency Z-Score REER	-0.18	-0.28	2.25	0.81	0.06	0.55	-
	Rank	2	1	5	4	3		
Economic Momentum	GDP Trend (2024E vs. 2023E)	-1.0%	1.9%	-0.3%	3.1%	0.6%	-0.5%	-
	GDP Growth 2024E	1.8%	1.7%	2.8%	2.5%	1.2%	2.1%	-
	Last 5 Years GDP CAGR	1.5%	2.4%	0.4%	2.0%	3.2%	1.3%	-
	Rank	5	2	4	1	3		
	10Y Nominal Rate (Current)	10.9	5.6	9.2	6.7	9.8	9.96	-
	10 Y Real Rate Variation (Last 90 days)	-0.11	-0.53	-0.12	-0.26	0.07	-0.14	-
	Interest Rate Cut 2024E	-2.75	-3.75	-1.75	-1.75	-5.00	-2.53	-
	Rank	5	1	3	2	3		
	Inflation Delta (2024E vs. 2023E)	-1.0	-1.1	-0.5	-0.4	-4.5	-0.9	-
	Inflation 2024E	3.6	2.8	4.2	2.8	4.8	3.7	-
	Rank	3	1	5	2	4		
Technical Positioning	RSI (30-day)	49.4	53.9	56.6	74.8	53.4	52.3	50.2
	RSI Trend (30-day - 90-day)	-9.1	4.2	-5.1	3.2	-25.8	-7.0	-5.7
	Liquidity (3M ADTV in USD Millions)	4,057	111	605	4	10	2,671	4,787
	Rank	2	3	1	4	5		
Quality	ROE 2024E	16.4%	14.3%	15.7%	15.6%	11.5%	16.0%	14.3%
	ROE 2024E - Ke	4.3%	2.8%	2.9%	4.6%	-0.6%	3.8%	1.5%
	ROE 5 Year Average	16.0%	11.2%	13.9%	7.9%	9.7%	14.9%	16.1%
	Rank	1	3	2	3	5		
Consolidated Rank		1	2	3	4	5		

LatAm Countries Equity Strategy Snapshot: Themes & Top Picks by Region

Country Allocation



Brazil OW



Chile OW



Mexico N



Peru N



Colombia UW

Strategist Top Picks

- Equatorial
- Localiza
- GPS
- Banco do Brasil
- Suzano
- Sabesp
- Vivara
- Hypera
- Randon
- Prio

- SMU
- Banco de Chile
- Enel Chile

- Walmex
- Arca Continental
- Alsea
- Terrafina
- ASUR
- Banorte

- IFS

- No Picks

Country Investment Themes

- Bond Proxies With Double-Digit Real IRRs** (utilities, ports & malls);
- Quality Cyclical**s (higher-ROE domestic companies in the financials, transport, consumer and real estate)
- Reinvestment Leaders:** Secular Calls (services, healthcare, tech)
- Agri is Pop** – Direct and Indirect Beneficiaries of Agribusiness
- FX Hedges and Commodities** With Attractive Valuation

- High - Quality Dividend Yield Players** - enhanced earnings visibility and strong dividend yield prospects.
- Bond Proxies stocks that benefits from lower rates.** (Malls & Sanitary).

- Consumer companies that will benefit from resilient consumer dynamics** with real growth in salaries, growing formal employment, controlled inflation and increased social spending.
- Nearshoring beneficiaries** - Transportation and Materials trading at attractive valuations.
- Healthy Banking sector**, with opportunities to capture nearshoring and bancarization/digitalization trends.

- Quality cyclical**s with strong earnings momentum.
- Nice dividend yields stories** with strong and stable profitability levels.

- Discounted stories** with limited regulatory risk

LatAm 10 Investment Picks

- Banco do Brasil:** 4x P/E with ~10% DY
- Equatorial:** Strong capital allocation at > 10% real IRR
- Nubank:** Pan Latam (Bz, mx, Col) call with strong EPS growth (>US\$2bn 2024 net income)
- Prio:** ~18% FCF Yield with production growth
- Localiza:** quality with >50% EPS growth YoY
- Vivara:** quality mid-cap compounder at 15x P/E, 20% EPS growth

- SMU:** High-Quality Play with a 7% dividend Yield, trading at discount to peers and historical avg.

- Arca Continental:** Cost Visibility for The Next 2 Years As Catalyst, with rising ROE and discount to historical P/E.
- Walmex:** Contrarian Call on a Great Company (ROE to reach 30% in 2026E)

- Credicorp:** A Dominant Company at an Appealing Valuation (1.5x P/B and 9.6x P/E)

- Not included**

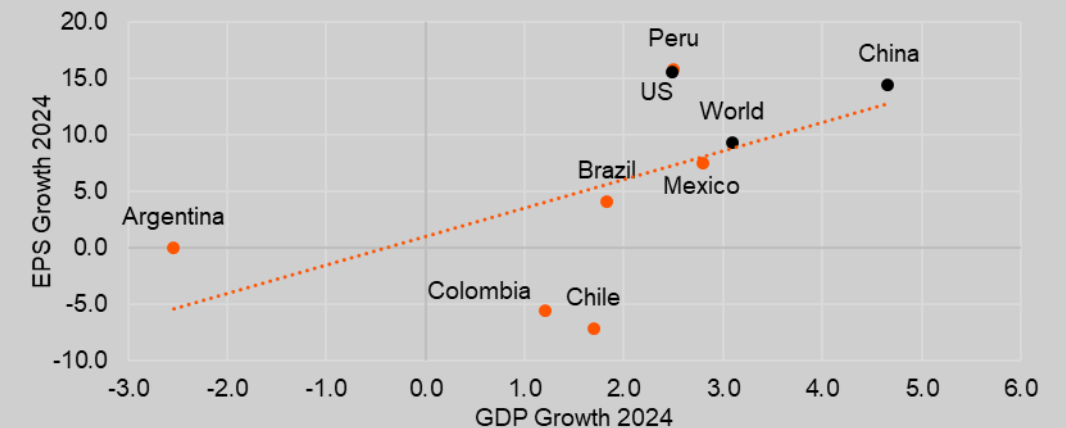
Investment Clock: Sweet Spot for LatAm Countries – Controlled Inflation And Monetary Easing Path

Investment Clock and Macro Forecasts



- According to the Investment Clock, the trend in LatAm economies points out for a favorable moment for domestic names, slowly transitioning from domestic defensive names to cyclical growth names, as economic activity is expected to benefit from interest rate cuts and lower inflation across the region.
- Mexico** is expected to deliver the highest GDP growth in both 2023 and 2024, with a slight reduction in inflation between those years.
- Brazil** should be one of the first countries to end its easing monetary cycle, with the Selic rate reaching 9% at the September meeting, as inflation should drop closer to the Central Bank's target.
- Peru** is expected to deliver the highest GDP acceleration, going from a 0.6% contraction in 2023 to a 2.5% expansion in 2024. Interest rate cuts should be the lowest in the region, but reaching the second lowest interest rate level by YE2024.
- Chile** is expected to end 2024 with the lowest interest rate in the region, at 4.5% per year, and our Macro team's forecasts suggest the second-best GDP acceleration, only after Peru.
- Colombia** is expected to experience the highest interest rate cut in 2024, from 13% to 8%, as well as the highest inflation deceleration, from 9.3% to 4.8%.

EPS x GDP Growth – Latam Countries and Global Economies

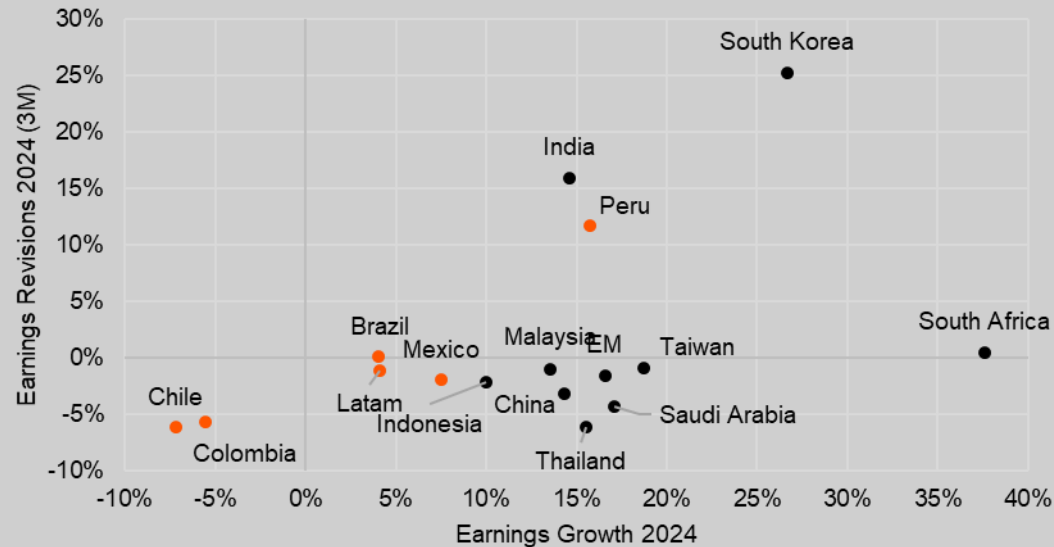


Country	GDP Growth 2023 (%)	GDP Growth 2024 (%)	GDP Acc (2024 vs. 23)	Inflation 2023 (%)	Inflation 2024 (%)	Inflation Acc (2024 vs. 23)	Interest Rate YE23 (%)	Interest Rate YE24 (%)	Interest Rate Cut 2024 (bps)
Brazil	2.9	1.8	-1.0	4.6	3.6	-1.0	11.75	9.00	-275
Mexico	3.1	2.8	-0.3	4.7	4.2	-0.5	11.25	9.50	-175
Peru	-0.6	2.5	3.1	3.2	2.8	-0.4	6.75	5.00	-175
Colombia	0.6	1.2	0.6	9.3	4.8	-4.5	13.00	8.00	-500
Chile	-0.2	1.7	1.9	3.9	2.8	-1.1	8.25	4.50	-375

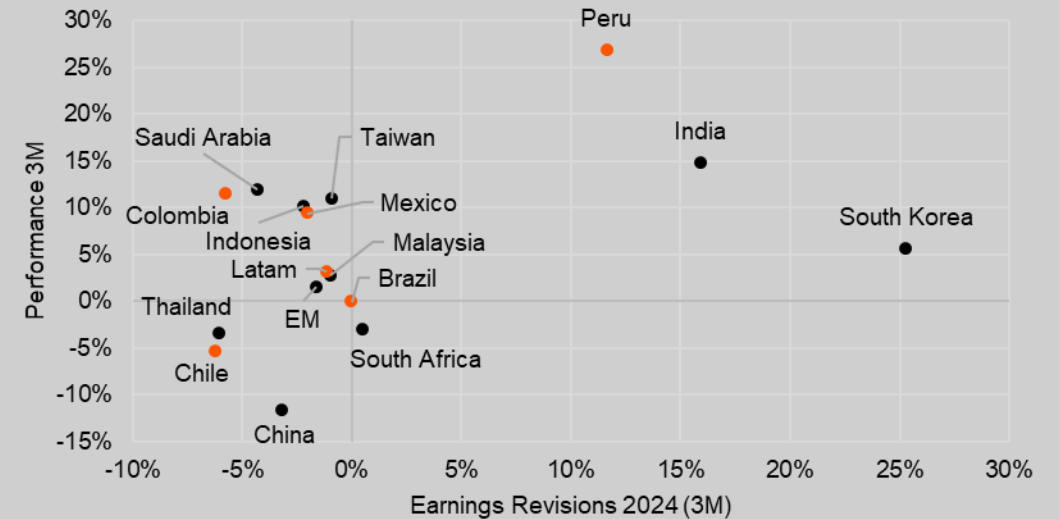
Earnings Dilemma: Good Earnings Acceleration and Revision; Absolute Growth Below EM

- **Momentum:** Latam Ranks in-line in terms of short-term earnings revisions, with Brazil and Chile being the positive regional indexes highlights, while EM revisions have been mostly flat. When cross-checking its revisions with recent performance, only Peru stands out, as revisions have been positive and performance has been one of the best.
- On the growth side, consensus currently implies that LatAm will have softer growth. However, we see upside risk if earnings revisions continue to be positive going forward.

Emerging Markets: Earnings Growth and Momentum Matrix



Emerging Markets: Earnings Revision (MSCI Indexes) and Price Momentum Matrix



Country/ Region	Last Price	EPS in Points				Growth			Acceleration		Revisions (2024E)	
		2022	2023	2024	2025	2023	2024	2025	2024	2025	1M	3M
World	745	39	39	43	47	-1.7%	10.3%	11.3%	12.0%	1.1%	-0.7%	-1.0%
US	5,030	223	208	241	270	-6.7%	15.5%	12.1%	22.3%	-3.4%	-0.3%	-0.6%
EM	999	80	73	85	98	-8.9%	16.6%	15.5%	25.5%	-1.0%	-0.8%	-1.6%
Latam	2,525	330	268	279	297	-18.9%	4.1%	6.7%	23.0%	2.6%	-0.7%	-1.2%
Brazil	127,804	18,769	14,035	15,825	16,797	-25.2%	12.8%	6.1%	38.0%	-6.6%	0.2%	2.5%
Mexico	57,252	3,853	3,922	4,332	4,908	1.8%	10.5%	13.3%	8.7%	2.8%	-1.4%	-4.3%
Chile	6,188	616	319	359	401	-48.2%	12.5%	11.7%	60.7%	-0.8%	2.8%	2.9%
Colombia	1,246	241	189	186	218	-21.6%	-1.6%	17.0%	20.0%	18.6%	-2.2%	-6.9%
Peru	28,341	1,997	1,919	2,338	2,741	-3.9%	21.8%	17.2%	25.7%	-4.6%	0.2%	-9.7%

Valuation: LatAm Countries Are Trading at a Higher Discounts to EMs

- **Latam is trading at an above-average discount to EM in terms of Price/Earnings.** LatAm equities averaged a 3% premium in P/E multiples in the past decade and are currently trading at a 21% discount. Discount is more significant on Brazil, but Mexico and Chile are also below average.

Historical P/E 12m Forward Premium(Discount) – Latam / EM



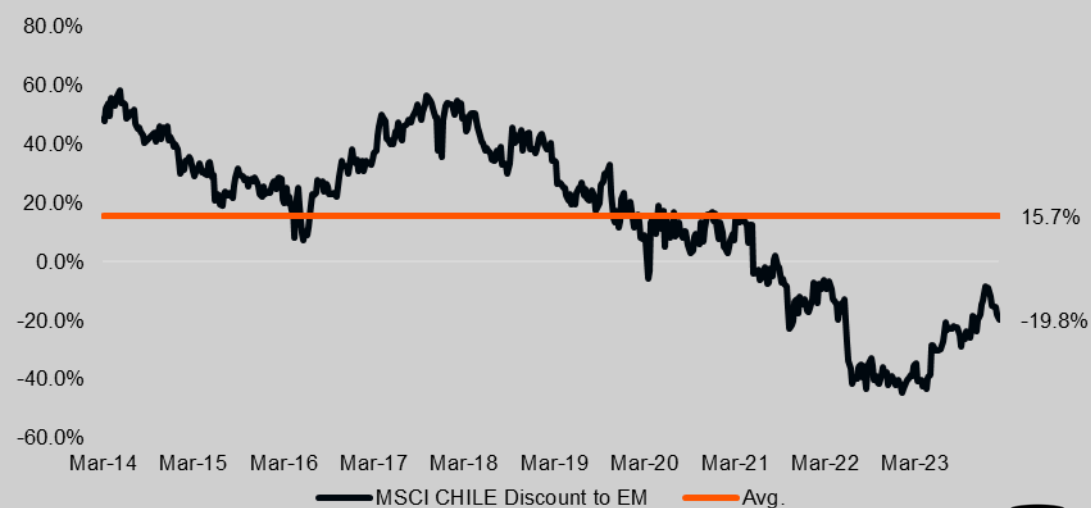
Historical P/E 12m Forward Premium(Discount) – Brazil / EM



Historical P/E 12m Forward Premium(Discount) – Mexico / EM

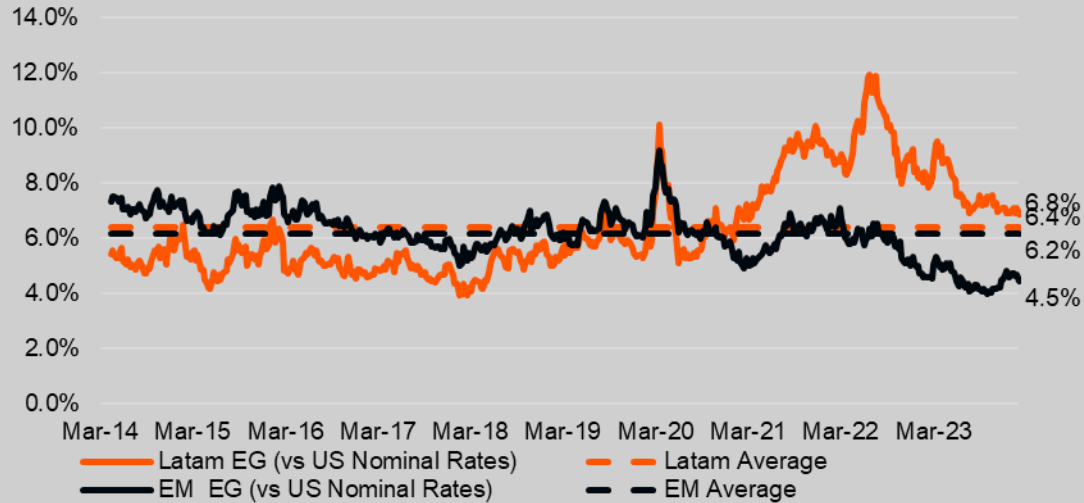


Historical P/E 12m Forward Premium(Discount) – Chile / EM



LatAm's Earnings Gap Is Attractive Compared With EM, Brazil Stands Out vs Historical Average

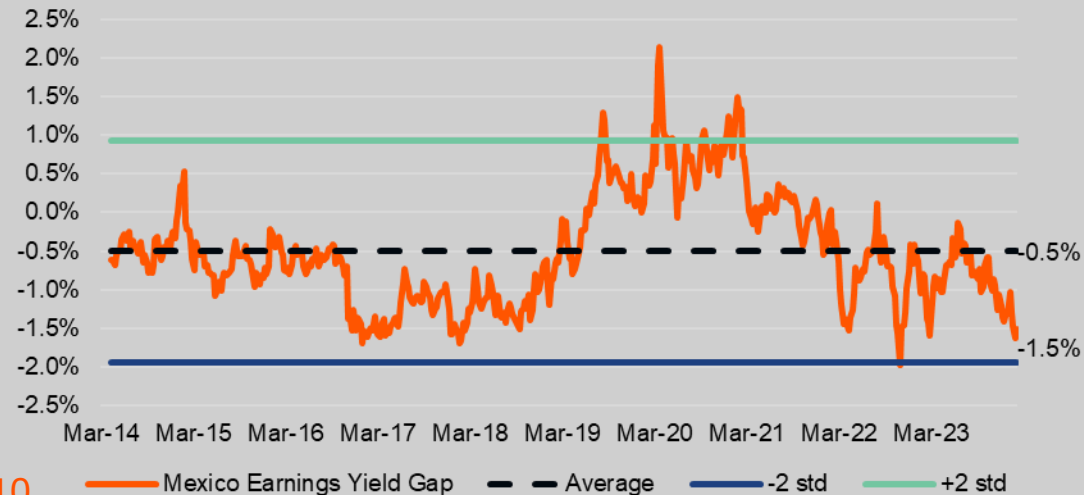
Latam – Earnings Gap vs. U.S. 10-Year Nominal Rates: Lower Gap on Higher Treasury Yields



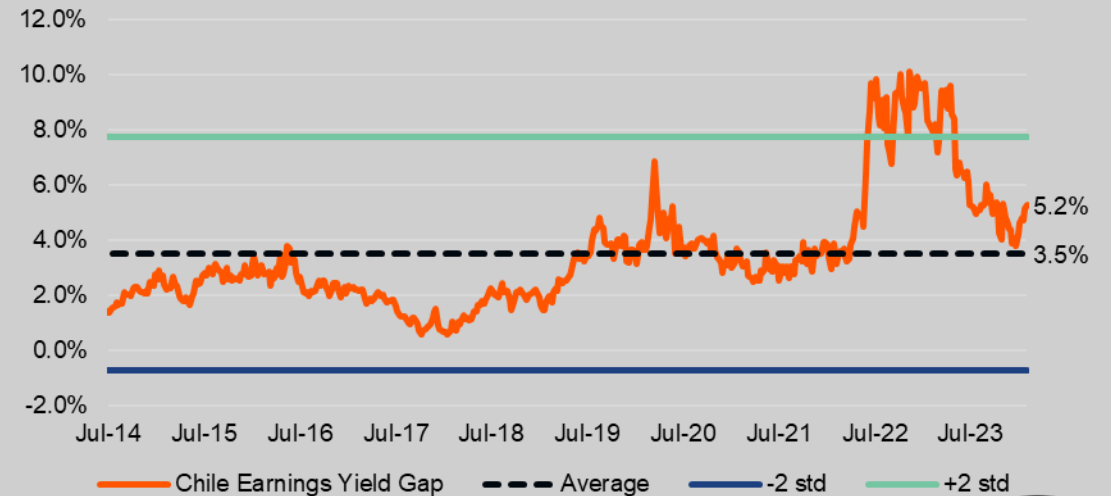
Brazil – Earnings Gap vs. 10-Year Nominal Rates



Mexico – Earnings Gap vs. 10-Year Nominal Rates



Chile – Earnings Gap vs. 10-Year Nominal Rates



Valuation by Sector: Brazil Commodities, Mexico Telcos, and Chilean Staples

- **Sector-wise**, it's worth highlighting Brazilian commodity-related sectors (Energy and Materials), Mexican Telcos, and Chilean Consumer Staples as the sectors that have been pushing multiples down.
- It terms of discount, the highest contributors are Energy, Materials, and Healthcare. Also, utilities presente discount to EM

P/E 12m Forward by Sector* – Emerging Markets

Country/Region	Index	Energy	Financials	Consumer Discretionary	Utilities	Materials	Real Estate	Communication Services	Health Care	Consumer Staples	Industrials	Information Technology
EM	11.6x	8.6x	7.7x	11.8x	10.8x	12.4x	9.3x	14.5x	25.2x	19.8x	12.6x	16.3x
LATAM	9.0x	5.2x	8.1x	13.9x	9.6x	7.8x	13.5x	12.2x	15.2x	17.4x	14.3x	22.5x
BRAZIL	7.7x	5.1x	7.7x	12.9x	10.2x	6.2x		14.1x	15.2x	14.8x	18.4x	22.5x
MEXICO	13.1x		9.1x			10.9x	13.5x	11.5x		19.5x	13.9x	
CHILE	9.4x	12.0x	10.1x	21.5x	6.9x	9.0x				8.7x	8.6x	
COLOMBIA	5.8x		5.6x									
PERU	12.5x		9.3x			20.1x						
CHINA	8.5x	6.6x	3.9x	11.9x	6.7x	9.1x	6.2x	12.5x	19.7x	15.7x	7.2x	13.7x
SOUTH KOREA	10.9x	7.7x	5.1x	5.5x	10.4x	13.7x		21.4x	39.4x	12.7x	14.3x	14.1x
SOUTH AFRICA	9.2x	6.9x	8.8x	10.4x		6.9x	10.5x	9.3x	11.1x	19.6x	10.9x	
SAUDI ARABIA	18.0x	21.9x	14.5x	17.7x	12.4x	28.7x	21.9x	16.0x	44.1x	24.6x		41.0x
INDONESIA	14.0x	5.0x	14.7x			17.2x		13.8x	21.2x	13.6x		
MALAYSIA	14.0x	18.8x	10.6x	13.7x	15.5x	19.4x		21.2x	30.3x	19.8x	14.3x	30.0x
TAIWAN	16.6x	27.9x	11.8x			23.0x		24.5x	89.9x	19.5x	20.7x	16.2x
INDIA	22.3x	16.3x	16.0x	26.8x	17.5x	21.0x	57.2x	35.1x	32.0x	45.5x	34.5x	27.2x
THAILAND	15.9x	9.0x	7.7x	21.5x	23.4x	14.0x	15.5x	19.7x	28.2x	22.9x	36.5x	45.5x

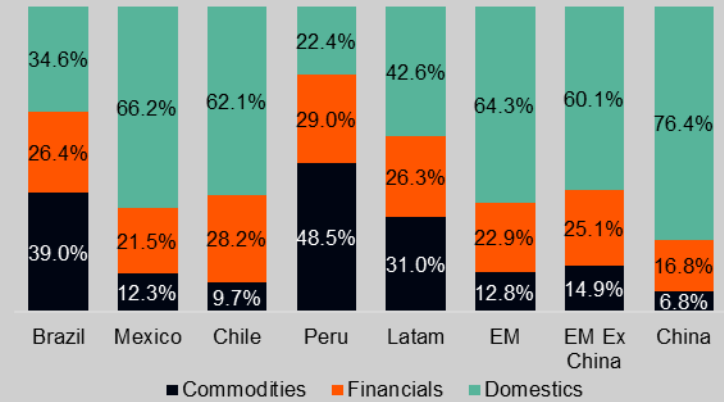
Discount to EM (P/E 12m Forward by Sector) and Sector Diffusion

Country/Region	Index	Sectors Trading at Discount	Energy	Financials	Consumer Discretionary	Utilities	Materials	Real Estate	Communication Services	Health Care	Consumer Staples	Industrials	Information Technology
LATAM	-22.5%	6	-39.3%	4.9%	18.3%	-11.1%	-36.8%	45.0%	-15.9%	-39.8%	-11.9%	13.4%	38.3%
BRAZIL	-33.8%	7	-40.2%	0.0%	10.1%	-5.2%	-49.6%		-2.6%	-39.8%	-25.4%	45.7%	38.2%
MEXICO	13.2%	3		18.0%			-11.9%	45.0%	-20.5%		-1.4%	10.4%	
CHILE	-19.0%	4	40.0%	30.4%	83.0%	-35.9%	-26.9%				-55.9%	-31.8%	
ARGENTINA	-29.6%	5	-11.3%	-37.5%		-16.8%		-26.6%			-58.4%		
PERU	8.0%	0		19.9%			62.7%						

Know What Are You Buying - Sector Exposure and Valuation Comparison Among EM

- **LatAm has a more balanced exposure to the three categories** (Commodities, Financials, and Domestics) compared with EM, being less exposed to domestics (especially domestic cyclicals). The highest weight sectors are Financials, Materials, Consumer Staples and Energy. EM equities usually have a lower exposure to commodities (below 15% on the consolidated index) and almost two-thirds exposure to domestic sectors. For financials, LatAm countries have a similar weight to EM, ranging between 20-27%.
- **Brazil has na equilibrated index in terms of commodities, financials and Domestics. The country has the highest exposure to the commodities sector among top 10 EM countries, mostly due to the weight of the Energy sector** (around 20% of the index), being most exposed among EM. It also has the second-highest exposure in Utilities and Materials.
- **Mexico is the country with the most similar composition to EM in the LatAm region**, with roughly two-thirds of its weight in the domestic sectors. However almost half of that comes from the Consumer Staples sector (compared to 6% from EM). The Real Estate sector also caught our attention, as it represents 8% of the index, being the most exposed to the sector among EM.
- **Chile has the highest exposures to the Industrials and Utilities sectors**, well above the EM exposure. It is a country that also has a similar composition to the broad EM index.
- **Peru has almost 50% of its index in Materials companies**, making it the most exposed to commodities, but it has the lowest exposure to domestic stocks (22.4%, compared to 64.3% of EM).

Category* Exposure – LatAm vs. EM



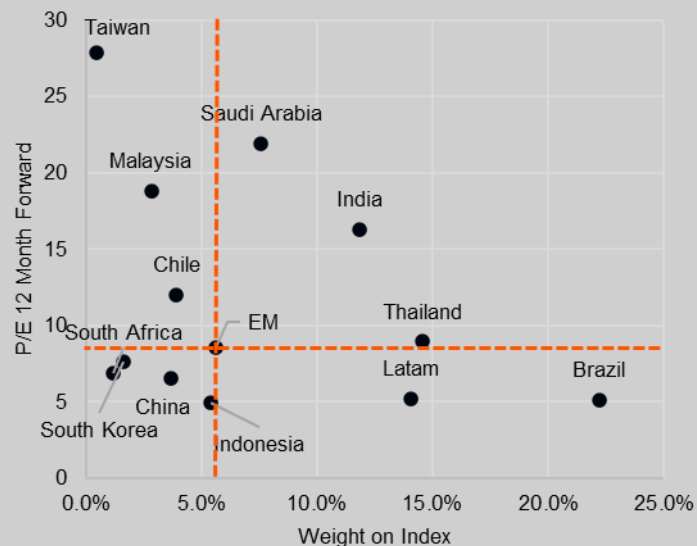
EMs Sector* and Category Exposure

	Brazil	Mexico	Chile	Peru	Latam	EM	EM Ex China	China	Taiwan	India	Indonesia	Thailand	South Korea	Saudi Arabia	Malaysia	South Africa
Communication Services	2.6%	9.5%	1.8%	1.5%	4.0%	8.9%	4.8%	20.8%	3.0%	3.0%	6.8%	8.2%	6.9%	9.1%	8.5%	5.8%
Consumer Discretionary	2.4%	1.4%	4.2%	4.3%	1.9%	12.5%	6.7%	29.5%	3.3%	12.0%	5.2%	8.1%	11.7%	3.3%	5.3%	19.3%
Consumer Staples	7.7%	34.3%	13.7%	8.1%	16.6%	5.9%	6.1%	5.1%	1.9%	8.1%	8.5%	12.2%	2.4%	5.0%	12.2%	9.4%
Energy	22.2%	0.0%	3.9%	0.0%	14.1%	5.6%	6.3%	3.7%	0.4%	11.9%	5.4%	14.6%	1.6%	7.6%	2.8%	1.2%
Financials	26.4%	21.5%	28.2%	29.0%	26.3%	22.9%	25.1%	16.8%	17.4%	24.5%	55.3%	9.3%	12.7%	41.8%	41.2%	38.8%
Health Care	2.3%	0.4%	0.0%	0.0%	1.4%	3.6%	3.2%	5.0%	0.2%	5.4%	1.9%	10.0%	6.7%	5.7%	3.0%	2.0%
Industrials	8.5%	12.7%	21.1%	3.7%	9.9%	6.8%	7.4%	5.3%	3.7%	8.1%	4.7%	9.0%	15.4%	2.6%	7.5%	1.8%
Information Technology	0.7%	0.0%	0.0%	0.0%	0.5%	22.3%	27.7%	5.8%	64.5%	13.3%	0.1%	6.2%	34.0%	1.6%	1.9%	0.0%
Materials	16.8%	12.3%	5.7%	48.5%	17.0%	7.2%	8.6%	3.1%	5.1%	7.8%	8.9%	7.9%	7.9%	18.0%	8.0%	19.8%
Real Estate	0.0%	7.8%	3.7%	2.3%	1.3%	1.6%	1.3%	2.3%	0.3%	1.1%	2.4%	7.1%	0.0%	2.0%	0.0%	1.9%
Utilities	10.3%	0.0%	17.6%	2.5%	7.0%	2.8%	2.9%	2.5%	0.0%	4.7%	0.8%	7.4%	0.6%	3.3%	9.6%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Commodities	39.0%	12.3%	9.7%	48.5%	31.0%	12.8%	14.9%	6.8%	5.6%	19.7%	14.3%	22.5%	9.5%	25.6%	10.9%	21.0%
Financials	26.4%	21.5%	28.2%	29.0%	26.3%	22.9%	25.1%	16.8%	17.4%	24.5%	55.3%	9.3%	12.7%	41.8%	41.2%	38.8%
Domestics	34.6%	66.2%	62.1%	22.4%	42.6%	64.3%	60.1%	76.4%	77.0%	55.8%	30.4%	68.3%	77.8%	32.6%	48.0%	40.2%

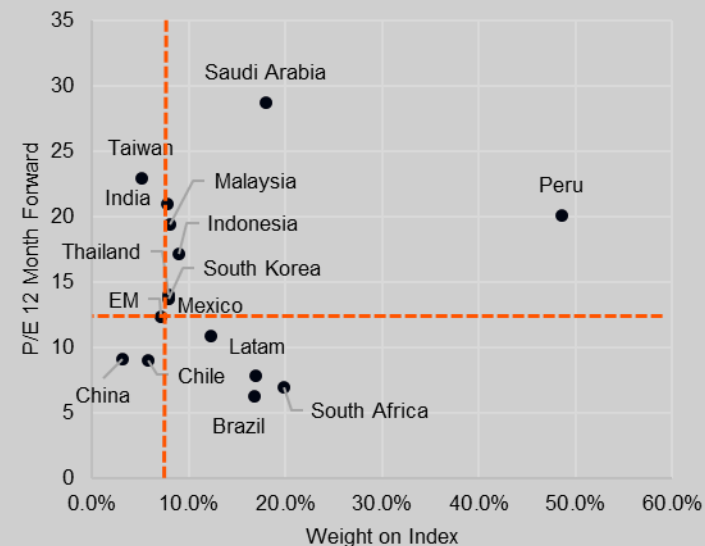
Index Exposure and Valuation: Sector View

Energy – Exposure vs. Valuation

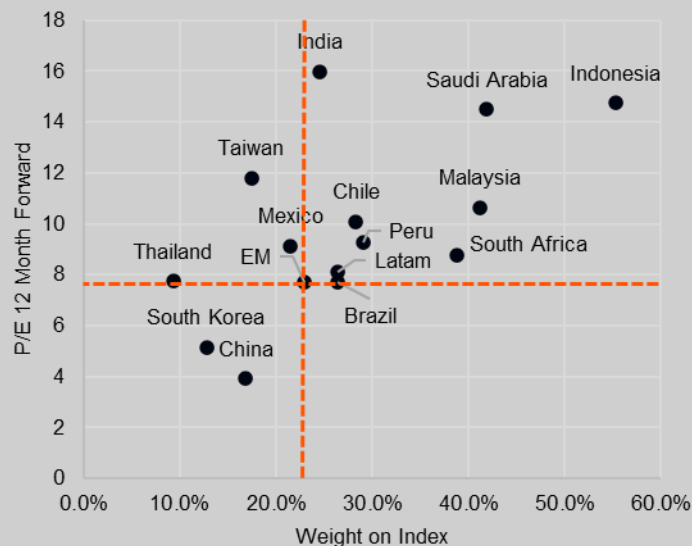
- **Commodities.** Latam's High Exposure to Commodities.
- **Energy.** Brazil is a positive valuation highlight. Brazil has the highest weight in energy in the country index compared to the rest of EM.
- **Materials.** Brazil is a positive valuation highlight, while Peru has the highest weight in materials in the country index (51%) compared to rest of EM. The China country index only has a 3.2% weight in materials.
- **Financials.** China and South Korea are positive valuation highlights. Indonesia has the highest financials exposure in its country index, followed by Saudi Arabia. Brazil trades in-line with EM despite its higher ROE profile from financials
- **Utilities.** Brazil has a slight discount in P/E valuation compared to EM. Chile has the highest weight in in Utilities.
- **Industrials.** Chile has the highest exposure to the sector, while Brazil is more expensive than the average EM. China stands out in terms of valuation.



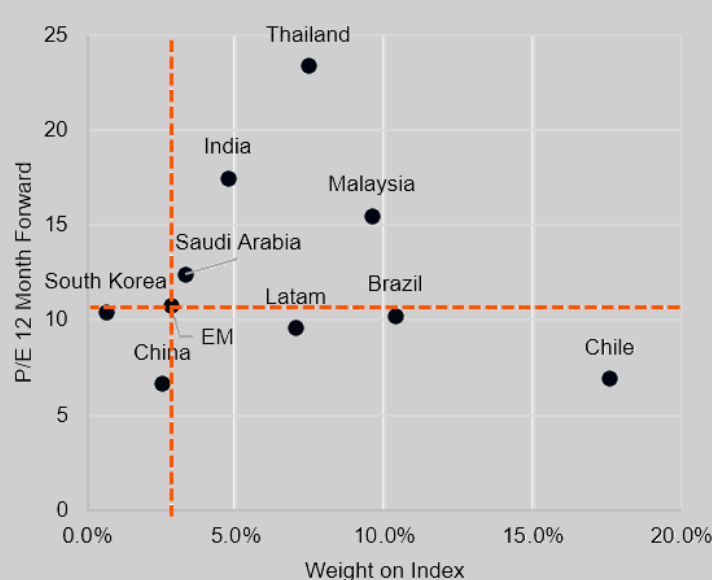
Materials – Exposure vs. Valuation



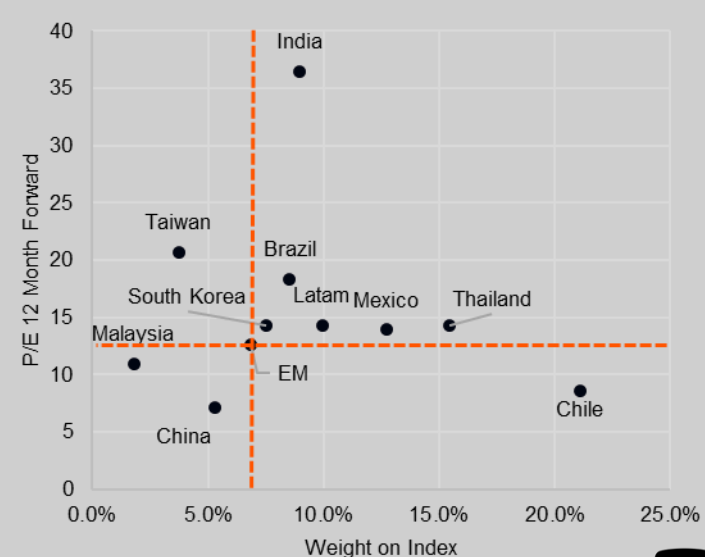
Financials – Exposure vs. Valuation



Utilities – Exposure vs. Valuation



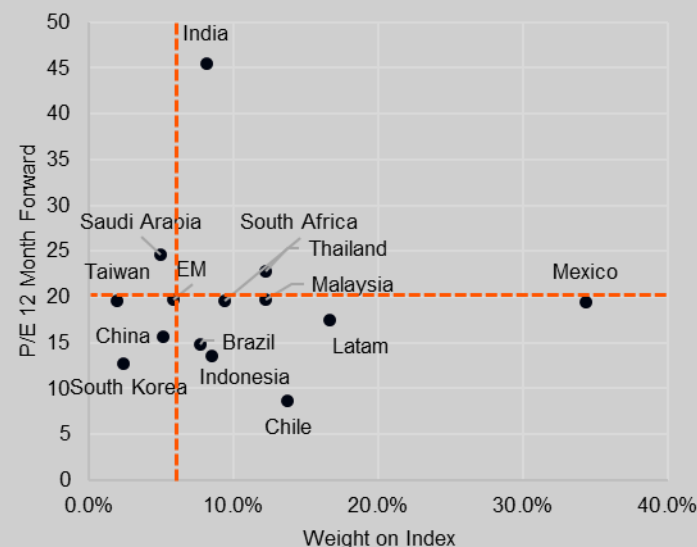
Industrials – Exposure vs. Valuation



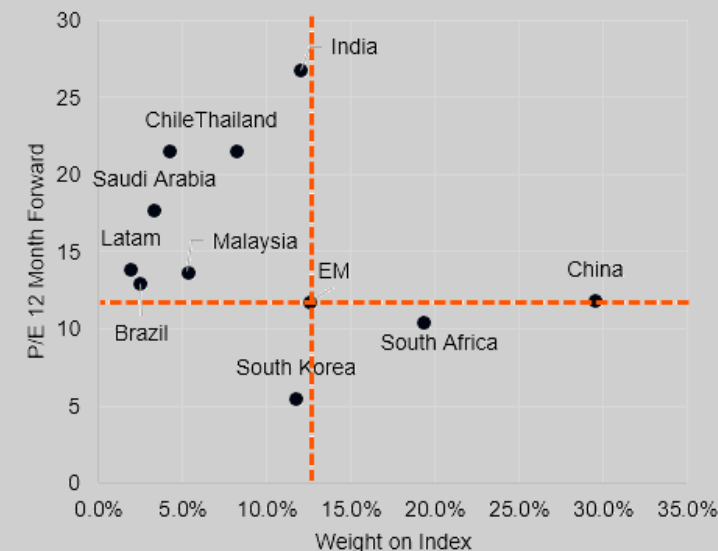
Index Exposure and Valuation: Sector View

- **Consumer Staples:** Among LatAm, Chile stands out in terms of valuation, while Mexico has by far the highest weight in staples among EM, at 33.5%.
- **Consumer Discretionary:** LatAm trades at slight premium versus EM and its weight in the index is small.
- **Healthcare:** An inherently higher valuation sector, with the exception of South Africa. All other countries trade above 15x P/E. Brazil trades at a discount to EM.
- **Information Technology:** Latam has a small index weight in IT, yet its valuation is above the average of EM. Taiwan has by far the highest IT exposure (64.5%). With foreign listing stocks potentially joining the LatAm index in the next rebalancing, sector may gain representativeness.
- **Communication Services:** LatAm trades at a slight discount to EM. Mexico has the highest exposure in the region and trades at the second-highest discount to EM.

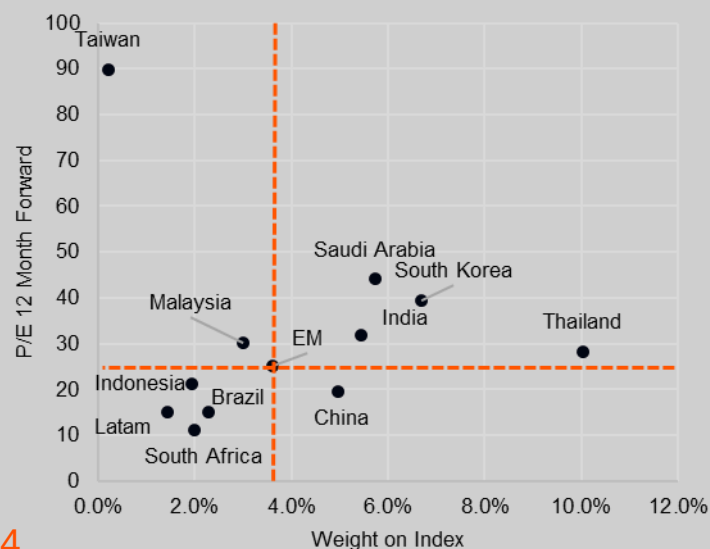
Consumer Staples – Exposure vs. Valuation



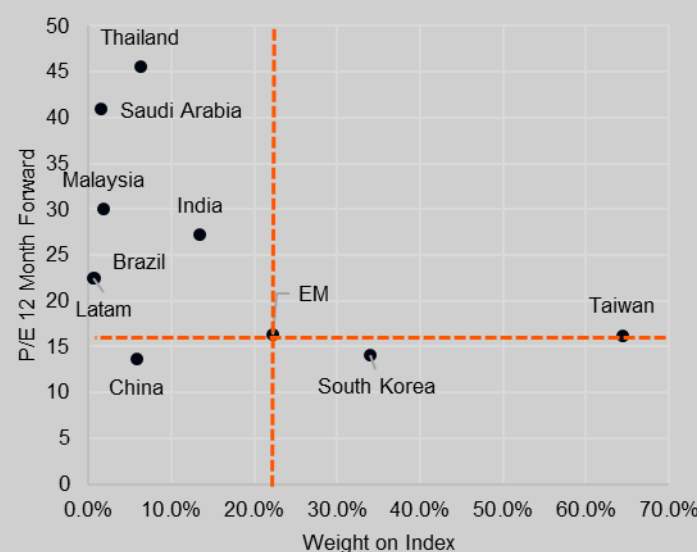
Consumer Discretionary – Exposure vs. Valuation



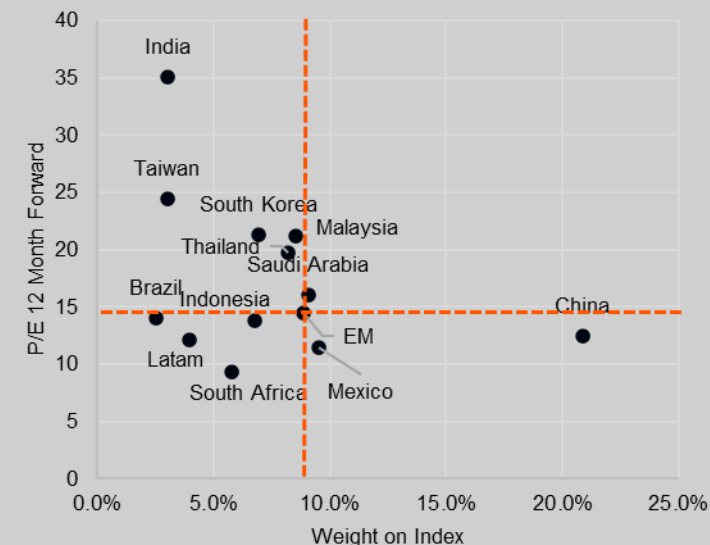
Healthcare – Exposure vs. Valuation



Information Technology – Exposure vs. Valuation



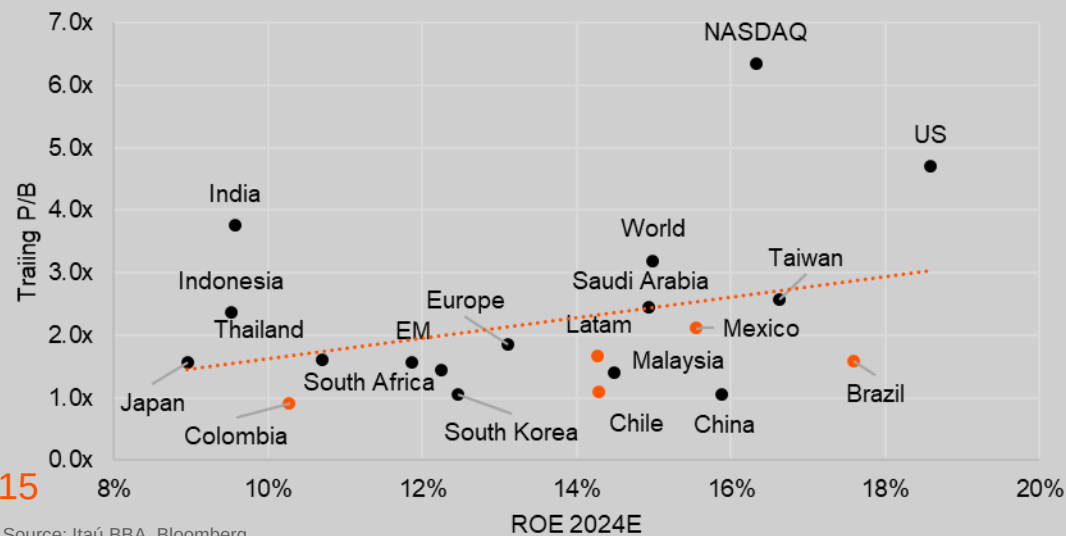
Communication Services – Exposure vs. Valuation



Quality: Latam Has a Better ROE Than EM

- **What About Quality ?** LatAm is expected to deliver a better ROE than EM in 2024 and has a superior 5-year average, driven by Brazil and Mexico. We also like to compare this quality component with valuation, and the region ranks well compared to EM, with a better ROE and a similar valuation level (P/B).
- **Brazil has the highest expected ROE in 2024 and the highest 5-year average among EMs.** Although we acknowledge that part of this can be explained due to Brazil's high exposure to commodities in the past years, its 10-year average is still above EM average.
- **Mexico is expected to have rising ROE in the coming years.** Consensus estimates indicates a 15.6% ROE in 2024 and 16.2% in 2025 (one of the highest among EM), which is above its 5 and 10-year averages.
- **In the Andean region,** Chile is expected to deliver ROE in line with LatAm in 2024 and above in 2025, despite having a lower 5-year average. Peru also has rising ROEs, but long-term averages are below those of the region. Colombia ranks high on this metric for 2024, but the drop in 2025 and its medium to long-term average give us less confidence. Colombia has the worst 10-year averages for this metric in LatAm and is near the bottom if we include other EM countries.
- **Sector-wise, LatAm has a good diffusion compared to EM,** with 6 out of 11 sectors delivering better ROEs in 2024 and 8 out of 11 having better 5-year averages. At the country level, we could highlight: i) Brazil Energy, Utilities, Financials, and Materials; ii) Mexico Financials and Communication Services; iii) Chile Financials.

Latam in the Global Context - PB Versus ROE



One of the Best Among EMS - ROE Ranking

Country	ROE 2024E	ROE 2025E	5Y Avg	10y Avg
Brazil	17.6%	16.6%	18.0%	12.4%
India	16.6%	16.6%	12.3%	13.2%
Peru	15.9%	17.8%	11.8%	11.6%
Mexico	15.6%	16.2%	14.0%	12.7%
Indonesia	14.9%	15.2%	14.5%	15.9%
Taiwan	14.5%	15.9%	14.4%	13.5%
Chile	14.3%	13.9%	12.5%	10.6%
Latam	14.3%	10.6%	16.1%	12.1%
Colombia	13.6%	12.9%	11.5%	9.5%
South Africa	12.5%	14.4%	13.9%	13.5%
Saudi Arabia	12.2%	13.1%	10.7%	10.7%
EM	11.9%	12.1%	11.4%	11.2%
China	10.7%	11.1%	10.9%	11.8%
South Korea	10.3%	10.8%	7.7%	8.3%
Thailand	9.6%	9.9%	9.6%	11.0%
Malaysia	9.5%	9.7%	8.7%	9.6%

GICS Sector Diffusion

Country/Region	Sectors with Higher ROE 2024 than EM	Sectors with Higher 5-Year Avg. ROE than EM
LATAM	6	8
BRAZIL	7	6
MEXICO	5	4
CHILE	2	3
COLOMBIA	3	2
PERU	2	1

Emerging Markets vs. Latam ROES Per Sector

Average 5-Year ROE Comparison by Sector* – Emerging Markets

Country/Region	Index	Energy	Financials	Consumer Discretionary	Utilities	Materials	Real Estate	Communication Services	Healthcare	Consumer Staples	Industrials	Information Technology
EM	11.4%	12.6%	11.4%	8.2%	7.2%	12.0%	11.1%	12.4%	10.0%	13.7%	10.6%	13.3%
LATAM	16.1%	18.6%	15.6%	8.9%	12.9%	19.2%	9.6%	17.2%	8.0%	12.8%	13.6%	13.3%
BRAZIL	18.0%	19.9%	16.4%	10.2%	14.5%	26.6%		7.7%	8.0%	11.7%	9.9%	14.0%
MEXICO	14.0%		16.0%			7.8%	9.2%	22.3%		14.8%	14.8%	
CHILE	12.5%	7.6%	15.9%	5.0%	10.2%	13.0%	7.1%			7.7%	-140.0%	
COLOMBIA	11.5%	16.5%	10.6%		13.9%							
PERU	11.8%		13.1%			8.9%						
CHINA	10.9%	8.3%	11.5%	8.6%	10.1%	12.4%	12.8%	11.8%	8.8%	16.3%	11.0%	10.9%
KOREA	7.7%	3.2%	8.9%	6.3%	-16.9%	5.5%		13.1%	9.9%	8.9%	5.8%	9.6%
SOUTH AFRICA	13.9%	23.4%	12.2%	22.6%		12.0%	3.1%	12.8%	8.4%	18.4%	13.2%	
SAUDI ARABIA	10.7%	20.1%	12.1%	48.6%	4.8%	7.7%	-1.5%	13.1%	21.4%	10.2%		32.4%
INDONESIA	14.5%	18.9%	14.7%	9.5%		8.9%		19.4%	16.2%	18.1%		
MALAYSIA	8.7%	11.5%	9.1%	-0.8%	7.3%	13.8%		13.8%	20.0%	9.4%	4.8%	24.5%
TAIWAN	14.4%	8.2%	9.5%	12.5%		8.8%	16.8%	11.2%	-6.3%	19.3%	21.5%	17.2%
INDIA	12.3%	12.6%	10.5%	7.7%	15.9%	13.5%	4.1%	-2.5%	12.0%	24.4%	14.3%	25.1%
THAILAND	9.6%	9.1%	8.3%	5.9%	9.1%	8.4%	15.2%	22.2%	16.3%	10.6%	5.5%	18.4%

ROE 2024 Comparison by Sector* – Emerging Markets

Country/Region	Index	Energy	Financials	Consumer Discretionary	Utilities	Materials	Real Estate	Communication Services	Healthcare	Consumer Staples	Industrials	Information Technology
EM	11.9%	14.2%	11.9%	12.1%	10.3%	9.7%	8.3%	12.7%	9.9%	15.6%	8.7%	16.2%
LATAM	14.3%	21.8%	18.3%	9.8%	10.9%	16.8%	5.3%	15.0%	4.8%	15.3%	4.5%	17.2%
BRAZIL	17.6%	22.7%	18.4%	12.1%	11.1%	19.6%		9.5%	4.8%	12.6%	15.4%	17.2%
MEXICO	15.6%		20.5%			13.7%	5.3%	18.8%		17.4%	19.7%	
CHILE	14.3%	6.1%	15.4%	3.9%	8.2%	7.2%	8.3%			14.5%	1.3%	
COLOMBIA	13.6%	24.5%	13.3%		14.7%							
PERU	15.9%		16.0%			15.1%						
CHINA	10.7%	11.6%	10.3%	11.2%	11.4%	10.2%	7.5%	12.8%	8.5%	16.7%	10.2%	9.6%
KOREA	10.3%	9.2%	9.1%	12.4%	4.3%	4.6%		6.9%	9.5%	8.1%	8.1%	12.2%
SOUTH AFRICA	12.5%	14.3%	12.1%	10.0%		13.9%	8.9%	12.8%	9.6%	21.1%	18.6%	
SAUDI ARABIA	12.2%	22.5%	14.1%	52.9%	8.7%	6.3%	3.8%	14.6%	23.9%	14.8%		34.9%
INDONESIA	14.9%	15.7%	19.4%	-7.9%		8.1%		18.5%	13.9%	17.7%		
MALAYSIA	9.5%	11.7%	10.8%	6.6%	8.2%	9.9%		10.1%	6.2%	8.9%	7.3%	14.0%
TAIWAN	14.5%	8.2%	9.5%	15.8%		4.1%		12.8%	3.8%	33.0%	6.1%	20.1%
INDIA	16.6%	11.5%	15.8%	21.2%	14.5%	14.2%	10.6%	20.3%	15.3%	24.8%	20.1%	31.3%
THAILAND	9.6%	9.3%	9.4%	11.0%	11.1%	6.6%	14.9%	34.1%	18.0%	7.3%	10.1%	26.3%

Portfolio Managers Book:

Main Theses in Our Portfolio

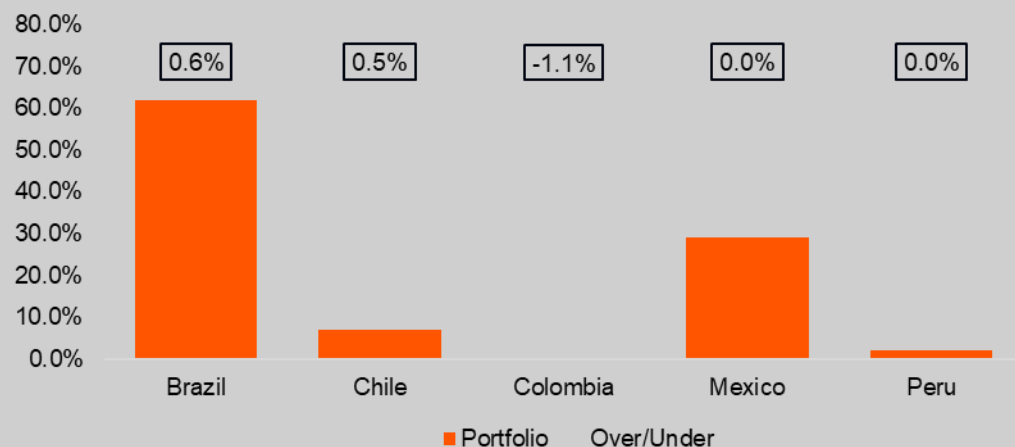
Recommended LatAm Portfolio – Our Allocation by Sector

- Expecting the Sun After Clouds: A barbell-shaped approach to themes, including bond proxies, together with domestic names, focusing on quality.
- Our main overweight sectors are Consumer Staples, Consumer Discretionary, Financials, Utilities and Energy.
- Our main underweight sectors are Materials and Communication Services.
- Our portfolio is composed of twenty-seven stocks from the region, including our ten **Latam Investment Picks**: Banco do Brasil, Nubank, Localiza, PRIO, and Vivara (Brazil), Walmex and Arca (Mexico), SMU (Chile), and Credicorp (Peru).

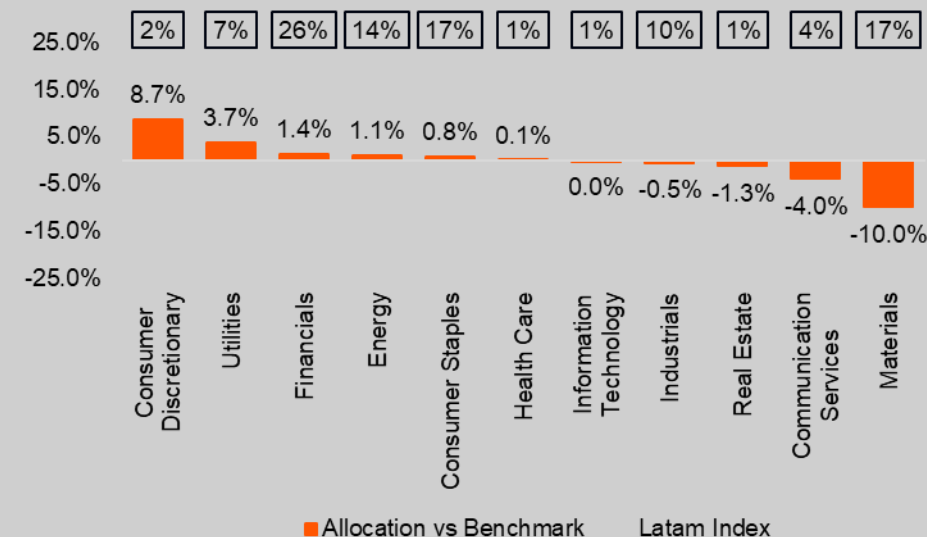
Latam 10 Investment Picks



Country Allocation Over Benchmark



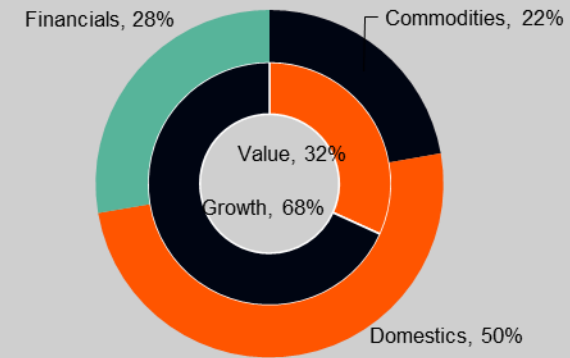
Sector Allocation Over Benchmark



LatAm Recommended Portfolio – Factor Heatmap

- Our portfolio features an interesting combination of valuation, growth, and quality. It has a total return potential of 21%, including dividends.
- Value:** Our portfolio is trading at a forward P/E of 11.7x, offering a 19% discount to its historical, and an attractive dividend yield of 5%.
- Growth:** Our portfolio's 2024E EPS growth should hit double digits, at 21%, well above LatAm's consolidated figures of 3-4%.
- Quality:** Our portfolio's ROE is expected to reach 22% in 2024E, compared to the Latam's 16%.

Portfolio Allocation by Category and Value



Ticker	Sector (GICS)	Weight in Portfolio	Weight (Latam)	Allocation vs Latam Benchmark	Beta	IBBA Rating	Target Price	Upside	Market Cap (USD bn)	12m	YTD	P/E	Diff vs 5y Avg.	P/B	Diff vs 5y Avg.	EV/EBITDA	Diff vs 5y Avg.	EPS Growth 2024	EPS 2024 3M Revision	EBITDA Growth 2024	EBITDA 2024 3M Revision	ROE 24E	FCF Yield 2024	Dividend Yield 2024	PEG Ratio
BBAS3	Financials	7%	2%	5%	1.09	OP	65.0	11%	33.6	64%	5%	4.5x	-12.5%	1.0x	13.6%	n.a.	n.a.	6%	0%	n.a.	n.a.	21%	-8%	9%	2.03
BPAC11	Financials	4%	1%	3%	1.27	OP	43.0	17%	28.3	87%	-2%	11.2x	-8.3%	2.9x	12.8%	n.a.	n.a.	20%	2%	n.a.	n.a.	23%	n.a.	3%	1.00
NU	Financials	5%	0%	5%	1.21	OP	12.0	15%	49.6	113%	25%	25.1x	-87.8%	10.0x	62.7%	n.a.	n.a.	67%	7%	n.a.	n.a.	27%	n.a.	0%	1.18
VIVA3	Consumer Discretionary	5%	0%	5%	1.08	OP	37.0	16%	1.5	37%	-7%	14.5x	-25.7%	4.0x	-14.0%	10.7x	-23.8%	20%	5%	23%	1%	21%	2%	1%	0.72
HYPE3	Health Care	2%	0%	1%	0.78	OP	40.0	25%	4.1	-26%	-10%	10.5x	-25.3%	1.8x	-22.9%	8.6x	-26.5%	11%	-9%	8%	-4%	16%	7%	4%	0.70
PETRA	Energy	11%	6%	5%	0.97	MP	38.0	-10%	112.8	119%	14%	5.2x	-16.3%	1.4x	31.2%	3.0x	-13.6%	-15%	3%	-3%	3%	26%	19%	14%	n.a.
PRIOR3	Energy	4%	1%	3%	1.02	OP	58.0	30%	8.0	11%	-3%	5.0x	-33.4%	2.9x	4.8%	3.0x	-30.4%	39%	-12%	33%	-14%	36%	15%	3%	0.28
DIRR3	Consumer Discretionary	1%	0%	1%	1.00	OP	31.0	42%	0.8	47%	-3%	6.9x	-23.5%	1.9x	24.8%	5.3x	-17.4%	56%	5%	45%	5%	25%	-1%	5%	0.49
SUZB3	Materials	3%	1%	2%	0.40	OP	63.0	20%	13.7	16%	-6%	11.1x	-36.6%	1.6x	-80.3%	6.3x	-4.1%	-54%	-2%	6%	3%	15%	2%	2%	0.16
VALE3	Materials	4%	7%	-3%	0.91	OP	88.0	34%	58.5	-20%	-15%	5.1x	-12.7%	1.5x	-20.8%	3.7x	2.5%	15%	8%	5%	4%	25%	12%	9%	n.a.
TOTS3	Information Technology	1%	1%	0%	1.10	OP	38.0	24%	3.8	5%	-9%	22.8x	-29.9%	3.9x	-20.4%	12.8x	-30.9%	14%	-3%	21%	-1%	15%	5%	1%	1.09
GGPS3	Industrials	1%	0%	1%	1.05	OP	21.0	14%	2.5	55%	-3%	16.0x	-12.0%	4.2x	-7.9%	8.5x	-11.4%	25%	-4%	19%	-1%	24%	-3%	2%	0.63
RENT3	Industrials	4%	1%	3%	1.18	OP	80.0	53%	11.1	-8%	-18%	14.6x	-42.4%	2.2x	-58.5%	7.0x	-50.4%	75%	-6%	22%	-2%	14%	-8%	2%	0.90
RAPT4	Industrials	1%	0%	1%	0.92	OP	16.5	55%	0.7	43%	-17%	6.0x	-44.2%	1.2x	-30.8%	4.1x	-29.0%	20%	-2%	6%	-1%	16%	10%	8%	0.43
ELET3	Utilities	3%	2%	1%	0.96	OP	59.6	39%	20.1	14%	1%	9.6x	12.0%	0.9x	10.0%	6.1x	0.2%	75%	-1%	12%	-1%	9%	13%	4%	1.27
EQLT3	Utilities	4%	1%	3%	0.78	OP	42.0	23%	7.9	27%	-4%	11.9x	-17.2%	2.0x	-13.5%	7.5x	-17.0%	56%	1%	8%	4%	14%	3%	2%	0.77
SBSP3	Utilities	3%	1%	2%	0.93	OP	83.6	4%	11.1	55%	7%	12.6x	18.7%	1.9x	34.0%	7.0x	14.4%	24%	2%	17%	-1%	14%	5%	2%	2.00
SMU	Consumer Staples	3%	0%	3%	0.80	OP	230.0	50%	0.9	13%	-5%	8.6x	-19.2%	1.1x	15.5%	6.1x	-6.8%	27%	-15%	4%	-6%	12%	2843%	7%	0.89
FALAB	Consumer Discretionary	1%	0%	0%	0.95	OP	2100.3	-8%	5.9	20%	4%	22.7x	24.2%	0.9x	-27.2%	10.5x	13.9%	362%	-6%	44%	-3%	3%	2231%	1%	2.46
CHILE	Financials	2%	1%	2%	0.70	OP	106.0	-5%	11.6	28%	7%	11.2x	-2.6%	2.1x	1.2%	n.a.	n.a.	-19%	4%	n.a.	n.a.	18%	n.a.	7%	1.67
ENELCHIL	Utilities	1%	0%	1%	0.97	OP	75.0	33%	4.0	53%	-1%	5.8x	-39.9%	n.a.	n.a.	6.0x	1.2%	-2%	5%	16%	4%	12%	1492%	7%	0.02
AC	Consumer Staples	6%	1%	5%	0.71	OP	215.0	14%	19.1	23%	2%	16.4x	3.0%	3.1x	62.1%	7.9x	8.3%	14%	2%	8%	-1%	17%	19%	4%	2.09
ALSEA	Consumer Discretionary	4%	0%	4%	0.71	OP	75.0	13%	3.2	51%	4%	16.5x	-49.8%	6.7x	54.6%	5.0x	-18.9%	38%	5%	6%	-1%	34%	36%	1%	0.57
WALMEX	Consumer Staples	8%	3%	5%	0.82	OP	83.0	21%	70.4	-1%	-4%	20.6x	-12.9%	n.a.	n.a.	11.9x	-9.0%	10%	-2%	9%	-2%	28%	15%	4%	2.38
ASURB	Industrials	3%	1%	2%	1.10	OP	560.0	10%	9.0	2%	3%	13.0x	-26.5%	3.6x	14.5%	8.0x	-23.4%	14%	7%	10%	7%	25%	24%	5%	1.53
GFNORTEO	Financials	7%	4%	3%	1.09	OP	192.0	4%	31.2	12%	8%	9.2x	8.3%	n.a.	n.a.	n.a.	n.a.	8%	-1%	n.a.	n.a.	22%	n.a.	7%	1.32
BAP	Financials	2%	2%	0%	0.86	OP	155.0	-8%	13.4	31%	13%	9.4x	-7.0%	1.6x	-6.2%	n.a.	n.a.	12%	2%	n.a.	n.a.	16%	-1%	5%	0.80
		100%			0.95			16.1%		40%	2%	11.7x	-18.7%	2.3x	8.8%	4.9x	-9.3%	21%	1%	8%	0%	22%	121%	5%	1.08

Recommended LatAm Portfolio – Weighting by Profile

- In our portfolio construction, we like to consider individual stocks' exposure to specific macro and stock-picking themes.
- Our LatAm portfolio is well concentrated in “competitive advantage” stocks (with a high-ROE profile), driving our consolidated ROE above the region's average.
- We have a balanced exposure to economic activity in our portfolio, ranging from staples and utilities on one side to financials and consumer discretionary on the other.
- More than one third of our portfolio is composed of stock that are trading at a discount of more than 20% compared to their five-year average.
- We have a small exposure to inflation-linked (11%) and USD-linked (22%) stocks.
- We hold 29% of our portfolio in stocks that have a below-one beta but are growing double-digit EPS growth.

Ticker	Sector (GICS)	Weight in Portfolio	Weight (Latam)	Allocation vs Latam Benchmark	Low Correlation to GDP	USD Linked	Inflation Linked	Secular Themes	Attractive Valuation	Low Beta with Attractive Growth	Competitive Advantage Cos / High ROIC	Deleverage	SOEs
BBAS3	Financials	7%	1.6%	5.0%							✓		✓
BPAC11	Financials	4%	1.4%	3.0%							✓		
NU	Financials	5%	0.0%	5.0%				✓			✓		
VIVA3	Consumer Discretionary	5%	0.0%	5.0%					✓		✓	✓	
HYPE3	Health Care	2%	0.4%	1.1%				✓	✓	✓		✓	
PETR4	Energy	11%	6.2%	5.0%	✓	✓			✓				✓
PRI03	Energy	4%	1.1%	2.9%	✓	✓			✓				
DIRR3	Consumer Discretionary	1%	0.0%	1.0%					✓		✓	✓	
SUZB3	Materials	3%	1.3%	1.7%	✓	✓			✓				
VALE3	Materials	4%	7.1%	-3.1%	✓	✓							
TOTS3	Information Technology	1%	0.5%	0.0%	✓		✓	✓					
GGPS3	Industrials	1%	0.0%	1.0%				✓			✓		
RENT3	Industrials	4%	1.5%	2.5%					✓			✓	
RAPT4	Industrials	1%	0.0%	1.0%					✓		✓	✓	
ELET3	Utilities	3%	1.7%	0.9%	✓		✓			✓		✓	
EQTL3	Utilities	4%	1.1%	3.0%	✓		✓			✓		✓	
SBSP3	Utilities	3%	0.9%	2.1%	✓		✓			✓		✓	✓
SMU	Consumer Staples	3%	0.0%	3.0%						✓			
FALAB	Consumer Discretionary	1%	0.3%	0.3%						✓			
CHILE	Financials	2%	0.8%	1.6%							✓		
ENELCHIL	Utilities	1%	0.2%	0.8%	✓		✓		✓	✓			
AC	Consumer Staples	6%	0.9%	5.1%						✓	✓		
ALSEA	Consumer Discretionary	4%	0.0%	4.0%					✓	✓	✓	✓	
WALMEX	Consumer Staples	8%	3.4%	5.0%							✓		
ASURB	Industrials	3%	0.9%	2.5%							✓		
GFNORTEO	Financials	7%	4.4%	2.9%							✓		
BAP	Financials	2%	1.7%	0.3%						✓			
Portfolio					33%	22%	11%	8%	36%	29%	56%	26%	21%

Recommended Latam Portfolio – Proprietary Earnings Momentum Score

Proprietary Earnings Momentum Score : Growth, Acceleration and Revisions

Stock	Sector	Earnings Score	Growth Score	Acc. Score	Revisions Score
DIRR3	Consumer Discretionary	22	10	6	6
EQTL3	Utilities	21	8	7	6
ASURB	Industrials	20	7	4	9
ALSEA	Consumer Discretionary	18	9	6	3
VIVA3	Consumer Discretionary	18	10	5	3
SBSP3	Utilities	18	8	5	5
VALE3	Materials	18	1	9	8
NU	Financials	17	9	4	5
BPAC11	Financials	17	7	6	5
ELET3	Utilities	16	7	8	1
PRIO3	Energy	16	10	5	1
TOTS3	Information Technology	16	8	6	2
RAPT4	Industrials	15	7	5	3
BAP	Financials	14	5	4	6
WALMEX	Consumer Staples	14	6	7	1
RENT3	Industrials	14	9	4	1
GGPS3	Industrials	14	10	3	1
GFNORTEO	Financials	13	6	4	3
CHILE	Financials	12	3	3	7
ENELCHIL	Utilities	12	2	4	6
FALAB	Consumer Discretionary	12	4	7	1
HYPE3	Health Care	12	8	3	1
SUZB3	Materials	11	5	3	3
AC	Consumer Staples	10	6	4	0
SMU	Consumer Staples	10	5	4	1
BBAS3	Financials	9	5	3	2
PETR4	Energy	9	0	4	5

- **Our Proprietary Earnings Momentum Score is based on three earnings dimensions:**
- **Growth.** This score composition is based on an above-inflation (5%) growth threshold. Stocks increase their score if their EPS, EBITDA and sales growth surpass this threshold for each year analyzed (2023-25).
- **Revisions.** Here, we analyze two time periods: a one-month and a three-month window, to see whether sell-side consensus has been revising estimates up or down for the first window, and if it had revised more than 5% in the latter.
- **Acceleration.** For this component, we use shorter-term data, analyzing if companies have accelerated their growth based on their LTM figures on the past earnings season (3Q23), the next (4Q23), and full year 2024.
- **Equilibrium is important.** Our consolidated score can be useful in identifying sectors/stock earnings momentum and its intensity by each component, but we would prefer to have a more even distribution among the three components. We believe it can be a useful screening tool, but we also take in consideration other factors, such as valuation, quality, and price momentum, to make our investment decisions.
- Best ranked in our framework: DIRR, EQTL, ASUR, ALSE, VIVA, SBSP

The Thematic Investor

The Top-Down Investor – How LatAm Positions in The Global/EM Scenario

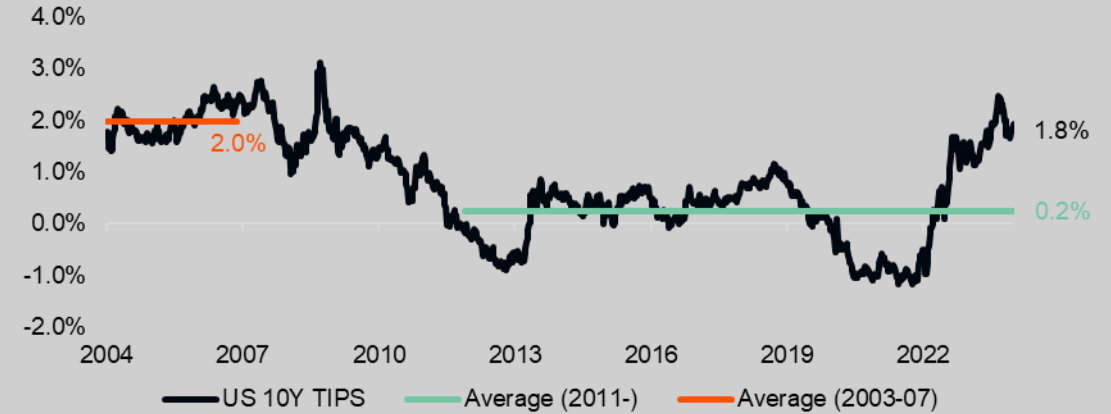
- **Three Highlights in the region: i) Valuation:** LatAm is trading at a higher discount to the historical average compared to EM, while Global Equities are trading in-line or at a small premium. **ii) Earnings Momentum:** On the growth side, consensus currently implies that LatAm will have softer growth (+4%, vs 16% from EM). Revisions slight negative for the region; **iii) Quality:** The region's ROE is set to be above most EMs, averaging 14.8% in 2023-24E.

TICKER	INDEX	SCORE	PRICE		PRICE/EARNINGS				EV/EBITDA		PRICE TO BOOK		EPS GROWTH				EPS ACC	EARNINGS REVISION	ROE		
			YTD CHANG E	1M CHANG E	Fwd	Diff vs. 5Y Avg	2023	2024	Fwd	Diff vs. 5Y Avg	Fwd	Diff vs. 5Y Avg	2023	2024	2025	EPS CAGR 22-24E	Acceleration	3M	5Y Historical Avg	Avg ROE 23-24E	PEG
MXWD Equity	MSCI ACWI	6.0	2.5%	2.9%	17.2x	2.9%	19.3x	17.5x	11.6x	8%	2.6x	11%	-1.7%	10.3%	11.3%	10.8%	12.0%	-1.0%	12.3%	14.2%	1.9
MXWO Index	MSCI WORLD	5.7	3.0%	3.2%	18.2x	3.7%	20.2x	18.4x	12.0x	6%	2.9x	13%	-0.7%	9.3%	10.6%	10.0%	10.0%	-0.9%	12.5%	14.8%	2.2
SPX Index	S&P 500 INDEX	4.5	5.4%	5.1%	20.5x	7.1%	24.1x	20.8x	13.5x	7%	4.1x	14%	-6.7%	15.5%	12.1%	13.8%	22.3%	-0.6%	16.3%	18.3%	1.5
CCMP Index	NASDAQ COMPOSITE	3.5	6.0%	6.2%	28.8x	5.6%	39.2x	29.8x	16.7x	6%	5.3x	5%	-5.8%	31.3%	27.3%	29.3%	37.1%	7.2%	14.1%	15.9%	1.3
MXWOU Index	MSCI WORLD x USA	7.6	-1.1%	-0.2%	13.9x	-4.5%	14.0x	14.1x	9.0x	1%	1.7x	5%	8.4%	-0.2%	7.7%	3.7%	-8.6%	-1.6%	9.5%	11.6%	n.a.
MXEU Index	MSCI EUROPE	7.3	1.4%	2.4%	13.4x	-6.5%	13.8x	13.5x	9.6x	10%	1.8x	5%	-1.2%	2.1%	7.6%	4.8%	3.4%	-2.5%	9.9%	13.0%	6.5
MXJP Index	MSCI JAPAN	7.1	10.9%	3.4%	16.0x	6.1%	16.2x	14.9x	6.5x	-24%	1.4x	15%	18.0%	8.5%	9.6%	9.1%	-9.5%	11.2%	8.2%	8.8%	1.9
MXEF Index	MSCI EM	5.7	-2.4%	0.4%	11.6x	-6.5%	13.8x	11.8x	9.1x	15%	1.4x	-8%	-8.9%	16.6%	15.5%	16.0%	25.5%	-1.6%	11.4%	11.5%	0.8
MXLA Index	MSCI EM LATIN AMERICA	4.3	-5.2%	-2.6%	9.0x	-15.7%	9.4x	9.1x	5.3x	-8%	1.2x	-23%	-18.9%	4.1%	6.7%	5.4%	23.0%	-1.2%	16.1%	14.8%	2.3
EM Latam																					
MXBR Index	MSCI BRAZIL	5.7	-7.2%	-4.9%	7.7x	-21.9%	8.0x	7.7x	4.7x	-5%	1.3x	-19%	-21.5%	4.1%	4.2%	4.1%	25.6%	0.0%	18.0%	17.6%	2.0
MXMX Index	MSCI MEXICO	7.7	-1.4%	1.8%	13.1x	-1.5%	14.3x	13.3x	6.6x	0%	2.0x	12%	16.7%	7.1%	12.5%	9.8%	-9.5%	-2.0%	14.0%	15.6%	1.9
MXCL Index	MSCI CHILE	8.6	-12.2%	-3.9%	9.4x	-20.5%	8.9x	9.6x	5.5x	-20%	0.3x	-76%	-41.4%	-7.1%	15.7%	3.7%	34.3%	-6.2%	12.5%	11.2%	n.a.
MXCO Index	MSCI COLOMBIA	8.5	0.3%	-4.4%	5.8x	-32.9%	5.5x	5.9x	n.a.	n.a.	0.8x	-28%	-12.5%	-5.5%	11.1%	2.5%	7.0%	-5.8%	11.5%	14.4%	n.a.
MXPE Index	MSCI PERU	8.8	1.7%	4.1%	12.5x	2.4%	12.8x	11.0x	n.a.	n.a.	1.8x	15%	16.8%	15.7%	6.7%	11.1%	-1.1%	11.6%	11.8%	15.4%	0.8
Other Regions																					
MXEF Index	MSCI EM	8.1	-2.4%	0.4%	11.6x	-6.5%	13.8x	11.8x	9.1x	15%	1.4x	-8%	-8.9%	16.6%	15.5%	16.0%	25.5%	-1.6%	11.4%	11.5%	0.8
MXCN Index	MSCI CHINA	8.5	-6.4%	-1.9%	8.5x	-28.3%	10.0x	8.7x	12.0x	16%	1.0x	-33%	4.6%	14.4%	15.0%	14.7%	9.7%	-3.2%	10.9%	10.5%	0.7
MXKR Index	MSCI KOREA	8.2	-1.5%	4.2%	10.9x	-0.8%	11.3x	8.9x	6.8x	25%	1.0x	-1%	-5.5%	26.7%	13.3%	19.8%	32.2%	25.3%	7.7%	9.6%	0.4
MXZA Index	MSCI SOUTH AFRICA	5.3	-6.3%	-1.6%	9.2x	-13.3%	13.0x	9.4x	n.a.	n.a.	1.2x	-27%	-14.2%	37.6%	17.9%	27.4%	51.8%	0.5%	13.9%	12.9%	0.3
MXSA Index	MSCI Saudi Arabia	9.4	3.6%	1.8%	18.0x	3.8%	21.5x	18.3x	n.a.	n.a.	2.2x	2%	-20.7%	17.1%	14.6%	15.8%	37.7%	-4.4%	10.7%	11.6%	1.3
MXID Index	MSCI INDONESIA	7.4	4.0%	1.8%	14.0x	-4.3%	15.6x	14.2x	n.a.	n.a.	2.1x	-2%	-5.8%	10.0%	9.2%	9.6%	15.8%	-2.2%	14.5%	14.9%	1.6
MXMY Index	MSCI MALAYSIA	9.8	3.8%	1.6%	14.0x	-5.3%	16.0x	14.1x	n.a.	n.a.	1.3x	-6%	1.3%	13.5%	7.2%	10.3%	12.2%	-1.0%	8.7%	9.2%	1.2
TAMSCI Index	MSCI TAIWAN	6.5	6.4%	10.3%	16.6x	11.1%	20.3x	17.1x	9.3x	11%	2.4x	15%	-30.0%	18.7%	20.2%	19.5%	48.7%	-0.9%	14.4%	14.0%	1.1
MXIN Index	MSCI INDIA	9.0	3.6%	1.2%	22.3x	8.9%	22.7x	19.8x	14.3x	21%	3.4x	15%	41.9%	14.6%	2.7%	8.5%	-27.3%	15.9%	12.3%	15.9%	1.6
MXTH Index	MSCI THAILAND	9.5	-3.1%	-1.6%	15.9x	-7.5%	18.7x	16.1x	8.3x	-13%	1.5x	-14%	-4.8%	15.6%	12.5%	14.0%	20.3%	-6.1%	9.6%	9.1%	1.2

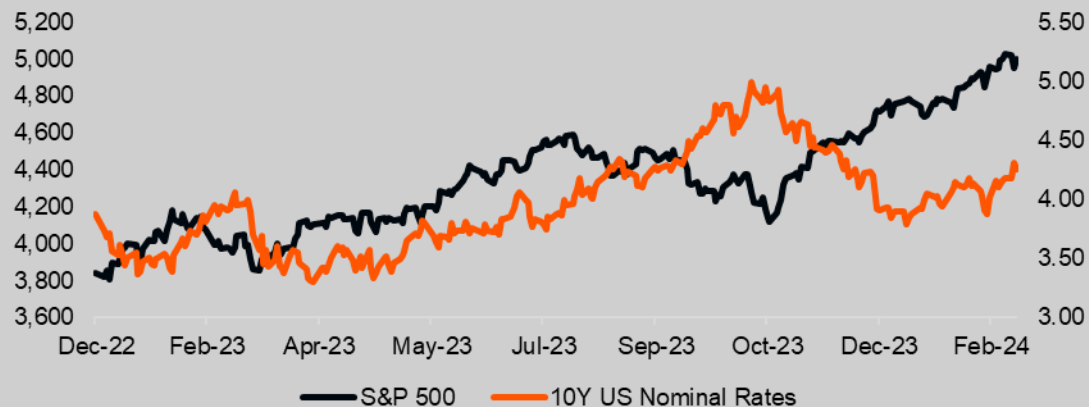
Price of Money: How Markets Have Performed Since U.S. Treasury Peaked

- **The most important price of money.** In 2023, equity markets performance were highly affected by discussions on the monetary policy path globally, naturally pivoted by Fed Rates and its expectations, which were reflected in US Treasury Bond Yields. Those have neared 5%, bringing “higher for longer” discussions into the spotlight, until their peak in late October, which unleashed strong performance in equity markets, accounting for most of last year’s returns. Since the end of the year, we have seen 10-year treasury rate rise from its recent bottom (around 3.7-3.8%), bringing volatility back to equity markets, especially Emerging Markets, while the S&P 500 reached its all-time high in early January.
- **S&P 500 was up 17% since Treasury Peaked.** We have observed similar trend in Emerging Markets, with its broad index up 7% since late October.
- **LatAm equities were among the top performers in this period, led by Mexico.** LatAm equities are up 15% since the US 10Y Treasury peak, more than compensating the weak performance since the beginning of 2023.

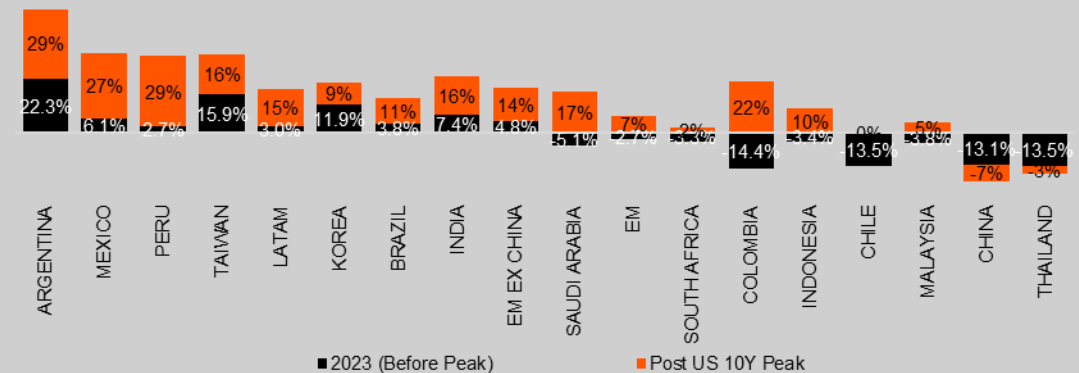
US 10Y TIPS – “Higher For Longer ?”, but still near early 2000’s average



S&P 500 vs. US 10Y Nominal Rates (Since End of 2022)



Emerging Markets Performance Since Beginning of 2023 - Before and After U.S. Treasury Peak



Price of Money: Best Performers Since U.S. Treasury Peaked in Sector and Stock-Level in Latam

- **Sector-wise**, we can highlight that Consumer Discretionary, Consumer Staples, IT, and Financials were the best-performing sectors in LatAm, while Real Estate, Energy, and Healthcare were the main laggards. Taking a deeper look at the country level, we can also highlight Brazilian and Colombian Utilities, Mexican Industrials, and Mexican and Peruvian Materials.
- On the stock level, Buenaventura, CSN, and Latam Airlines were the top-performing stocks, while SQM, PRIO and Hapvida, were the worst.

Performance Since Treasury Peak By Sector

Country/Region	Index	Energy	Financials	Consumer Discretionary	Utilities	Materials	Real Estate	Communication Services	Healthcare	Consumer Staples	Industrials	Information Technology
EM	7.3%	13.6%	9.8%	-0.1%	16.1%	-0.4%	0.0%	3.2%	2.6%	5.0%	7.3%	13.5%
LATAM	15.1%	6.4%	21.9%	23.0%	17.3%	9.4%	7.3%	13.4%	-0.8%	23.2%	9.9%	16.9%
BRAZIL	10.7%	7.0%	17.5%	24.6%	18.8%	2.9%		21.3%	-0.8%	10.4%	5.3%	16.8%
MEXICO	26.7%		37.5%			20.4%	7.3%	10.4%		30.3%	29.1%	
CHILE	0.3%	-9.9%	13.1%	16.4%	1.7%	-11.7%				5.0%	-12.6%	
COLOMBIA	21.5%		20.6%		24.3%							
PERU	29.0%		29.0%			29.0%						

Performance Since Treasury Peak - Stock

Stock	Performance
CIA DE MINAS BUENAVENTUR-ADR	81.7%
CIA SIDERURGICA NACIONAL SA	66.4%
LATAM AIRLINES GROUP SA	65.0%
GRUPO FINANCIERO INBURSA-O	55.0%
ULTRAPAR PARTICIPACOES SA	48.1%
GRUPO AEROPORT DEL SURESTE-B	36.6%
NATURA & CO HOLDING SA	33.6%
OPERADORA DE SITES MEX- A-1	33.2%
FOMENTO ECONOMICO MEXICA-UBD	32.0%
COCA-COLA FEMSA SAB DE CV	31.9%
CIA SANEAMENTO BASICO DE SP	30.8%
ATACADAO SA	30.4%
CREDICORP LTD	29.0%
ITAU UNIBANCO HOLDING S-PREF	28.0%
BANCO BTG PACTUAL SA-UNIT	27.9%

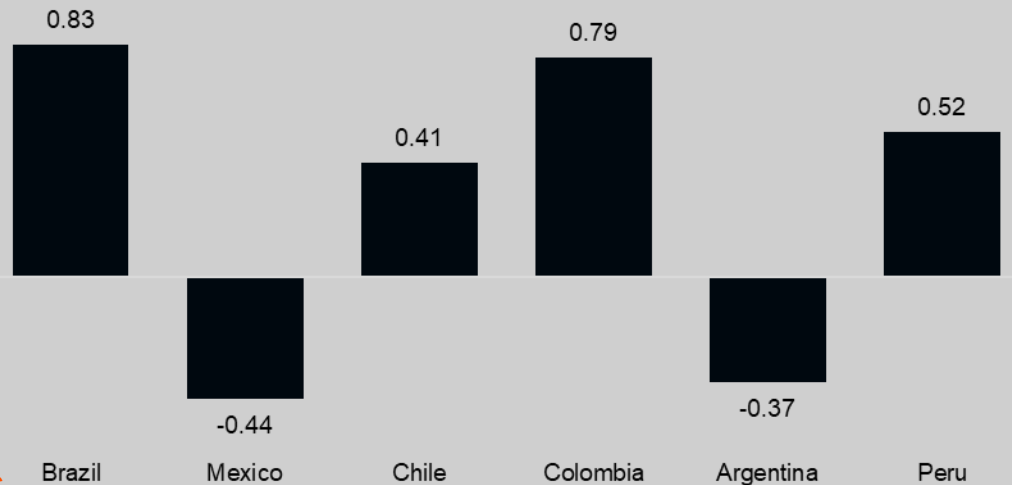
Performance Since Treasury Peak - Stock

Stock	Performance
SOC QUIMICA Y MINERA CHILE-B	-20.3%
PRIO SA	-14.8%
HAPVIDA PARTICIPACOES E INVE	-10.5%
EMPRESAS COPEC SA	-7.9%
EMPRESAS CMPC SA	-7.9%
HYPERA SA	-7.7%
ORBIA ADVANCE CORP SAB DE CV	-7.2%
KLABIN SA - UNIT	-6.6%
SUZANO SA	-4.5%
RAIA DROGASIL SA	-3.8%
BANCO BRADESCO SA-PREF	-3.1%
WEG SA	-1.0%
ENGIE BRASIL ENERGIA SA	-0.1%
CIA ENERGETICA MINAS GER-PRF	0.2%
GRUPO AEROPORTUARIO DEL CENT	0.5%

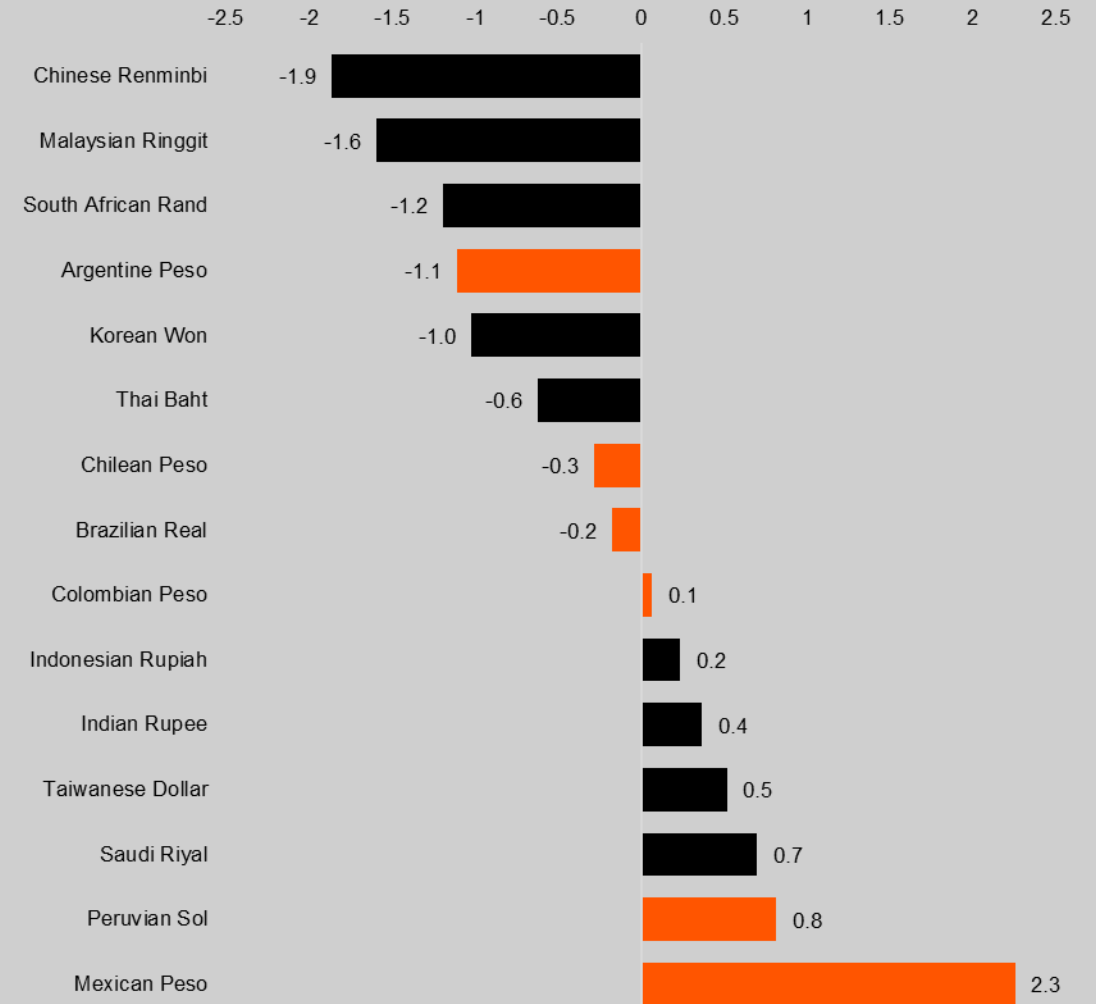
How Do Equity Markets and FX Relate in LatAm?

- REER (Real Effective Exchange Rate) is a metric used to evaluate a currency relative to an average group of major currencies, adjusting for inflation and taking into consideration changes in relative prices. We believe that it's good way to assess a country's trade dynamics.
- Using its Z-Score, instead of its absolute value, allows us to better assess how the currency is trading compared to its historical value, as well as allow for comparison between different currencies, or, in our case, to a group of currencies.
- Our analysis indicates that LatAm currencies are not the most appealing when compared to other emerging market currencies. The Chilean Peso and Brazilian Real are trading at a slight attractive level, a small discount, compared to their historical averages. On the other hand, the Peruvian Sol and Mexican Peso are trading at a premium (closer/above one standard deviation). In terms of correlation, Brazil and Colombia have the highest equity market correlation (around 0.8) with their respective REERs, while Mexico and Argentina have a slightly negative correlation (around 0.4).

Latam Equity Markets x REER Correlations



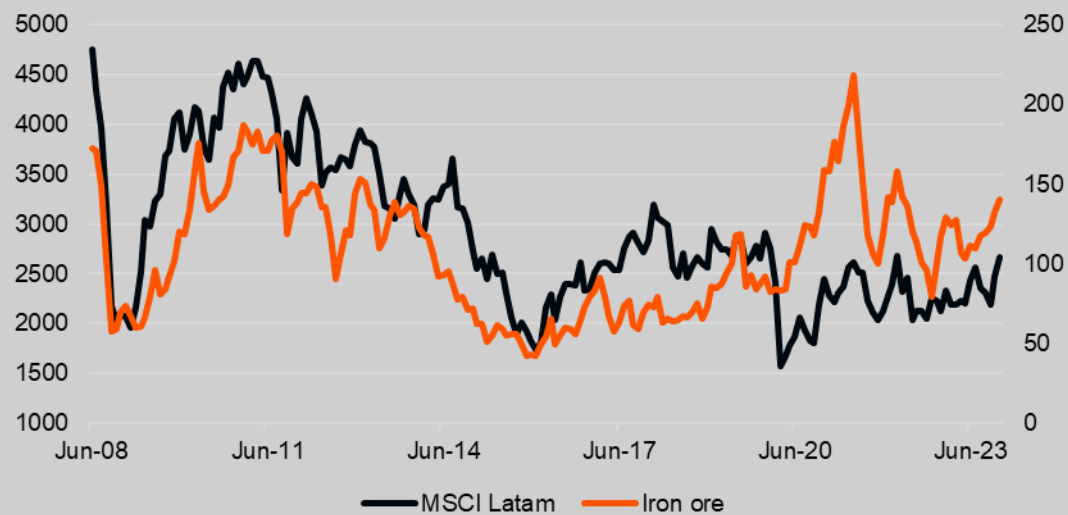
Real Effective Exchange Rate – BIS Z-Score – Emerging Market Currencies



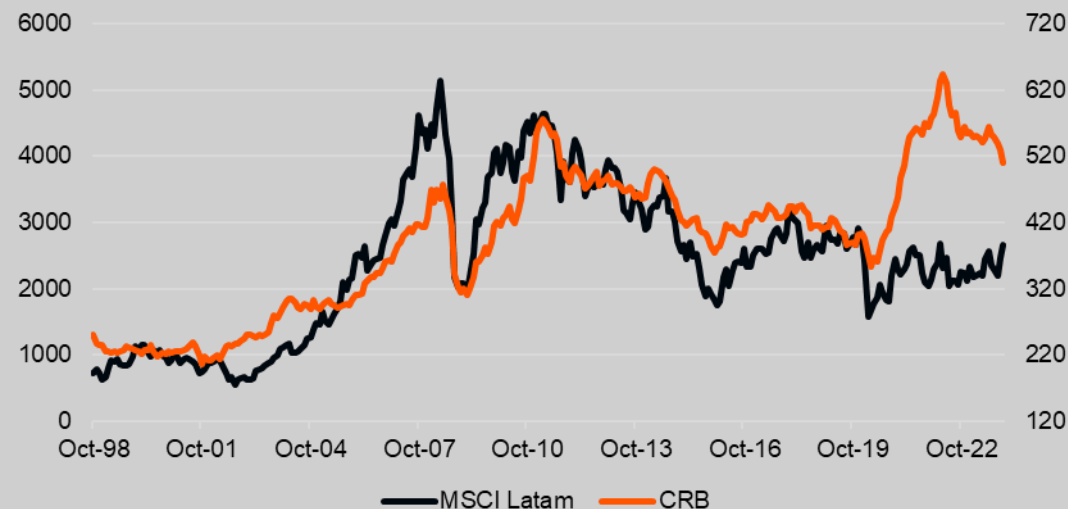
Is LatAm a Commodities Play?

- **Is LatAm a Commodities Play?** Although the current composition of the Latam Index is roughly one-third commodities, historically, it has shown a strong correlation to global commodities indexes and major hard commodities.
- The CRB Commodities Index shows a high correlation with the region, mainly on Mexico and Peru. All countries have a significant correlation to this index, with the lowest being Argentina at 0.59.
- Oil has shown the highest correlation, driven by Mexico, Colombia, and Brazil. Brazil has the highest energy weight among GEM components.
- Iron ore has a positive correlation with most countries, but it is more relevant for Brazil.

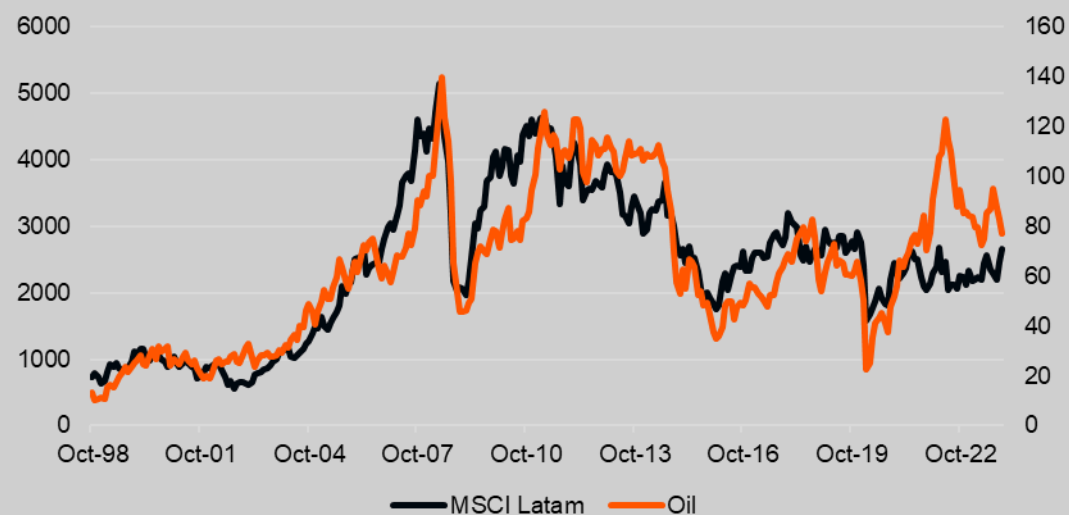
Latam Equity x Iron Ore



Latam Equity x CRB



Latam Equity x Oil



Correlation	Latam	Brazil	Mexico	Chile	Colombia	Argentina	Peru
CRB	0.72	0.64	0.87	0.67	0.70	0.59	0.85
Oil	0.85	0.80	0.85	0.79	0.83	0.47	0.71
Iron Ore	0.54	0.55	0.27	0.35	0.35	-0.06	0.23

Back to the Future? Global Equities have caught up to LatAm and EM's Outperformance From Early 2000's

- LatAm and EM were significant outperformers in the world up until the subprime crisis and the early 2010's, but this outperformance has faded in the past decade, especially for Latam. Latam had a 51% drop from its peak in mid-2008, while EM is currently 30% below its all-time high in early 2021.
- Looking at valuation, specifically Price to Book, we can see that the discount from both Latam and EM is above the historical average (at 48% and 51%, respectively). This can be partially explained by the rising relevance of tech companies in global indexes, at a higher pace than EMs, while Latam has virtually small exposure to this sector.

Long Term Performance – Latam and EM Outperformance Has Faded



Historical P/B Premium (Discount) – EM / World



Historical P/B Premium (Discount) – Latam / World



Brazil Ranks Higher Than LatAm; Brazil ESG Index Outperformed Non-ESG Peers in the Long Run

- **Brazil Ranks better in ratings diffusion.** MSCI Brazil has twice the proportion of companies rates A or higher compared with their respective non-ESG indexes. Furthermore, MSCI Brazil ESG surpasses MSCI LatAm ESG on the same metric

Factoring In ESG: MSCI LatAm vs. MSCI LatAm ESG (USD)



Factoring In ESG: MSCI Brazil vs. MSCI Brazil ESG (BRL)



Indexes – Top 10 Constituents: Proportion Above “A” According to MSCI ESG

22%

MSCI BRAZIL

- Vale (13.7%)
- Petrobras PN (9.7%)
- Petrobras ON (8.2%)
- Itaú (7.6%)
- Bradesco (4.3%)
- B3 (3.8%)
- Ambev (3.6%)
- Weg (3.2%)
- Localiza (2.7%)
- Itausa (2.6%)

45%

MSCI BRAZIL ESG

- Itaú (18.7%)
- Bradesco (10.7%)
- Weg (8.0%)
- Localiza (6.6%)
- Prio (5.5%)
- Raia Drogasil (4.8%)
- Equatorial (4.6%)
- Rumo (4.2%)
- Gerdau (3.6%)
- Sabesp (2.9%)

23%

IBOVESPA

- Vale (12.4%)
- Petrobras PN (7.3%)
- Itaú (6.5%)
- Petrobras ON (5.2%)
- B3 (3.9%)
- Bradesco (3.8%)
- Eletrobras (3.7%)
- Banco do Brasil (3.3%)
- Ambev (3.1%)
- Localiza (2.7%)

17%

MSCI EM LATAM

- Vale (8.6%)
- Petrobras PN (6.0%)
- Petrobras ON (5.1%)
- Itaú (4.7%)
- Femsa (4.0%)
- Grupo Banorte (3.9%)
- Walmart Mex (3.4%)
- America Movil (2.9%)
- Bradesco (2.7%)
- B3 (2.4%)

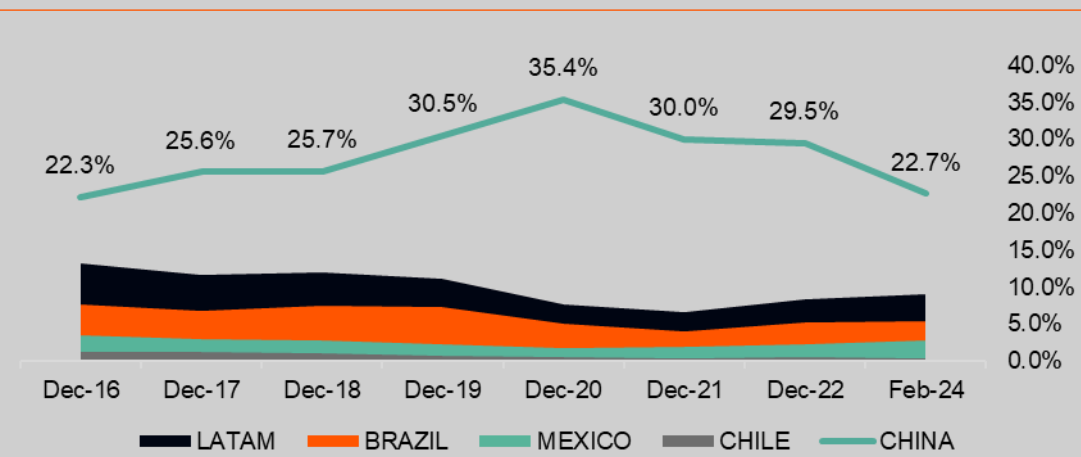
34%

MSCI EM LATAM ESG

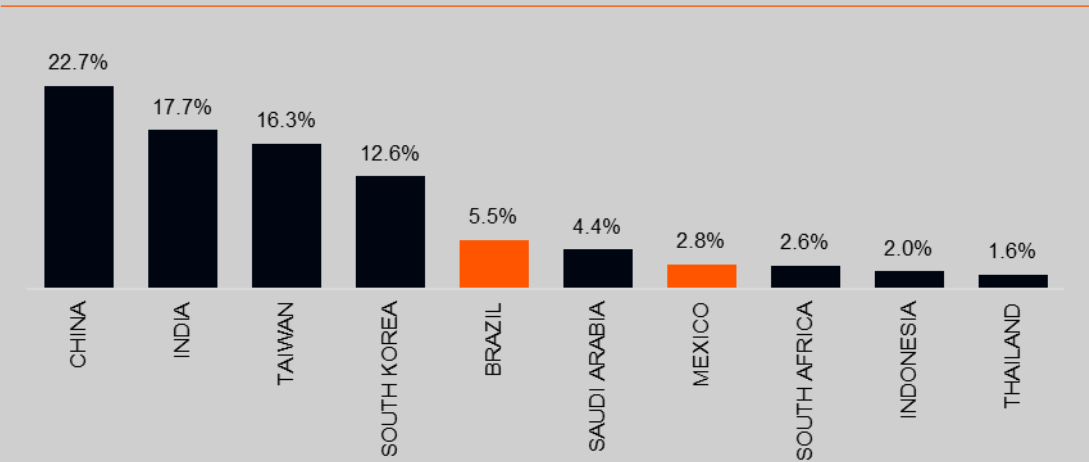
- Itaú (9.9%)
- Femsa (8.5%)
- Grupo Banorte (8.1%)
- America Movil (6.0%)
- Bradesco (5.7%)
- Weg (4.2%)
- Localiza (3.5%)
- Cemex (3.5%)
- Credicorp (3.2%)
- Prio (2.9%)

LatAm's Position Among Emerging Markets Has Recovered From Its Low, But Still Below Historical Average; Reduction of China's Weight Could Be a Positive Trigger Ahead

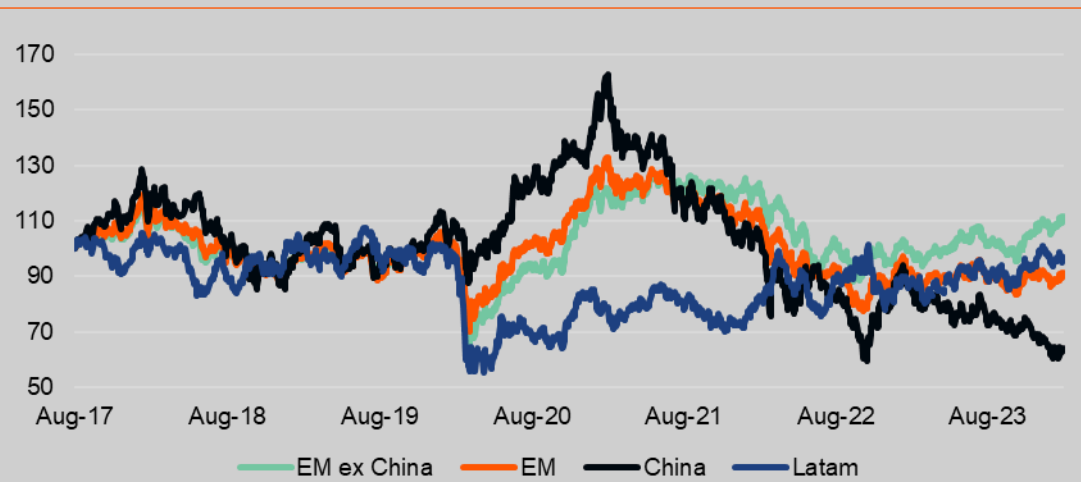
EEM ETF – LatAm and China's Weights (%) – Historical



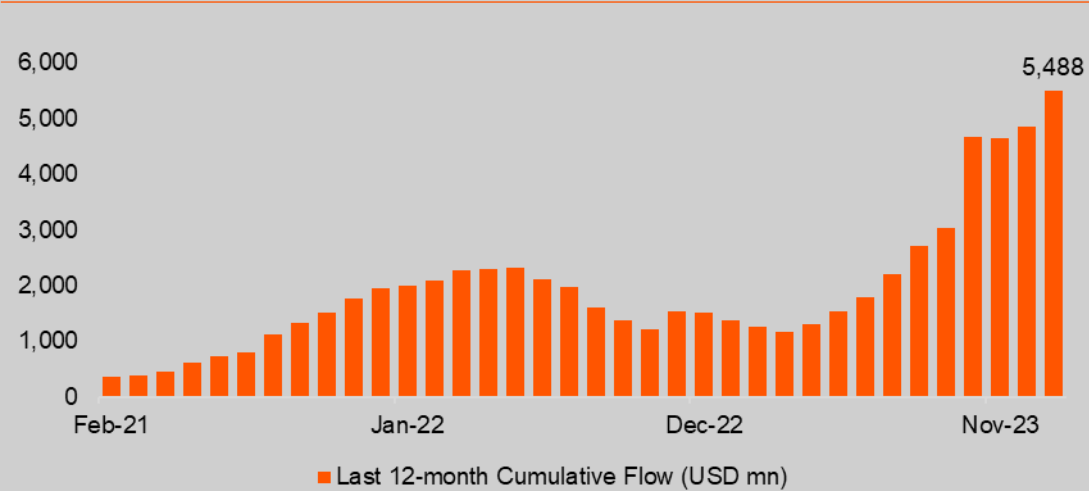
EEM ETF – Major EM Country Weights (%) – Current



Chinese Equities Have Peak After the Pandemic, but Underperform Massively Since Them – ETFs Performance (Base 100)



Cumulative Flow to EM ex China ETF (EMXC) was the Highest in the Category*



MSCI February Index Rebalance – Brazil Is Granted Foreign Listing Approval (Positive)

- **On the night of February 12, MSCI reported its index rebalance results for February 2024.** In the LatAm region, there was one change in constituents: the addition of Caixa Seguridade in Brazil. MSCI reported no other changes to the LatAm index. Today, the LatAm region continues to represent 9.3% of the Standard EM Index, with Brazil at 5.6%, Mexico at 2.8%, Chile at 0.5%, Peru at 0.3% and Colombia at just 0.1%
- **Good News for the region, mainly Brazil.** Brazilian foreign-listed stocks are now eligible for inclusion in the MSCI EM Index, starting in August 2024. Today, we believe that Nubank and XP will have no problem joining the index, while Stone's results should be followed closely to see whether its market cap as of the last ten business days of July will meet the buffer-zone cutoff.
- See [Itaú BBA on LatAm Equity Strategy: MSCI February Index Rebalance – Brazil Is Granted Foreign Listing Approval \(Positive\)](#) for more details.
- In late January we conducted, a flow analysis that resulted in our estimate of USD 2.8 billion of inflows (active and passive) for Nubank, representing 13 days of buying pressure; USD 1 billion of inflows for XP, with 8 days of pressure; and potentially USD 324 million of inflows for Stone, with 4 days of pressure

MSCI EM Index – LatAm Weights

Latam	Current Weight	Pro Forma Weight
Brazil	5.6%	5.6%
Mexico	2.8%	2.8%
Chile	0.5%	0.5%
Peru	0.3%	0.3%
Colombia	0.1%	0.1%
Total	9.3%	9.3%

MSCI EM Index – Country Weight Changes

Country	Sum of Current Weight	Sum of Pro Forma Weight	Change in Weight
CHINA	25.1%	24.8%	-0.31%
INDIA	17.8%	18.2%	0.34%
TAIWAN	16.5%	16.5%	0.01%
KOREA	12.7%	12.7%	-0.03%
BRAZIL	5.6%	5.6%	0.02%
SAUDI ARABIA	4.4%	4.4%	0.00%
SOUTH AFRICA	2.9%	2.9%	-0.01%
MEXICO	2.8%	2.8%	-0.01%
INDONESIA	1.9%	2.0%	0.00%
THAILAND	1.7%	1.6%	-0.04%
MALAYSIA	1.4%	1.4%	0.04%
UNITED ARAB EMIRATES	1.3%	1.3%	0.00%
POLAND	1.0%	1.0%	-0.01%
QATAR	0.9%	0.9%	0.02%
KUWAIT	0.8%	0.8%	0.00%
TURKEY	0.7%	0.7%	0.00%
PHILIPPINES	0.7%	0.7%	0.00%
GREECE	0.5%	0.5%	0.00%
CHILE	0.5%	0.5%	0.00%
PERU	0.3%	0.3%	0.00%
HUNGARY	0.3%	0.3%	-0.01%
CZECH REPUBLIC	0.1%	0.1%	0.00%
EGYPT	0.1%	0.1%	0.00%
COLOMBIA	0.1%	0.1%	0.00%

Latam Investment Picks

Our 10-Stock List to Invest in the Region

A Best-in-Class Utility Posting Double-Digit Growth (EQTL3 – Target Price: BRL 42)

Investment Thesis

- A solid track record in capital allocation and good earnings momentum.
- The latest preliminary asset base figures for the recently acquired CELG and for CEPISA came in higher than we expected, with net RAB of BRL 9.4 billion, compared with our estimate of BRL 8.7 billion. These figures highlight the company's strong execution of its disco concessions.
- Equatorial has only limited exposure to the challenging energy price outlook for the coming years, as its portfolio is mostly contracted and generation represents only 8% of the company's projected EBITDA in 2024.

Outlook 2024, Valuation & Earnings Comments

- We expect the company to deliver double-digit EBITDA growth in 2024, given its recent tariff resets and the integration of CELG. We foresee lower capex disbursement than in previous years, which will accelerate its deleveraging going forward.
- Equatorial is trading at an implied EV/RAB of 1.4, while at our target price the discos' valuation would be close to 1.9x. We see the name trading at an implied real IRR of 10.8%.
- That said, we expect a 2-year (2023-25) EBITDA CAGR of 13%. We see room for upward consensus revisions.

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
EV/EBITDA	8.1x	7.6x	7.0x
Implied EV/RAB	1.6x	1.4x	1.3x
FCF Yield	-3.7%	2.7%	8.7%
Dividend Yield	1.3%	2.0%	2.7%
Net Debt EBITDA	3.8x	3.7x	3.4x
EPS Growth	19.0%	55.6%	25.0%
Earnings Revisions 3M	7.8%	1.4%	3.2%
EBITDA Growth	40.2%	8.3%	9.1%
EBITDA Revisions 3M	6.5%	4.3%	2.4%

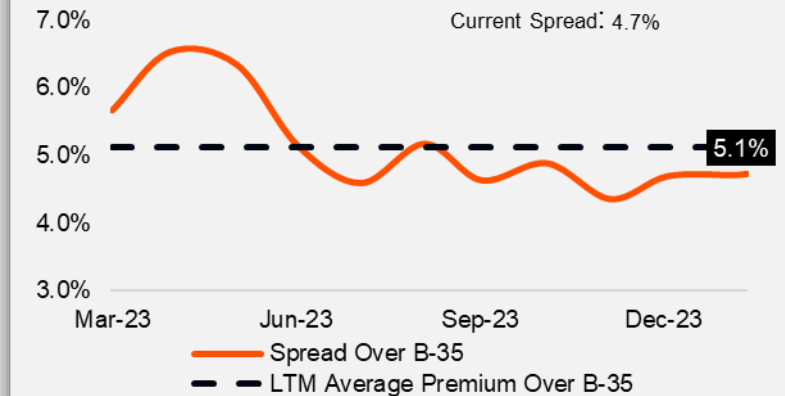
Company Background

- Equatorial Energia is the third largest energy distribution group in Brazil by number of customers. Founded in 1999, the company has advanced the consolidation of the energy distribution sector in Brazil and currently operates seven distribution concessions in the states of Maranhão, Pará, Piauí, Alagoas, Rio Grande do Sul, Amapá and Goiás, serving approximately 10 million customers in these regions.
- The company also operates in the transmission and generation sectors. More recently, Equatorial entered the sanitation sector when it began to operate CSA, Amapá's state sanitation company.

Key Themes to Monitor and Risks

- Disco concession renewal process. The publication of Technical Note 19/2023 by the Ministry of Mines and Energy was a major de-risking event, as it corroborated our view that the disco concession renewal process is unlikely to be onerous.
- Inorganic growth. Distribution M&As and sanitation auctions in the North and Northeast regions in 2024.
- The main risk to our thesis is the disco concession renewal process.

Historical IRR Spread Over Brazilian Treasury



A High-Quality Play at an Attractive Valuation (RENT3 – Target Price: BRL 80)



Investment Thesis

- Investors are overly concerned about depreciation, an issue which has been putting pressure on earnings estimates for 2024, but we believe that this concern is unjustified given Localiza's already-high depreciation levels and the fact that its fleet mix is poised to improve in the coming quarters.
- The company's 2.8x net debt/EBITDA in 3Q23 leaves room for a growth acceleration after the BRL 4.5 billion follow-on offer in June 2023, which could lead to an upward earnings estimate revision.
- Localiza remains a high-quality name with a solid track record and exposure to an underpenetrated segment that has plenty of growth opportunities ahead.

Outlook 2024, Valuation & Earnings Comments

- We see the stock trading at 15x P/E for 2024, which compares with an over-20x historical average.
- Earnings CAGR for 2023-26 is likely to be around 44% as the company clears out rapidly depreciating cars from its fleet and non-recurring negative expenses tied to the Unidas incorporation fade away.
- Localiza's historical ROE and ROIC levels suggest substantial earnings power, which we expect to yield a 12x P/E.

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	26.6x	15.1x	11.7x
EV/EBITDA	8.0x	7.1x	6.4x
FCF Yield	-5.4%	-8.2%	12.0%
Dividend Yield	2.0%	2.0%	2.8%
Net Debt EBITDA	2.9x	2.9x	2.8x
EPS Growth	-15.4%	75.3%	29.5%
Earnings Revisions 3M	-0.8%	-6.1%	-4.7%
EBITDA Growth	59.7%	22.0%	15.4%
EBITDA Revisions 3M	-1.4%	-1.5%	-1.9%

Company Background

- Localiza is one of the largest car rental companies in the world. It operates in three segments: i) the Rent a Car division, which offers short-term rental contracts, mostly for retail clients but also for corporates, ride-hailing-app drivers and insurance replacements; ii) the Fleet Management division, which offers car rental services under long-term contracts for both corporate and retail customers; and iii) the Seminovos division, which sells the company's used car fleet through own stores across Brazil and also on wholesale channels.

Key Themes to Monitor and Risks

- New vehicles and Seminovos pricing and its impact on Localiza's depreciation trend.
- Monthly direct sales vs. retail vehicle sales, which can provide insights into car rental companies' bargaining power with OEMs.
- Potential Seminovos bottlenecks given the large volumes to be sold in the coming quarters/years.
- Competitive scenario in the rental businesses, especially the rent-a-car segment.

P/E 12-month Forward (Consensus)



An Extremely Discounted Valuation With Superior Profitability (BBAS3 – Target Price: BRL 65)

Investment Thesis

- Earnings growth at discounted valuations. The bank has a solid track record of execution and profitability, with favorable earnings momentum ahead and an extremely discounted valuation.
- Resilience. The bank's exposure to the flourishing agribusiness sector, and to public employees in retail, are likely to sustain its loan book growth with limited NPL volatility. High capital ratios and profits from insurance provide dividend visibility.
- Thematic. BB has relatively less exposure to the three main regulatory concerns currently putting pressure on the sector: CARF disputes, the end of the IoC and the revolving credit card cap.

Company Background

- Banco do Brasil is Brazil's oldest bank, founded in 1808, and the nation's second largest by total assets. The bank currently has a credit portfolio of approximately BRL 1.1 trillion, which is roughly equally divided among agribusiness, individual, and corporate loans. BB is a key player in agribusiness credit, enjoying more than a 50% market share. It is also the largest player in payroll loans (~20% market share) and the largest bank in asset management (~25% market share).
- With close to 4,000 branches, Banco do Brasil serves a diverse clientele, including individuals, businesses, and government entities. It is a state-owned enterprise, as the federal government controls 50% of the total shares.

Outlook 2024, Valuation & Earnings Comments

- Our estimates are above consensus. We are calling for another round of double-digit earnings growth next year, to BRL 39 billion, and a 20% ROE. Among the large banks, BB is likely to deliver the highest loan book growth in 2024 (12% YoY), with at least similar growth in NII (post-cost of risk) and further efficiency gains.
- Deep value. BB is trading at 4.5x P/E and 0.9 P/BV, despite the ~20% ROEs we are forecasting for FY24. The name today offers a 9% dividend yield, with room for a higher payout. Based on our target price of BRL 65/share, we see the name re-rating to 0.85x P/BV, which is still discounted considering both its FY24 and medium-term profitability levels.

Key Themes to Monitor and Risks

- Unfriendly policy interference.
- Competition in key credit lines, especially payroll loans.
- Regulatory themes (i.e., the end of IoC and caps on credit lines).
- Client spreads widening going into FY24.
- Cost-of-risk declines in FY24.
- Potential increases in dividend/IOC payout.
- Banco Patagonia Earnings Headwinds

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	4.7x	4.5x	4.4x
ROE	21.2%	20.6%	18.9%
P/B	1.0x	0.9x	0.8x
Dividend Yield	8.1%	9.2%	9.7%
EPS Growth	14%	6%	2%
Earnings Revisions 3M	-0.9%	0.5%	2.0%

P/E 12-month Forward (Consensus)



Investment Thesis

- Vivara is a resilient growth story, supported by: i) its potential to consolidate the fragmented jewelry market in Brazil; ii) the growth prospects of the Life brand, as it expands the company's addressable market (in gift categories); and iii) its exposure to a high-income clientele (which is more resilient).
- Vivara has sound operating momentum, with Life's expansion boosting top-line growth and contributing to higher consolidated profitability and returns.
- VIVA offers the potential for improving consolidated marginal ROICs (reaching 33% in YE25) even when assuming decreasing marginal returns for Vivara and Life, driven by the latter's growing share in the total mix.

Company Background

- Vivara is the largest vertically integrated jewelry retailer in Brazil and the undisputed market leader, with an 18% market share, compared with ~2% for the number-two player, and over 370 stores. Its integrated business model, with ~70% of its production internalized, gives it flexibility in its product mix. Having its factory in Manaus also entitles it to an income tax incentive that is valid until 2073.
- The company operates two main brands: i) Vivara, the traditional brand aimed at customers over 30 years old, with a BRL 2,200 average ticket; and ii) Life, launched in 2011, which focuses on a younger target audience (over 15 years old), with an average ticket of BRL 300. The Life brand is likely to be the main growth driver in the coming years.

Outlook 2024, Valuation & Earnings Comments

- We expect Vivara to sustain its solid momentum, boosted by Life's expansion. We forecast 19% top-line growth and a 23% EBITDA expansion in 2024.
- An acceleration of Life's expansion is key to the upside reflected in our model (+38% vs. current prices). We expect Life to reach 320 stores by YE29 (equivalent to 50% mall penetration), surpassing the Vivara store count (~280 stores, according to our estimates).
- All-in, we see the stock offering a 3-year earnings CAGR of 20%. At 15x P/E 2024, we view Vivara as good vehicle for increasing exposure to growth backed by quality.

Key Themes to Monitor and Risks

- The impact of Life's expansion on Vivara stores (i.e., the risk of cannibalization between brands).
- A potential deterioration of the competitive environment.
- Decreasing marginal returns; as we discussed in our last update, we currently see room for both Vivara and Life stores to post decreasing marginal ROICs even while the company sustains accretive consolidated marginal ROICs.
- Execution risk arising from potential expansion to other geographies (which we consider an optionality for now).

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	18.0x	14.9x	12.0x
EV/EBITDA	13.9x	11.1x	8.5x
FCF Yield	-0.3%	2.5%	2.6%
Dividend Yield	1.1%	1.1%	1.9%
Net Debt EBITDA	0.3x	0.0x	-0.1x
EPS Growth	16.6%	20.5%	25.0%
Earnings Revisions 3M	3.9%	4.8%	9.8%
EBITDA Growth	25.1%	22.9%	29.7%
EBITDA Revisions 3M	0.3%	1.1%	5.1%

P/E 12-month Forward (Consensus)



Investment Thesis

- PRIO is the largest independent oil producer in Brazil in terms of daily production and has a clear business model that focuses on offshore oil fields in the Campos Basin.
- The company offers a combination of consistent opex and capex efficiency gains, solid organic growth prospects, financial capacity and strategic pursuit of M&As.
- In 2023, PRIO has reported strong results due to higher-than-expected oil production from certain wells and lower-than-expected drilling times and costs. We believe that PRIO could continue to report positive news driven by its revitalization campaigns at Albacora Leste and Wahoo, which could trigger another upward re-rating of the stock.

Company Background

- The company's portfolio of fields consists of i) Polvo, ii) Tubarão Martelo, iii) Frade, iv) Wahoo, and v) Albacora Leste.
- In 2021, the tieback between the Polvo and Tubarão Martelo fields was finalized, reducing the lifting cost of the fields and becoming a hallmark of PRIO's business model.
- Over the course of 2022 and 2023, PRIO has focused on its Frade revitalization campaign, which has resulted in higher-than-expected oil production. This year, the company incorporated Albacora Leste and is increasing the FPSO's topside operational efficiency to ramp up production. It is also focusing on developing Wahoo, with first oil expected in 2Q24 though a tieback with the Frade field.

Outlook 2024, Valuation & Earnings Comments

- With a favorable oil price environment and a production ramp-up, we expect PRIO to generate solid cash flow as it dilutes costs (record-high lifting costs are also expected to continue next year).
- Considering the promising cash generation for 2024 (15% FCF yield), we believe that the company could generate solid returns for investors through either buybacks or dividends, in the event that there are no good M&A prospects.
- We see PRIO trading at an EV/EBITDA of 2.8x.

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	7.2x	5.2x	4.1x
EV/EBITDA	4.3x	3.1x	2.3x
FCF Yield	-5.8%	15.3%	26.7%
Dividend Yield	0.0%	3.4%	11.2%
Net Debt EBITDA	0.1x	-0.1x	-0.4x
EPS Growth	61.0%	39.2%	26.1%
Earnings Revisions 3M	-9.8%	-12.0%	2.4%
EBITDA Growth	75.9%	33.4%	19.9%
EBITDA Revisions 3M	-6.0%	-13.9%	1.9%

Key Themes to Monitor and Risks

- Organic growth: production ramp-up in Albacora Leste and the first oil at Wahoo field (2Q24).
- Inorganic growth: major oil companies divesting from offshore oil fields, especially in the Campos Basin, as a result of commitments to the global energy transition.
- Shareholder remuneration: buyback and/or dividend announcements in the event that there are no good M&A targets.
- Main risks to our thesis: i) delays in the environmental licenses for the development of Wahoo field; ii) regulatory risks, such as a potential new export tax on crude oil; and iii) capacity limitations at FPSOs after the production increase.

EV/EBITDA 12-month Forward (Consensus)



A Growth Story with Superb Execution (NU – Target Price: USD 12)



Investment Thesis

- Nubank is a core holding in our banking coverage, based on favorable earnings dynamics, superior execution, and superb growth ahead.
- We expect earnings to more than double through larger NIMs, a lower cost of risk, and better efficiency. Our profit forecast is above the consensus at USD 2.3 billion, yielding 32% ROE.
- We see the bank trading at 17x P/E 2024, with an earnings CAGR of 65% for 23-26E. Despite richer multiples, roughly double that of incumbent banks, the growth outlook is more than twice as strong, making it an appealing PEG-adjusted case.

Outlook 2024, Valuation & Earnings Comments

- We expect credit quality to shift from being a headwind for the industry to a tailwind in 2024, given the alignment of leading indicators. Nubank is exposed to the most cyclical part of consumer credit, specifically credit cards and personal loans, and should experience tremendous growth this year. We expect Nubank's loan book to expand by 40% YoY, reaching USD 23 billion, while profits should expand by 125% to USD 2.3 billion.
- We see the bank trading at 20x P/E 2024, with an earnings CAGR of 65% for 23-26E, making it a good PEG-adjusted case. The name is great for exposure to a better credit cycle. We foresee major upward revisions to buy-side estimates as the bank delivers strong figures quarter after quarter, this time with a favorable macro environment.

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	43.8x	26.3x	19.2x
ROE	19%	27%	30%
P/B	8.0x	6.1x	4.6x
Dividend Yield	0.0%	0.1%	0.3%
Net Debt EBITDA	-1.7x	-0.9x	-0.6x
EPS Growth	n.a.	66.5%	36.9%
Earnings Revisions 3M	7.7%	7.3%	3.0%

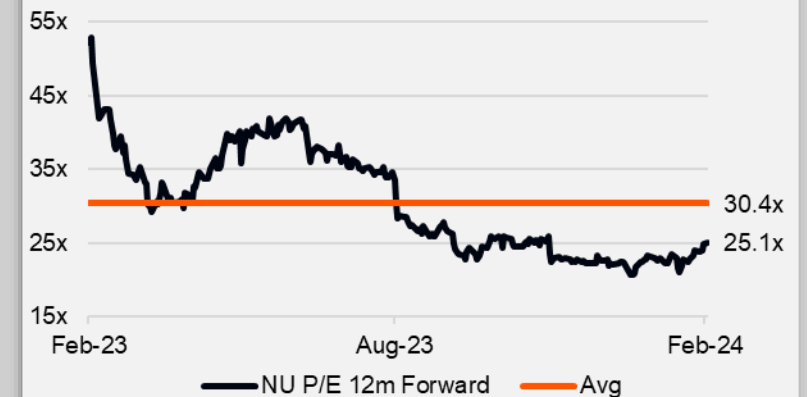
Company Background

- Nubank is a prominent financial technology company based in Brazil, recognized for its innovative approach to banking services. Founded in 2013, Nubank has evolved into a leading digital bank, providing a range of financial products such as credit cards, personal loans, digital payment solutions, and most recently, payroll loans. The company distinguishes itself through its customer-centric model, offering user-friendly mobile applications that prioritize simplicity and transparency. Nubank has experienced significant growth, amassing a large customer base (+90MM) drawn to its streamlined and accessible financial offerings (+BRL 80 billion loan book).

Key Themes to Monitor and Risks

- Credit card revolving cap regulation
- Individuals credit cycle in Brazil
- High income client strategy execution
- Execution in Mexico
- Loan book growth pace
- Cost-of-risk declines in FY24.
- Execution in payroll and investments

P/E 12-month Forward (Consensus)



Investment Thesis

- Investors are overly concerned with digital competition and hard discounters in Mexico. Also, recent investigations from the COFECE are still pending and create an overhang on the stock as we should have more clarity towards June 2024.
- We believe the company is creating a strong loyalty environment in Mexico with its many different verticals, such as Cashi, BAIT, Walmart Connect, and Health program. Investors are assigning no value to these initiatives today.
- The way of doing business for the company should not change, and we continue to expect strong consumer dynamics in 2024. The company should continue to outperform growth posted by competitors and ANTAD.

Company Background

- Walmex is the largest food retailer in Mexico. The company holds approximately 45% of the formal food retailing market in Mexico and continues to gain market share. The company currently sales 5-6% of its total sales online and is expected to reach 10% in the medium term. The company operates under different formats, including supermarkets, hypermarkets, membership clubs and smaller soft discounters. Walmex has a presence in Central America, contributing to 15% of its EBITDA in countries such as Costa Rica, Guatemala, El Salvador, Nicaragua, and Honduras. The company is net cash and has an ROE of over 25% and is deemed as one of the most efficient food retailers worldwide.

Outlook 2024, Valuation & Earnings Comments

- We see the stock trading at 21x P/E for 2024, below its historical average of 23.7x.
- Earnings CAGR for the next three years will be 10%, which is similar to the historical average EPS growth of 9%. We do not anticipate any changes to historical trends.
- Walmex's ROE should continue to improve, reaching 30% by 2026e, according to our estimates with the company being net cash and paying around a 4% dividend yield on a normalized basis.

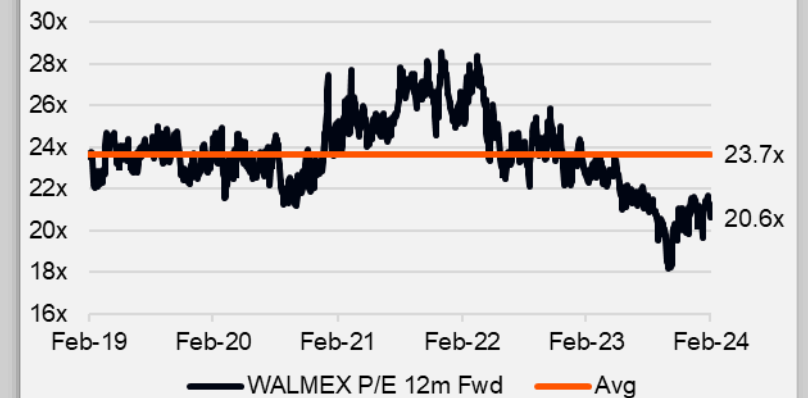
Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	23.0x	20.9x	19.0x
EV/EBITDA	13.2x	12.0x	11.0x
FCF Yield	4.3%	4.4%	4.9%
Dividend Yield	3.9%	3.4%	3.3%
Net Debt EBITDA	0.5x	0.5x	0.3x
EPS Growth	6.6%	9.9%	9.8%
Earnings Revisions 3M	-0.1%	-1.8%	-1.0%
EBITDA Growth	7.8%	9.4%	8.5%
EBITDA Revisions 3M	-1.8%	-1.7%	-1.8%

Key Themes to Monitor and Risks

- Decision of the COFECE on logistic practices that could go to court.
- Competition from online players such as Meli, Shein, and Temu.
- Continued growth of hard discounters in Mexico and of private label products.
- Development of digital capabilities from the company and their potential monetization.
- Succession Plan for top management in the company.

P/E 12-month Forward (Consensus)



Cost Visibility for The Next 2 Years As Catalyst (AC* – Target Price: MXN 215.0)

Investment Thesis

- The company has hedged all of its USD needs at a better FX rate for 2024 and almost all for 2025. It has hedged for fructose and the Peruvian PEN for this year. This gives the company visibility in terms of cost, allowing the commercial team to implement an improved strategy for the next few years.
- Healthy EBITDA and EPS CAGR for the next three years at 9% and 13%, respectively, with a valuation that is cheap at 14x for this type of solid business, strong management, and efficient balance sheet.
- The US operation continues to surprise favorably, and we have already incorporated the negative effects of the ARS depreciation and stronger MXN.

Company Background

- Arca Continental is the fourth-largest Coca-Cola bottler in the world, measured by volume. The company has operations in Mexico, the US, Peru, Ecuador, and Argentina. In the Mexico, it operates the North and Bajío regions, which represents 56% of volumes and 55% of EBITDA. In the US, the company operates the whole state of Texas and portions of New Mexico, Arkansas, and Oklahoma representing 18% of volumes and 28% of EBITDA. Lastly, in Peru and Ecuador, the company is the only bottler of Coca Cola, while in Argentina it operates in the North. Latin America represents 26% of volumes but only 18% of EBITDA.

Outlook 2024, Valuation & Earnings Comments

- We see the stock trading at 16 P/E for 2024, which compares with a long-term historical average of over 18x.
- We project CAGR on EPS for the next three years at 13%, which results in a PEG ratio of approximately 1.0x for a company that is the fourth-largest Coca-Cola bottler in the world and one of the best operators, evidenced by its margins in the US and Mexico.
- Arca's ROE should continue to expand, reaching 19% by 2027 with a 5% dividend yield. The company has a balance sheet and potential for extraordinary dividends.

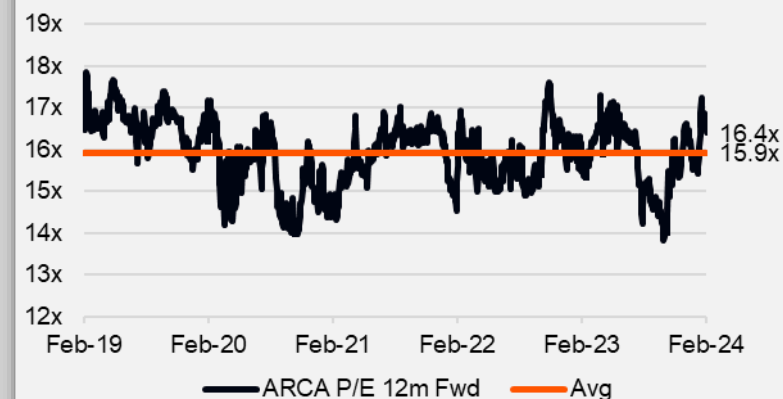
Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	19.0x	16.6x	15.2x
EV/EBITDA	8.7x	8.0x	7.3x
FCF Yield	4.9%	5.4%	6.1%
Dividend Yield	1.6%	1.8%	2.2%
Net Debt EBITDA	0.4x	0.3x	0.1x
EPS Growth	14.8%	14.2%	9.1%
Earnings Revisions 3M	1.2%	1.8%	4.2%
EBITDA Growth	8.8%	8.1%	7.1%
EBITDA Revisions 3M	-0.5%	-1.0%	0.2%

Key Themes to Monitor and Risks

- Consumer environment and ARS depreciation in Argentina
- Sociopolitical landscape in Ecuador and its effects in consumptions.
- Potential increases in IEPS taxes in Mexico
- Water availability in the northern states of Mexico.
- Increases in labor cost in Mexico
- Changes in consumer behavior due to the use of new experimental drugs worldwide.

P/E 12-month Forward (Consensus)



A High-Quality Play with a 7% dividend Yield (SMU – Target Price: CLP 230)

Investment Thesis

- **Resilient stock with a high dividend yield** (~7%), presenting a favorable investment opportunity for 1H24.
- **Aggressive store Capex plan** that includes the opening of 19 new stores in the current year and 11 more in 2025, as well as a commitment to adding 5-7 new stores in Peru annually.
- **Cost-efficiency initiatives** have led to a ~9% EBITDA margin, which is a notable achievement for a food industry player with around 30% of sales from cash & carry.
- The company's **Deferred Tax Asset Credit** provides a significant tax advantage.

Outlook 2024, Valuation & Earnings Comments

- **Good execution**, with the company managing to maintain EBITDA levels at a record high compared to 2022, despite mild SSS figures due to low food inflation. Nevertheless, the anticipation of new store openings leads us to project a 6% EBITDA growth in 2024 and an even more robust 8% growth in 2025. SMU has set an ambitious target for 2025 EBITDA, which is not yet factored into current pricing and will depend on the success of the new store opening plan and consumption dynamics.
- **Valuation remains attractive**, with the company trading at a ~10% discount compared to its 5-year historical averages and a ~15% discount when compared to its Latin peers.

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	11.1x	8.7x	7.8x
EV/EBITDA	6.8x	6.2x	5.4x
FCF Yield	14.4%	14.6%	19.2%
Dividend Yield	7.1%	7.2%	8.6%
Net Debt EBITDA	3.4x	3.0x	2.5x
EPS Growth	-29.0%	27.4%	12.5%
Earnings Revisions 3M	-13.2%	-14.7%	-13.5%
EBITDA Growth	3.9%	4.3%	9.1%
EBITDA Revisions 3M	-3.2%	-5.6%	-4.1%

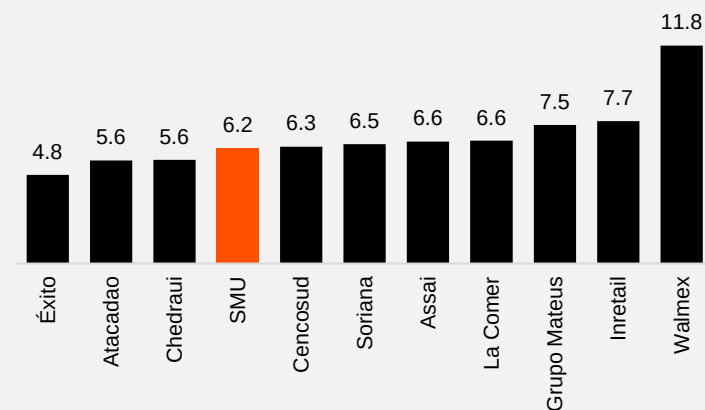
Company Background

SMU was founded in December 2007, following the acquisition of over 60 supermarket chains. Since then, it has established itself as the third-largest food retailer in Chile, with consolidated sales of approximately USD 3.2 billion. The company caters to both B2C and B2B customers, offering a variety of formats such as Unimarc, Alvi, Mayorista 10, and Super10. These formats are strategically positioned in all 16 regions of the country. Additionally, SMU is expanding its presence in Peru through brands like Mayorsa and MaxiAhorro. SMU is currently operating a total of 381 stores in Chile and 30 in Peru.

P/E 12-month Forward (Consensus)



EV/EBITDA 2024e vs Latam peers



Investment Thesis

- Peruvian market offers good opportunities given its low penetration, high concentration, and high profitability.
- Credicorp is a dominant company that trades with an appealing valuation and a significant discount compared to its Chilean peers.
- The company guided for an ROAE of 17%, supported by: i) resilient NIM; ii) a reduction in CoR; and iii) a recovery in the growth pace of loans and fees. The guidance was well above both our and consensus expectations (near 15%).
- Yape has been one of the main reasons for the gain in market share in deposits, and management expects to reach breakeven in 2024, which should be a tailwind for profitability in the coming years.

Outlook 2024, Valuation & Earnings Comments

- We see the stock trading at 1.5x P/B and 9.6x P/E, which implies a 20% discount compared to 5-year average. It also trades at a 33% discount compared Chilean peers, which is well above the historical 20%.
- We expect a gradual recovery in earnings and profitability as the company is recovering from a very negative credit cycle. However, we believe our and consensus estimates have upside risk.
- Considering the strong capital ratios, soft loan growth expectations and the improvement in digital initiatives, we believe an increase in dividend payout in the coming years cannot be ruled out.

Key Indicators & Factors (Consensus)

	2023E	2024E	2025E
P/E	10.7x	9.6x	8.5x
ROE	16%	16%	16%
P/B	1.6x	1.5x	1.3x
Dividend Yield	4%	5%	6%
EPS Growth	1%	12%	13%
Earnings Revisions 3M	-4%	2%	4%

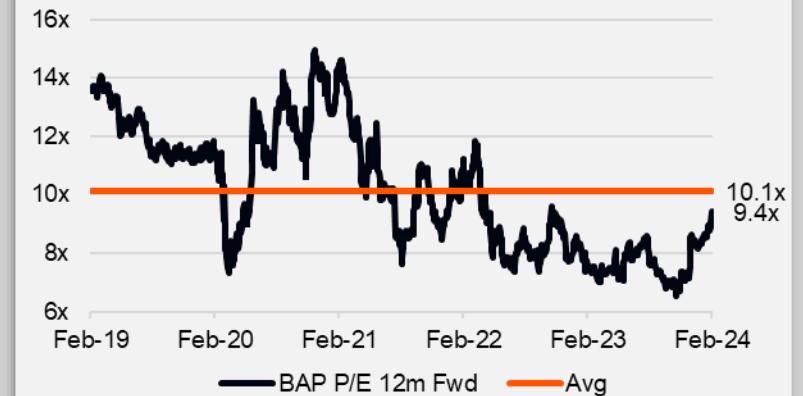
Company Background

- Credicorp is the largest financial entity in Peru, with a dominant position in the banking, insurance, and pension businesses. In the banking sector, BCP is by far the largest player, with a market share of 29% in loans and 32% in deposits. Through Mi Banco, they have an exposure to microfinance, a fast-growth sector in Peru. Credicorp has one of the best digital strategies in the Andean Region.

Key Themes to Monitor and Risks

- Evolution of asset quality and coverage ratio given the significant deterioration experienced in 2023.
- Potential effect from el Niño in asset quality and CoR
- NIM evolution in this easing cycle, as the bank has been decreasing its sensitivity to interest rates.
- Political instability and social issues.

P/E 12-month Forward (Consensus)



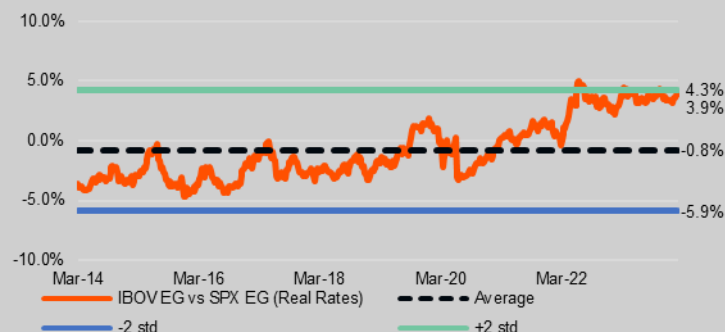
Digging Deep into the Region

Top Themes/Theses By Country

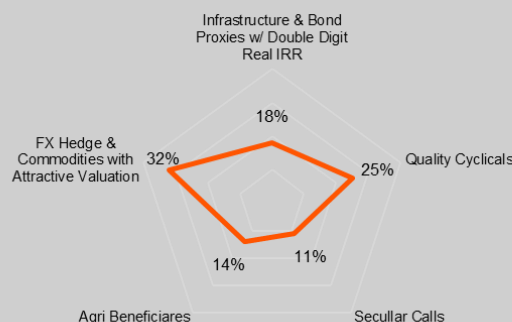
Brazil (OW) – Still Attractive Valuation, Inflection Point of Earnings and Light Domestic Positioning

- Thesis:** We have assumed coverage of Brazilian equities with an overweight rating and an Ibovespa target price of 145,000 points for YE24, offering a 20% total return potential. Our thesis is based on four pillars: i) an attractive consolidated valuation (Brazil at 8.0x 12-month-forward P/E, around 1.5 standard deviations below the historical average), even when considering the earnings yield gap vs. U.S. Treasuries and U.S. equities; ii) decent potential EPS growth in 2024 (above 10%), with flattish revisions and 82% of companies with EBITDA growing above inflation in 2024; iii) light market positioning, with delayed reallocation to equities (equity funds at 8.7% of total fund-industry AUM, vs. >10% recent peak); and iv) Itaú BBA Macro Team's forecasts still suggesting short-term Selic terminal rates in the single digits (9%) amid fiscal uncertainties. Other factors to include: i) the fiscal framework trend affecting CDS, ii) leverage (corporate under control), and iii) taxes (interest on equity and tax reform in some sectors).
- Earnings Trend:** Going into 2024, we expect earnings growth for the consolidated index to be driven by financials and domestics, while commodities are likely to lag. Consensus figures imply a 13% earnings growth for the IBOV. IBOV EPS revisions are up 3% in the last three months. The improvement in short-term earnings revision trends, most notably for domestic and commodity names, matches our current overweight position in quality cyclicals and bond proxies. Looking forward, we see some room for earnings improvement both from a top-down perspective (as interest rates enter single-digit territory) and a bottom-up perspective (on a low comp base). Based on the earnings trends from past quarters going into 3Q23 and consensus going forward, we believe that 3Q23 may have been the inflection point for earnings and EBITDA. Consensus estimates for 4Q23 indicate an expansion relative to 4Q22 and 3Q23, wrapping up 2023 with a contraction. If we adjust the figures to exclude Petrobras and Vale, these trends are even clearer.
- Macro:** Our Macro team maintains its call for GDP growth of 2.9% in 2023 and 1.8% in 2024. A lower contribution from agricultural GDP and weaker fiscal momentum will lead to a slowdown next year. For 2025, we also expect 1.8% growth. In the job market, we see the unemployment rate at 8% in 2023, 2024, and 2025. We have lowered our forecast for the consumer price index (IPCA) in 2024 to 3.6% (from 4.0%), incorporating the impact of a stronger exchange rate on tradable prices. Furthermore, still-high inventory levels suggest more benign dynamics in the core measure for underlying industrial products. The balance of risks for 2024 is symmetric. Lower underlying service inflation is a downside risk, while school tuition readjustments in February are an upward risk. For 2025, given the de-anchored long-term inflation expectations and a still-tight labor market, we see inflation above the target, at 3.5%. In its last decision of the year, the Brazilian Central Bank's Monetary Policy Committee (Copom) cut the Selic benchmark rate by 50 bps to 11.75%. We now expect a terminal rate of 9.00% at the end of the cycle (previously 9.50%), based on the outlook for lower-than-anticipated inflation in 2024 and relief in the external scenario.
- Investment themes we like:** i) Quality Cyclicals: Cyclical companies that offer appealing asymmetries compared to historical multiples and that stand to benefit from an improving domestic macro scenario. Additionally, they have attractive ROEs; ii) Bond Proxies with Double-Digit IRR: We favor sectors with above-historical-average IRR spreads compared to public bonds. Among these, we prefer Transportation and Utilities (average real IRR of >10%, compared to NTN-B near 6%); iii) Reinvestment Leaders: Secular Calls (services, healthcare, tech); iv) Agri is Pop – Direct and Indirect Beneficiaries of Agribusiness and v) FX Hedges and Commodities With Attractive Valuation.
- Country strategist's Top Picks:** i) Equatorial and Sabesp, ii) Localiza and Vivara, iii) GPS and Hypera, iv) Banco do Brasil and Randon and v) Suzano and PRIO
- Themes to Avoid:** i) Stocks/sectors highly-exposed to tax discussions; ii) low-quality beta calls
- Risks and themes to monitor:** i) Fiscal risks remain high considering the uncertainty surrounding the government's willingness to curb expenses and the effective impact on government revenues from the measures approved last year; ii) Downward revisions in sectors highly exposed to tax discussions; iii) Changes in the Central Bank's directors.

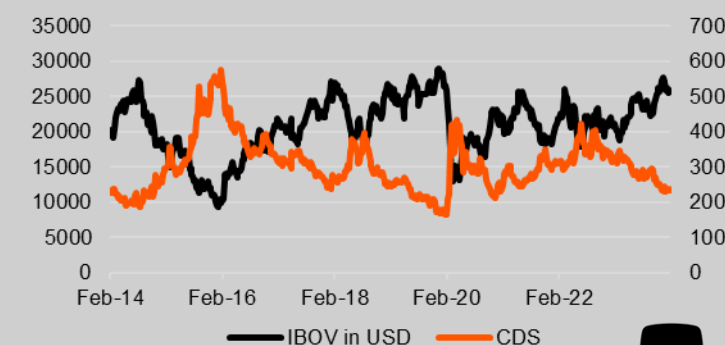
Earnings Yield Gap: Brazil Differential Over U.S. Is Attractive When Incorporating U.S. Treasuries and U.S. Equities



Portfolio Profile: Five Themes We Like (% Weight)



Fiscal Risk to Monitor: High Historical Inverse Correlation Between Ibovespa (USD) and Brazil 10-Year CDS Spreads



Our YE24 Ibovespa Target is 145,000 Points



- Our forecast for the Ibovespa at YE24 is 145,000 points. Our estimate includes: i) a partial re-rating to 9x fair P/E from 8.0x; and ii) a 7.5% 2-year bottom-up EPS CAGR. This suggests 21% total return including dividends.
- We use a 12-month forward fair P/E target multiple of 9x, still a ~20% discount to the historical average, considering the current higher-than-average long-term interest rates. For the multiple calculation, we use a cost of equity (Ke) for Brazil of 14.4%.
- Alternative scenarios. Adopting more optimistic assumptions for the Brazilian economy (V-shaped), with higher earnings growth and a cost of equity of 13%, results in a YE24 target of 199,000 points. In a bear-case scenario, with a more modest 2-year EPS CAGR and a higher Ke (16.5%), the target would be 100,000 points.

Ibovespa Target Assumptions – Base, Bull and Bear Cases

Scenarios	Brazil Ke	Fair P/E	Target YE2024	Probability	Weighted Target	Assymetry
Base Case	14.4%	9.1	145,023	60%	87,014	22%
Bull Case	13.0%	11.3	198,917	20%	39,783	67%
Bear Case	16.5%	6.3	100,005	20%	20,001	-16%
Weighted	14.5%	9.0		100%	146,798	

YE24 Ibovespa Target Sensitivity to EPS 2025 and Long-Term Growth

		Long Term Growth								
		3.3%	3.8%	4.3%	4.8%	5.3%	5.8%	6.3%	6.8%	7.3%
EPS 2025	12,684	101,144	104,334	107,841	111,716	116,018	120,824	126,225	132,342	139,326
	13,477	107,465	110,855	114,581	118,698	123,269	128,375	134,114	140,613	148,033
	14,270	113,786	117,376	121,321	125,680	130,521	135,927	142,004	148,885	156,741
	15,062	120,108	123,896	128,062	132,663	137,772	143,478	149,893	157,156	165,449
	15,855	126,429	130,417	134,802	139,645	145,023	151,029	157,782	165,428	174,157
	16,648	132,751	136,938	141,542	146,627	152,274	158,581	165,671	173,699	182,865
	17,441	139,072	143,459	148,282	153,609	159,525	166,132	173,560	181,970	191,573
	18,233	145,394	149,980	155,022	160,592	166,776	173,684	181,449	190,242	200,280
	19,026	151,715	156,501	161,762	167,574	174,027	181,235	189,338	198,513	208,988

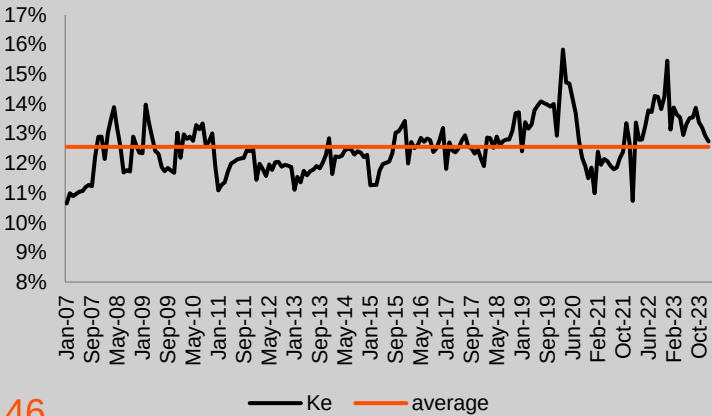
YE24 Ibovespa Target Sensitivity to EPS 2025 and Brazil Ke

		Brazil Ke								
		12.4%	12.9%	13.4%	13.9%	14.4%	14.9%	15.4%	15.9%	16.4%
EPS 2025	12,684	148,903	139,050	130,420	122,798	116,018	109,948	104,481	99,532	95,031
	13,477	158,210	147,741	138,571	130,473	123,269	116,820	111,011	105,753	100,970
	14,270	167,516	156,431	146,722	138,148	130,521	123,691	117,541	111,974	106,910
	15,062	176,823	165,122	154,873	145,823	137,772	130,563	124,071	118,194	112,849
	15,855	186,129	173,812	163,025	153,498	145,023	137,435	130,601	124,415	118,789
	16,648	195,436	182,503	171,176	161,173	152,274	144,307	137,131	130,636	124,728
	17,441	204,742	191,194	179,327	168,848	159,525	151,178	143,661	136,857	130,668
	18,233	214,049	199,884	187,478	176,522	166,776	158,050	150,192	143,078	136,607
	19,026	223,355	208,575	195,630	184,197	174,027	164,922	156,722	149,298	142,546

Mexico (Neutral) – Stable Political Landscape, Strong Consumer Dynamics and Relative Rich Valuation

- **Thesis:** Mexico continues to demonstrate resilience bottom-line growth, along with a stable political environment (despite the 2024 elections) and solid macro dynamics with healthy fiscal accounts. Despite trading at the highest multiple in LatAm at 13x, which is a premium to the region and actually to EM, we believe the nearshoring story, combined with the factors described above, presents a unique investment case for the country in the medium term. We continue to favor consumer names going into 2024 due to the sector's resilience and on increased social spending as outlined in the 2024 fiscal budget.
- **Earnings Trend:** Excluding the positive one-off for FEMSA registered in 2023, we continue to see solid momentum for Mexico in 2024. Normalizing for one-offs, our analysts expect net income to grow in the mid-teens at 14% YoY. This growth is explained by still healthy YoY growth rates in consumer, materials, and financials, while TMT should present better results on a lower base. Transportation should post challenging results with the exception of ASUR.
- **Macro:** We are forecasting for the fastest real GDP growth in the region at 2.8% in 2024, followed by 1.8% in 2025. Inflation should continue to be under control at 4.2% for 2024 and slow down to 3.7% in 2025. On average, we expect a stable MXN during 2024, but it is projected to close the year slightly above MXN 18.0. In terms of monetary policy, we anticipate the first rate cut of 25 bps to occur in March, with for the monetary rate reaching 9.5% by the end of 2024, down from 11.25% at the end of 2023.
- **Investment themes we like:** i) Resilient consumer dynamics with real growth in salaries, growing formal employment, controlled inflation, and increased social spending; ii) Nearshoring and the continued demand for industrial GLA in the context of lower interest rates in Mexico; iii) Healthy banking sector with controlled NPLs and opportunities to capture from both nearshoring and continued investment in the country; iv) continued bancarization and digitalization of the Mexican population in the future, with a strong landscape for digital and fintech initiatives; and v) Cheap valuations on some transportation and material companies that could continue to benefit from strong investment demand in Mexico.
- **Country strategist's Top Picks:** i) Walmex; ii) Arca Continental; iii) Alsea; iv) Terrafina; v) ASUR and vi) Banorte.
- **Themes to Avoid:** i) Exposure to companies that could experience cost increases due to potential MXN depreciation and have not hedged their FX needs; ii) Continue to monitor concessions and regulated names, although some of this risk has decreased after the MDP of ASUR.
- **Risks and themes to monitor:** i) Elections in the country in June; ii) Results of both chambers of Congress in the election; iii) Insecurity in the country, iii) Electricity and energy investments; iv) Nearshoring demand in FDI and fixed investments in the country; v) Allocation to local equities from pension funds; vi) Elections in the US; vii) Slowdown in the US economy.

Implied Ke Looks Like it Has Normalized to Historical Average

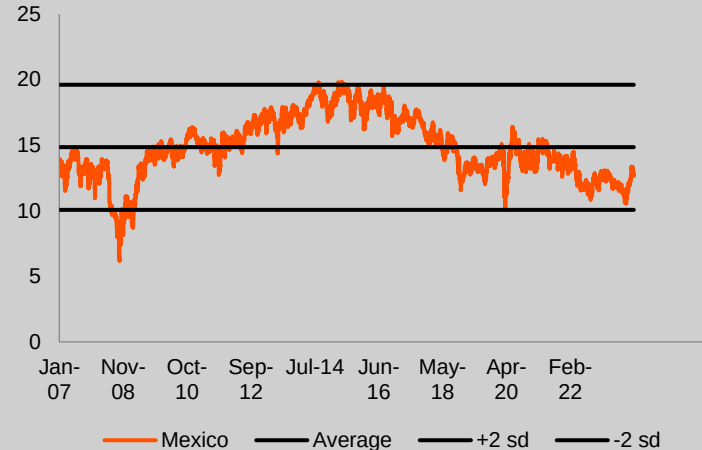


Source: Itaú BBA

Top Pick List in Mexico

Mexico 	
Consumer	Walmex
	Alsea
	Arca
Banks and F. Services	Banorte
Industrials and Logistics	ASUR
Real Estate & Homebuilders	TERRAF13

Price to Earnings Multiple in Mexico Approaching Historical Averages of 15x



MSCI Mexico Target at 7,730 and IPC at 64,500

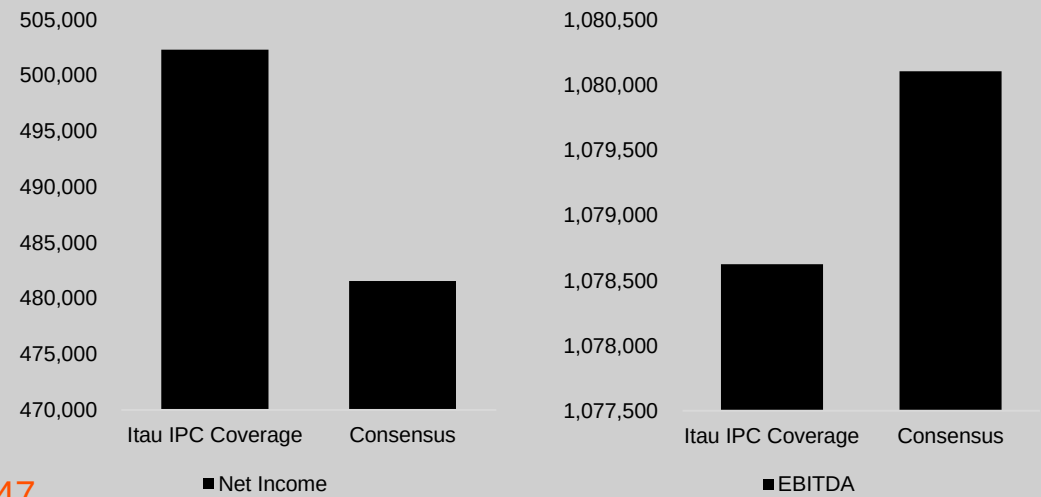


- On our last update, we revised our MSCI Mexico target price to 7,730 and our IPC target to 64,500. The revision was based on our perception of a normalized risk perspective in the country, with still solid EPS growth expected for 2024.
- We currently see Mexico trading at 13x 2024E forward P/E which is still below the 15x average, but at a premium compared to other LatAm countries and EM. Our EPS growth expectation for MSCI MX is 13% and 15% for IPC. This EPS growth is normalized by the positive one-offs showed by FEMSA in 2023.
- We did not change our assumptions of Ke in our model and continue to use 11.81% in USD for MSCI MX and 12.81% for IPC. Despite seeing CDS normalizing after the results of ASUR's MDP, we have decided to remain somewhat more conservative in our cost of equity model given the electoral period.

MSCI Mexico Target Graph



Net Income and EBITDA Estimates for 2024 – Itaú vs. Consensus



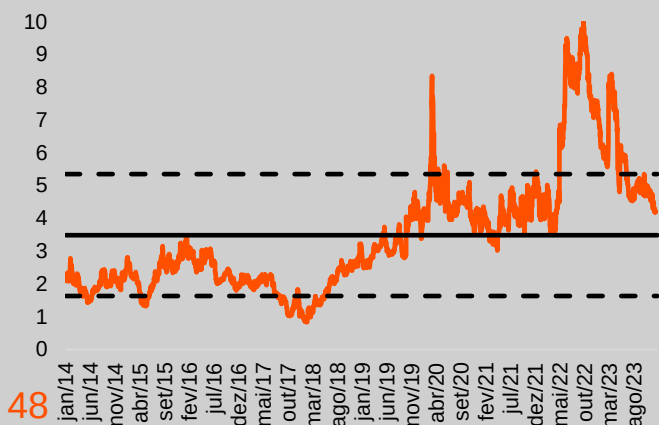
YE24 MSCI MX Target Sensitivity to EPS Growth in 2024 and Mexico Ke in USD

		Ke								
		9.0%	10.0%	11.0%	11.8%	12.0%	13.0%	14.0%	15.0%	16.0%
EPS Growth	8.0%	16,770	10,550	7,690	6,310	6,050	4,990	4,240	3,690	3,270
	9.0%	17,530	11,020	8,040	6,590	6,330	5,220	4,440	3,860	3,420
	10.0%	18,290	11,500	8,390	6,880	6,600	5,440	4,630	4,030	3,560
	11.0%	19,040	11,970	8,730	7,160	6,870	5,670	4,820	4,190	3,710
	12.0%	19,800	12,450	9,080	7,450	7,150	5,890	5,010	4,360	3,860
	13.0%	20,560	12,930	9,430	7,730	7,420	6,120	5,200	4,530	4,010
	14.0%	21,320	13,400	9,770	8,020	7,690	6,340	5,390	4,690	4,150
	15.0%	22,070	13,880	10,120	8,300	7,970	6,570	5,590	4,860	4,300
	16.0%	22,830	14,360	10,470	8,590	8,240	6,790	5,780	5,030	4,450
	17.0%	23,590	14,830	10,820	8,870	8,510	7,020	5,970	5,190	4,600
	18.0%	24,340	15,310	11,160	9,160	8,780	7,240	6,160	5,360	4,740

Chile (OW) – A turning point in earnings; appetite for stocks amid falling interest rates.

- **Thesis:** We assumed coverage of Chilean Equities with an overweight rating and an IPSA target price of 7,080 points for YE24, which implies a ~14% upside (~20% total return including dividends) and a multiple re-rate to 11.2x from the current 9.4x. Our positive view on this market relies on: i) the potential for aggressive interest rate cuts (-375 bps) to boost the economic and earnings recovery (to ~12% YoY growth) in the context of accelerating disinflation (from 13% in December 2022 to ~3.9% in December 2023 and the 2.8% estimated for December 2024); ii) potential inflows from retail investors (representing ~40% share of trading volume) due to a shift in their asset allocations in response to lower time deposit rates, even as local pension funds remain supported and increase their exposure to local equities (from 6.8% in December 2022 to 7.3% in December 2023); and iii) current valuation levels, with the market trading at a ~33% discount to five-year historical multiples.
- **Earnings Trend:** While 2024 presents challenges, there is reason for optimism. After a significant ~30% decline in earnings, the projected ~12% year-over-year increase in net income could mark a turning point. While not spectacular, these expectations signal a positive shift. Commodity-related sectors are likely to face ongoing pressure, especially considering the uncertainties about China's growth. The prospects for transportation figures, such as those of Vapores, remain uncertain due to changes related to the Red Sea conflict. Conversely, the retail and consumer sectors are likely to experience a gradual recovery, while the fact that the utilities sector is aiming for a stable year following a robust 2023 is a positive sign (we have visibility on hydrologic conditions until March, though exposure to the spot market is lower). Among banks, Santander is the only one that stands out. Overall, earnings revisions for this year have stabilized, and the numbers for 2024 appear to be on the conservative side.
- **Macro:** In 2023, the most noteworthy development has been the remarkable decline in inflation, which dropped from a peak of 14.1% in August 2022 to a more stable 3.9% as of December 2023, marking one of the swiftest inflation convergences in the region. This trend has been facilitated by less restrictive global financial conditions and a revised prediction for the Fed's actions in 2024. As a result, our Macro Team has recently revised down its year-end 2024 interest rate forecast to 4.5%, down from the previously expected 5%. In parallel, economic activity in 2023 has also been a key player. Despite initial surprises, the year ultimately saw a 0% GDP growth rate, propelled by robust performance across various sectors. Looking forward to 2024, a less stringent monetary policy is anticipated to bolster a modest recovery, with a projected growth rate of 1.7%. However, it's essential to acknowledge that estimates for 2024 have been adjusted downward, mirroring fluctuating sentiment dynamics and a cautious outlook for the speed of economic revival. Despite recent data surpassing market expectations, business confidence lingers in pessimistic territory, and the persistence of feeble investment dynamics remains a concern. This shift in monetary policy holds pivotal significance for recalibrating growth this year.
- **Investment themes we like:** i) High-Quality Dividend Yield Players: In light of the challenges anticipated for economic recovery in the first half of 2024, we have strategically chosen these investment stories based on their enhanced earnings visibility and strong dividend yield prospects. ii) Bond Proxies stocks that benefit from lower rates:
- **Country strategist's Top Picks:** i) Banco de Chile, ii) Enel Chile, iii) SMU.
- **Themes to Avoid:** i) Stocks/Sectors highly exposed to commodities, such as pulp; ii) Stocks/sectors with low-earnings growth prospects.
- **Risks and themes to monitor:** i) Debates over pension and tax reforms; ii) Gubernatorial elections (October 27); iii) SQM Codelco final agreement, iv) News around investment prospects in construction, v) Labor market trends, vi) Energy transition bill and April regulated auction.

Earnings Yield Gap vs 10y Nominal Bond



48

Source: Itaú BBA

IPSA vs EPS 2024 and EPS 2025 earnings revision trend



2024 Consensus Estimates by Sector

	Sales Growth % y/y				EBITDA Growth % y/y				Net Income Growth % y/y			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Utilities	26%	-13%	-1%	1%	9%	13%	5%	0%	1%	28%	1%	13%
Financials	63%	-50%	10%	10%	-	-	-	-	46%	-24%	7%	16%
Consumer	13%	3%	6%	14%	-12%	14%	11%	11%	-27%	10%	25%	7%
Retail	8%	-4%	6%	5%	-27%	-11%	33%	11%	-69%	-36%	162%	-8%
Real Estate	22%	7%	4%	6%	29%	-1%	7%	8%	10%	55%	13%	14%
Transport	118%	18%	8%	4%	20%	-12%	16%	16%	-67%	-71%	31%	40%
Commodities	58%	-10%	-1%	-1%	-10%	-32%	1%	6%	105%	-52%	10%	23%
Total	40%	-11%	3%	3%	-2%	-13%	7%	6%	9%	-31%	12%	17%

Introducing our YE2024 Ipsa Target of 7.080 Points. Implicit Fair P/E 11.2x



- We are setting a YE 2024 target for the IPSA of 7,080 points, which implies a ~14% upside (20% total return including dividends) and a multiple re-rate from 11.2x from the current 9.4x. It is realistic to believe that Chile will not return to its 10-year historic average of 13-14x price-to-earnings ratio for several reasons: i) we do not see significant room for further compression in Chilean 10-year sovereign bonds considering fiscal spending ahead, ii) Chilean challenges on productivity to achieve sustained economic growth above 3%, iii) lower stock market liquidity levels.
- **What is the upside risk?** Earnings growth and an improvement in investment dynamics. Even though the tail risk of political uncertainty has faded, the turning point in consumption continues to move away from us. In addition, commodity-related names contributes with 26% of the index, which means that China's legacy continues to impact the IPSA outlook. We believe our target implies a cautious stance, weighing on short-term risk. There is certainly room for higher optimism, but we prefer not to be bullish before seeing green shoots.

IPSA Target Assumptions – Scenarios

	Prob	Bull Market		Bear Market		Base Market	
		Fair P/E	Target YE2024	Fair P/E	Target YE2024	Fair P/E	Target YE2024
DDM Model	33%	12.3	7,690	10.8	6,750	11.6	7,250
Earning Yield GAP	33%	11.5	7,190	10.5	6,560	11.1	7,250
Bottom Up	33%	11.6	7,253	10.7	6,666	11.1	6,960
Blended			7,300		6,590		7,080

DDM Model Sensitivity

LT ROE	LT EPS Growth	Equity Risk Premium			
		5%	5.5%	6%	6.5%
		10.6%	11.1%	11.6%	12.1
			Ke		
10%	3.0%	9.5	8.9	8.4	7.9
12%	3.6%	10.4	9.7	9.1	8.5
14%	4.2%	11.4	10.6	9.9	9.2
16%	4.8%	12.6	11.6	10.8	10
17%	5.1%	13.4	12.3	11.3	10.5

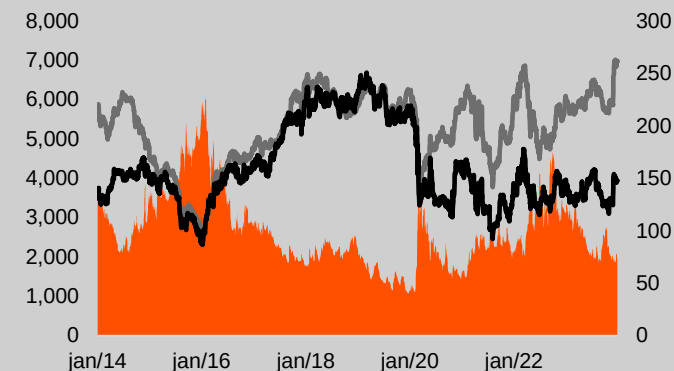
Earning Yield Gap Sensitivity

LT Earning Yield GAP	10-year sovereign Bond			
	5.0%	5.5%	6.0%	6.5%
3.0%	12.5	11.5	11.1	10.5
3.5%	11.8	11.1	10.5	10
4.0%	11.1	10.5	10	9.5
4.5%	10.5	10.0	9.5	9.1

Peru (Neutral) – On the verge of becoming more optimistic on the back of moderate “El Niño”.

- **Thesis:** We have a YE24 target for the SPBVL at 27,270 points, suggesting no material upside even considering a mild ~4% dividend yield. As mentioned in the Andean strategy report, there was room for more optimism on better macro conditions and greater political stability, but it all depends on the likelihood of a mild El Niño phenomenon that would also contribute to reducing the risk of social unrest. Market rallied in February driven by the banking sector, after both BAP and IFS improved their earnings guidance for this year, leaving room for upward revisions in consensus estimates for those stocks and for the market. Yet, contingency risk of an additional withdrawal of pension savings whose discussion in congress will resume in March prevent us from being positive on a flow's perspective. On valuation the stock market looks fair, though the cyclical sector remains highly discounted (both banks and cement), offering an attractive entry point if macro improvement is confirmed.
- **Earnings Trend:** EPS estimates have been trending downward for companies in sectors linked to domestic demand, such as cement, consumer goods. However, there have been positive developments in the mining industry, including higher-than-expected volumes for Buenaventura, better-than-anticipated copper prices for Southern Copper. There has also been notable M&A activity (e.g., Antofagasta, a Chilean company, acquiring an approximately 18.9% stake in Buenaventura). The future trajectory of EPS for this year largely depends on El Niño events. If El Niño is weak, there could potentially be upward revisions of EPS estimates for cyclical sectors. Regardless, a favorable comparison base ensures approximately 15% growth in net income and a roughly 12% increase in EBITDA for 2024. Among the companies expected to experience the most substantial growth are IFS and Alicorp. The market is also closely monitoring Buenaventura's progress with the ramp-up of Uchucchacua/Yumpag and the construction of San Gabriel. Furthermore, the market has a positive outlook on mining projects due to the perception that Peru's current cabinet is more approachable and possesses a higher level of technical expertise than previous iterations.
- **Macro:** In 2023, Peru faced significant challenges, including social protests and floods, resulting in a 0.6% GDP decline, making it one of the toughest years for the economy in decades. However, looking ahead to 2024, there is reason for cautious optimism. The risk of a severe El Niño event has diminished, with the most likely scenarios being moderate (37%) or weak (33%), according to the National Study of the El Niño Phenomenon (ENFEN). Furthermore, key infrastructure projects like the Chancay port and the modernization of Jorge Chavez Airport are poised to play a pivotal role in economic recovery. The Chancay Megaport, a joint venture with 60% investment from Cosco Shipping Ports Limited and 40% from Volcan Compañía Minera, is projected to contribute approximately 0.2 percentage points to Peru's annual GDP growth, according to Moody's estimates. In terms of monetary policy, the Central Reserve Bank (BCRP) has been steadily reducing interest rates, with five consecutive 25-basis point cuts. This accommodative approach, driven by falling annual inflation (3.24% in December, down from 3.64% in November and 4.34% in October), bodes well for the country's economic recovery as it helps maintain a favorable real ex-ante policy rate. Overall, while 2023 presented challenges, 2024 holds the promise of a more positive economic trajectory for Peru.
- **Investment themes we like:** i) Quality cyclicals with strong earnings momentum, and ii) Nice dividend yield stories with strong and stable profitability levels.
- **Country strategist's Top Picks:** i) IFS
- **Themes to Avoid:** i) Expensive stocks in the mining sector.
- **Risks and themes to monitor:** i) The impact of El Niño; ii) Pension reform and the proposal to allow additional withdrawals from pension savings; iii) Announcements of private investments and new projects.

Correlation stock market, BAP and CDS



50 — Peru CDS — SPBPLPGPT Index — BAP US Equity

Source: Itaú BBA

SPBVL vs EPS 2024 and EPS 2025 earnings revision trend



Fwd P/E vs different commodity Cycles (Today P/E Fwd 11.2x)

		Copper Price (USD / lb)		P/E Fwd		
		Spot	Average	Average	Max	Min
Bear Cycle	jan/14	334	277	11.3	14.2	9.3
	jan/16	194				
Bull Cycle	jan/16	194	263	13.3	15.5	10.7
	jun/18	322				
Bear Cycle	jun/18	322	272	13.3	15.3	10.0
	mar/20	212				
Bull Cycle	mar/20	212	377	13.1	20.4	8.1
	abr/22	480				
Bear Cycle	abr/22	480	412	8.3	10.7	6.8
	jul/22	321				

YE2024 SPBVL Target of 27,270 Points



- Our year-end 2024 target for SPBVL stands 27,270 points, virtually in line with current levels (along with a 4% dividends yield). This projection is in line with our cautious outlook on copper prices in the medium term and the strong valuation multiples currently observed in the mining sector. We maintain a cautious stance from a flow perspective, given the ongoing discussions surrounding pension reform, although we anticipate that elections will proceed as planned in April 2026.
- What are the upside risks? Firstly, the potential for a mild El Niño effect could lead to upward revisions in earnings, offering a more positive outlook for the market. Furthermore, a key milestone to look forward to is the resumption of critical projects and a revival of private investments. The upcoming Asia-Pacific Economic Cooperation Forum (APEC) in Peru presents a significant opportunity for major announcements.
- Although the overall market's potential for upside appears somewhat limited from a top-down perspective, there is a notable divergence between mining and cyclical companies, in which the upside potential is notably more appealing. This is precisely why we consider investing in IFS to be a strategic move to leverage a stronger second half of 2024.

DDM Model Sensitivity

LT ROE	LT EPS Growth	Equity Risk Premium			
		5%	5.5%	6%	6.5%
		11.8%	12.3%	12.8%	13.3%
15%	6.0%	11.0	10.1	9.4	8.7
16%	6.4%	11.8	10.8	10.0	9.3
17%	6.8%	12.8	11.7	10.7	9.9
18%	7.2%	14	12.6	11.5	10.5
19%	7.6%	15.4	13.7	12.4	11.3

SPBVL Target Assumptions – Scenarios

	Prob	Bull Market		Bear Market		Base Market	
		Fair P/E	Target YE2024	Fair P/E	Target YE2024	Fair P/E	Target YE2024
DDM Model	33%	12.6	29,380	10.7	24,950	11.5	26,820
Earning Yield GAP	33%	11.1	25,880	10.0	23,320	10.5	26,820
Bottom Up	33%	13.0	30,287	11.9	27,675	12.4	28,981
Blended			28,230		25,060		27,270

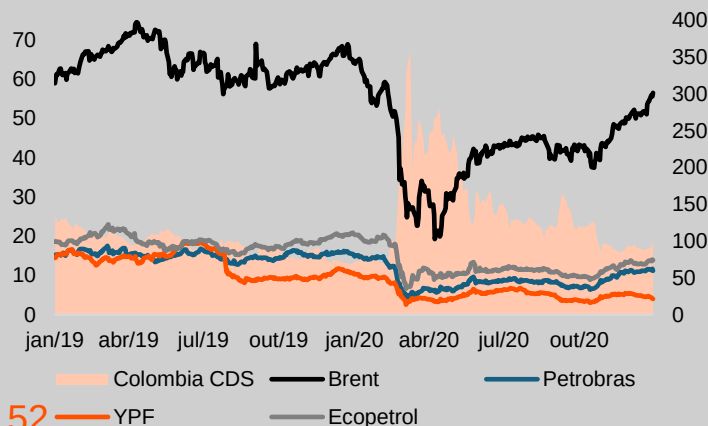
Earning Yield Gap Sensitivity

LT Earning Yield GAP	10-year sovereign Bond			
	5.5%	6.0%	6.5%	7.0%
2.5%	12.5	11.8	11.1	10.5
3.0%	11.8	11.1	10.5	10.0
3.5%	11.1	10.5	10	9.5
4.0%	10.5	10.0	9.5	9.1

Colombia (UW) – Still a risky bet on political uncertainty and a lagging economic recovery.

- Thesis:** Colombia is the most discounted market in the region (from a historic multiple perspective) and offers a juicy ~8% dividend yield. However, we prefer to stay on the sidelines due to of short-term contingent risks: i) among all the reforms proposed by the current government, we believe that the pension reform has the highest probability of being approved – yet this proposal could cost pension funds 60%-70% of their inflows and have a serious impact on market; ii) pension funds and foreign investors (together representing over ~50% of volume traded) have been net sellers over the past 12 months, and we do not foresee a significant change in this trend; and iii) given the low liquidity levels, there is still a risk of Colombia being reclassified as a frontier market. Our YE24 target for the COLCAP stands at 1,310, implying modest 5% upside, though we estimate the total return at ~13% including dividends
- Earnings Trend:** Consensus estimates suggest that corporate earnings in Colombia are likely to have flattish earnings. It's worth noting that we anticipate interest rates remaining above the neutral nominal rate, resulting in a less expansionary monetary policy compared with countries like Chile or Peru. We maintain a cautious stance on Colombian banks, given their subdued loan growth and ongoing challenges related to asset quality. These factors are expected to put continued pressure on their financial performance. Davivienda stands out as the likely top performer in terms of net income growth this year, in a transition from negative to positive results. Viewed in the broader Andean context, however, this growth can be seen as a return to a relatively modest standard.
- Macro:** Colombia is facing a stagflation alert as its economy unexpectedly contracted by 0.4% in October 2023, marking the third consecutive month of decline. This contraction is primarily due to a sharp drop in gross fixed investments and uncertainties related to regulatory issues, free toll tariffs, and energy sector prices. Despite this economic slowdown, inflation remains a concern, with a year-end 2024 forecast of 4.8%, driven by potential factors like El Niño's impact on food and energy prices, reduced diesel subsidies, and a 12% minimum wage increase in 2024. The Central Bank has initiated an easing cycle with a 25-basis-point rate cut in an attempt to combat inflation, but the path forward remains uncertain. Meeting the 2024 fiscal deficit target of 4.4% of GDP poses challenges as revenue projections have dropped significantly, largely due to the Constitutional Court's decision to prohibit the deductibility of royalties. This decision necessitates substantial cuts in public spending. Overall, Colombia's economic outlook is marked by uncertainty and downside risks.
- Investment themes we like:** Discounted stories with limited regulatory risk.
- Themes to Avoid:** Banking sector.
- Risks and themes to monitor:** i) The reform agenda; ii) EM status by MSCI; iii) Exito tender offer; iv) GEA-Giliky deal; v) News on energy tariffs; vi) The El Niño impact on the sector.

Ecopetrol is less correlated to Brent prices than its peers



COLCAP vs EPS 2024 and EPS 2025 earnings revision trend



Petro Reforms Agenda

	Proposal	1st debate at the comision	2nd debate at the Plenary	1st debate at the Comision of the other chamber	2nd debate at the plenary of the other Chamber
Start in the Senate	Pension Reform	✓	✓		
Start in the Chamber	Health Reform	✓	✓	✓	
	Labor Reform	✓	✓		

Our YE 2024 Target implies that political risk discount persist



- We are certainly setting the tone for a conservative scenario in Colombia, following political risk uncertainty regarding the pension reform. This uncertainty leads us to believe that we should not expect a significant narrowing of the earnings yield gap, and we anticipate that fair multiples will likely remain within the 6.5x-7x range. **Our YE 2024 target stands at 1,310, implying a mild 5% upside, though the total return is estimated at ~13% due to a nice dividend yield of ~8%.**
- Downside risk will be limited, so we see Colcap as a pure dividend yield play only. However, the upside risk to our thesis in Colombia relies on higher oil prices and thus better prospects for Ecopetrol earnings or a strong moderation in the reform agenda. We believe that the cyclical sector should remain subdued during 1H24 but strong signs of a fast recovery in banks could also have an impact on our conservative stance.

DDM Model Sensitivity

LT ROE	LT EPS Growth	Equity Risk Premium			
		5%	5.5%	6%	6.5%
		Ke			
		15.1%	15.6%	16.1%	16.6%
10%	4.0%	5.7	5.4	5.2	5
12%	4.8%	6.2	5.9	5.6	5.4
14%	5.6%	6.7	6.4	6.1	5.8
16%	6.4%	7.4	7.0	6.7	6.3
17%	7%	7.8	7.4	7.0	6.6

COLCAP Target Assumptions – Scenarios

	Prob	Bull Market		Bear Market		Base Market	
		Fair P/E	Target YE2024	Fair P/E	Target YE2024	Fair P/E	Target YE2024
DDM Model	33%	7.0	1,340	6.3	1,200	6.7	1,280
Earning Yield GAP	33%	7.1	1,360	6.3	1,200	6.7	1,280
Bottom Up	33%	7.8	1,482	7.1	1,354	7.4	1,418
Blended			1,380		1,240		1,310

Earning Yield Gap Sensitivity

LT Earning Yield GAP	10-year sovereign Bond			
	8.0%	9.0%	10.0%	11.0%
4.0%	8.3	7.7	7.1	6.7
4.5%	8	7.4	6.9	6.5
5.0%	7.7	7.1	6.7	6.3
6.0%	7.1	6.7	6.3	5.9

Periodic Table of Returns (EM)

2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
ARGENTINA	BRAZIL	ARGENTINA	SAUDI ARABIA	TAIWAN	KOREA	SAUDI ARABIA	ARGENTINA	ARGENTINA	TAIWAN
-1.2%	61.3%	72.3%	15.1%	28.3%	34.0%	34.4%	32.2%	61.5%	6.4%
KOREA	PERU	CHINA	INDIA	COLOMBIA	TAIWAN	INDIA	CHILE	MEXICO	INDONESIA
-1.8%	53.8%	52.3%	-0.2%	25.9%	28.6%	27.3%	15.1%	36.2%	4.0%
SOUTH AFRICA	LATAM	CHILE	PERU	BRAZIL	CHINA	TAIWAN	INDONESIA	PERU	MALAYSIA
-2.6%	27.9%	39.8%	-0.3%	22.1%	26.7%	21.6%	10.4%	30.2%	3.8%
INDIA	COLOMBIA	EM	BRAZIL	CHINA	INDIA	ARGENTINA	THAILAND	TAIWAN	SAUDI ARABIA
-3.0%	23.9%	34.3%	-3.9%	20.4%	16.8%	20.9%	6.3%	26.7%	3.6%
MALAYSIA	THAILAND	PERU	INDONESIA	EM	EM	MEXICO	PERU	LATAM	INDIA
-4.7%	22.4%	33.5%	-5.9%	15.4%	15.8%	19.5%	5.6%	25.1%	3.6%
SAUDI ARABIA	CHILE	KOREA	MALAYSIA	KOREA	ARGENTINA	EM EX CHINA	BRAZIL	KOREA	PERU
-9.9%	13.2%	29.0%	-7.0%	14.4%	12.3%	10.0%	1.7%	23.9%	1.7%
CHINA	TAIWAN	INDIA	THAILAND	LATAM	SOUTH AFRICA	SOUTH AFRICA	INDIA	BRAZIL	COLOMBIA
-10.1%	12.7%	28.7%	-8.0%	13.7%	-1.0%	9.6%	1.6%	23.4%	0.3%
TAIWAN	INDONESIA	INDONESIA	TAIWAN	INDIA	MALAYSIA	THAILAND	LATAM	INDIA	EM EX CHINA
-11.0%	12.2%	22.8%	-8.9%	8.5%	-1.7%	7.1%	-0.1%	20.3%	-0.7%
INDONESIA	KOREA	BRAZIL	LATAM	MEXICO	SAUDI ARABIA	INDONESIA	SOUTH AFRICA	EM EX CHINA	MEXICO
-12.0%	10.2%	21.0%	-9.3%	8.0%	-2.3%	1.5%	-1.1%	20.0%	-1.4%
MEXICO	SAUDI ARABIA	LATAM	COLOMBIA	SOUTH AFRICA	MEXICO	KOREA	MALAYSIA	SAUDI ARABIA	KOREA
-16.0%	8.7%	20.8%	-13.9%	4.4%	-4.0%	-1.6%	-4.3%	7.5%	-1.5%
EM	EM	SOUTH AFRICA	SOUTH AFRICA	SAUDI ARABIA	CHILE	EM	MEXICO	EM	EM
-17.0%	8.6%	20.5%	-14.6%	3.5%	-8.3%	-4.6%	-5.2%	7.0%	-2.4%
THAILAND	ARGENTINA	THAILAND	EM	INDONESIA	INDONESIA	MALAYSIA	SAUDI ARABIA	SOUTH AFRICA	ARGENTINA
-18.5%	3.9%	19.1%	-16.6%	3.0%	-9.5%	-7.3%	-7.1%	5.7%	-2.5%
CHILE	SOUTH AFRICA	TAIWAN	MEXICO	PERU	PERU	LATAM	COLOMBIA	COLOMBIA	THAILAND
-18.9%	1.6%	14.3%	-17.4%	1.1%	-9.5%	-13.1%	-12.7%	2.3%	-3.1%
PERU	INDIA	COLOMBIA	KOREA	THAILAND	THAILAND	COLOMBIA	EM EX CHINA	INDONESIA	LATAM
-32.5%	-0.3%	13.8%	-19.3%	-1.9%	-13.9%	-15.4%	-19.3%	2.2%	-5.2%
LATAM	CHINA	MEXICO	CHINA	MALAYSIA	LATAM	CHILE	EM	CHILE	SOUTH AFRICA
-32.9%	-1.4%	13.6%	-20.3%	-6.1%	-16.0%	-19.0%	-22.4%	-1.2%	-6.3%
BRAZIL	MALAYSIA	MALAYSIA	CHILE	CHILE	BRAZIL	PERU	CHINA	MALAYSIA	CHINA
-43.4%	-2.5%	9.2%	-21.0%	-18.6%	-20.9%	-21.7%	-23.5%	-3.2%	-6.4%
COLOMBIA	MEXICO	SAUDI ARABIA	ARGENTINA	ARGENTINA	COLOMBIA	CHINA	TAIWAN	CHINA	BRAZIL
-43.9%	-10.7%	4.3%	-51.7%	-22.6%	-22.9%	-22.4%	-24.7%	-13.2%	-7.2%
						BRAZIL	KOREA	THAILAND	CHILE
						-23.5%	-26.4%	-13.8%	-12.2%

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