



Grupo Aval Acciones y Valores S.A. (AVAL)

Updated March 20th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$5.20	5 Year CAGR Estimate:	7.8%	Market Cap:	\$5.85 B
Fair Value Price:	\$6.50	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/01/22
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.7%	Dividend Payment Date:	04/13/22
Dividend Yield:	N/A	5 Year Price Target	\$7.50	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

Overview & Current Events

Grupo Aval, ticker AVAL, is a Colombian holding company engaged in various financial activities, including banking, telecommunications, and real estate in Colombia and Central America. The company's majority owner is Luis Carlos Sarmiento, who owns about 80% of the company's shares. Mr. Luis continues to run the company with help from his son, Luis Carlos Sarmiento Gutierrez, whom Mr. Luis is grooming to control the family conglomerate eventually. The company was founded in 1998 when its name was changed from Administraciones Bancarias. Grupo Aval owns sufficient voting stock in some well-known Banco de Bogota, Banco Popular, and BAC Credomatic, with operations in Costa Rica, Panamá, Nicaragua, Guatemala, and El Salvador, Honduras, and the U.S. State of Florida. The company has been paying monthly dividends since 2014, but the dividend amount varies because it is paid out in Colombian Peso. Grupo Aval has a market cap of \$5.85 billion and will make \$5.14 billion in revenue in 2021. Note that Grupo Aval reports earnings in Colombian Peso, which we converted into USD.

On March 16th, 2022, Group Aval reported fourth-quarter and full-year results for Fiscal Year (FY)2021. Total revenue was \$1.35 billion for the quarter, which is 7.4% higher compared to the fourth quarter of 2020, where the company reported revenue of \$1.26 billion. Net income also saw year-over-year growth. For the quarter, Aval reported a profit of \$0.86 billion compared to \$0.80 billion in 4Q20, an increase of 7.6%.

On a per-share basis, the company made \$0.78 per share in earnings for the year, a growth of 39.3% vs. 2020. We estimate that Grupo will earn \$0.81 per share for 2022. This will be an increase of 3.8% compared to FY2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	\$0.71	\$0.64	\$0.65	\$0.61	\$0.79	\$0.72	\$0.56	\$0.78	\$0.81	\$0.94
DPS	---	---	\$0.17	\$0.43	\$0.39	\$0.40	\$0.34	\$0.35	\$0.32	\$0.26	---	---
Shares¹	---	---	770.0	765.0	763.0	761.0	758.0	758.0	758.0	758.0	758.0	758.0

As South America and Central America region begin to lift COVID-19 restrictions, we expect Grupo Aval to grow at a 3% earnings growth for the next five years. We estimate that 2027 full-year earnings could be \$0.81 a share. This is a slightly lower growth rate than what the company has averaged over the past five years. The company's five-year compound annual growth rate (CAGR) is 5.8%.

The company's dividend is very inconsistent because it is converted to USD. Grupo Aval continued to pay its dividend during the 2020 COVID-19 pandemic, which is impressive considering numerous banks either cut or suspended their dividend. However, in a recent conference call management indicated its intention to not declare a dividend based on the likelihood of its subsidiaries not paying dividends.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E			14.6	10.2	12.2	14	7.5	12.2	12.1	6.6	6.4	8.0
Avg. Yld.			1.6%	6.5%	4.9%	4.7%	5.7%	4.0%	4.7%	5.1%	---	---

Shares have traded with an average P/E ratio of 10.5x earnings in five years. However, we think a PE of 8x is fair. At the current price, Grupo Alva currently has a P/E of 6.4 based on FY2022 earnings. Thus, the company looks undervalued based on our calculation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

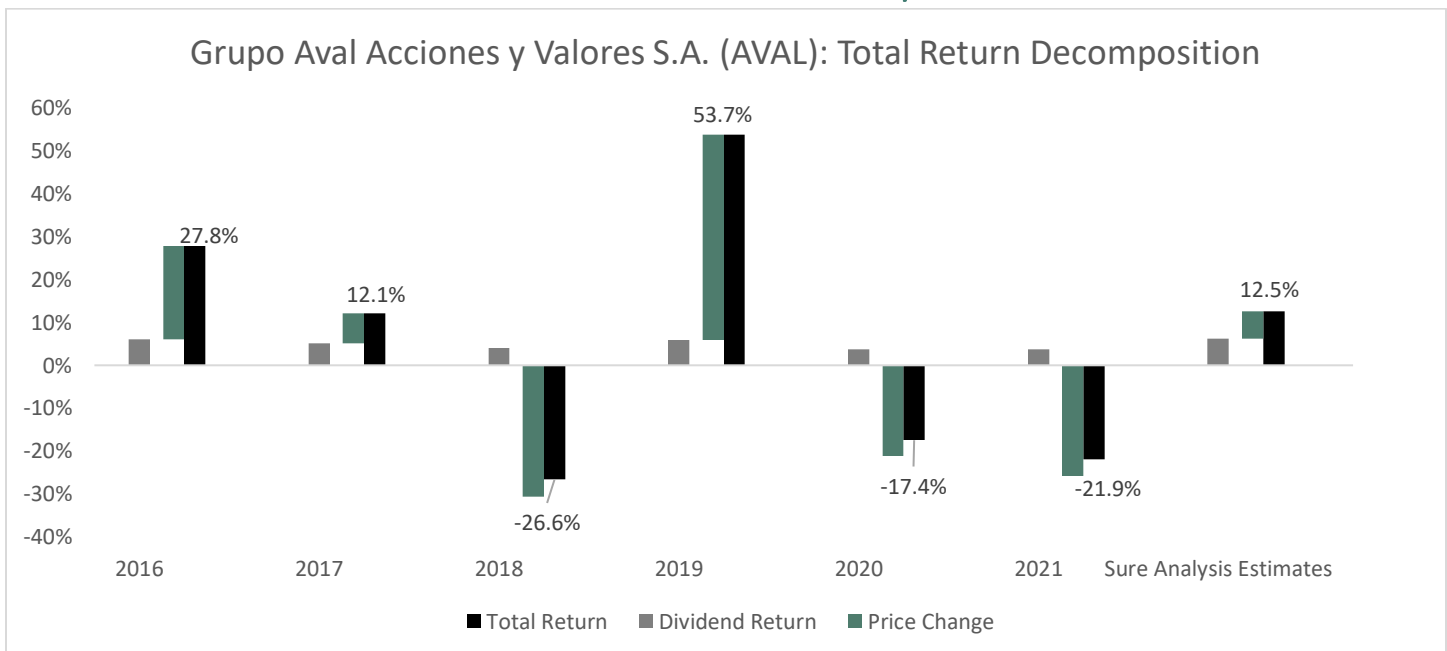
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	24%	67%	60%	66%	43%	49%	57%	33%	---	---

Grupo Aval does not have an economic moat. Bank moats are achieved through cost advantages like funding, operational, credit, and regulatory. Also, bank moats are created in the banking system a company operates. The Colombian banking system is flawed because of its unfriendly regulatory prospect, worsening macroeconomic prospects, and bleak political conditions. Aval does have a competitive advantage as it is the largest bank in Colombia. We do not have data during the Great Recession, but during the COVID-19 pandemic, the company has fair well and continued to pay out its monthly dividends. Grupo Aval currently does not have an S&P Credit Rating. The debt-to-equity ratio (D/E) is 3.2, which is relatively high and has worsened since the last report. The company has total assets of \$96.1 billion compared to \$85.7 billion in total liabilities, giving an assets-to-liabilities ratio of 0.9. Overall, Grupo Aval has a balance sheet that does need improvements.

Final Thoughts & Recommendation

Grupo Aval appears able to withstand the current economic headwinds. However, earnings have been very volatile. We anticipate a total return over the next five years of 7.8% per year. We rate Grupo Aval as a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5,283	17,600	7,374	14,468	7,254	6,060	6,868	6,584	6,271	6,406
SG&A Exp.	2,059	6,759	3,066	4,991	2,843	2,230	2,351	2,192	2,026	2,673
D&A Exp.	231	760	419	762	347	306	325	397	382	
Net Profit	854	2,598	1,210	2,005	954	667	988	928	640	883
Net Margin	16.2%	14.8%	16.4%	13.9%	13.1%	11.0%	14.4%	14.1%	10.2%	13.8%
Free Cash Flow	2,475	9,927	3,492	9,141	389	1,276	2,486	1,201	2,180	
Income Tax	767	2,297	1,206	1,845	917	596	729	638	502	764

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	72,002	80,890	75,293	69,337	74,841	78,531	79,980	85,044	94,286	90,258
Cash & Equiv.	7,557	7,577	7,271	7,126	7,411	7,294	8,669	9,170	9,912	9,014
Accounts Rec	1,234	675	763	459	622	602	687	671	707	4,681
Goodwill	1,603	3,686	3,409	3,219	3,462	3,607	4,271	4,903	5,409	5,282
Total Liabilities	66,879	72,151	66,302	62,007	66,604	69,942	70,877	74,873	83,937	80,548
Accounts Payable	858	278	337	464	538	604	569	573	620	
Long-Term Debt	14,273	16,370	15,012	15,387	15,470	15,263	15,986	16,968	17,371	18,027
Shareholder's Equity	5,123	5,327	5,754	4,662	5,211	5,407	5,479	6,054	6,032	5,661
LTD/E Ratio	2.79	3.07	2.61	3.30	2.97	2.82	2.92	2.80	2.88	3.18

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.3%	3.4%	1.6%	2.8%	1.3%	0.9%	1.2%	1.1%	0.7%	1.0%
Return on Equity	18.3%	49.7%	21.8%	38.5%	19.3%	12.6%	18.2%	16.1%	10.6%	15.1%
ROIC	4.9%	11.7%	4.9%	8.6%	4.1%	2.8%	4.0%	3.6%	2.3%	3.2%
Shares Out.			770.0	765.0	763.0	761.0	758.0	758.0	758.0	758.0
Revenue/Share	5.70	18.92	9.57	18.90	9.51	7.96	9.06	8.69	8.29	5.75
FCF/Share	2.67	10.67	4.53	11.94	0.51	1.68	3.28	1.58	2.88	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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