

Inter & Co (INTR)

November 30, 2024



Ribeiro Capital

Overview

Inter & Co (INTR)

Current Share Price:	\$4.62
Market Cap	\$1.860 MM
Interest Income (TTM)	\$736 MM
EBT (TTM)	\$197 MM
ROE	11.9%
Recommendation	Buy



Company overview

Inter & Co is a financial services company currently operating in the US and Brazil. It offers a vast array of financial products such as personal loans, business accounts, mortgages, credit cards and more.

The Inter Superapp offers all of their services in a comprehensive manner is largely responsible for their incredible growth to 35M users. Management has been pushing successfully towards 30% ROE and Efficiency rate and 60M users until 4Q27

Investment Thesis

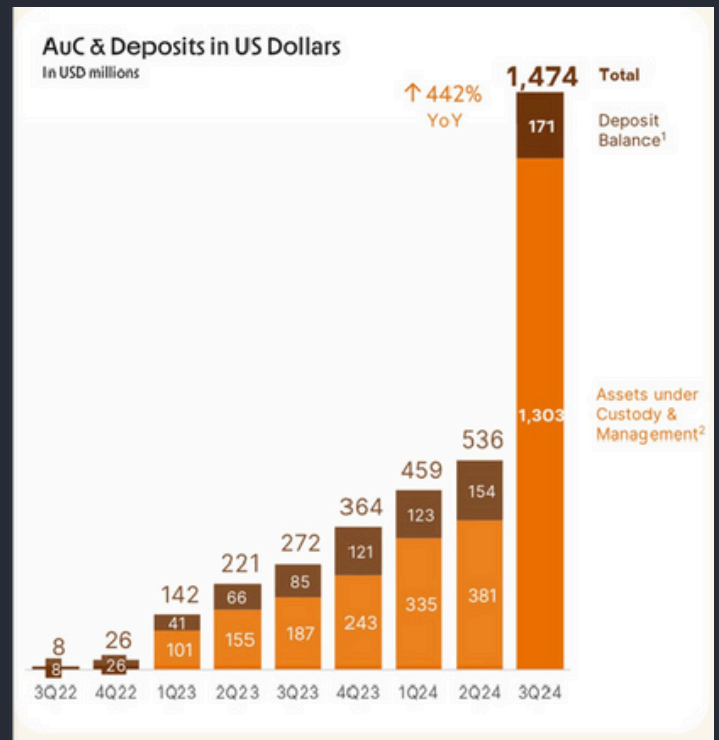
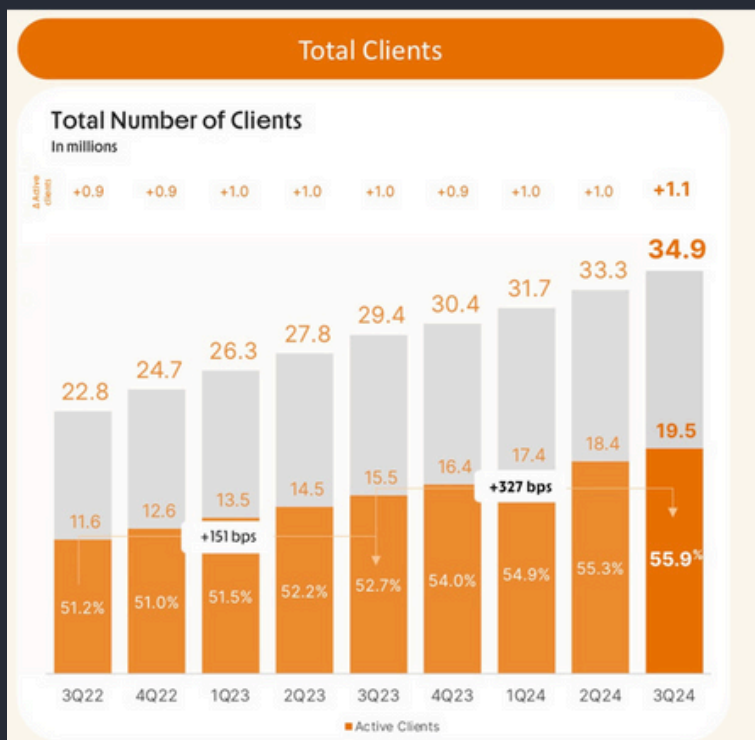
Inter is a fast growing company with growing margins trading at a relatively low valuation. Their market share among young adults in Brazil and now in the US combined with their robust and risk controlled, and growing, loan portfolio and their incredibly well rounded, versatile and user-friendly super app set them for a greater growth trajectory than the market expects, especially as they diminish their exposure to Brazil.

Outcomes and Opportunities

The company's management set the ambitious 60/30/30 goal of having 60M users, 30% ROE and 30% Efficiency rate by the end of 2027. All of these metrics have grown significantly YoY (+18.9%, +6.2p.p and -1.7p.p), even though Efficiency ratio has worsened a little QoQ (+2.8p.p)

Their client base has grown significantly over the past year, adding 5.5M since 3Q2023, standing at 34.9M. Additionally, their client activation rate has also improved 327pbs YoY, now standing at a 55.9% rate. Business accounts have also grown 22% year over year, showing that the company's focus on SMBs have been paying off

Their penetration into American markets have been stellar over the past year, through offering international accounts to Brazilians and reaching new consumers in the US. Today they stand at 1,474M USD in AUC, representing a 442% growth YoY. This solidifies their decision to successfully venture into a new market outside of Brazil



Outcomes and Opportunities

Their Consumer Finance 2.0 Portfolio (PIX Financing, Buy Now Pay Later and Card Overdraft) have grown 52% QoQ, now reaching half a billion BRL. Their insurance portfolio grew 115% YoY to over 3,4M contracts

Their Non-performing-Loans over 15 days and 90 days are both at all time lows, at 3.6% and 4.5% respectively, showing the company's effectiveness in granting financing, amounting to a Cost of Risk of only 5.1% and a coverage ratio of 130%.

Overall deposits have also grown. INTR sits at a new height of 1,900 BRL of deposits pre active client and a total deposit balance of 50B BRL, representing a 27% YoY growth, caused especially by time deposits and transactional deposits. This funding has an average cost of 6.8%, way lower than the 10.4% interest rate for the quarter

INTR's ARPAC grew 6% YoY compared to a stable cost to serve, achieving a 19.9 BRL/month margin per active user, a 11% growth YoY. The efficiency ratio declined -0.7% YoY, reflecting a growing margin for the company when compared to their recurring expenses

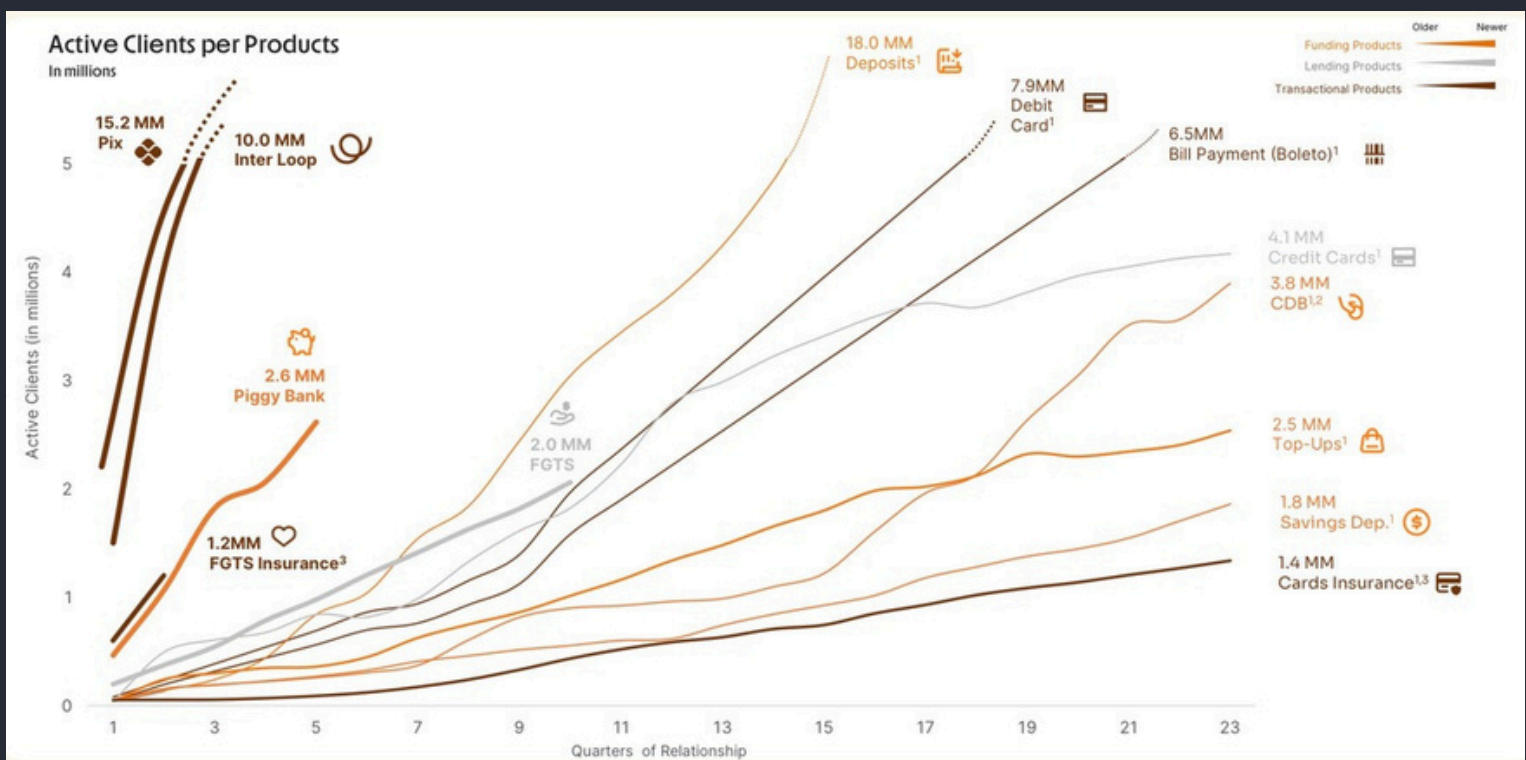
Their operational and gross expenses have grown significantly, but in line with the company's growth this year. YoY expenses have grown 28%, with a special emphasis on advertising and marketing, which grew 271% but is justifiable when considering such a high customer acquisition

The company's ROE has reached a double digit milestone for the first time, at 11.9%, almost doubling last year's 5.7%. They have managed to do so with a Risk Adjusted Net Interest Margin of 5.6%, a 100bps growth YoY, and a more than 100% growth in net income, reaching 260M BRL last quarter. Their risk adjusted NIM when compared to the government interest rate also grew to 53.6% from 34.7% last year, representing a healthy growth for the company even when taking out the effects of monetary policy

Competitive Position and Industry

INTR's push towards the US offers a great opportunity for customer acquisition and deposits growth. The company will have an infinite supply of resources and clients to grow their operations for the foreseeable future and, maybe even better than that, diversify from Brazil and improve its perception from investors. Once the bank increases their US presence, they won't be seen as a foreign investment and will be set for a multiple expansion

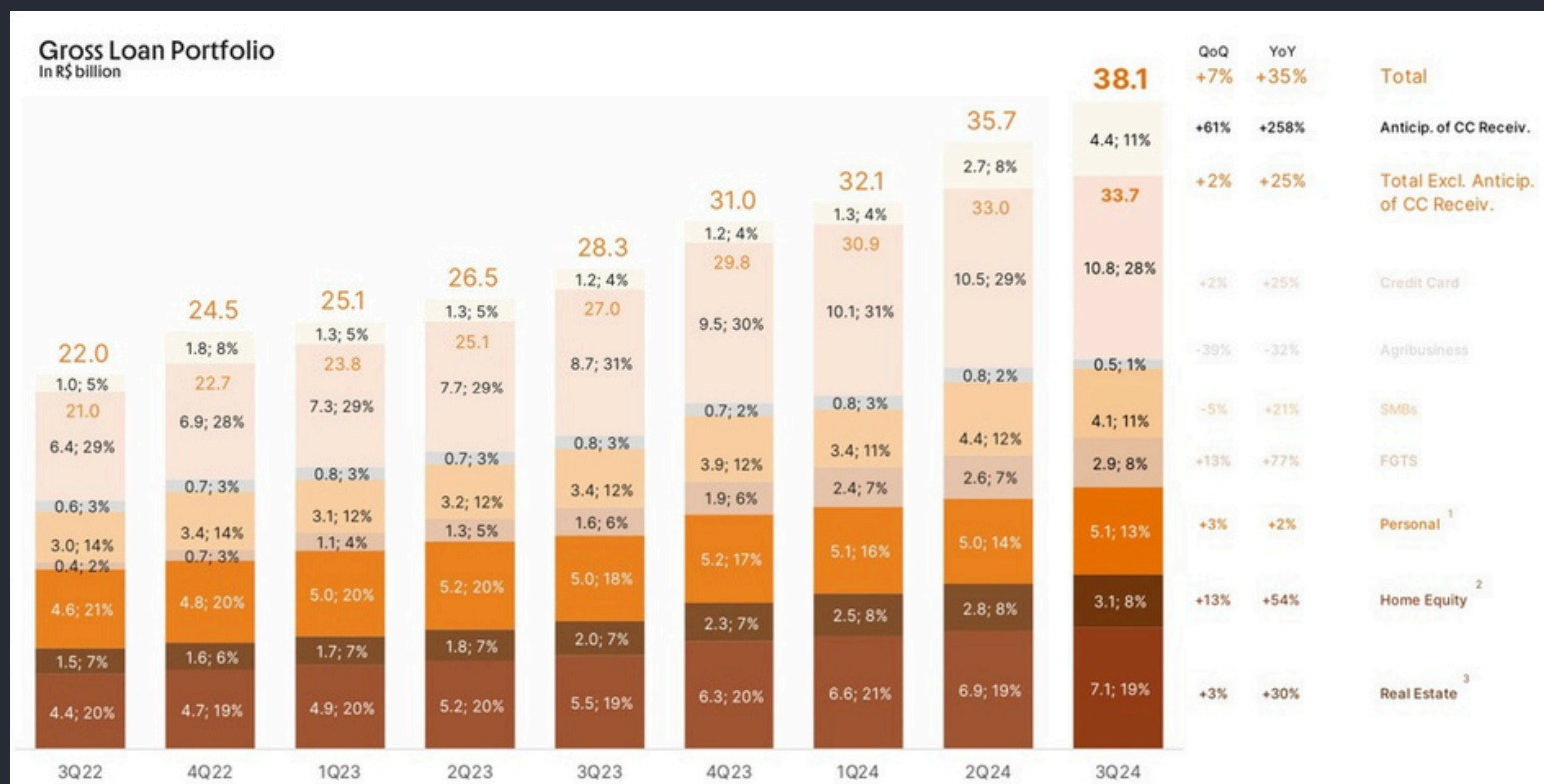
Because of how good their app and their services are and how easy they are for an everyday customer to use, their interface makes clients hooked on the platform, causing great customer retention, and new users are easily welcomed into the bank, causing a great customer acquisition. Plus, amount of products and offers they have inside their super app makes clients center their whole financial life around it



Risks

If the price of the Brazilian Real keeps dropping compared to the US Dollar, INTR's earnings in Brazil will be lessened when analyzed by American investors, causing their performance to be overlooked for a longer time. However, as they gain exposure to the US this risk is diminished and, when considering a more or less stable BRL/USD exchange, there is little risk

- INTR has been radically increasing their SG&A expenditures, especially in the marketing and advertising segment in order to expand their customer base in the US. If they fail to gain market share in America and can't break through the big banks, these expenses will be for nothing. However dire this thought may be, INTR still has many paths to growth



Earnings Overview

Income Statement Overview

Net Income: Achieved a record net income of R\$260 million (approximately \$52 million USD), marking a 166% increase compared to the same quarter in the previous year.

Total Net Revenue: Reported total net revenue of R\$1.7 billion (around \$340 million USD), reflecting a 32% year-over-year growth.

Improved NIM to 9.6%, up from 9.2% in the previous quarter, indicating enhanced profitability from interest-earning assets.

The company achieved a TPV of R\$320 billion, marking a 46% year-over-year increase.

Inter & Co reported a 38% year-over-year increase in interchange revenue,

Balance Sheet Overview:

Total Assets: Increased total assets to R\$122 billion, a 50% rise YoY

Expanded the gross loan portfolio by 7%, surpassing R\$38 billion

Achieved deposits in U.S. dollars amounting to \$460 million, representing a 223% YoY

Assets Under Custody (AuC): The company's AuC surpassed R\$122 billion, representing a 50% YoY

Business Accounts: The number of business accounts increased by 22% year-over-year, reaching 2.2 million.

Valuation

Inputs from current financials		All in thousands	
Net Income =		\$196.218,00	Last year
Book Value of Equity =		\$7.147.747,00	\$7.147.747,00
Current Earnings per share =	Method Used: Reverse DCF and D	\$0,35	(in currency)
Current Dividends per share =		\$0,35	(in currency)
Number of shares outstanding =		435000,000	
Do you want to normalize the net income/earnings per share		No	
<i>Inputs for Discount Rate</i>			
Beta of the stock =	89.09	1,5200	
Riskfree rate=		4,30%	(in percent)
Risk Premium=	-2% CAGR	10,00%	(in percent)
<i>Inputs for High Growth Period</i>			
Length of high growth period		5	
<i>Enter the inputs for fundamental growth and book value of equity</i>			
ROE =		10,30%	(in percent)
Retention =		91,43%	(in percent)

Equity Invested =	\$7.147.747,00
PV of Equity Excess Return =	-\$3.895.913,57
Value of Equity =	\$3.251.833,43
Number of shares =	435000
Value Per Share =	\$7,48

Conclusion: Buy

INTR's robust growth, both in user base, product offering and profitability presents an opportunity to invest in a young company with a proven record and smart management that keeps delivering great results quarter after quarter, all at a low price.