

GRUPO AVAL (NYSE: AVAL): A CYCLICAL MIRAGE

Anatomy of a Value Trap: Why a 103% Earnings Surge Conceals Structural Decay.



Ticker: AVAL (NYSE) / PFAVAL (BVC) | Date: February 2026

THE EXECUTIVE SUMMARY

A Low-Quality Business Masquerading as Deep Value

Net Income +103% YoY
0.8x Book Value



Inefficiency:

50.7% Cost-to-Income
(4-Bank Fragmented Structure)



Obsolescence:

Digital Defeat
(3.5M Users vs. 18M Peers)



Cannibalization:

Pension Reform **Amputates**
Porvenir Cash Flows



Governance:

81.2% Insider Control &
FCPA History

THE VERDICT

$\text{ROE (11.5\%)} < \text{Cost of Equity (15\%)} = \text{Value Destruction}$

THE 'HEAD-FAKE': ANATOMY OF A CYCLICAL POP

FINANCIAL NOIR EDITORIAL

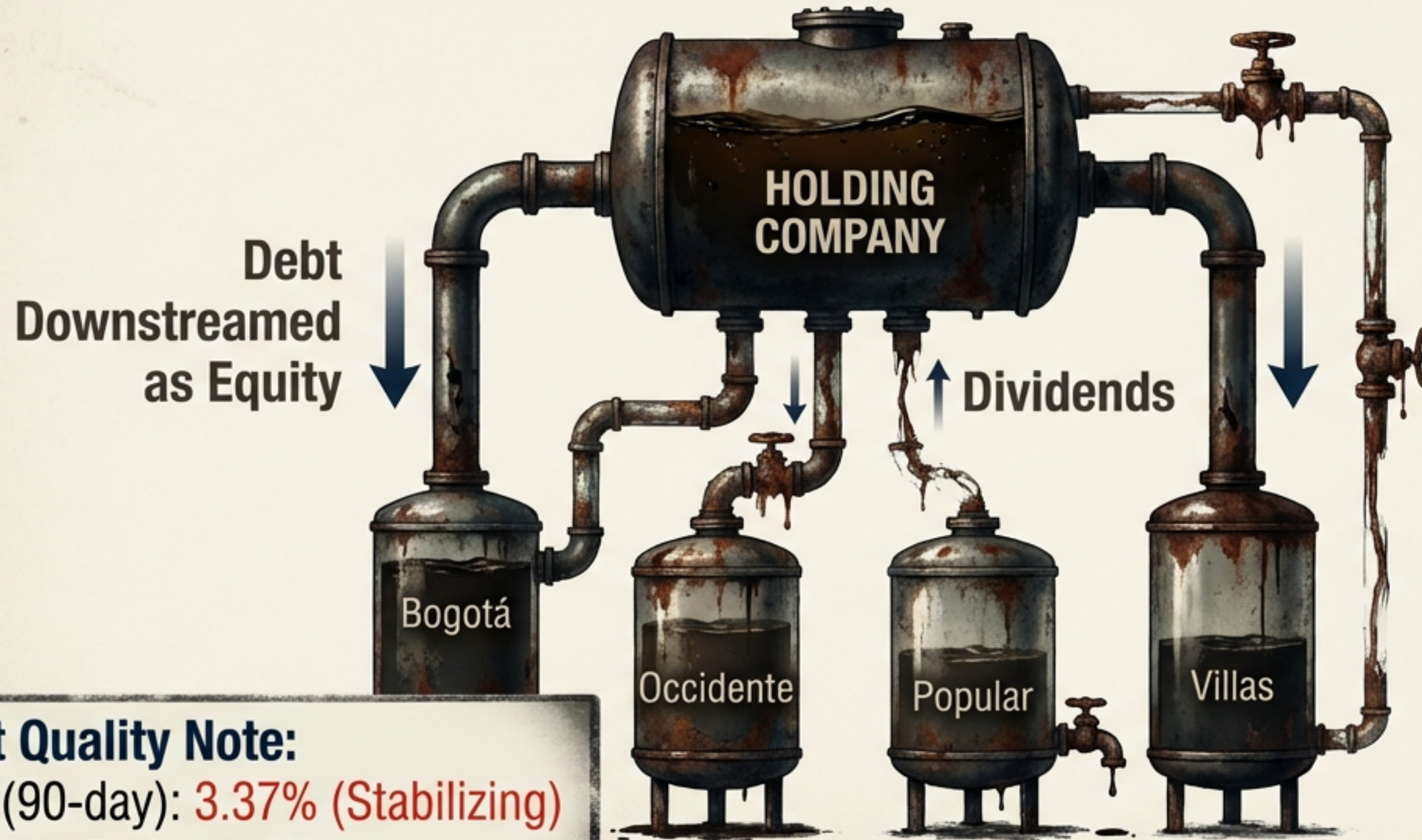
Asset Sensitivity Mismatch

Aval relies on short-duration wholesale funding. When rates drop, funding costs fall faster than loan yields, artificially inflating NIM to 4.35%.



KEY INSIGHT: This is a mechanical consequence of the central bank's easing cycle, **not a competitive moat.**

BALANCE SHEET CONSTRAINTS: DOUBLE LEVERAGE RISK



Asset Quality Note:

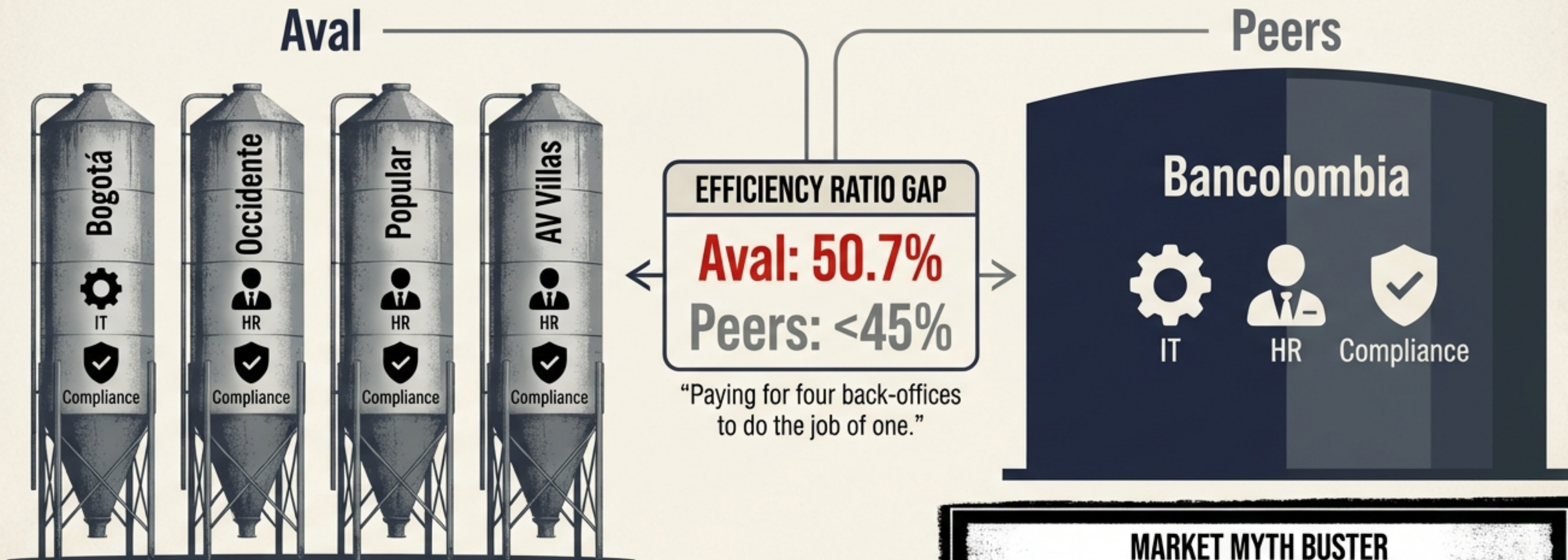
NPLs (90-day): **3.37%** (Stabilizing)

Coverage Ratio: 131%

**Double
Leverage Ratio:**
1.09x - 1.21x

Risk: Structural Subordination. If subsidiaries face capital blocks, the HoldCo cannot service external debt.

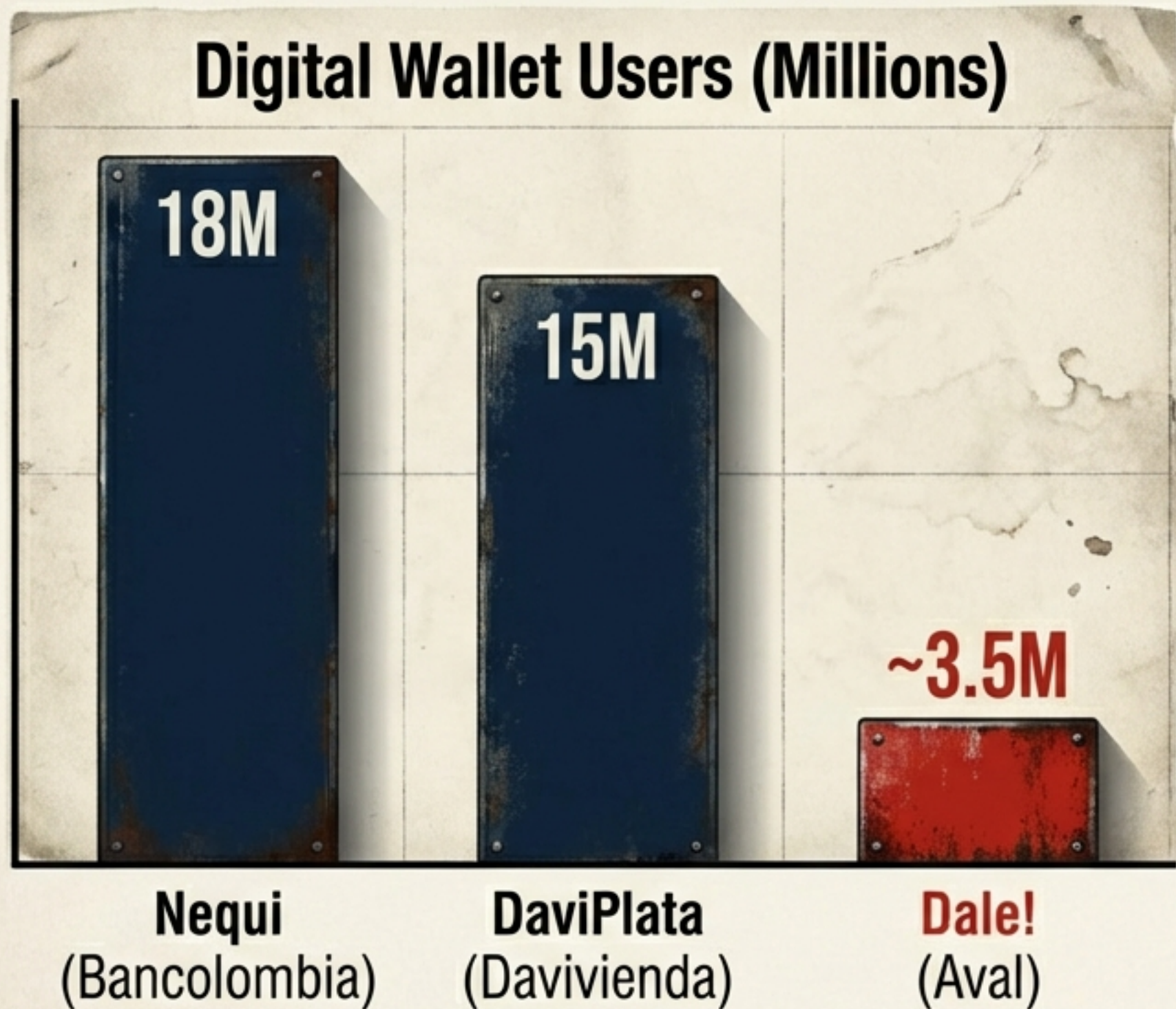
FLAW #1: THE 'COMPLEXITY TAX' OF MULTI-BRAND ARCHITECTURE



MARKET MYTH BUSTER

Did Aval sell Banco de Occidente? **NO**. Aval retains 72.3% ownership. The confusion stems from the 2023 Corficolombiana restructuring. Occidente remains a consolidated subsidiary.

FLAW #2: LOSING THE WAR FOR LOW-COST DEPOSITS



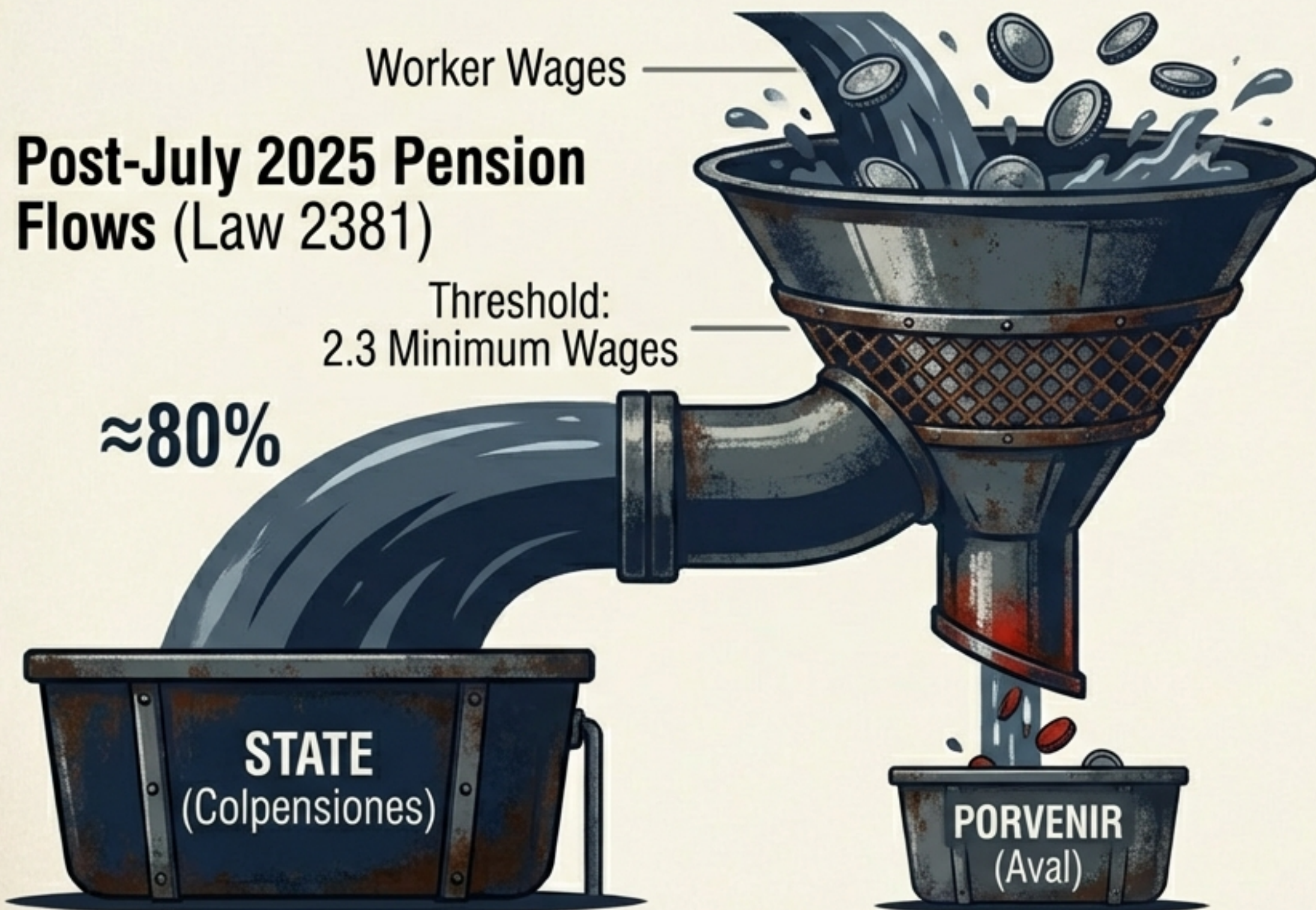
Digital wallets are **the new new moat for zero-cost customer acquisition.**

Nequi and **DaviPlata** have captured the market.

The Defensive Pivot:

“Gou Payments” (Launched Sept 2025).
A retreat to interoperability rather than a proprietary platform win.

FLAW #3: THE SLOW STRANGULATION OF PORVENIR



Porvenir controls ~46% of the market.

Result: Terminal Runoff.
Outflows (Retirees) > Inflows (Restricted Contributions).

Financial Hit: Secular decline in high-margin fee income (Fee Income Ratio: 21.9%).

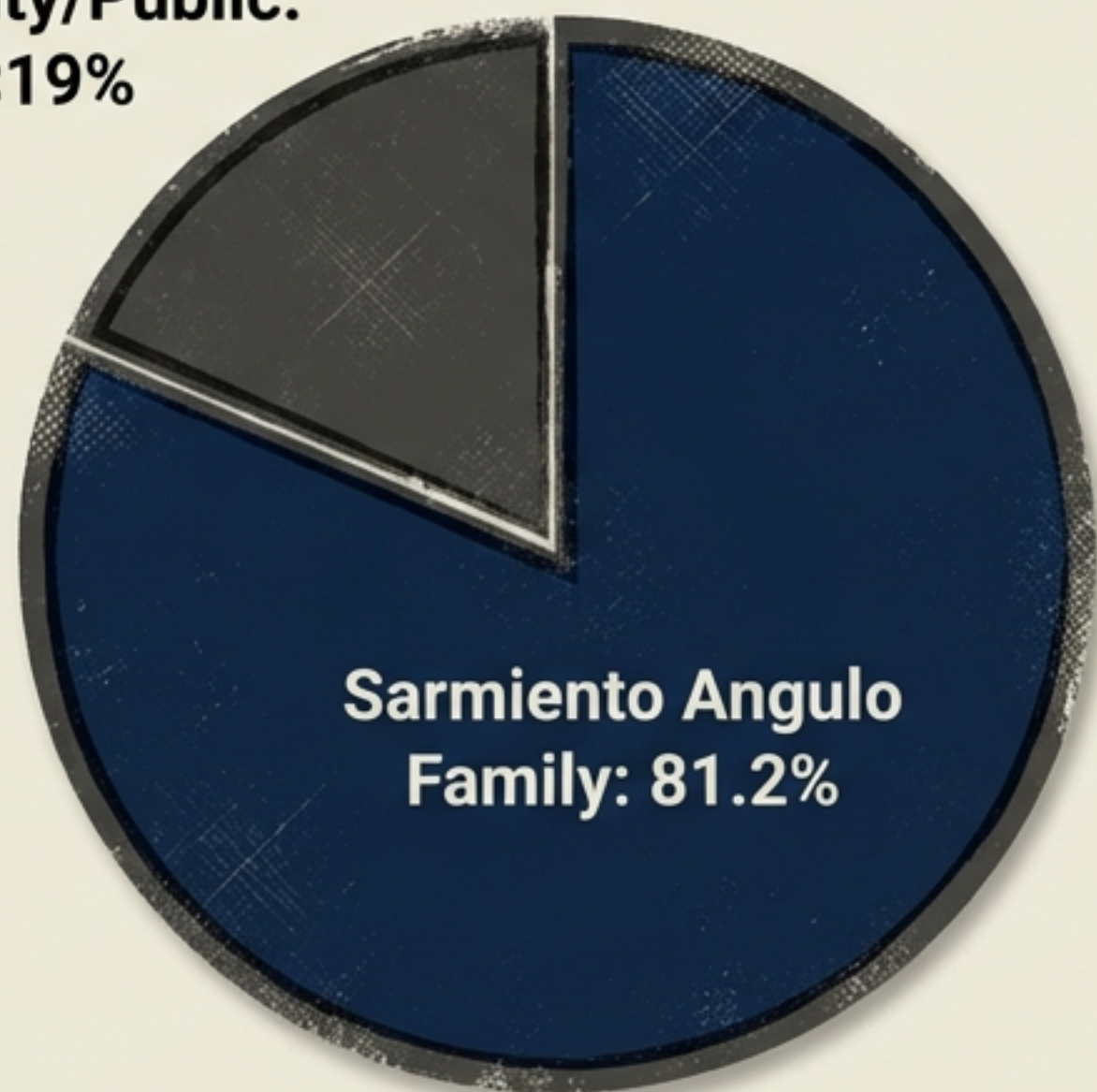
CAPITAL ALLOCATION SCORECARD

CATEGORY	GRADE	NOTES
M&A Strategy	D	2022 Spin-off of BAC Credomatic. Divested the 17% ROE crown jewel, trapping the company in Colombian sovereign risk.
Shareholder Return	F	Zero share buybacks despite trading $<0.8x$ Tangible Book Value. Capital hoarding vs. compounding.
Restructuring	B	Aval Fiduciaria (2026). Consolidating trust business (COP 201T AUM) is the only efficiency win.

GOVERNANCE: CONTROLLED BY THE FEW, OWNED BY THE MANY

Minority/Public:

<19%



Sarmiento Angulo
Family: 81.2%



The Odebrecht Shadow: \$80.8M FCPA Settlement (DOJ/SEC) regarding Ruta del Sol II.



Minority Voice: Zero influence on strategy.



Dividend Volatility: Erratic monthly payouts (**Slashed 50% in 2024**).

VALUATION: CHEAP, BUT NOT A BARGAIN



Implication: The stock **MUST** trade below Book Value (**Current: 0.75x - 1.0x**) to compensate for substandard returns. This is **Fair Value**, not a discount.

ASYMMETRIC DOWNSIDE RISKS: THE PRE-MORTEM



FISCAL RAID

Proposed Tax Reform triples banking surcharge (5% → 15%). Immediate **15% hit to Net Income.**



MACRO STAGNATION

Colombia GDP capped at ~2.7%. Loan growth merely paces inflation.



FX EROSION

ADRs priced in USD, cash flows in COP. **Fiscal slippage = devaluation = erased returns.**

FINAL INVESTMENT DETERMINATION



**“A cyclical trade for the brave;
a value trap for the compounder.”**

SOURCES & DISCLAIMER

Financial Data:

Grupo Aval Q3 2025 Earnings Report, SEC Form 20-F.

Macro Data: Banco de la República (BanRep) Financial Stability Report 1H 2025.

Competitive Data: Bancolombia & Davivienda Investor Presentations (User counts).

Legal/Regulatory:

Colombian Law 2381 (Pension Reform), DOJ FCPA Settlement Documents.