FINANCIALS EQUITY RESEARCH

October 23, 2019

Popular, Inc.

Flash Note: BPOP Posts 3Q19 Earnings Beat Facilitated by Lower-Than-Expected Loss Provision; Management Unveils Preliminary Estimate of CECL Impact: 5% Hit to Tangible Book Value

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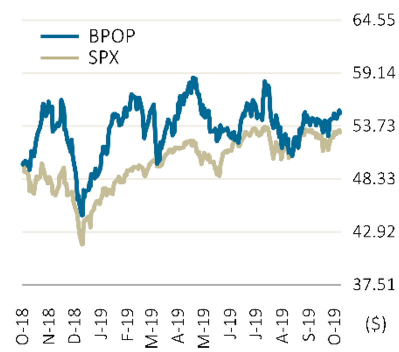
BPOP	$55.07
12 month target	$66.00

Buy	
52 week range	$44.65 - $58.68
Market Cap (M)	$5,321

Price Performance



Source: IDC, BTIG Estimates and Company Documents
($ in millions, except per share amount)

WHAT YOU SHOULD KNOW: Popular, Inc. (BPOP) this morning released a 3Q19 report featuring a solid earnings beat driven by a lower-than-expected provision for loan losses and a 3.8% sequential increase in the company's tangible book value per share (TBV) to $53.41.

- The report also included management's preliminary estimate of the impact on BPOP from the adoption of the Current Expected Credit Loss (CECL) accounting standard set to be implemented at the beginning of 2020. Based on the company's loan balances and macroeconomic assumptions as of June 30, 2019, management estimated that its allowance for loan losses would increase by $360mm to $400mm, or 85% to 95%, driven by its Puerto Rico mortgage, auto and credit card loans portfolio. Assuming BPOP's adoption of the new standard at September 30, 2019, CECL would result in a reduction of its TBV per share of approximately $3, or 5%. Given our view that uncertainty regarding the impact of CECL has been an overhang on BPOP shares, we believe the unveiling of the estimate from management may ultimately buoy the stock even if it appeared to be a bit higher than the average estimate in terms of day-one impact.
- BPOP reported 3Q19 earnings per share from continuing operations of $1.70, outpacing the consensus estimate of $1.60 and our estimate of $1.58. The beat was driven in part by a provision for loan losses of $36.5mm that was well below the consensus estimate of $45.7mm and our estimate of $40.2mm. That outperformance helped to offset expenses of $376.5mm that were above management's guidance of $364mm driven by higher personnel costs, professional fees and legal contingency reserves.
- Credit quality metrics remained benign during 3Q19 as BPOP's non-performing loans held-in-portfolio to loans ratio remained flat with the prior quarter at 2.1%. Net charge-offs increased to 1.01% of average loans held-in-portfolio versus 0.71% in 2Q19, with the increase driven in part by previously reserved restructured commercial real estate loans and in part by revisions in the company's auto loans charge-off policy.
- Net interest margin (NIM) was 4.00% in 3Q19, down from 4.11% in the prior quarter.
- BPOP's Common Equity Tier 1 (CET1) ratio remained high at 17.5% as of September 30, up from 16.8% in the prior quarter. CFO Carlos Vazquez told us that the company is focused on reducing its CET1 ratio to a level closer to its U.S. regional bank peers' ratios in the 11-12% context, which he said would help to close the valuation gap between its stock and those of its peers.
- BPOP will host a conference call this morning at 11am ET (866.235.1201). Our estimates are under review pending the call.

BTIG Covered Companies Mentioned in this Report

POPULAR, INC. (BPOP, Buy, $66.00 PT; Current Price: $55.07; Analyst: Mark.Palmer)

Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company Valuation and Risk Disclosures

Popular, Inc. (BPOP, Buy, $66.00 PT)

Valuation: Our price target of $66 for BPOP is based on 1.1x our FY20E tangible book value (TBV) per share of $58.02 plus $3.67 representing our estimate of the realizable value of its non-core investments.

Risks: Primary risks to our recommendation include weakness in the economy within the company's geographic footprint that could negatively impact its operating results; deterioration in collateral values of properties securing the company's construction, commercial and mortgage loans that could result in credit losses; the potential negative affect on the value of company's loans to the Puerto Rico government and its portfolio of Puerto Rico government securities and increased regulatory scrutiny.

Popular, Inc. (BPOP)

Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price ($)	Target Price ($)	Analyst	Rating
17-Mar-14	29.18	42	Mark Palmer	Buy
23-Apr-14	31.68	41	Mark Palmer	Buy
06-Jul-15	29.05	39	Mark Palmer	Buy
24-Jul-15	31.02	41	Mark Palmer	Buy
22-Nov-16	41.12	NA	Mark Palmer	Neutral
31-Oct-17	36.68	46	Mark Palmer	Buy
24-Apr-18	46.08	53	Mark Palmer	Buy
23-Jul-18	50.05	58	Mark Palmer	Buy
22-Apr-19	55.97	66	Mark Palmer	Buy

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