

## Popular, Inc.

Flash Note: BPOP Posts 4Q19 Earnings Beat Despite Headwind from Lower Interest Rates as Lower-Than-Expected Tax Rate Provides Boost

**WHAT YOU SHOULD KNOW:** Popular, Inc. (BPOP) this morning posted a 4Q19 earnings beat and a 3.2% sequential increase in tangible book value (TBV) per share despite the negative impact of the Federal Reserve's interest rate cuts during 2H19 on its net interest income. A lower-than-expected effective tax rate of 8% and higher fee income enabled the company to beat the bottom-line consensus estimate.

- BPOP posted 4Q19 EPS of \$1.72, outpacing the consensus estimate of \$1.53 and our estimate of \$1.55. We believe the company's bottom-line beat, combined with benign credit during the quarter – provision for loan loss of \$47.2mm was better than the consensus estimate of \$49.6mm – should help to buoy its share price during today's trading session.
- BPOP reported TBV of \$55.10 as of December 31, up from \$53.41 in the prior quarter. The company's TBV increased by 17% during FY19.
- BPOP's net interest income of \$467.4mm was well below the consensus estimate of \$485.9mm and our estimate of \$487.5mm. The company's net interest margin declined by 17bps sequentially to 3.83%.
- Meanwhile, BPOP's better-than-expected fee-based income helped to offset the decline in net interest income. Non-interest income of \$152.4mm beat the consensus estimate of \$145.4mm and our estimate of \$146.6mm.
- BPOP's capital levels remained elevated during 4Q19. The company ended the quarter with a Common Equity Tier 1 (CET1) ratio of 17.78%, up from 17.46% at the end of 3Q19. BPOP management has said they would continue to focus on the levers that they could use to deploy more of its excess capital as they target a CET1 ratio in the 11-12% context which would be closer to the company's U.S. regional bank peers' ratios.
- BPOP on January 9 announced its plans for capital actions in 2020 including up to \$500mm in share buybacks and a 33% increase in its quarterly stock dividend to \$0.40 per share beginning in 2Q20. BPOP's \$500mm share buyback plan represents a doubling from the \$250mm in repurchases which the company was allowed to execute in 2019, with the accelerated share repurchase transaction used for those buybacks fully executed on December 12.
- The company's credit remained generally solid as its non-performing loans (NPLs) to loans ratio declined to 1.9% from 2.1% in the prior quarter and the allowance for loan losses held-in-portfolio declined by 16bps sequentially to 1.74%. Net charge-offs increased to 1.21% of average loans held in portfolio from 1.10% in the prior quarter.
- BPOP management is scheduled to hold a conference call this morning at 10am ET (866.235.1201). Our estimates are under review pending the call.



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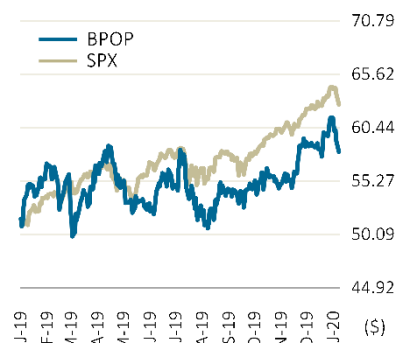
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BPOP	\$58.11
12 month target	\$69.00

Buy	
52 week range	\$49.92 - \$61.39
Market Cap (M)	\$5,620

### Price Performance



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



## BTIG Covered Companies Mentioned in this Report

POPULAR, INC. (BPOP, Buy, \$69.00 PT; Current Price: \$58.11; 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.

I, Andrew Harte, 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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#### Popular, Inc. (BPOP, Buy, \$69.00 PT)

**Valuation:** Our price target of \$69 for BPOP is based on 1.1x our FY20E tangible book value (TBV) per share of \$58.95 plus \$4.13 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
09-Jan-20	59.98	69	Mark Palmer	Buy

## Company-Specific Regulatory Disclosures

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Additional Information Available Upon Request

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