



Port Wren Capital, LLC

"Investment Research Experts."

PWC Stock Report

572% Earnings Growth in 1 Year and Undervalued: Popular (BPOP)

9/30/15

Thesis:

Popular Corporation (NASDAQ: BPOP), is incorporated under the laws of the Commonwealth of Puerto Rico and provides retail and commercial banking services and mortgages under its two main markets in Puerto Rico and mainland US. Founded in 1893 it is the largest bank in Puerto Rico and is the largest company (public or private) in the country, and the largest Hispanic bank in the US. It has 43% of the market share for total deposits and holds 41% of the market share for total loans in Puerto Rico and ranks first in both categories. A turnaround story after it paid in full the \$935M back to the US Treasury in TARP capital back in June of 2014. It was already out of favor due to the 5 years under TRAP and now with recent news of the Puerto Rico government debt.

Description:

Mkt Cap: \$3.11B; 52Wk Range: \$26.53 – \$35.83; Common Shares Outstanding: 103.50M; Dividend & Yield: \$0.15 (0.50%); Institutional Owners: 81.10%; Insiders Owners: 2.13%; EPS (ttm): \$7.58.

Opportunities:

A bank that ranks in the top 50 banks in the US and the largest bank in PR with proven record for improving the quality of its loans since 2008 and paying back the TRAP capital and now has begun to turn it around. It is still undervalued in the market place that presents the value investor an opportunity to buy it below its current book value of \$47.34 as it rights the ship.

Strengths:

In Q2 2015, it completed the acquisition of Doral's \$5B GSE mortgage service rights, purchased Doral insurance agency portfolio. Net interest income grew 5.6%; Net revenue grew 2.9% from first to second quarter. Net income from continuing operations decreased -0.22% from first to second quarter. Common Equity Tier 1 Capital was 15.6% in Q2 2015 compared to 15.7% in Q1 2015 during an adverse economic environment. It has reduced its exposure to risky small and medium enterprise business loans by 55% since Q4 2007. It reduced construction

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loans portfolio by 94% since 2007 due to high risks. Nonperforming assets decreased by \$129M and non performing loans decreased by \$89M QoQ. Nonperforming loan inflows increased by \$2M in the US due to the additions of mortgages. Restructuring is complete in the US. It owns 15.04% in Evertec, a transaction processing company with adjusted EBITDA of \$183.3M as of Q1 2015. In addition, it owns 15.84% of BancoBHD Leon, a Dominican Republic bank with net income of about \$123M. It holds a 24.9% stake in RRLP, a construction and commercial loans company and a 24.9% interest in PR Asset Portfolio, a construction, commercial loans and OREO's company. Has 233 branches in Puerto Rico, New York, New Jersey, Florida and the US and British Virgin Islands. With \$37B in assets, \$23B in loans, and \$28B in deposits. In the second quarter, BPPR completed the acquisition of mortgage servicing rights and related servicing advances on several pools of residential mortgage loans serviced by Freddie Max, Ginnie Mae and Fannie Mae, with the total price of about \$56M. During the second quarter BPOP recorded a part of its deferred tax assets from the US operations for about \$545M. The company has concluded that it may use a portion of its \$1.2B deferred tax assets mainly comprised of NOL going forward over an estimated eighteen years starting in 2016 as the carry forward period to lower their tax liabilities.

Weaknesses:

The total nonperforming loans inflow decreased QoQ by \$31M due to lower Puerto Rico mortgages. S&P credit rating remains at B+, but with a negative outlook. The loan losses for the non-covered portfolio amounted to \$60.5M for the second quarter compared to \$50.1M for the same period a year ago. The provision for covered portfolio was \$15.8M for the second quarter compared to \$11.6M for the same period a year ago.

Threats:

The negative economic environment in Puerto Rico and the government's debt problem are threats. And thus could prolong its recovery. BPOP's direct exposure to the Puerto Rico government is \$729M at Q2 2015 that is down \$226M compared to Q1 2015. With an outstanding balance of about \$673M that is down by \$140M compared to Q1 2025. Municipalities holding loans are backed by unlimited taxing power or real and personal property taxes that are collectable. Indirect exposure items like loans are payable by non governments and have a government guarantee to address shortfalls in the event of a default by the borrower.

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Valuation:

Let us look at the Regional Bank in the US Industry as a whole and three others in the \$2.0B to \$5.0B Market Cap range. We see that BPOP has some telling figures of a company in a turnaround situation.

	Industry Statistics (median)	BPOP	FMER	PVTB	FCNCA
Mkt Price \$		30.43	17.72	38.22	224
Mkt Cap \$M		3,151	2,937	3,011	2,690
EV \$M		1,432	3,313	3,955	1,671
Rev \$M		1,843	1,031	607.92	1,305
P/E (ttm)	12.90	4.02	12.79	18.27	13.21
P/S (ttm)	2.87	1.70	2.84	4.93	1.96
P/B	1.05	0.65	1.04	1.91	0.97
P/FCF	10.44	4.58	10.39	11.82	33.07
EV/EBIT	13.27	5.07	9.73	14.86	5.53
EV/Rev		0.77	3.21	6.51	1.29
P/Tangible Book	1.14	0.75	1.47	2.00	1.04
P/Projected FCF	0.64	0.35	0.73	0.94	0.77
Yield%		0.49	3.66	0.11	0.53
Payout		0	0.46	0.02	0.07
ROA%	0.88	2.22	0.96	1.06	0.73
ROE%	8.45	17.60	8.12	11.08	7.88
ROIC%		18.39	7.58	7.84	11.74
Operating Margin %	30.59	15.29	33.05	43.80	23.18
Net Profit Margin(ttm)%	22.03	42.53	23.15	27.25	15.17
Pre Tax Margin%		15.3	33.1	43.8	23.2
Cash/Debt%	1.44	1.93	0.68	0.17	0.43
Current Ratio		n/a	n/a	0.10	n/a
Equity/Asset%	0.10	0.14	0.11	0.10	0.09
Interest Coverage	1.62	n/a	5.96	3.56	4.04
Debt to Equity%		39	30	71	43

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10Yr Rev Growth%		-18.20	0.20	3.70	6.60
10Yr Erng Growth%		0	-1	0	6.80
5Yr Rev Growth%		-19.50	-0.70	-2.70	1
5Yr Erng Growth%		0	6.90	0	1.30
1Yr Rev Growth%		14.60	-4.20	9.60	14.30
1Yr Erng Growth%		572	13.90	14.80	40.50
1Yr EBITDA Growth (ttm)%		46.00	14.40	13.10	27.00
1Yr EBIT Growth (ttm)%		62.10	12.60	13.00	33.50
1Yr Free CF Growth (ttm)%		1.20	66.00	69.30	-67.80
1Yr BV Growth (ttm)%		16.30	3.30	12.60	4.10
Qty Rev Growth (yoy)%		n/a	-3.30	9.30	39.60
Qty Erng Growth (yoy)%		n/a	-4.90	13.70	66.80

Comparison highlights:

P/B at 0.65 is close to 2 year low, P/S at 1.70 is close to a 1 year low, P/E at 4.02 is close to a 10 year low, EV/EBIT is low at 5.07 compared to the industry at 13.27, and P/TB at 0.75 is low. All are good signs of an undervalued company. ROE of 17.60%, Net Profit Margin of 42.53%, ROIC of 18.39%, 1 Year Revenue Growth of 14.60%, 1 Year EBITDA Growth of 46%, 1 Year Book Value Growth of 16.30% not to mention it's 1 Year Earnings Growth of 572% are all very good indicators of a company making the turn towards higher returns in the long run.

Fair Value estimates:

Using Tangible Book the FV is \$39.74

Using Intrinsic Value the FV is \$86.23

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Using Graham Number the FV is \$80.63

Using DCF the FV is \$106.06 with about a 71% MOS

Catalyst:

The recent acquisition of Doral will provide another revenue stream.

Improved credit ratings from: Moody's to B1 with a stable outlook and from Fitch to BB- with a stable outlook.

Resolution of the government's debt problem

Recommendation:

Buy @ \$30.43 or <, Long, Bull.

Disclosure/Position:

Port Wren Capital, LLC does not have a position in the common stock at this time.

Key:

Curr Ratio: Current Ratio, **CapEx:** Capital Expenditures, **DCF:** Discounted Cash Flow, **Debt/Eq:** Debt over Equity, **EPS:** Earnings Per Share, **EBITDA:** Earnings Before Interest, Taxes, Depreciation and Amortization, **Erng:** Earnings, **EV/EBIT:** Enterprise Value over Earnings Before Interest and Taxes, **EV:** Enterprise Value, **EV/Rev:** Enterprise Value over Revenue, **FCF:** Free Cash Flow, **FTC:** Federal Trade Commission, **FV:** Fair Value, **IPO:** Initial Public Offering, **Mkt Cap:** Market Capitalization, **MOS:** Margin of Safety, **mqr:** Most Recent Quarter, **P:** Price, **P/B:** Price over Book, **P/CFC:** Price over Free Cash Flow, **P/E:** Price over Earnings, **P/S:** Price over Sales, **PWC:** Port Wren Capital, **Qty:** Quarter, **Rev:** Revenue, **R&D:** Research and Development, **ROA:** Return on Assets, **ROC:** Return on Capital, **ROE:** Return on Equity, **ROIC:**

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Return on Invested Capital, **TP:** Target Price, **ttm:** Trailing Twelve Months, **Yield %:** Dividend annual Interest Rate, **yoy:** Year Over Year.

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