

# ECONOMY

Companies are reporting earnings in range of 3.5 percent to 3.8 percent

THINK STRATEGICALLY:

## P.R.'s Home-Grown Banks in Spotlight

Bank Consolidations Mark End of Era for Global Universal Banks; Up to First BanCorp; OFG Bancorp; Popular Inc. to Lead Way for Progress

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### P.R.'s home-grown banks in spotlight

As FirstBank announced its definitive agreement to acquire the local assets of Banco Santander, and Oriental Bank revealed its accord to acquire the local holdings of Scotiabank, this marks the end of the era for global universal banks for Puerto Rico. The impact of the island's great financial crisis, its bankruptcy and post-crisis regulatory-market environment have had a dramatic effect on the global banking sector. As a direct response to their new operating landscape, banks have been re-assessing their business strategies, models and markets. In this assessment, Puerto Rico banks have become low-profit operations. If we mix the myriad legacy problems, it seems likely financial institutions would be motivated to leave the Puerto Rico market.

To frame this discussion, we analyzed how Puerto Rico banks have performed under the presidency of Donald Trump from Jan. 20, 2017 to Oct. 25, 2019.

While doing so, we created the

Birling Capital Puerto Rico Stock Index (BCPRSI), a market value-weighted index, composed of five companies with headquarters and/or their principal place of business in Puerto Rico. All trade in national stock markets—NYSE, AMEX or Nasdaq. We examine how each local bank holding company has performed in the selected period compared with the Dow Jones Industrial Average (DJIA) and how each has managed against the BCPRSI. When we compare the BCPRSI to the DJIA, note that the return on the BCPRSI was 42.75 percent from Jan. 20, 2017 until Oct. 25, 2019, and the DJIA return was 35.96 percent. The PRSI includes the five institutions; however, we will focus on the three that are bank holding companies, and we rank them according to the performance against the DJIA and BCPRSI:

First BanCorp achieved a total return of 62.54 percent, which beats both the DJIA and PRSI.

OFG Bancorp achieved a total return of 57.94 percent, which beats both the

DJIA and PRSI.

Popular Inc. achieved a return of 23.68 percent, beating the DJIA and was slightly shy of the PRSI.

### Company Snapshot

•**First BanCorp: Does business as FirstBank; has operated in P.R. 71 years.**

Ticker Symbol: FBP  
Stock Price (10-25-19): \$10.51  
Stock Price (1-20-17): \$6.62  
Stock Price Increase/Loss: \$3.89  
Q3 2019 Revenue: \$165.83  
Market Cap: \$2.25 Billion  
Total Employees: 2,643

•**OFG Bancorp: Does business as Oriental Bank in P.R.; has operated in P.R. 55 years.**

Ticker Symbol: OFG  
Stock Price (10-25-19): \$20.69  
Stock Price (1-20-17): \$13.10  
Stock Price Increase/Loss: \$7.59  
Q3 2019 Revenue: \$102.89  
Market Cap: \$1.052 Billion  
Total Employees: 1,447

•**Popular Inc.: Does business as Banco Popular in P.R.; has operated in P.R. for 126 years.**

Ticker Symbol: BPOP  
Stock Price (10-25-19): \$54.95  
Stock Price (9-20-17): \$44.43  
Stock Price Increase/Loss: \$10.52  
Q3 2019 Revenue: \$619.7  
Market Cap: \$5.23 Billion  
Total Employees: 8,474

As a group, the Puerto Rico bank holding companies have total market capitalization of \$8.53 billion and create a total of 12,564 direct jobs.

Had any investor made a \$10,000 investment, these would have been the results:

Company	Total Value	Total Gain/Loss
FirstBank	\$16,254	\$6,254.00
Oriental	\$15,794	\$5,794.00
Popular	\$12,368	\$2,368.00

With the Puerto Rico banks in the spotlight, it is now up to these three banks to lead the way for Puerto Rico's progress.

### Week in markets: U.S. stock market in rally; striking distance of record highs

The U.S. stock market rose for the third-consecutive week and closed within striking distance of record highs. Corporate earnings have been stimulating the markets higher. So far, 40 percent of the companies in the S&P 500 have reported 3Q 2019 results, with 80 percent of them having reported better-than-expected earnings. As it turns out, this figure is above the average of the previous five years. If measured as a group, companies are reporting earnings that are in the range of 3.5 percent to 3.8 percent above consensus estimates. If we use revenues as another metric, 64 percent of the companies reported total sales above consensus estimates; this figure is above the five-year average. If measured as a group, companies are reporting sales between 1.0 percent to 1.1 percent above estimates, which is above the five-year average. As we review the international market numbers, we note their expectations are quite pessimistic, which from our vantage point creates a once-in-a-generation opportunity for investors with a long-term view of the market.

The DJIA closed at 26,958.06, for a gain of 187.86 points, or 0.70 percent, and a year-to-date (YTD) return of

15.60 percent. The S&P 500 closed the week at 3,022.55, for a gain of 36.25, or 1.22 percent, and a YTD return of 20.60 percent. The Nasdaq closed the week at 8,243.12 for an increase of 153.58, or 1.90 percent, and a YTD return of 24.20 percent.

The Birling Capital PRSI closed the week at 1,602.16, or a loss of 25.19, or minus-1.55 percent over the previous week, and a YTD gain of 18.55 percent. Meanwhile, the U.S. Treasury's 10-year note rose during the week, closing at 1.80 percent, or an increase of 2.86 percent, with a YTD return of minus-0.89 percent. The U.S. Treasury's 2-year note increased during the week to 1.62 percent, an increase of 3.18 percent for the week, and a YTD return of minus-0.96 percent.

In which direction are foreign central banks' monetary policy headed?

The European Central Bank and Bank of Japan have set monetary policy rates in negative territory as a tool to stimulate growth. Negative rates make it less desirable for banks to hold cash and forces them to ramp up loan originations. There is north of \$13 trillion in global debt with a negative yield, the lion's share of these bonds is in the Eurozone and Japan. For example, 10-year rates in Germany are at minus-0.38 percent and in Japan are at minus-0.15 percent when compared to the U.S. 10-year Treasury note, which is currently yielding 1.80 percent.

### Final word: Last of the Mohicans

The "Last of the Mohicans" is a book by James Fenimore Cooper, written in 1826, and is set in 1757 during the French and Indian war when France and Great Britain battled for control of North America. In popular culture, "The Last of the Mohicans" is often referenced as the last of its breed.

As mentioned at the start of this column, the global universal banks are leaving Puerto Rico, and that impact and effect will be felt for decades. We are seeing a scenario with international players exiting the Puerto Rico market that began with Verizon, Texaco, Exxon, Chase, Banco Bilbao Vizcaya Argentaria-P.R., Scotiabank, AT&T and now Santander—a bad omen for Puerto Rico.

Weekly Market Close Comparison	10/25/2019	10/18/2019	Change	YTD
Dow Jones Industrial Average	26,958.06	26,770.20	0.70%	15.60%
Standard & Poor's 500	3,022.55	2,986.20	1.22%	20.60%
Nasdaq	8,243.12	8,089.54	1.90%	24.20%
Puerto Rico Stock Index	1,602.16	1,627.35	-1.55%	18.35%
U.S. Treasury 10-Year Note	1.80%	1.75%	2.86%	-0.890%
U.S. Treasury 2-Year Note	1.62%	1.57%	3.18%	-0.960%

*Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.*