Popular (BPOP)

Updated October 28th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$6.44 B
Fair Value Price:	$90	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/06/2024[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	01/02/2025
Dividend Yield:	2.8%	**5 Year Price Target**	$120	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Popular is the largest financial institution in Puerto Rico by assets and deposits, and ranks among the top 50 U.S. bank holding companies by assets. Through its main subsidiary, Banco Popular de Puerto Rico, the company provides retail, mortgage, and commercial banking services across 153 branches in Puerto Rico and nine branches in the U.S. Virgin Islands. It also offers specialized services such as auto and equipment leasing, investment banking, and insurance. In the mainland U.S., Popular operates through Popular Bank, with 40 branches located in New York, New Jersey, and Florida. This brings the holding company's total branch network to 202. The company has a market cap of $6.44 billion and last year it generated $3.2 billion in interest income.

On October 23rd, 2024, Popular posted its Q3 results for the period ending September 30th, 2024. The bank posted net income of $155.3 million, compared to $136.6 million last year. This gain was driven by higher net interest income and improved credit quality. Net interest income for Q3 was $572.5 million, up from $534.0 million last year, reflecting loan growth and an expanding net interest margin, which increased to 3.24% from 3.07% last year. Non-interest income also grew to $164.1 million, up from $159.5 million last year. Operating expenses were $467.3 million, relatively flat over the $466.0 million posted last year aided by lower professional fees. We believe Popular can achieve EPS of $8.54 this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-$3.08	$8.65	$2.06	$1.02	$6.06	$6.88	$5.87	$11.46	$14.63	$7.52	***$8.54***	***$11.43***
DPS	---	$0.30	$0.60	$1.00	$1.00	$1.20	$1.60	$1.75	$2.20	$2.27	***$2.48***	***$3.32***
Shares[2]	102.8	103.1	103.4	102	101.3	97.0	86.0	81.4	75.3	71.8	***71.9***	***70.0***

Over the past decade, Popular's EPS has been fluctuated wildly driven by a mix of strategic actions, economic events, and one-time gains or expenses. In 2014, Popular reported a net loss due to the repayment of Troubled Asset Relief Program (TARP) funds and restructuring of its U.S. operations. Yet, by 2015, EPS surged following a partial recapture of its deferred tax asset (DTA), which led to a major boost in EPS, along with benefits from the Doral Bank acquisition.

In 2016, EPS declined as Popular faced two adverse arbitration rulings linked to a loss-share agreement with the Federal Deposit Insurance Corporation (FDIC), resulting in a $131 million charge. In 2017, the impact of U.S. tax reform led to a $168 million DTA adjustment, further reducing net income despite stable credit quality and core operations. EPS rebounded strongly in 2018, reaching $6.06 million, driven by the termination of the FDIC shared-loss agreements and the acquisition of auto loans from Wells Fargo's Reliable Finance. This momentum lasted into 2019, when EPS increased again, benefiting from loan growth across Puerto Rico and the U.S., as well as a tax benefit from exempt interest income.

In 2020, the COVID-19 pandemic led to a 24% drop in net income, driven by a higher provision for credit losses and lower interest income, although Popular maintained strong credit performance, with the majority of borrowers exiting deferral programs in good standing. In 2021, EPS surged back up to $11.46, as credit provisions declined sharply due to the economic recovery, and loan growth, especially in the U.S., boosted earnings.

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[1] Estimated dated based on past dividend dates.

[2] Share count is in millions.

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In 2022, Popular reported record EPS of $14.63 billion, fueled by a $227 million after-tax gain from transactions with its technology partner Evertec and a $68 million tax benefit from a partial reversal of the DTA valuation allowance. Loan growth, particularly in the U.S. and Puerto Rico, remained strong, but higher provisions and operating expenses limited EPS growth. In 2023, EPS declined to $7.52 million due to higher credit provisions and operating expenses, but excluding the FDIC Special Assessment and other one-time impacts, adjusted EPS would have been about $10.60. We project EPS growth of 6% through 2029. We expect similar growth to the dividend, which the bank has hiked for six successive years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	15.5	---	7.2	7.8	7.8	5.6	5.4	9.0	***10.4***	***10.5***
Avg. Yld.	---	1.0%	1.9%	2.5%	2.3%	2.2%	3.5%	2.7%	2.8%	3.3%	***2.8%***	***2.8%***

In recent years, excluding the years of extreme gains or losses, Poplar has traded at a price-to-earnings (P/E) ratio in the high single digits, aligning with the typical range for regional banks, albeit with a modest discount. We believe this is due to its rather fluctuating earnings history, which the market may have been wary of. Today, the stock is trading at 10.4x our projected EPS for the year—a multiple which we believe more or less fairly values the stock. The stock is trading over its tangible book value of $69.04, though book value should recover rapidly from here as discounts rates decline.

Safety, Quality, Competitive Advantage, & Recession Resiliency

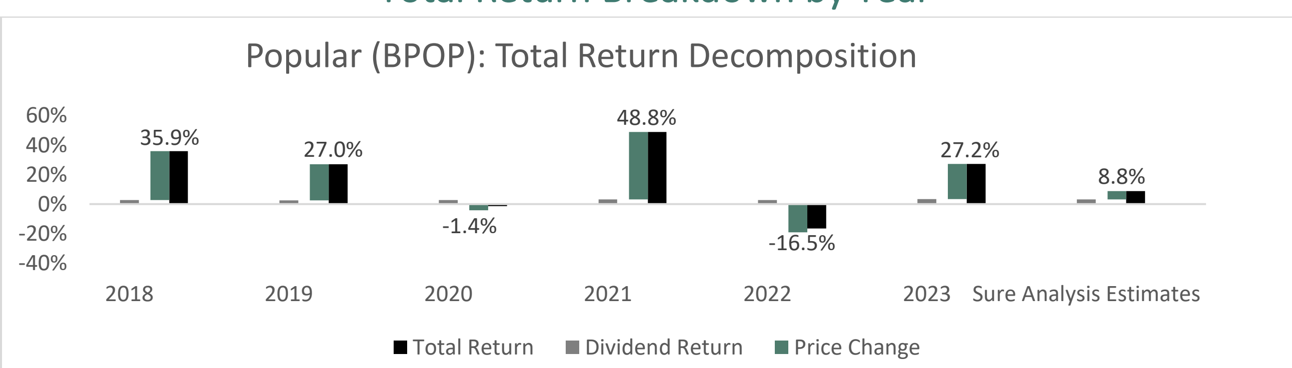
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	29%	---	17%	17%	27%	15%	15%	30%	***29%***	***29%***

Popular's competitive advantage lies in its leadership in Puerto Rico, where it dominates in assets and deposits, and its diversified services across retail, commercial banking, and specialized areas like auto financing and insurance. Moreover, Popular's diversified business model, which spans across retail, commercial banking, auto financing, and insurance, gives it flexibility and resilience. The bank also maintains a solid capital position, with a Common Equity Tier 1 (CET1) ratio of 16.4% as of Q3, allowing it to absorb economic shocks while continuing to lend prudently and invest in growth. Popular has consistently shown strong credit risk management, as seen during the COVID-19 pandemic, when it maintained low non-performing assets and aided borrowers exit payment deferral programs effectively. Popular's focus on conservative risk management, particularly in lending, should provide stability and position the bank well during a potential economic downturns and periods of financial market volatility. Still, we note that the bank has a volatile earnings history.

Final Thoughts & Recommendation

Popular's leadership in Puerto Rico make it a strong option among regional banks for investors, though its earnings have shown volatility. We forecast annualized returns of 8.8% through 2029, driven by the 6% growth estimate, the starting 2.8% yield, relatively stale assumptions with regards to a valuation adjustment. Consequently, we rate the stock a hold.

Total Return Breakdown by Year



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Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,310	1,929	1,699	1,895	2,359	2,424	2,257	2,478	2,937	2,644
SG&A Exp.	713	774	784	784	896	955	659	730	835	979
D&A Exp.	57	58	59	58	63	67	65	64	58	62
Net Profit	(313)	895	217	108	618	671	507	935	1,103	541
Net Margin	-23.9%	46.4%	12.8%	5.7%	26.2%	27.7%	22.4%	37.7%	37.5%	20.5%
Free Cash Flow	822	544	496	574	767	619	619	931	911	479
Income Tax	58	(495)	79	231	120	147	112	309	132	134

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	33,097	35,762	38,662	44,277	47,605	52,115	65,926	75,098	67,638	70,758
Cash & Equivalents	2,052	2,447	3,229	5,658	4,565	3,651	12,132	17,965	6,084	7,419
Accounts Receivable	67	79	47	8	40	47	65	65	35	23
Goodwill & Int. Ass.	652	896	869	831	868	851	812	857	969	932
Total Liabilities	28,829	30,656	33,464	39,173	42,170	46,099	59,897	69,129	63,544	65,611
Accounts Payable					111	114	829	139	125	148
Long-Term Debt	1,733	1,664	1,576	1,614	1,236	1,102	1,225	1,064	1,252	987
Shareholder's Equity	4,217	5,055	5,148	5,054	5,385	5,967	6,007	5,947	4,071	5,125
LTD/E Ratio	0.41	0.33	0.30	0.32	0.23	0.18	0.20	0.18	0.31	0.19

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.9%	2.6%	0.6%	0.3%	1.3%	1.3%	0.9%	1.3%	1.5%	0.8%
Return on Equity	-7.0%	19.1%	4.2%	2.1%	11.7%	11.7%	8.4%	15.6%	21.9%	11.7%
ROIC	-5.0%	14.0%	3.2%	1.6%	9.2%	9.7%	7.1%	13.1%	17.8%	9.4%
Shares Out.	102.8	103.1	103.4	102	101.3	97.0	86.0	81.4	75.3	71.8
Revenue/Share	12.74	18.70	16.44	18.57	23.29	24.99	26.25	30.44	39.02	36.83
FCF/Share	7.99	5.27	4.80	5.62	7.57	6.38	7.20	11.44	12.10	6.67

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.