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BIRLING
CAPITAL ADVISORS, LLC

The Parabolic Earnings of Puerto Rico's Banks

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Thoughts on The Keys of Investing and what 2023 brings

Most of my life as a banker, investor, and adviser has centered around anticipating the outcomes of the future and taking the necessary actions that reflect our views of that future. Since no one has a crystal ball like everyone, sometimes I predicted correctly, and other times I made the worst possible prediction with the regrettable decisions that often accompany most decisions.

For those very reasons investing in today's environment has become much more sophisticated than merely evaluating economic data and other metrics to predict the movement of markets. While daunting, access to data, electronic tools, investment options, and sheer availability serves well in humanity's perpetual search to increase the return on the money invested as much as possible. Out of all the best examples of world-famous investors, Warren Buffett, known as The Oracle of Omaha, stands out as the hallmark of consistency, determination, principles, delivery of results, and return on investment. Warren Buffet company Berkshire Hathaway's stock price has grown at an annualized rate of 20.9%. That's more than twice the S&P 500's average total return of 9.9% during the same period.

Had anyone invested 1990 \$10,000 in Berkshire Hathaway and added \$1,000 each year by December 31, 2022, your initial investment would have become \$10,869,226, million. That is the sheer magnitude of his acumen and the compounding power a 20.9% rate of return can have over those 32 years. The total investment of \$10,000 and adding just \$1,000 each year for 32 equals a total investment of \$42,000 and a net gain of \$10,827,226, million,

I have found that great investors have several common attributes, including early jobs, failures, intelligence, focus, attention to detail, conventional wisdom, voracious readers, strong ownership of their decisions, and arduous work, to name a few.

What surprises does the year 2023 bring our way? It's hard to say; we know that consumer spending fell to -0.23%, more than the already dire forecasts, signaling that the U.S. economy fell more at the end of 2022, which fuels expectations that there may be a 2023 recession.

The initial GDPNow Forecast for the U.S. Real GDP was released, showing a paltry 0.7% GDP for the first quarter of 2023.

In the absence of a crystal ball, we will face 2023 with the best data and analysis we can muster and prepare our financial goals for a great ride.

The Birling Capital Puerto Rico Stock Index 2022 Performance

The Birling Puerto Rico Stock Index is a market value-weighted index composed of the 4 Puerto Rico bases publicly traded companies headquartered and/or with their principal place of business in Puerto Rico. All companies trade on NYSE, AMEX, or NASDAQ national stock markets. For this analysis, we evaluate the three bank holding companies that have already reported their fourth quarter and Full 2022 results.

The Birling Capital Puerto Rico Stock Index ended 2022 with so many challenges that some have rolled over to 2023; however, one thing that must be present in investors' minds is the parabolic results the Puerto Rico banks had in terms of total revenues and net income, while the stock prices did not go parabolic, we believe that 2023 will be a banner year for Puerto Rico stocks.

Before we turn our attention to 2023, let us review 2022; the Birling Capital Puerto Rico Stock Index started 2022 at 2,879.13, with substantial growth uncertainty facing the companies. The index closed the year at 2,520.76, falling 358.37 and a negative return of -12.45%.

While these results are negative when compared to the other indices we follow, the Birling Puerto Rico Stock Index placed second overall; let's review them:

1. The Dow Jones Industrial Average had a return of -8.78%.
2. The Birling Puerto Rico Stock Index achieved a return of -12.45%.
3. The Birling U.S Bank Index reached a return of -17.24%.
4. The S&P 500 achieved a return of -19.44%.
5. The Nasdaq Composite achieved a return of -33.10%.

How did the Individual companies perform:

The four public companies that make up the Birling Puerto Rico Stock Index, although all had better-than-expected revenues and net income surpassing estimates, due to the uncertainty surrounding inflation, rising interest rates, and the global economic uncertainty impacted the individual stocks, for the year these were the results:

- Oriental achieved a return of **3.77%**.
- Firstbank achieved a return of **-7.69%**.
- Popular achieved a return of **-19.16%**.
- Evertec achieved a return of **-35.21%**.

Thus Oriental was the only Puerto Rico public company that defied the odds in 2022, having an overall positive return of 3.77%.

Reviewing each bank's performance, revenues, net income, returns, and stock price.

- **OFG Bancorp (OFG):** Achieved a 2022 return of 3.77% and reported its fourth quarter 2022 earnings with revenues of \$168.9 million, up 16.24%, and net income of \$68.13 million, up 28.65%, which beat estimates. For the Full-year 2022, revenues reached \$607.8 million, up 11.71%, and net income of \$241.1 million, up 12.08%. The stock closed at \$27.05, up \$0.39 or 1.43%.
 - Total Assets: \$9,025,590 billion, down 4.76%.
 - Total Capital: \$1,025,132 billion, down -3.90%.
 - Total Loans: \$6,770,341 billion, up 4.70%.
 - Total Deposits: \$8,770,446 billion, down -3.57%.
 - Market Capitalization: \$1.321,000 billion.
 - Tier 1 Capital: 14.41%.
 - Net Interest Margin: 5.69%.
 - Stock Price Target is \$34.58.
- **First Bankcorp.(FBP):** Achieved a 2022 return of -7.69% and reported its fourth quarter 2022 earnings with revenues of \$205.57 million, up 3.53%, and net income of \$73.2 million, down 0.26%, which met estimates. For the Full-year 2022, revenues reached \$795.29 million, up 8.21%, and net income of \$305.07 million, up 7.88%. The stock closed at \$13.45, down \$0.07 or 0.52%.
 - Total Assets: \$18,634,484 billion, down -10.34%.
 - Total Capital: \$1,325,543 billion, down -36.93%.
 - Total Loans: \$11,304,667 billion, up 4.22%.
 - Total Deposits: \$16,143,467 billion, down -9.73%.
 - Market Capitalization: \$2,483 billion.
 - Tier 1 Capital: 16.50%.
 - Net Interest Margin: 4.37%.
 - Stock Price Target is \$16.80.

- **Popular, Inc. (BPOP):** Achieved a 2022 return of -19.16% reported its fourth quarter 2022 earnings with revenues of \$559.56 million, up 10.41%, and net income of \$257.13 million, up 19.86%, which beat estimates. For the Full-year 2022, revenues reached \$2.167 billion, up 9.69%, and net income of \$1.1 billion, up 15%. The stock closed at \$65.72, down \$0.44 or 0.67%.
 - Total Assets: \$67,637,917 billion, down -9.93%.
 - Total Capital: \$4,093,425 billion, down -21.37%.
 - Total Loans: \$31,357,467 billion, up 8.96%.
 - Total Deposits: \$61,227,227 billion, down -9.51%.
 - Market Capitalization: \$4.817 billion.
 - Tier 1 Capital: 16.45%.
 - Net Interest Margin: 3.64%.
 - Stock Price Target is \$83.60.

The Birling Capital Puerto Rico Bank Index companies have a total market capitalization of \$8.621 billion, a (\$1.971) billion decrease during 2022.

The Industry grand totals are:

- Total Assets: \$95,311,991 billion.
- Total Deposits: \$86,141,140 billion.
- Total Loans: \$49,433,320 billion.
- Total Revenues: \$3,570.09 billion.
- Total Net Income: \$1,646.17 billion.

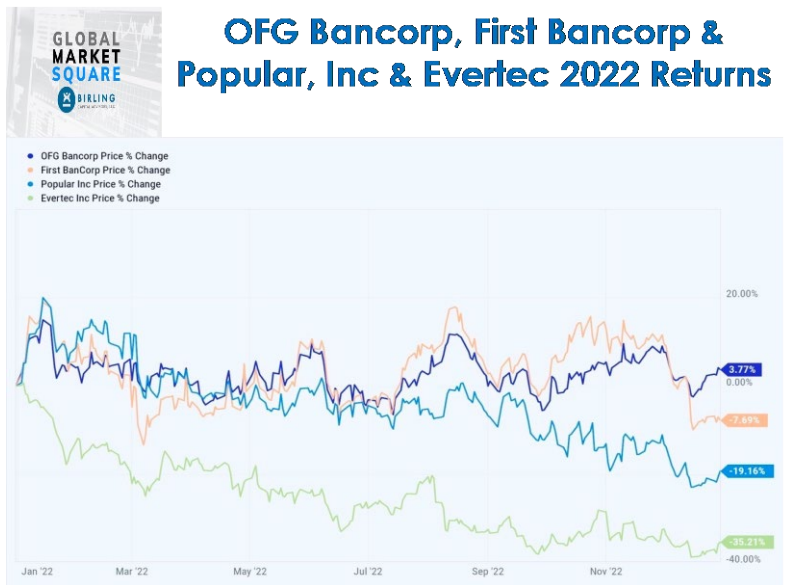
Had any investor invested \$10,000 on January 1, 2022, these would have been the results:

Company	Total Value	Total Gain/Loss
1. Oriental	\$10,377.00	\$377.00
2. Firstbank	\$9,331.00	(\$769.00)
3. Popular, Inc.	\$8,084.00	(\$1,916.00)

How did 2023 begin for the Birling Puerto Rico Stock Index?

So far, since 2023 began, the Birling Puerto Rico Stock Index has regained its stride and had, until 1/27/2023, a YTD Return of 5.01%. The Individual stocks have a year to date returns as follows:

- First Bancorp (FBP) has a YTD Return of **5.69%**.
- Popular, Inc. (BPOP) has a YTD return of **1.09%**.
- OFG Bancorp. (OFG) has a YTD return of **0.80%**.



The year is young, and the challenges are many; for investors, the key is to remain focused, true to your financial goals, diversify, balance your risk tolerance levels and, if possible, save room for the Puerto Rico stocks.

However, as you perform your stock rotations bear in mind the performance of the Birling Capital Puerto Rico Stock Index during the four years; these are the returns:

- 2019 return 29.17%.
- 2020 return -3.42%
- 2021 return 43.88%
- 2022 return -12.45%.

Our review demonstrates how Puerto Rico banks' management has successfully navigated through one of the most diversely challenged economic periods in 40 years, sustaining spectacular earnings and net income.

Lastly, Puerto Rico is in such an economic position that it should avoid the much-talked-about U.S. recession; the Island is in a position of strength with more than \$100 billion in Federal Funds allocated to reconstruction efforts; the key is to transform our economy while seizing these great funding sources.

A few months ago, the Planning Board revised downward its growth projections for Puerto Rico's economy for fiscal 2023 from 1.8% to 1.3%. These projections do not fully contemplate the powerful surge in economic growth the reconstruction efforts will have in the Puerto Rico economic trends with historic levels of unemployment, more open jobs than people available to fill them, and a robust consumer that continues to spend. For those reasons, Birling Capital Puerto Rico's Economic forecast is 1.6% GDP growth during 2023.

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