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Why Invest in Puerto Rico? Top U.S. Banks' vs. Top Puerto Rico Banks' Who is ahead in 2023?

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The Crisis of Confidence explained

The ongoing crisis of confidence engulfs the banking sector that began with Silicon Valley Bank, then focused on the global banks following the UBS and Credit Swiss shot-gun wedding. Continues to impact First Republic Bank, and now the seek-and-destroy mentality focuses on Deutsche Bank, facing selling pressure as its stock has fallen from \$13.57 on February 1, 2023, to \$9.36 on March 24, 2022, and is down YTD 16.23%. The Bank in July 2019, announced a restructuring plan to increase revenue, reduce costs, and return to profitability that seems which seems to be working since then; it has recorded ten straight quarters of profits and boasts substantial capital and solvency positions, and is becoming the next target of investors wrath for no reason that makes financial sense at least from the reported financials, which by the way were the highest in 15 years.

Deutsche Bank

- Total Assets: \$1,434 trillion
- Total Capital: \$75.64 billion.
- 2022 Revenues: \$28.11 billion
- 2022 Net Income: \$5.82 billion
- Tier 1 Capital: 13.40%.
- Stock Price Target is \$12.28.

U.S. vs. Puerto Rico Banks, who is ahead in 2023?

We begin our analysis by examining the top 6 U.S. Bank holding companies, part of the Birling Capital U.S. Bank Index. We discuss how each bank holding company's stock has fared from 1/01/23 to 3/24/23 and compared to the Dow Jones, S&P 500, and Nasdaq and how they have managed against the Birling Capital U.S. Bank Stock Index.

In the spirit of providing more knowledge, data, and metrics to provide a more comprehensive lens as to how the Top U.S. Banks compare to the Top Puerto Rico Banks, Our analysis examines the top 6 US Bank holding companies, part of the Birling Capital US Bank Index with

Ranking the five indices we follow by returns from 1/1/23 of 3/24/23; let's see:

- Nasdaq Composite 12.97%.
- S&P 500 3.42%.
- Dow Jones Industrial Average -2.74%.

- Birling Puerto Rico Stock Index -8.31%.
- Birling Capital U.S. Bank Index -12.61%.

The Birling U.S.Bank Index has a return of -12.61% year to date in 2023

When pegged against the other indexes, the Birling US Bank index lags the Dow Jones, S&P, Nasdaq, and Birling Puerto Rico Stock Index. Let's see how each Birling US Bank Index company has performed individually and against the major indexes.

1. **Morgan Stanley (MS)**, Achieved a total return of -1.26%, lagging the S&P, Nasdaq and beating the Dow Jones Birling PR Stock Index & Birling US Bank Index. The Stock price on 3/24/23 was \$83.95, with a price target of \$102.22. **The Tier 1 Capital Ratio is at 17.20%.**
2. **Citigroup Inc. (C)**, Achieved a total return of -4.69% that underperformed the Dow Jones, S&P, Nasdaq and beat the Birling PR Stock Index & Birling US Bank Index. The Stock price on 3/24/23 was \$43.11, with a price target of \$54.20. **The Tier 1 Capital Ratio is at 13.00%.**
3. **JP Morgan Chase & Co. (JPM)**, Achieved a total return of -6.85% lagging the Dow Jones, S&P, Nasdaq and beating the Birling PR Stock Index & Birling US Bank Index. The Stock price on 3/24/23 was \$124.891, with a price target of \$156.88. **The Tier 1 Capital Ratio is at 13.20%.**
4. **Goldman Sachs Group (GS)**, Achieved a total return of -8.97% underperforming the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index, beating the Birling US Bank Index. The Stock price on 3/24/22 was \$312.57, with a price target of \$397.05. **The Tier 1 Capital Ratio is at 15.10%.**
5. **Wells Fargo & Co (WFC)**, Achieved a total return of -12.25%, underperforming the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index, beating the Birling US Bank Index. The Stock price on 3/24/23 was \$36.23, with a price target of 52.71. **The Tier 1 Capital Ratio is at 10.60%.**
6. **Bank of America Corporation (BAC)**, Achieved a total return of -18.06%, underperforming the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling US Bank Index. The Stock price on 3/24/23 was \$27.14, with a price target of \$39.47. **The Tier 1 Capital Ratio is at 11.20%.**

The Birling Capital Puerto Rico Stock Index has a return of -8.31% year to date in 2023.

Now, let us revise the results for a year that began in 2023 and is much more volatile than anyone anticipated. The three bank holding companies that make up the index have stood up well; most are better than those stateside and are in a much better position. The Puerto Rico Banking Sector remains solid and shielded from these issues, namely Banco Popular, FirstBank, and Oriental Bank, are fundamentally solid, stable capital positions and twice the required tier 1 required capital.

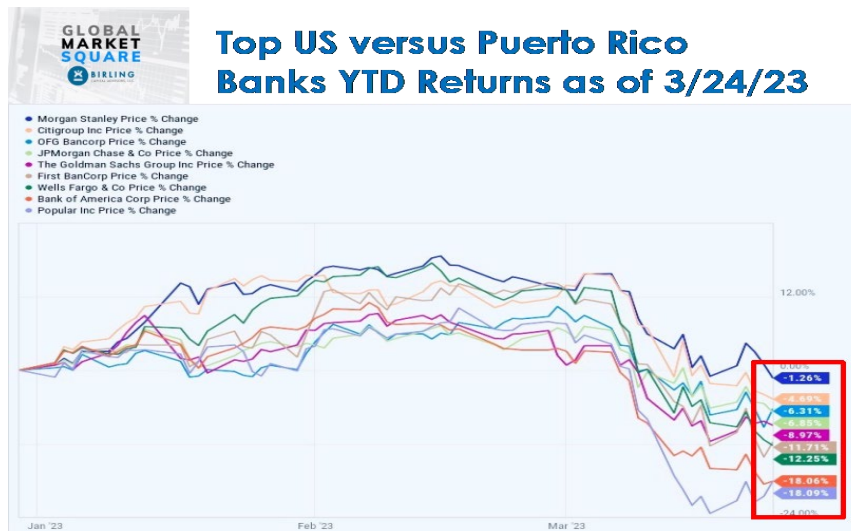
We review each bank in that light, analyzing their performance from 1/1/23 to 3/24/23. The Birling Capital Puerto Rico Stock Index has a return of -8.31%, lags the Dow Jones, S&P 500, and Nasdaq Composite **while beating the Birling US Bank Index by 34%.**

Now let's take a look at each stock, returns, stock price target and Tier 1 Capital:

1. **OFG Bancorp. (OFG)**, Achieved a total return of -6.31%, lagging the Dow Jones, S&P, Nasdaq and beating the Birling PR Stock Index & Birling US Bank Index. The Stock price on 3/24/23 was \$25.82, with a price target of \$34.75. **The Tier 1 Capital Ratio is at 13.64%.**

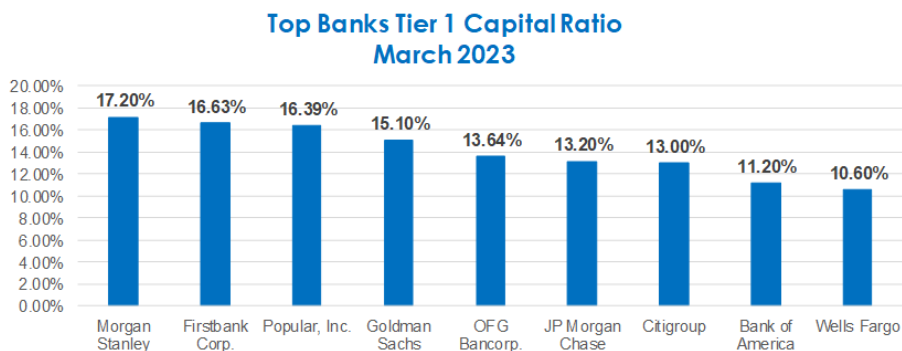
2. **Firstbank Corp.(FBP)**, Achieved a total return of -11.71% underperforming the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index, beating the Birling US Bank Index. The Stock price on 3/24/23 was \$11.23, with a price target of \$15.60. **The Tier 1 Capital Ratio is at 16.63%.**
3. **Popular, Inc. (BPOP)**, Achieved a total return of -18.09%, underperforming the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling US Bank Index. The Stock price on 3/24/23 was \$54.32, with a price target of \$74.00. **The Tier 1 Capital ratio is at 16.39%.**

As you can see, the Birling Puerto Rico Stock Index at -8.31% beats the Birling US Bank Index at -12.61% by a 34% margin.



The Tier 1 Capital Ratio of Puerto Rico Banks versus U.S. Banks is robust.

Of the nine banks compared, you will notice that Puerto Rico banks occupy prominent positions when measured against U.S. banks. Here is a graph of how each bank ranks, and you will see that Puerto Rico banks rank #2 Firstbank, #3 Popular, Inc., and #5 OGF Bancorp.



The Puerto Rico Banks are geared toward growth.

The Puerto Rico Banking Sector remains on solid footing and is shielded from the issues affecting the confidence of other banks in the U.S. and other nations. Their revenues, net income, and continued business generation model remain firing on all cylinders. Though clients in some areas will continue to face anxieties until the banking system corrects itself, these issues could remain affecting us; we do not believe it will become a structural crisis. The most significant outcome of the current crisis will be more restrictions from regulators towards the banking sector and policies to discover vulnerabilities within the banking sector.

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.

The disbursement of the reconstruction funding is the key to Puerto Rico's economic growth in the short term; however, the combined efforts of the Department of Economic Development and Commerce, Invest Puerto Rico, and Discover Puerto Rico are providing a solid dose of new business development and a steady stream of new opportunities for the creation of new business to create a sustainable economy beyond the non-recurring reconstruction funding.

The funding sources are as follows:

- **\$74,245 million** in funds allocated by the U.S. Congress for the reconstruction efforts in P.R.
- **\$68,510 million** in funds obligated by federal agencies for distribution.
- **\$43,297 million** Funds obligated from FEMA, of which only \$16,932 billion have been disbursed, and 61% remain due to be spent.
- **\$19,769 million** Funds obligated from CDBG-DR, of which only \$1.08 billion have been disbursed, and 95% remain due to be spent.

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 contemplate the powerful surge in economic growth the reconstruction efforts can have in Puerto Rico's economic trends with historic levels of unemployment, more open jobs than people available to fill them, and a consumer that continues to spend even in the face of inflation and increasing rates.

For those reasons, Birling Capital Puerto Rico's Economic forecast is 1.6% GDP growth in 2023, 1.5% GDP in 2024, and 1.2% GDP in 2025, based on the force the reconstruction funds provide.

As I said at the beginning of this report, the crisis of confidence mixed with a seek-and-destroy mentality has focused on some banks that, for various reasons, had a myriad of issues, others like Silicon Valley Bank had not only a unique risk-inducing business model with incompetent management and a weak board of directors and other have been a victim of the crisis as depositors took out their deposits to larger banks. These issues do not include the Puerto Rico Public Banks, which are ample capital reserves, solid Tier 1 Capital ratios, and prudent business models targeted to serve the needs of Puerto Rico.

We have said it before and will repeat it: **Invest in Puerto Rico; Invest in Your Future.**

It is worth your while to take a look at the Puerto Rico stocks as part of a well-diversified portfolio of stocks, bonds, and other securities that include your long-term financial goals.

Invest in Puerto Rico; Invest in your future!

Francisco Rodriguez-Castro
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