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Banco Latinoamericano de Comercio Exterior, S. A. (NYSE:BLX) Q3 2023 Earnings Call Transcript

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Mon, October 23, 2023 at 7:28 AM GMT-5 · 17 min read

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Banco Latinoamericano de Comercio Exterior, S. A. (NYSE:BLX) Q3 2023 Earnings Call Transcript October 20, 2023

Operator: Good morning, ladies and gentlemen, and welcome to Bladex's Third Quarter 2023 Earnings Conference Call. A slide presentation is accompanying today's webcast and is also available on the Investors section of the company's website, www.bladex.com. [Operator Instructions] Please note, today's conference call is being recorded. As a reminder, all participants will be in listen-only mode. I would now like to turn the call over to Mr. Jorge Salas, CEO. Sir, please go ahead.

Jorge Salas: Thank you, operator. Good morning to everyone joining us today to discuss our third quarter results. Q3 was a record-breaking quarter. As you will see in today's presentation, we continue to make progress on our 2026 strategic plan aimed at attaining sustainable mid-teen returns. Today, I will start with a high-level summary of the results, highlighting our key achievements. And then Annie, our CFO, will provide a detailed breakdown of the numbers. After that, given the better-than-expected performance so far, I will update our guidance for the remainder of the year, and then I'll open the call for questions. So let's proceed to the next slide. So here, we have all relevant financial metrics show clearly once again, a very positive growth, this time, with record figures.

Clearly, we are being able to capitalize on the bank's structural competitive position in Latin America. We are consistently taking advantage of the different avenues for profitable growth that we identified in our strategic plan. Starting with the asset side of the balance sheet. The growth on the portfolio was 4% year-on-year. But perhaps more important is the fact that the asset quality has remained very healthy, with NPLs below 0.1%, despite the challenging environment marked by high interest rates, both in dollars and in local currencies in Latin America. Once again, an undisputable testament of the quality of our clients and our underwriting standards. On the liability side, client deposits, our most cost-efficient funding source, continue to grow steadily, both in nominal terms, as much as 23% year-on-year, and also as a fraction of total funding, now representing 50% of total funding compared to 42% just a year ago.

On the P&L side, we have achieved a new record for net interest income in the quarter, totaling $60.5 million, an 11% increase compared to the previous quarter and an impressive 51% growth compared to the same period of last year. Our net interest margin now stands at 2.48%, reflecting 71 basis point improvement year-

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on-year. Also, fee income was 71% quarter-on-quarter increase, 77% year-on-year. Our letters of credit -- unit, essential for us as a trade bank, continue to deliver exceptional results, setting new records both in volumes and in fees. Also, our syndication team had an outstanding performance. The team successfully executed two very relevant transactions last quarter, confirming our strong presence in the regional syndication market.

One, we served as joint lead arranger and book runner for an $80 million committed facility for GeoPark, an oil and gas company with operations across Colombia, Peru, Chile and Brazil. Secondly, we acted as joint lead arranger on a $1 billion term loan facility for Ecopetrol, a landmark transaction for Bladex, supporting the largest Colombian company and one of the largest LatAm entities, again, with presses in Colombia, Mexico, Peru, Chile and Brazil. All this resulted in a historical record figure of net income for the quarter were $45.8 million, biggest bottom line result ever for Bladex. The resulting quarterly return on equity was almost 16%, also the highest in our recent bank history. Several factors are behind these outstanding results.

Ongoing client onboarding effort has yielded an increase in the customer base of over 30% year-on-year. Also, higher participation of corporate clients in our portfolio mix, which now represents 63% of our loan portfolio, has resulted in the consolidation of wider lending spreads. And furthermore, our commercial team has also been actively originating new medium-term transactions, as I just mentioned, which has benefited margins, with a minimal effect on the average duration of the portfolio. It's essential to note that these achievements have occurred in a more competitive landscape, driven by the reopening of capital markets in a region with increased competition not only from local banks, but also from international banks. Now I'll hand it over to Annie for a more detailed financial analysis, and then I will resume after it.

Annie, please.

Ana Graciela Varela de Mendez: Thank you, Jorge, and good morning to everyone. Please let's move to slide number three. Quarterly net income has been steadily increasing over the last 1.5 years, reaching close to $46 million for the third quarter of 2023 or $1.25 per share, representing an annual increase of 70% and of 23% on a sequential quarterly basis. This record recurring operating results growth and annualized return on equity close to 16% for the quarter. The positive trend in bottom line results we have seen over the last several quarters has consistently been driven by higher top line revenues, primarily on strong business volumes and margins. Let me now walk you through our balance sheet and profit and loss underlining the main items driving this solid performance.

So moving on to slide four. Total assets in excess of $10 billion at quarter end increased by 8% from last year on the back of robust loan portfolio balances, complemented by a stable investment securities portfolio and a sound liquidity position. The commercial portfolio, including loans and off-balance sheet letters of credit and guarantees, once again reached record levels at $8.2 billion at quarter end, up 5% from last year and 2% from the preceding quarter. This portfolio remains well diversified across countries and industries in the Latin America and Caribbean region, with tough exposures in Brazil and Colombia at 13% each and Mexico at 12%, complemented by relevant exposures in other Central and South American countries. New client onboarding and product cross-selling continue to drive strong business volumes, particularly in the letter of credit business and vendor finance, both closely related to short-term commodity trade financing.

This explains the short-term nature of the portfolio, 69% of which is scheduled to mature within the next 12 months. The $1 billion investment securities portfolio provides further country risk diversification. As 69% is placed with non-LatAm issuers, mostly from the U.S. This portfolio is fully comprised of securities held to maturity accounted for at amortized cost, 77% of which is placed with investment-grade issuers. The average remaining tenor of the portfolio is less than 2.5 years. The bank's cash position, mostly placed in the New York Federal Reserve, led to liquidity levels at 15% of total assets and 37% of deposits at quarter end. Given the wholesale nature of our business model, we follow a prudent liquidity management approach following Basel methodologies, liquidity coverage ratio, as required by Panama's banking regulator.

A woman signing papers with her banker for her first home mortgage. Editorial photo for a financial news article. 8k. --ar 16:9

On slide five, funding sources remain well diversified across products, geographies and tenors. Deposits, now representing 50% of total funding, as Jorge just mentioned, reached $4.2 billion at the end of the third quarter, also at record levels. Its growth reflects our cross-sell strategy, together with the continued relevant participation from our Class A shareholders, central banks. In addition, our Yankee CD program exceeded $1 billion after more than 2 years of having been launched, providing granularity to our funding base. The other half of our funding constitutes short- and long-term borrowings and debt, including several issuances in the debt capital markets, mainly in the U.S., Mexico and Panama, as well as private placements under our Euro Medium-Term note program.

Bladex also continues to have ample availability of bilateral credit lines from many corresponding banks worldwide, as well as constant access to the global syndicated loan market. Turning to slide six. Our sound capital position continues to be enhanced by earnings generation, with capital ratios reflecting our internal risk appetite even as we continue to grow our business and incorporate new clients. The Board recently declared a dividend of $0.25 per share, an amount unchanged from preceding quarters, representing 20% of quarterly earnings. Now turning to slide seven. We continue to grow our average asset volumes while maintaining a positive trend in financial margins, driving strong top line performance. Net interest spread, representing assets and liabilities average rate differential has shown an increase in trend over the past several quarters, reaching 1.83% in the third quarter of 2023, mainly on the account of higher lending express and efficient cost of funds, with a proactive management of the interest rate gap in an increasing rate environment.

In turn, the net interest margin also denotes an improving trend, reaching 2.48% for the quarter, reflecting both the positive evolution in net interest spread and the overall positive impact of higher asset rates, improving the return of equity funding such assets. Overall, net interest income, or NII, continues to strongly benefit from higher margins and lending volumes as we have seen quarterly net interest income constantly growing since the beginning of 2021. With respect to the preceding quarter, the third quarter 2023 NII increased by 11% to $6.5 million. About half of this quarter increase reflects the net effect of higher average credit volumes, as average loans increased by $381 million or 6% over the quarter, and the investment portfolio grew another $100 million or 11%.

The other half of NII growth from the preceding quarter was driven by higher asset rates, which continue to reprice at a faster pace than liabilities and is supported by sustained strong lending spreads, which, on average, have increased by 66 basis points in spreads, which, on average, have increased by [illegible] basis points in the first nine months of 2023, compared to last year. Moving on to slide eight. Fee income growth also showed a solid performance during the third quarter, having increased by 77% from last year, reaching $11 million. All fee income-generating business lines had an outstanding performance. Fees from letters of credit, a pillar of our business plan, continued to increase from higher business volumes, reaching $6.2 million for the quarter, up 76% from last year and 23% from the preceding quarter.

As Jorge mentioned, we also saw greater activity in the syndications business, having closed two structured transactions during the quarter, resulting in close to $3 million in fees. Other fees mostly related to committed credit facilities also benefited from opportunistic transactions. As shown on slide nine, asset quality remains sound, with 97% of the total credit portfolio categorized as low risk on the Stage 1 as defined by IFRS 9. Accounting for another 3% were credits classified as Stage 2, for a total of $273 million. Most of the Stage 2 exposure consists of credits in certain industries in which we foresee downturns in their operating cycles, and hence reflect increased risk in our model-based expected loss reserve allocation, but are currently all performing.

Finally, Stage 3 or impaired credits only represent 0.1% of total exposure amounting to $10 million, unchanged from the preceding quarter. Overall, credit provision charges for the third quarter of 2023 were $6.5 million, reaching total allowances from credit losses of $56 million at quarter end, covering NPLs by 5.6 times. On slide 10, strong revenue growth continues to have a positive impact on efficiency, allowing a cost-to-income level of around 27% for the third quarter of '23, similar to the last 2 previous quarters. During the third quarter, expenses increased by 25% from the preceding quarter due to employee-related costs, including onetime effects and which relate to a higher salary base over the last year on new hires, as well as provisions for performance-based compensation, congruent with our focus on strengthening Bladex's execution capabilities as outlined in our strategic plan and with the bank's strong performance.

Let me now leave it here and turn the call back to Jorge. Thank you.

Jorge Salas: Thank you, Annie. Moving on to slide 11. This slide attempts to break down the drivers behind the better-than-expected NII results. As you can see here, net interest income for the first nine months of the year is 70% or $69 million higher than the same period of last year. 40% of this NII or more than $27 million of this increase is explained by higher market interest rates so far this year. The other 60% is a result of the combined effect of the execution of different initiatives in our plan. All of them have contributed to strong margin expansion with sustained average volume growth. So moving on to the next slide. Given the results so far, this slide shows our new guidance for the year. We foresee net interest margin for the year similar to the current levels that is between 2.4% and 2.5%.

Fee growth will end up substantially above our initial expectations, driven by all fee-generating business lines and primarily by our letters of credit units. We also anticipate closing the year with an efficiency ratio of approximately 27%, better than our initial estimate of 32%. And all of these -- for all these reasons, we are revising our 2023 ROE guidance from 11% to 13% to a new range now anticipated to be between 14% and 15% return on equity by year-end. Lastly, increased profits and the resulting rise in retained earnings continue to support our profitable growth and to preserve the bank's capital ratios as initially anticipated. So our initial guidance for core equity Tier 1 ratio remains unchanged. I'll leave it there and open the call for questions now.

Operator?

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Q&A Session

Operator: Thank you very much for the presentation. We will now begin the Q&A session for investors and analysts. [Operator Instructions] Our first question is from Inigo Vega from Jefferies. What are the $2.2 million in other net fees in the quarter? Are they sustainable going forward?

Jorge Salas: Annie, you want to take that?

Ana Graciela Varela de Mendez: Yes, sure. Hi, Inigo. Thank you for your question. As I mentioned, these fees represent opportunistic pre-committed transactions that generated additional fees in this quarter. We do estimate that the run rate of fees reported in this line item is around $1 million going forward. So that will give you a sense of the managing.

Operator: Inigo also has another question. NII up to 11% quarter-over-quarter. Can you bridge the increase in one, change in volume; two, impact from higher spreads, either loans or funding; and three, impact from rates.

Ana Graciela Varela de Mendez: Okay. I'll take that, too. So the net effect of higher volumes represented around $3 million in the NII growth. Average earnings overall increased by $843 million during the quarter with respect to the preceding quarter, of which about $400 million relates to higher average lending. And of course, this was all offset by increased average liabilities. But the overall impact on volumes is around $3 million. And then on the other hand, assets continue to show a better repricing than liabilities, as overall asset rates increased by 38 basis points during the quarter, while liabilities was up by 34 basis points. So this resulted in another $34 million in NII. With respect to lending spreads quarter-on-quarter, they remain pretty similar.

We do have seen an important increase, as I mentioned, of 66 basis points of lending spreads when we compare this year with last year in terms of the nine month period. And funding rates also and spreads also remained pretty stable during the quarter for the last couple of quarters.

Operator: Next question from Patrick Brown. With respect to the Israel-Hamas conflict, please comment about your view on any implication in the LatAm region and in Bladex in particular.

Jorge Salas: Let me take that one, Annie. So it's a very good question with no easy answer here because the implications are mixed, depending on which countries in Latin America we talk about and the extent of the escalation of the conflict, if it happens. On the one hand, we have the effects on commodities. I think when the conflict hit in the Middle East a couple of weeks ago, the West Texas was about $80 a barrel. Yesterday, it closed around over $90 a barrel. That's more than 10% in two weeks. So this obviously benefits oil exporters in LatAm, so mostly South American countries. But the opposite will happen for Central American and Caribbean economies that are mainly importers of refined products. In Bladex, as a trade bank, we finance both imports and exports.

So in general, an increase in commodity prices and particularly, oil, has been historically beneficial for Bladex. However, if the conflict continues to escalate, there will be more volatility, of course, in the financial markets. And obviously, the world's aggregate demand will be affected. So we are -- I mean, where is cautious, we're being cautious. We are closely following the turn of events, monitoring our exposures that are mostly short-term. And also our liquidity sources that are ample and very diversified. So -- but the word is we're being cautious and being very attentive of the turn of events.

Operator: Patrick has a follow-up. Any plans to modify your dividend policy, given the amazing results?

Jorge Salas: Yes. Thank you. Again, as I mentioned, capital management including dividends, potential buybacks, are ongoing discussions at the Board level. Obviously, always focusing on maximizing total shareholder return. The Board is well aware that on the one hand, our payout ratio has been decreasing as we have extraordinary results. On the other hand, the commercial team does have a very strong pipeline for profitable growth, which is at the end, the end goal of our plan. In any case, we have provided guidance for 2026. That includes managing capital ratios, as I said, between 15% and 16% on a target portfolio over $10 billion. And we will remain strongly capitalized and not risk our investment grade by any means. So whatever decision the Board decides to make regarding capital management should, in principle, be aligned with our 2026 guidance and again focusing on maximizing shareholder return.

Today, dividend is a quarterly decision at the Board level. So it's up to the Board. And I can tell you, the ongoing discussions are having on a continued basis.

Operator: [Operator Instructions] Next question is from Andrea Patricia. Hello, thank you for the presentation. Congratulations for the results. Could you give us some color about the guidance expectations of the result for 2024?

Jorge Salas: Yes. We're working -- thank you, Andrea. We're working on our 2024 budget now. And I believe in the next call, we will give some color on 2024 guidance.

Operator: Okay. Thank you very much. That's all the questions we have for today. I'll pass the line back to the Bladex team for their concluding remarks.

Jorge Salas: No, I just want to thank everybody for your questions and your interest, and we'll continue focusing on profitable growth going forward as indicated in our guidance for 2026. Thank you very much.

Operator: This conference is now closed. Thank you very much for attending. Have a good one.

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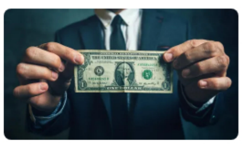
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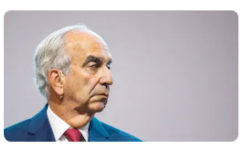
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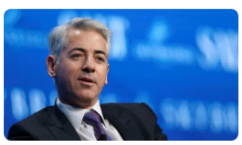

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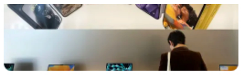

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