Bladex

Q1 2024 EARNINGS CALL

Date: 26.04.2024

Participants:

- Jorge Salas, Chief Executive Officer
- Ana de Mendez, Chief Financial Officer

Operator:
Good morning, ladies and gentlemen, and welcome to Bladex First Quarter 2024 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. There will be an opportunity for you to ask questions at the end of today's presentation. Please note, today's conference call is being recorded.

I would now like to turn the call over to Mr. Jorge Salas, Chief Executive Officer. Sir, please go ahead.

Jorge L. Salas
Chief Executive Officer

Good morning, everyone, and thank you for joining to discuss our 2024 first quarter results. I will start by providing a high-level summary of our performance, and then Annie Mendez, our CFO, will discuss the results in more detail. After that, I'll make a couple of comments regarding key initiatives in our strategic plan. And then I will open the call for questions.

2024 had a very strong start, extending the positive profitability trend from the previous quarters. This is notable not only because Q4 had a couple of positive one-off transactions, but more importantly, because we have been able to achieve these results in a more challenging landscape marked by reopening of debt capital markets, increased liquidity in domestic and global markets, and also increased competition from local and international banks.

In this context, we have managed to grow our portfolio, maintain our income generation, protect margins, increase deposits, and continue generating significant fee income throughout the first quarter of the year.

Moving on to Slide 2. Here we show the highlights of the first quarter results. Starting with the balance sheet. Growth of the credit book was 3% quarter-on-quarter and 12% year-on-year, with pristine asset quality. At the same time, deposits increased 7% quarter-over-quarter and 32% year-on-year, gaining a larger share of our funding structure. As a result of the continued growth on the deposit base, the bank has been tactically reducing the use of bilateral facilities from corresponding bank. This, of course, has benefited our funding costs.

Also, during the first quarter, Bladex once again topped the Mexican debt capital markets with a new bond placement for MXN 3 billion, equivalent to $180 million, which is widely oversubscribed. Today, close to $1.3 billion, almost 15% of total funding, come from the Mexican market.

On the P&L side, we are seeing margins stabilizing at the level we projected for the year with NIM close to 2.5%. Fee income, on the other hand, also had a strong quarter, led primarily by solid revenues from our letters of credit. All this led to a net income of $51.3 million for the quarter, 11% higher than our previous record breaking Q4 and 39% higher year-on-year.

Finally, we're excited to report 16.8% ROE for the quarter, an improvement of 126 basis points over the last quarter. I'm going to leave the highlights here for now and turn the call to Annie, our CFO, who will talk about the results in more detail. Annie?

Ana Graciela de Mendez
Executive VP & CFO

Thank you, Jorge. Good morning to everyone. I will now go into more detail on the financial performance during the first quarter of 2024, starting on Slide #3.

As Jorge introduced, the bank continued to improve its bottom-line results, reaching net income in excess of $51 million during the first quarter, up by 39% from last year and 11% from the previous quarter. On the back of these strong results, the annualized return on equity reached a notable 16.8%.

Let me now walk you through our balance sheet and profit and loss statements, underlining the main items driving this sustained exceptional performance. Moving on to Slide 4. Bladex balance sheet remained stable from the previous quarter at $10.7 billion, up by 16% from the year before on the basis of continued growth in the loan and investment portfolio balances, along with a sound liquidity position. The bank's cash position, which is mostly placed with the Federal Reserve Bank of New York, stood at $1.7 billion at quarter-end, representing 16% of total assets and 37% of liability deposits. Our prudent liquidity management approach follows the Basel methodology's liquidity coverage ratio as required by Panama's banking regulator. Along with strong asset quality and capitalization, a sound liquidity position represents a pillar of the bank's investment-grade ratings.

More details on the other 2 main asset components, loans and investment securities, are presented in the following slide. The bank's investment securities portfolio reached $1.1 billion at quarter-end. 77% of this portfolio is placed with non-LatAm issuers, mostly from the U.S., providing country risk diversification to our credit book. Furthermore, 81% is placed with investment-grade issuers and is eligible to be discounted with the Federal Reserve through our New York agency, thus providing contingent liability funding. The average remaining tenor of the portfolio is a little over 2 years.

The bank's core business is represented by the commercial portfolio, which includes loans as well as off-balance sheet items such as letters of credit and guarantees. The Commercial portfolio reached $8.7 billion at quarter-end, on a continued positive growth trend, having increased by 2% from year-end 2023 balances and 12% from the previous year, notwithstanding the lower market activity characteristic of the first quarter of the year, along with an increased competitive environment as Jorge just mentioned.

The Commercial portfolio is well diversified across countries and industries in the Latin America and Caribbean region, with top exposures to Brazil at 12% and to Mexico and Colombia at 11% each. In line with its trade focus, the portfolio continues to be short term in nature, with 73% scheduled to mature in the next 12 months and an average remaining tenor of less than 1 year.

As shown on Slide #6, Bladex asset quality remains strong, with 97% of the credit portfolio being classified as low risk or Stage 1 as defined by IFRS 9, while only 3% classified as Stage 2, representing credits with increased risks since origination and which were all performing. On the other hand, only a minimal 0.1% of total exposure remains classified as Stage 3 impaired credits or NPLs, amounting to $10 million with a total reserve coverage of 6.9x. Overall, credit provision charges for the first quarter were $3 million, mostly reflecting the increased balance in Stage 1 exposure from commercial portfolio growth.

On Slide 7, the graph on the left illustrates our funding structure, with deposits now representing 52% of the total funding, reaching over $4.7 billion, an increase of 32% from last year and 7% from the preceding quarter. As Jorge pointed out, this significant growth reflects the combined effect of our cross-selling strategy and the success of our Yankee CD program, which provides granularity to our funding base together with the continued relevant participation of our Central Bank Class A shareholders. These deposits are overall short term in nature with an average original maturity of close to 5 months, representing a cost-effective, recurrent and stable funding source.

The bank's longer-tenure funding base reached $2.8 billion at quarter-end, representing 31% of total funding. It consists of bond issuance in the debt capital markets in the U.S., Mexico and Panama, along with private placements issued under the bank's EMTN program in different geographies, as well as bilateral and syndicated facilities in the international loan market.

Bladex also counts on a wide base of correspondent banks worldwide, which provide trade financing facilities with tenors of up to 1 year. Additionally, the bank is also active in the issuance of short-term paper in public and private format under its different debt programs.

The bank's equity position, presented on the right-hand side, continues to be enhanced by earnings generation. Our Board recently declared a $0.50 per share quarterly dividend, unchanged from the preceding quarter, on the back of strong financial performance.

Even as we continue to grow our business and our balance sheet, we aim to maintain our capital ratios at current levels as a reflection of our internal risk appetite and in defense of our investment-grade ratings.

Moving now to the drivers behind net interest income evolution, in the following slide, we illustrate the positive trend in net interest spread, or NIS, and net interest margin, or NIM, since the beginning of our strategy execution in the first quarter of 2022. NIS, consisting of the rate differential between assets and liabilities, has shown an increasing trend, which has leveled at around 1.8% in recent quarters, as expected, except for the 4Q '23 which was positively impacted by some accrual accelerations.

Higher lending spreads, efficient cost of funds driven by a higher deposit base, and a proactive management of the short-tenor interest rate gap stand as the main drivers of this positive NIS trend over the last couple of years. Along with higher market interest rates, these factors have also benefited the net interest margin, which has stabilized at a level close to our target of 2.5%. Market-based average asset rates have increased by close to 500 basis points since the beginning of 2022, generating incremental revenues from the share of assets funded by our equity.

Overall, higher margins along with sustained average portfolio growth have driven increased net interest income levels, which stood at $62.9 million in the first quarter of 2024, up 20% from the same period of last year and 4% below the preceding quarter on a strong 4Q '23 as already mentioned.

Strong NII evolution reflects our successful strategy execution, particularly with regards to new client onboarding, cross-selling efforts, including higher deposits from our client base, and a strict emphasis on pricing, profitability and capital optimization at a transaction level.

Moving on to Slide 9. Fee income has also shown a strong performance in recent quarters. It stood at $9.5 million during the first quarter of 2024, almost double the amount from the same period of last year. Relative to the fourth quarter of 2023, fee income had a slight decrease, mainly due to lower activity in the transaction-based, structuring and syndications business, which was also particularly strong at the year-end.

Letter of credit business, a pillar of our strategy, has increased to a quarterly level of close to the $6 million, having streamlined processes that have allowed increased transactionality as well as benefiting from cross-sell emphasis. Once we complete the automation phase of this key trade finance product, we should be able to further scale this important revenue stream. Jorge will comment on this later.

During the first quarter of 2024, we also saw increased other fees, which relate to fee acceleration on facility prepayments, along with other opportunistic off-balance sheet transactions.

On Slide 10, seasonally lower quarterly expenses led to an improvement in the bank's efficiency, reaching a cost-to-income level of 25% in the first quarter of 2024, better than the 27% experience in recent quarters. Expenses decreased by $3.2 million or 15% with respect to the preceding quarter, which included higher performance-based variable compensation due to an outstanding 2023, as well as greater activity in strategy execution. When compared to the same period of last year, quarterly expenses were up by $2.4 million or 15% due to a higher salary base as our workforce increased by close to 50% over the last 2 years, in line with our focus on strengthening Bladex's execution capabilities as outlined in our strategic plan.

With this, let me now turn the call back to Jorge. Thank you.

Jorge L. Salas
Chief Executive Officer

Thank you very much, Annie. Great job.

As we have communicated before, after 2 years of careful execution, Bladex is transitioning from the optimization phase to the expansion phase of our 5-year strategic plan. In this new phase, the focus is the enhancement of our product suite. Significant technological upgrades are needed to achieve this objective.

In this sense, after a lengthy and very thorough vendor selection process, Bladex will soon announce the selection of 2 strategic IT platforms that will enhance our product suite. One platform is related with trade finance solutions and the other one will support the treasury management space. I want to share with you the transformative impact of these new solutions in our bank.

First of all, the trade finance platform will provide the operational support to significantly scale our biggest fee income-generating product, letters of credit. The new platform not only has an extremely friendly client interface, but also will allow us to efficiently process a significantly higher number of transactions while minimizing manual errors as end-to-end processes will be refined through automation.

Moreover, the platform will allow us to provide structured working capital solutions for our corporate clients, specifically on the buyer side on the first stage of implementation. Once the platform is up and running, we will be able to enter multiple highly transactional supply chain finance programs of existing clients and new clients at the same time. Today, we're only able to join a limited number of programs as we are forced to select only the ones that have limited transactionality. This will bring significant gains in both lending volumes and also credit spreads since supply chain finance programs typically command a premium over the typical direct lending facilities.

Similarly, the implementation of a new IT solution for the treasury area will allow us to automate processes that are currently carried out with a high degree of manual intervention. We intend to implement a treasury solutions team that will offer hedging products to our clients, covering risks derived from FX, interest rate and commodity price exposures.

Clearly, the Treasury business has strong synergies with other initiatives that are currently being implemented at the bank. Project Finance, for example, are often looking for tools to manage interest rate risk and FX risk associated with their debt. This provides an opportunity to offer interest rate or cross-currency swaps.

Although we have mentioned this point before, I would like to emphasize once again that these initiatives do not entail opening new risk fronts for Bladex. The Treasury Solutions team will be offering hedging products to our clients, covering risks derived from FX or interest rate exposures.

Our relationship management team have identified plenty of potential opportunities, which the bank with a wide regional coverage is in a very good position to capture.

I want to make one last comment regarding our guidance for the year. Even though as of today we have exceeded the profitability targets, mainly due to the successful implementation of the first phase of our plan, we also recognize the positive impact of favorable market conditions in our results.

Looking forward, our focus is twofold: First, on the execution of the expansion phase of our strategic plan. And secondly, on maintaining the profitability levels we have accomplished so far. In this context, I want to reaffirm our guidance for 2024 and remain committed to achieving the objectives outlined in our plan for 2026.

I will leave it there for now and open the call for questions. Operator?

Q&A Section of the Call

Our first question comes from Patrick Brown.
Great results. Congrats. There's a slight decrease in margins this quarter. Can you further comment on this?

Jorge Salas, CEO:
Thank you, Patrick. Good question. We are seeing some pressure on credit spreads. And I'll say it's mainly for 2 reasons. One is we're seeing more liquidity, and we're also seeing more competition from banks both locally and international banks.

But I'll say that the main reason is perhaps that local and international debt capital markets are starting again to compete with our medium-term portfolio. Now this is not new for us. Good news here is that we have a very strong pipeline of good-quality syndicated deals with healthy spreads, I would say, that should close in the second quarter of the year. So that should compensate.

Question 2:
Next question also from Patrick Brown.

We see a decrease in quarterly expenses related to the fourth quarter. What should we expect going forward?

Jorge Salas, CEO:
Thank you. Good question as well. This one is a little tricky because expenses are seasonally high in Q4, and particularly last Q4, and are seasonally low in Q1. I guess I'll say the average run rate that you should expect is closer to the level of Q3 in 2023. And as I mentioned before, we do expect to keep investing in transformations in the IT platforms going forward.

Question 3:
Next question is from Iñigo Vega with Jefferies.

I've got a couple of questions. One, going back to the NIM. I mean, the NIM was 2.5% in Q1, which is one in line with your target for the full year. You mentioned a bit more competition, more liquidity. Interest rates, who knows, but this should come down at some point over the next 18 months. How realistic is to think 2.5% NIM, not only for this year, but for the following year? Like we've seen these moving pieces like spreads on the core business and, obviously, your loan position on interest rates to the equity.

And my second question is on OpEx. I mean you've done a big OpEx effort already. You were talking about these solutions, which are key in the strategic plan. How big are they in terms of the OpEx effort? I mean, how much do we still need to see OpEx going up, I guess, still this year? And what is the lag for full monetization? So when do you think these 2 IT platforms could be fully monetized? Are we talking like 2 years, 3 years, 4 years?

Jorge Salas, CEO:
Thank you, Iñigo. Let me start with the second question first, and then the margins question, I'll turn it to Annie. So on the OpEx and the IT investments, we do expect to a gradual, let's say, implementation for both platforms, to begin the second half of this year. Implementations for these platforms usually takes between a year and 18 months. Obviously, part of the purpose here is to generate incremental revenues to protect precisely our NIM. We expect the incremental revenues to be around 10% of revenue by 2026. And the tools combined are about 50% of total IT investments in the next 5 years. The rest is basically cybersecurity infrastructure and other applications.

So if it -- I think the correct way to look at it is in terms of average incremental IT expenses will be around 1.5% of total revenues in average going forward. I don't know if that answers your question.

Okay. And in terms of NIM, our guidance that we put there assume 2 Fed cuts in the second half of the year. Now -- so who knows what's going to happen with the rates, as you say. But we remain committed to our net interest margin of 2.5% given what we're seeing.

Iñigo Vega, Jefferies
Okay. So you think -- yes, so you think that the 2.5%, you can have like a bit of pressure from low interest rates in the second half, but you can offset that through a slightly higher margin on the core business, is that right?

Jorge Salas, CEO:
The core business, also in terms of deposits gaining share on funding, will also help us to protect the spreads there.

Ana Mendez, CFO:
Yes. And considering, Iñigo, the repricing takes a while, so for this year, in our base case, we didn't see so much different impact. It probably -- if the rates do go down, it would probably see more pressure next year from the lower rates.

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 closing remarks.

Jorge Salas, CEO:
All right. Let me just make a couple of comments before closing. We're happy, of course, with the traction that the strategic plan has. I think the results speak for themselves. I mean noninterest income has doubled since we started to execute the plan. And clearly, it has the potential to scale even further with the implementations of the tools I've described. I mean deposits that you saw are growing faster than the commercial portfolio, which is, of course, helping our net interest spread. Credit quality remains pristine. And our ROE for the quarter is the highest in at least 28 years.

So I mean, super happy. The whole team is very clear and focused on the road map going forward and extremely committed to it. I'm going to leave it there and see you again in the next call. Thank you so much.

Operator
This concludes today's presentation. Thank you. Have a great day.