

## Equity Research

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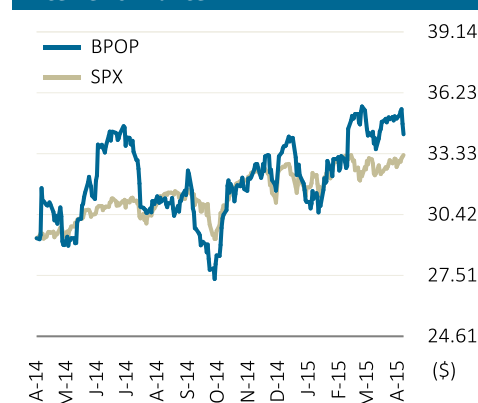
**BPOP** **\$34.25**

12 month target \$41.00  
Upside 19.7%

### BUY

52 week range \$27.34 - \$35.58  
Market Cap (m) \$3,543

#### Price Performance



Source: IDC

## Financials

### Popular, Inc.

#### After BPOP Posts 1Q15 Earnings Miss, Focus Shifts to Fed's Review of Plan to Return Capital to Shareholders

While Popular Inc. (BPOP) this morning reported a 1Q15 earnings miss, we believe that from a shareholders' perspective the EPS figure was of lesser importance than two other considerations.

- ▶ The first is that as Puerto Rico's recession approaches a decade in duration, BPOP's credit metrics continued to improve in 1Q15, demonstrating the benefits it enjoys as the largest bank in the Commonwealth. Net charge-offs declined by 32bps to 0.72% of average loans held-in-portfolio, while allowance for loan losses to loans held-in-portfolio declined by 22bps sequentially to 2.46%.
- ▶ BPOP's non-performing loans did increase by \$34.5mm sequentially, but this was due mostly to loans acquired from Doral Bank after its seizure by the FDIC on February 27. We believe the increase in NPLs was a small price for BPOP to pay for the \$2.2bn in deposits and \$1.7bn in commercial and residential loans it acquired in the deal, as the loans will help the company to offset the runoff of its loan portfolio, which is one of its most significant challenges.
- ▶ The second consideration is that BPOP, which had about \$2bn in excess capital based on its Tier 1 capital ratio of 15.8% in 1Q15, expects to publicly announce in June the results from the capital plan it intends to submit to the Federal Reserve Bank of New York (FRBNY) this week. The Fed's response could enable BPOP to return capital to shareholders for the first time since before the financial crisis.
- ▶ **We are reiterating our BUY recommendation on BPOP and \$41 price target** based on 1.0x the sum of 2015E tangible book value  
(continued on page 2)
- ▶ **Valuation:** Our \$41 price target on BPOP is based on 1.0x the sum of the company's FY15E tangible book value per share plus our estimate of the realizable value of its non-core equity investments.

## Estimates

	1Q14 A	2Q14 A	3Q14 A	4Q14 A	FY14 A	1Q15 A	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16
Diluted EPS (Adj.)	0.83	(4.98)	0.31	0.51	(3.32)	0.71	0.92	0.96	1.00	3.59	-
Tangible BVPS	38.71	36.09	36.24	36.04	36.04	36.33	37.07	37.94	38.84	38.84	-
Operating Income	110	(515)	59	69	(278)	106	139	144	150	539	-

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

**Please Read: Important disclosures and analyst's certification appear in Appendix**

*(continued from page 1)*

(TBV) per share plus our estimate of the realizable value of the company's non-core investments.

- ▶ While BPOP's headline net interest margin (NIM) of 4.57% in 1Q15 represented a sequential decline of 13bps, management noted that 1Q15 had two less days than 4Q14, which resulted in a reduction of \$4.9mm in net interest income. If added to the \$343.2mm in net interest income BPOP reported in 1Q15, the company would have exceeded the \$345.5mm in net interest income it posted in 4Q14.

## Income Statement

Operating Model - BPOP	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15
	2010A	2011A	2012A	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15E	3Q15E	4Q15E	2015E
Loans	1676.73	1,694.36	1,558.40	385.93	394.93	392.20	408.57	1,581.61	401.93	380.99	362.59	357.57	1,503.08	355.63	359.19	362.78	366.41	1,444.00
Money market investments	5.38	3.60	3.70	0.96	0.83	0.85	0.83	3.46	0.97	1.13	1.01	1.11	4.22	1.45	1.45	1.47	1.48	5.85
Investment securities	238.21	203.94	166.78	37.82	36.11	33.56	34.32	141.81	35.13	33.99	33.15	30.36	132.63	30.30	30.60	30.91	31.22	123.03
Trading account securities	27.92	35.61	22.82	5.51	5.46	5.24	5.36	21.57	5.26	5.34	4.45	2.89	17.94	2.70	2.71	2.74	2.76	10.91
<b>Interest income</b>	<b>1,948.25</b>	<b>1,937.50</b>	<b>1,751.71</b>	<b>430.22</b>	<b>437.32</b>	<b>431.85</b>	<b>449.08</b>	<b>1,748.46</b>	<b>443.29</b>	<b>421.45</b>	<b>401.20</b>	<b>391.94</b>	<b>1,657.87</b>	<b>390.07</b>	<b>393.95</b>	<b>397.89</b>	<b>401.87</b>	<b>1,583.79</b>
Deposits	350.88	269.49	184.09	38.36	35.76	31.85	31.40	137.36	29.39	26.22	26.53	25.47	107.62	25.86	25.99	26.12	26.25	104.23
Short-term borrowings	60.28	55.26	46.81	9.78	9.77	9.56	9.32	38.43	9.04	8.89	28.96	20.49	67.38	1.73	1.73	1.73	1.73	6.94
Long-term debt	242.22	180.76	148.19	35.77	36.07	36.23	32.02	140.08	31.89	445.72	19.29	19.11	516.01	19.28	19.28	19.28	19.28	77.12
<b>Interest expense</b>	<b>653.38</b>	<b>505.51</b>	<b>379.09</b>	<b>83.91</b>	<b>81.60</b>	<b>77.64</b>	<b>72.73</b>	<b>315.88</b>	<b>70.32</b>	<b>480.83</b>	<b>74.78</b>	<b>65.07</b>	<b>691.01</b>	<b>46.88</b>	<b>47.01</b>	<b>47.14</b>	<b>47.27</b>	<b>188.29</b>
<b>Net interest income</b>	<b>1,294.87</b>	<b>1,431.99</b>	<b>1,372.62</b>	<b>346.31</b>	<b>355.72</b>	<b>354.21</b>	<b>376.34</b>	<b>1,432.58</b>	<b>372.97</b>	<b>(59.38)</b>	<b>326.42</b>	<b>326.86</b>	<b>966.87</b>	<b>343.20</b>	<b>346.95</b>	<b>350.76</b>	<b>354.60</b>	<b>1,395.50</b>
Provision for loan losses - non-covered loans	1,011.88	430.09	334.10	206.30	223.91	55.23	47.73	533.17	47.36	50.07	68.17	51.64	217.24	29.71	29.86	30.01	30.16	119.74
Provision for loan losses - covered loans		145.64	74.84	17.56	25.50	17.43	8.91	69.40	25.71	11.60	12.46	(3.65)	46.14	10.32	5.00	5.00	5.00	25.32
<b>Post provision interest income</b>	<b>282.99</b>	<b>856.27</b>	<b>963.68</b>	<b>122.46</b>	<b>106.31</b>	<b>281.54</b>	<b>319.71</b>	<b>830.02</b>	<b>299.90</b>	<b>(121.06)</b>	<b>245.79</b>	<b>278.87</b>	<b>703.50</b>	<b>303.16</b>	<b>312.09</b>	<b>315.75</b>	<b>319.44</b>	<b>1,250.44</b>
Service charges in deposit accounts	195.80	184.94	183.03	43.72	43.94	43.10	42.15	172.91	41.25	39.24	40.59	39.46	160.53	39.02	39.41	39.80	40.20	158.42
Other service fees	377.50	239.72	256.55	61.72	65.07	58.58	61.57	246.95	54.04	56.47	54.84	61.14	226.49	53.63	54.16	54.70	55.25	217.74
Mortgage banking activities	-	-	-	-	-	18.90	14.39	33.29	3.68	3.79	14.40	8.75	30.62	12.85	12.98	13.11	13.24	52.18
Net gain (loss) and valuation adjustments on investment securities	3.99	10.84	(1.71)	-	5.86	-	2.11	7.97	-	-	(1.76)	0.89	(0.87)	-	-	-	-	-
Trading account profit (loss)	16.40	5.90	(17.68)	(0.08)	7.90	(6.61)	(1.55)	(0.33)	1.98	1.06	0.74	0.59	4.36	0.41	0.42	0.42	0.43	1.68
Net gain (loss) on sale of loans	15.87	30.89	48.77	(48.96)	4.38	3.45	5.40	(35.72)	11.78	9.66	15.59	10.95	47.97	(0.08)	(0.08)	(0.08)	(0.08)	(0.32)
Adjustments (expense) to indemnity reserves on loans sold	(72.01)	(33.07)	(21.20)	(16.14)	(11.63)	(2.39)	(6.89)	(37.05)	(10.35)	(7.45)	(9.48)	(6.82)	(34.10)	(4.53)	(4.48)	(4.44)	(4.39)	(17.83)
FDIC loss share (expense) income	(25.75)	66.79	(56.21)	(26.27)	(3.76)	(14.87)	(37.16)	(82.05)	(24.21)	(55.26)	(4.86)	(18.69)	(103.02)	4.14	4.10	2.05	2.05	12.33
Fair value change in equity appreciation instrument	42.56	8.32	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of processing business	640.80	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating income	93.02	45.94	45.94	20.05	181.60	191.79	111.17	504.61	28.39	(166.43)	14.28	13.64	(110.13)	9.79	9.84	9.89	9.94	39.46
<b>Non-interest income</b>	<b>1,288.19</b>	<b>560.28</b>	<b>437.48</b>	<b>34.06</b>	<b>293.36</b>	<b>291.96</b>	<b>191.19</b>	<b>810.57</b>	<b>106.57</b>	<b>(118.94)</b>	<b>124.33</b>	<b>109.90</b>	<b>221.85</b>	<b>115.24</b>	<b>116.35</b>	<b>115.46</b>	<b>116.63</b>	<b>463.67</b>
Personnel costs	514.20	453.37	465.70	115.99	114.68	116.84	114.36	461.87	113.15	99.10	104.54	110.74	427.53	116.46	115.66	114.86	114.07	461.04
Net occupancy expenses	116.20	102.32	100.45	23.47	24.11	24.71	27.04	99.33	25.69	20.27	21.20	23.88	91.04	21.71	21.10	20.99	20.89	84.68
Equipment expenses	85.85	43.84	45.29	11.95	11.84	11.77	11.92	47.48	11.78	12.04	12.37	13.09	49.29	13.41	12.25	12.12	12.00	49.78
Other taxes	50.61	51.89	50.12	11.59	15.29	17.75	13.66	58.29	13.72	13.54	15.37	14.34	56.98	8.57	8.49	8.40	8.32	33.78
Professional fees	166.11	194.94	211.89	70.50	69.96	72.04	76.78	289.28	69.79	67.02	67.65	80.38	284.85	75.53	66.97	66.30	66.30	275.11
Communications	38.91	27.12	26.83	6.83	6.64	6.56	6.26	26.29	6.93	6.43	6.46	6.12	25.93	6.18	6.11	6.05	5.99	24.34
Business promotion	46.67	55.07	61.58	12.92	15.56	14.98	17.02	60.48	11.68	16.04	13.06	13.53	54.31	10.81	10.70	10.60	10.49	42.61
FDIC deposit insurance	67.64	93.73	85.70	9.28	19.50	16.10	15.63	60.51	11.97	10.48	9.51	9.34	41.30	6.40	6.33	6.27	6.21	25.21
Loss on early extinguishment of debt	38.79	8.69	25.20	-	-	3.39	-	3.39	-	-	-	0.53	0.53	-	-	-	-	-
Other real estate owned (OREO) expenses	46.79	21.78	23.52	46.74	5.76	17.18	10.56	80.24	6.19	3.41	19.75	10.02	39.36	23.07	22.84	22.61	22.38	90.90
Credit and debit card processing, volume, interchange and other	42.61	17.54	19.73	4.98	5.35	5.08	5.41	20.81	5.45	5.64	5.66	5.09	21.84	4.82	4.77	4.73	4.68	19.00
Other operating expenses	102.00	70.37	85.07	16.99	18.41	17.75	21.59	74.74	17.92	14.87	24.76	17.00	74.55	12.53	12.40	12.28	12.16	49.37
Restructuring costs	-	-	-	-	-	-	-	-	-	4.57	2.03	2.08	8.68	10.75	-	-	-	10.75
Amortization of intangibles	9.17	9.65	10.07	2.47	2.47	2.47	2.48	9.88	2.50	2.03	8.29	13.86	26.68	2.10	2.10	2.10	2.10	8.42
<b>Operating expenses</b>	<b>1,325.55</b>	<b>1,150.30</b>	<b>1,211.15</b>	<b>333.70</b>	<b>309.59</b>	<b>326.60</b>	<b>322.70</b>	<b>1,292.59</b>	<b>296.79</b>	<b>275.44</b>	<b>310.64</b>	<b>320.01</b>	<b>1,202.87</b>	<b>312.34</b>	<b>289.73</b>	<b>287.32</b>	<b>285.59</b>	<b>1,174.99</b>
<b>Income before income taxes</b>	<b>245.63</b>	<b>266.25</b>	<b>190.01</b>	<b>(177.18)</b>	<b>90.09</b>	<b>246.90</b>	<b>188.19</b>	<b>348.00</b>	<b>109.67</b>	<b>(515.44)</b>	<b>59.48</b>	<b>68.76</b>	<b>(277.52)</b>	<b>106.05</b>	<b>138.70</b>	<b>143.89</b>	<b>150.48</b>	<b>539.13</b>
Income tax expense (benefit)	108.23	114.93	(26.40)	(56.88)	(237.38)	17.77	25.16	(251.33)	23.36	(4.12)	26.67	15.00	60.90	32.57	41.61	43.17	45.15	162.49
<b>Net income</b>	<b>(54.58)</b>	<b>147.60</b>	<b>212.69</b>	<b>(121.24)</b>	<b>326.54</b>	<b>228.20</b>	<b>162.10</b>	<b>595.60</b>	<b>85.38</b>	<b>(512.25)</b>	<b>31.88</b>	<b>52.83</b>	<b>(342.15)</b>	<b>73.48</b>	<b>96.16</b>	<b>99.79</b>	<b>104.41</b>	<b>373.84</b>
<b>Diluted EPS</b>	<b>(0.62)</b>	<b>1.44</b>	<b>2.07</b>	<b>(1.18)</b>	<b>3.17</b>	<b>2.22</b>	<b>1.57</b>	<b>5.78</b>	<b>0.83</b>	<b>(4.98)</b>	<b>0.31</b>	<b>0.51</b>	<b>(3.32)</b>	<b>0.71</b>	<b>0.92</b>	<b>0.96</b>	<b>1.00</b>	<b>3.59</b>
Diluted shares outstanding	88.52	102.59	102.80	103.01	102.92	103.02	103.08	103.08	103.46	102.78	103.45	103.17	103.17	103.49	104.00	104.26	104.53	104.07
BV per diluted share	42.94	38.20	39.98	38.55	40.76	42.65	44.88	44.88	45.87	41.45	41.55	41.40	41.40	42.30	43.01	43.86	44.75	44.75
TBV per diluted share	34.39	30.77	32.66	31.27	33.50	35.42	37.67	37.67	38.71	36.09	36.24	36.04	36.04	36.33	37.07	37.94	38.84	38.84
Tax rate	44.1%	43.2%	-13.9%	32.1%	-263.5%	7.2%	13.4%	-72.2%	21.3%	0.8%	44.8%	21.8%	-21.9%	30.7%	30.0%	30.0%	30.0%	30.1%

Source: BTIG Research Estimates and Company Reports

## **Appendix: Analyst Certification and Other Important Disclosures**

### **Analyst Certification**

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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## Company-Specific Regulatory Disclosures

### Popular, Inc. (BPOP)

#### Valuation

Our price target of \$41 is based on 1.0X the sum of BPOP's 2015E tangible book value plus our estimate of the realizable value of the company's non-core equity investments

#### Risks

Primary risks to our recommendation include weakness in the economy within the company's geographic footprint that could negatively impact its operating results; deterioration in collateral values of properties securing the company's construction, commercial and mortgage loans that could result in credit losses; the potential negative affect on the value of company's loans to the Puerto Rico government and its portfolio of Puerto Rico government securities due to rating downgrades on the government's debt obligations; an increase in the cost of company's obligations and ability to enter into hedging agreements due to rating agency actions; and increased regulatory scrutiny and limitations on business due to participation in TARP.

### Popular, Inc. (BPOP)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
17-Mar-14	29.18	42	Mark Palmer	BUY
23-Apr-14	31.68	41	Mark Palmer	BUY

## Other Disclosures

### Additional Information Available Upon Request

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Popular, Inc. (BPOP)

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