Conference Call Transcript
Banco PAN (BPAN4 BZ) – 2Q20 Results
August 05, 2020

Operator:

Good afternoon, ladies and gentlemen, and welcome to Banco PAN's conference call to discuss the 1Q20 results.

This event is also being broadcasted simultaneously on the Internet, both audio and slide show, which can be accessed on the Company's IR website, www.bancopan.br/ir, and MZiQ platform, with the respective presentation.

We would like to inform you that all participants will be in listen-only mode during the Company's presentation. After the Company' remarks are completed, there will be a question and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Forward-looking statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ from those in forward-looking statements. Such statements speak only as of the date they are made, and the Company is under no obligation to update them in light of further future developments.

With us here today, we have Mr. Mauro Dutra, Banco PAN's CFO and IRO.

Now I will turn the conference over to Mr. Mauro, who will begin the presentation. Mr. Mauro, you may begin your conference.

Mauro Dutra:

Good morning, everyone, Welcome to Banco PAN's second quarter 2020 earnings release. We have here beside me, our CEO, Mr. Carlos Pereira Guimarães; and our Head of IR and Funding; Mr. Inácio Caminha.

This was a challenging quarter in which our digital profile allowed us to operate normally. We managed the Bank very conservatively, and we can say we are very satisfied with the results obtained.

Starting on slide three, we see that the credit portfolio of the Bank remained stable in the quarter with R$24.7 billion in the end of June, growing 10% in 12 months. Regarding credit production, we originated, on average, R$2 billion per month in this quarter, 11% higher than in the first quarter and 23% above 2019, with a significant growth in digital formalization, leveraging both our B2B and B2C channels.

We advanced to 5.7 million customers under management, growing 24% in 12 months. We also achieved an earnings before taxes of R$207 million in the quarter, in line with the past quarter and 26% above 2019. And for the 1H20, we reached R$417 million in our earnings before tax, which is an important growth of more than 40% when compared to 2019.

Net income for the period was R$144 million and R$314 million for the 1H20, also improving significantly compared to 2019. These results generated an annualized ROE of 11.4% in the quarter, and 12.5% in the semester.

Regarding our adjusted ROE, we had 19.9% in the quarter and 21.5% in the semester, maintaining consistent levels of return here in the Bank. We ended June with R$5.1 billion of net equity and 15.9% of Basel ratio, reinforcing our conservative strategy during this pandemic period.

Then moving to slide four, due to the current scenario, we decided to initiate our presentation with an overview of the quality of our credit portfolio. First of all, talking about loans postponements, as you can see in this slide, we had a very conservative approach to loan deferral. Only 2 installments of around 11,000 customers were postponed or deferred. And following the payment evolution of these installments, 87% of what was due in June was already paid. We had 5,000 installments due in June, from which 87% were already paid.

The amount of these deferred loans represents less than 1% of our portfolio, and all the contracts involved in this postponements have collateral as they are part of our vehicles financing portfolio.

As a result, we saw a controlled increase in our over 90 days default ratio from 5.7% in March to 7% in the end of June, which reflects the real impact of the crisis on our portfolio.

Another information we released this quarter is the shorter default indicator from 15 to 90 days. This indicator increased to a peak of 10.8% in April, decreasing since then, up to 8.3% in the end of July. Which shows an increase in April and recovered in a good pace over the months, returning in July near to 2019 levels..

Moving to slide five, we can see the evolution of our loans for losses and credit recover. Here we show the effect of the restrictive credit deferral approach on credit provision expenses, which increased to R$414 million in this quarter. The expense net of credit recovery reached 5.9% of the portfolio. The financial increase of such expense of the net expense was R$133 million, of which R$37 million come from a smaller recovery in the wholesale portfolio, which is already 100% provisioned, as we explained in the past quarters.

The resilience of our portfolio is very important. To mention, especially, because we have 95% of payroll deductible loans and collateralized transactions, as we are going to explain in detail when we talk about the credit portfolio during the presentation.

In the vehicle financing business, which portfolio accounts for 38% of our total portfolio, we saw a significant positive movement.

The provision expenses in this business in June reverted to the pre-crisis level, showing an important improvement in payments. Even so, we continue to manage credit, capital and liquidity conservatively here in the Bank. So just to finish this credit session, I would like to tell you 2 key message regarding this matter.

The first one is both our balance sheet and our results already reflect the real impact of the crisis in our business. And the second key message is that indicators, as you could see in this slide, show that we are looking forward, thinking that things seems better than in the past. Although we are still managing the Bank conservatively because maybe a second wave of the virus or its economic impact can still hurt some figures, but we are very satisfied.

We can then move to slide six. Here, I would like to initiate remembering you what we have said in the last quarter. Our long-term view for our business and for the Bank has not changed with the crisis. We made some adjustments to our business, to our activity, but we keep focused on the evolution of our digital strategy.

In this context, on the left side of the slide, you can see our digital formalization has evolved significantly in this quarter. We reached 66% of our payroll operations, digitally formalized in June. And for the vehicles business, this figure was even higher with 94%.

Our digital bank continues to grow in line with our expectations, and we are very satisfied with what is happening.

In the 2Q, new features were launched. And in the coming months, we will add self-contracting in payroll loans, which is very important. Investments in fixed income assets and also financial educational tools.

On the right side of the slide, you can see some partnerships we announced on this quarter with different companies from different sectors which have a great fit with our target client base and can add new services to our clients.

We highlight then the partnerships with Claro and the fintechs, Mobills and Celcoin. We see these channels as a relevant tool to engage both customers and partners, optimizing cross-sell and upsell opportunities, in addition to increasing the portfolio of services and products of Banco PAN.

I would then let Inácio explain to you about the figures and the financial performance of the Bank.

Inácio Caminha:

Thank you. So moving on to slide seven, we present some of the main numbers and indicators for the quarter. The upper left chart shows the increase in the net interest margin, reaching R$1.2 billion and 19.1%. This slight increase reflects the volumes of credit assignment and also the robust level of spreads in our operations.

Allowances for losses, we have already talked about it in the previous slides. And going for the expenses, administrative personnel and also with origination, they dropped to R$592 million, basically because of the mix of originations that we had in this quarter. So all these together, they combined R$207 million earnings before tax.

And a net income of R$144 million, slightly below what we saw in previous quarter, mainly because of an effective higher income tax rate following the changes in the regulatory system in Brazil. The adjusted ROE, which also reflects the performance of the Banking, the margin ended the quarter at 19.9%.

In the next slide, we have the half year earnings. So when we look at all the same figures, we see a 30% increase in the NIM, reaching 18.5%. Allowances for losses went up 19%, reaching R$736 million. And the other expenses also increased 19%.

And these other expenses, they reflect the Bank's change that we had in this last year, also having higher-margin but more investment in technology and the digital bank did not have any impact in the 1H19. So still, we see an important evolution in the earnings before tax, reaching R$417 million in the semester. 43% above what we saw in the 1H19, resulting in a net profit of R$314 million and the adjusted ROE of 21.5%, very strong figures in our NIM.

On slide nine, we see the composition of adjustments that we made to get to the adjusted ROE. So basically, we are adjusting or excluding the excess of financial expenses related to fixed rate time deposits that we had not issued in the past, between 2005 and 2008. And without that, the net income would be R$199 million in the quarter, above the R$144 million that we see in the accounting figure.

The other adjustment relates to the size of the shareholders' equity. We also exclude the excess of DTA that we have related to also losses in the past in the previous management. So when we get the R$4 billion equity and the R$199 million net income, we reached the 19.9% adjusted ROE. And coming from the 11.4% in the accounting ROE. The same dynamics runs in the 1H of the year. So we get to the 21.5%.

And it is important to mention that these are 2 simple adjustments to make. Easy to understand. And this year, we have significant maturity in these time deposits. R$931 million will mature in December. So 30% will be gone by year-end.

On the next page, we have the details of our credit origination. We have rented R$2 billion per month in the quarter, reaching R$6 billion in the full 3 months, increasing 23% in 12 months. Payroll led this increase, reaching R$1.2 billion per month. And this increase basically relates to the changes that we had in term and cap rates for the social security program. And in April alone, we saw our record in terms of origination, R$1.4 billion in 1 given month.

Vehicle financing had an average origination of R$355 million, decreasing 26% from the past quarter. And still, we had a better performance than the market that we will show further on.

Credit cards remain stable. Practically, with R$385 million per month in terms of transactions. Also in this quarter, we had 180,000 new clients per month, reaching 5.7 million managed clients by the end of the quarter.

On slide 11, we present the composition of credit portfolio. The portfolio mix remained practically stable. Also the overall balance, R$24.7 billion, but also growing 10% in 12 months. When we see the breakdown, payroll remains as a main product with the billion R$13 billion and 52% of portfolio mix. Vehicle financing ended the quarter at R$9.3 billion, with 38% of the portfolio and credit card, $1.2 billion with 5%. The other runoff products cap reduced in the year balance. And with that, we get to the R$24.7 billion portfolio. It is very important to mention that within those R$24.7 billion portfolio, 95% of them are either collateralized loans or payroll loans. So this gives a very significant value for our portfolio. And also when we look at renegotiated loans, they only account for 0.6% of the entire portfolio. So when you look at the originated portfolio, we ended the quarter at R$32.5 billion.

In payroll, we have remained as a relevant player focused on federal codes, figuring among the top originators for the social security market. We have granted R$3.7 billion in new credits in this quarter. Out of those, 95% comprised by loans and 6% in credit cards. And as Dutra mentioned, we have 60% of all these loans originated digitally. And June alone, it was 66%. This technology brings much more efficiency to the operation, especially, in this time of lockdown and all the partners and clients are very, very satisfied.

The concentration remains very relevant in federal codes. We saw an increase to 95%, explained by the increase to 89% in the INSS. The loan portfolio balance declined due to the credit assignments, but the credit card portfolio continued to grow. Together, they reached R$13 billion.

On vehicle financing, on slide 13, we see that the portfolio remains stable at R$9.3 billion, with an adequate level of loan-to-value and also the term of the operations. In the table, we see the drop to R$355 million per month in the quarter. But it is important to look the movements that occurred both in the market and also in our numbers. So to help to visualize that, we included these two charts in the upper right side.

And then we can see that in the used vehicles market, it reached the lowest level in April and then recovered month after month. And when we see our performance, we did not fall that much, and now we have originated in June more than what we have originated in February, also with a very conservative approach in terms of credit concession.

In new motorcycles, we had a same trend. So the market felt all the effects of the crisis of the pandemic, but we had a better performance than the market. And here in vehicle financing, it's very important to mention that all this digital formalization platform has improved significantly and with that, we became more closer to our business partners, all the dealerships and then in also helping the clients to acquire the loans, acquire the cars in these times.

Moving on to the next slide, we have the credit card data. We maintained a stable level in terms of transactions, and we issued fewer cards because of our more conservative approach. We have expanded the origination channels, and then we see month after month, our clients becoming more digital. So not only in the way that they purchase the credit cards, but also in the way that they serve themselves using chat and WhatsApp and also receiving digital invoice. So all these environments not only bring more efficiency to the transaction, but it also helps to enhance the client experience, while using our products.

In the next slide, we have the insurance premiums detail. We saw a decrease pretty much related to what we saw in the vehicle financing because they are very connected. And we see that the digital bank has a leverage to help to increase a lot of these insurance sales, not only the products that we already have, but also bringing new type of insurance.

Talking about funding on slide 16. We ended the quarter at R$24.2 billion. Time deposits increased their share contributing to the diversification of our funding, not only through direct clients, but also through distribution platforms.

In April, we settled the subordinate bonds that matured $567 million, sorry. It was fully hedged and even after that, we continue with a very comfortable liquidity position, operating very conservatively.

And to conclude the presentation on slide 17, we have our Basel ratio, which ended the quarter at 15.9%, entirely composed by CET1, showing a very strong level of capital. And we remain steady in our digital strategy, in diversifying products for the low-income individuals, with a focus on credit through B2C and B2B channels. And also with our strong origination capacity. Obviously, considering the moment, we will maintain a conservative posture until the scenario becomes clearer.

And then with that, we conclude the presentation and open the line for questions.

Operator:

There seem to be no further questions. I would like to turn the floor over to Mr. Mauro for his final remarks.

Mauro Dutra:

So thank you very much for you all being here with us. We reinforce our view that our balance sheet and our results already reflect the real impact of the prices in our activity, and we are very satisfied with the results of this quarter. See you next quarter. Thank you very much.

Operator:

This concludes Banco Pan's conference call. You may now disconnect, and have a good day.