The Philippine Banking Giants

Last week, we wrote about the biggest conglomerates in the country while profiling their constituent businesses (The big boys, 6 June 2011). For this article, we will focus on the country's biggest banks and on some of the metrics that we use to better understand them.

Size Matters for Banks

Below, we outline the composition of the Philippine Banking Sector (Table 1). As of 3Q2010, the Philippine Banking Sector is composed of 764 banks, of which 2% are Universal Banks. Though few in number, Universal Banks account for 76% of the Total Assets of the local banking sector. This means that more than ¾ of the banking business in the country is concentrated on a handful of banks. Further, it is noteworthy that MBT, BDO and BPI account for more than 50% of the Total Assets of local Universal Banks.

Table 1 - Composition of Philippine Banking Sector as of 3Q2010				
Sector	**Total Assets**	**% of Total**	**No. of Banks**	**% of Total**
Universal Banks	4,871,934	76%	19	2%
Commercial Banks	793,956	12%	19	2%
Thrift Banks	578,096	9%	73	10%
Rural and Cooperative Banks[P]	173,552	3%	653	85%
Total - Philippine Banking Sector[P]	6,417,538	100%	764	100%
P - Preliminary				
Total Assets in million pesos				
Source: Bangko Sentral ng Pilipinas				

Size Begets Size

Bigger banks usually have a competitive advantage over their smaller competitors. They tend to enjoy certain scale benefits due to their size and they command a sizable presence in the market. Bigger banks are also usually perceived as stronger and more stable than their smaller counterparts because they have bigger depositor and capital bases. Because of this perception, it is easier for them to attract new customers and retain current ones. This increases the earning power of the bigger banks and further reinforces their financial strength. Below, we rank the biggest listed banks by Assets, Loans, Deposits, Equity and Market Capitalization (Table 2).

Table 2 - Ranking of Largest Listed Local Banks								
	MBT	**BDO**	**BPI**	**SECB**	**UBP**	**PNB**	**RCB**	**CHIB**
Assets - as of 1Q2011	957,296	955,369	760,827	183,548	247,727	306,604	311,185	238,487
Loans - as of 1Q2011	387,710	578,366	359,764	82,003	87,502	113,516	155,211	113,252
Deposits - as of 1Q2011	713,504	746,248	603,995	106,073	193,783	232,378	214,064	195,146
Equity - as of 1Q2011	105,327	87,941	82,937	26,430	35,095	32,868	36,737	35,161
Market Cap - as of 6/10/11	145,897	148,885	203,957	39,770	38,485	39,073	26,201	45,049
Amounts in million pesos								
Sources: Company Data, Technistock								

The Big 3

As of 1Q2011, MBT is the biggest bank in the country in terms of Assets and Equity. BDO is a very close 2nd in terms of Assets, but it still is the country's biggest lender. Though BPI is behind MBT and BDO in terms of size, it has the highest Market Capitalization among the 3. Collectively, MBT, BDO and BPI are referred to as the "Big 3." They offer a comprehensive suite of products to their customers and are often market share leaders in the businesses that they enter.

The Niche Players

SECB, UBP, PNB, RCB and CHIB are the other actively traded local bank stocks. They are smaller in size compared to the Big 3 but they have managed to strengthen their presence on specific customer niches or specific lines of business in order to compete with their bigger peers.

Tale of the Tape

Aside from looking at size, we also look at other important metrics to better understand banks (Table 3).

Table 3 - Key Financial Ratios for Banks as of 1Q2011

	MBT	BDO	BPI	SECB	UBP	PNB	RCB	CHIB
ROE	13.4%	11.1%	14.1%	15.6%	8.0%	3.9%	11.9%	9.8%
ROA	1.4%	1.0%	1.4%	2.3%	1.1%	0.4%	1.3%	1.4%
Recurring ROE	14.2%	14.3%	16.9%	15.2%	9.3%	6.2%	9.7%	11.6%
Recurring ROA	1.5%	1.3%	1.7%	2.2%	1.3%	0.7%	1.1%	1.7%
Cost-to-Assets	2.9%	3.7%	3.1%	2.1%	3.1%	3.2%	3.5%	2.8%
Loan-to-Deposit	54.3%	77.5%	59.6%	77.3%	45.2%	48.8%	72.5%	58.0%
Leverage	9.1	10.9	9.2	6.9	7.1	9.3	8.5	6.8

Sources: Company Data, Wealth Securities estimates

Using Return on Equity (ROE), the Big 3 and SECB are among the top in terms of profitability, with RCB also making the cut. Using Recurring ROE, which discounts the less predictable effects of Trading Income, Provisions for Losses and Provisions for Taxes, it becomes clear that the Big 3 and SECB are a step above the rest in terms of generating recurring profits. Based on Cost-to-Assets, SECB comes off as the most efficient bank in the group. Lastly, BDO is the highest in terms of Loan-to-Deposit and Leverage ratios; this is a testament to the management's efforts in expanding BDO's asset base through loan growth.

Recurring Income – Saving for the Rainy Days

In understanding banks, we stress the importance of growing recurring revenue streams (i.e. Net Interest Income, Fee Income) rather than relying on Trading Income. Recurring revenue streams will be less susceptible to external shocks than non-recurring revenue sources. Consequently, we have a preference for banks that can grow their recurring revenue streams precisely because they can still be profitable even if the market conditions start to become unfavorable. By this measure, we see that the Big 3 and SECB can still generate decent profits even in times of crisis and uncertainty.

Size Equals Strength

In investing, bigger does not necessarily mean better because profitability, value and growth usually drive share price appreciation more than size does. However, among the listed local banks, the bigger banks tend to attract more business since they are perceived as stronger and more stable compared to their peers. This reinforces their financial standing and allows them to generate strong recurring revenues even during difficult economic conditions. This manifests in the 1Q2011 results of the local banking sector as the Big 3 ranked among the industry's best in terms of ROE and Recurring ROE. Clearly, the case of the Philippine banking giants provides an example of how size can drive strength.

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