Banks

Asset Impact | **Positive**

Resilient earnings to keep investors mood in check; asset quality remains benign

The country's largest banks—BDO, BPI, and Metrobank—have released their earnings for the first half of the year. For the most part, all three incumbents reported positive results, as evidenced by higher net income and still elevated net interest margins (NIM), among others. However, management guidance unanimously suggests a conservative outlook on NIM expansion for the rest of the year, owing mainly to the anticipated monetary easing, with the first cut being penciled in by the markets this month. Coming from a position of strength, the banks exercised flexibility by growing the high-yielding portion of their loan books in an effort to maintain favorable earnings and mitigate potential NIM compression. Consequently, asset quality took a dent due in part to the inherent riskier nature of high-yield loans, which are commonly made up of consumer or retail loans. In the near future, the big three are still expected to post robust earnings as an accommodative interest rate environment opens a window of opportunity for lower funding costs that could lend a brief boost to interest income. Further, increased loan demand may be seen as interest rates decline. Looking ahead, pockets of strength may start to emerge from other sectors and attract the market's attention away from banks. As such, the overall rating for banks has been dialed down to a slight overweight.

Figure 1: **Strength in numbers—literally—as exhibited by select profitability indicators**

1H24, YoY	BDO	BPI	MBT
PPOP[1] (Php Bn)	56.3 (+7%)	42.9 (+26%)	33.6 (+6%)
Net Income (Php Bn)	39.4 (+12%)	30.6 (+22%)	23.6 (+13%)
Return on Equity (%)	15.1 (0.00ppts)	15.5 (-0.03ppts)	13.3 (+0.38ppts)

[1]Pre-provision operating profit (PPOP) is the income before subtracting the amount of funds set aside as provision for bad debts.

Figure 2: **A more conservative tone from management guides for stable NIMs going forward**

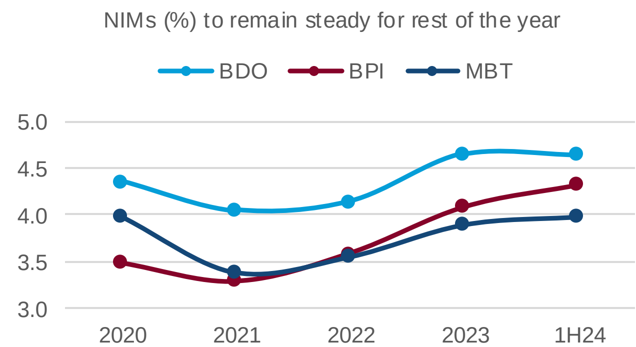

Figure 3: **Shifting gears to a slightly more aggressive strategy by driving consumer loans higher**

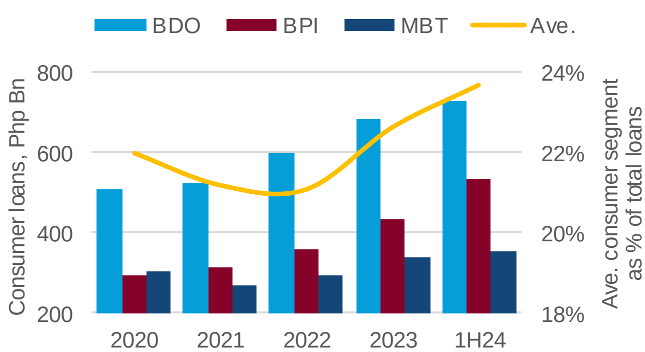

Figure 4: **Even with the uptick in NPL ratio, asset quality remains sound with adequate NPL cover**

1H24, YoY	NPL Ratio (%)	NPL Cover (%)
BDO	2.06 (+11bps)	169 (-5.8ppts)
BPI	2.20 (+32bps)	128 (-39.9ppts)
MBT	1.70 (-10bps)	163 (-21.7ppts)
Industry ave. as of May 31, 2024	3.7 (+20bps)	96 (-6ppts)

Sources: Bangko Sentral ng Pilipinas, Company disclosures and presentations

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