Y 2021 Earnings Call

Company Participants

- Inacio Reis Caminha, Chairman, Board
- Mauro Dutra Mediano Dias, Chief Financial Officer Member of Management Board, DRI & Investor Relations Officer
- Unidentified Speaker

Other Participants

- Pedro Leduc

Presentation

Unidentified Speaker

(Call Starts Abruptly) Client base I would say that we (Inaudible) don't need (Inaudible) which makes us, which we are all very happy and very excited about the opportunities we have of new products to be sold to this client base. Okay, so then moving to the section of the banking unit update, the first slide of the session is slide number 6, brings the main drivers of the business. We always explain this business with three main pillars, which are the growth of our scale engagement of the base and then the monetization which consists of the services that the clients can buy and also a credit penetration, right?

In terms of growth we reached 12.7 million banking clients at the bank as of December '21, and we see that our cost of acquisition of -- cost of point acquisition is decreasing. As we are seeing a more, a very strong organic flow in decline to origination. The second item is the engagement we are keeping the high level of active clients here at the bank with the cross-sell index evolving as we launch and the clients buy new products in the end. Third point is the service businesses, which is generating an intense growth of the fee revenues. The fee revenues are growing at the pace, much higher than the credit revenues, which is our intention, and it's important for diversifying the business.

And the last point is the penetration of private in the banking unit, in the banking clients base, which is something very important to decrease the origination costs, and we are using the in that origination in order to do so. So the next slide, as you may see, we will show numbers that explain these main drivers here. The first slide is the slide number 7, talking about growth of the base. The base region 12.7 million client. In the fourth Q, we had almost 50% of the new clients coming from organic flow, looking for the bank organically and it impacts a lot our cost of acquisition that reached in the fourth Q BRL35, this is a new information we are disclosing as we think this is important for the analyst to understand what we are doing in our business.

So these BRL35 of CAC includes the marketing expenses, all the onboarding process all the money we spend with the credit bureaus and all the logistics related to the debit or credit card that we sent to the client including both embossing of the card and the delivery, right? So the CAC is decreasing, a lot, is a very competitive allowed right now and we are excited about growing the base at the correct pace for optimizing the quality of the clients and the cost of acquisition. Moving to Slide 8, we then bring some information about engagement also already talked about the growth of the base we talk about engagement so activation level of 52% even with the base increasing a lot quarter over quarter. The first hour index ended December at 2.6 respects, the new projects that are being launched and -- by the clients in that.

We also ended December, we 5.4 million accounts with fixed keys clients that are usually bits with bubble but it increases 1 million accounts in the quarter which indicates that the new clients are using the bank and are turned -- are using the bank as their transaction domain and the last figure, which you already know when it's the transactions volume which reached almost BRL19 billion in the entire quarter. Slide 9 shows the use of services by our clients. So the first one is the mobile phone top up in which we have almost 0.5 million clients using the data service in the quarter in the last quarter, which is another strong indicator of engagement of transactions we made.

And at the right hand side, you can see the date of the insurance business in which we entered 2021 with 1.7 million clients with active insurance, -- insurance policies with Banco Pan among with almost 0.5 million in the banking unit. I mean, 500,000 clients in the banking unit had a outstanding bolus in December '21, and the number keeps increasing and we expect this number to get -- to keep the pace for 2022. We then move to Slide 10, bringing some details about the credit business in the banking unit we ended December with 5.4 million banking clients with credit as we are also do already talking to you is a very important to -- of both monetization and engagement.

We understand that the profitability of our business is much related to the credit transactions so having a 5.4 million out of 12.7 million banking clients with outstanding credit is a important number that we monitor here and as you can see in this slide this number has been ramping up since 2012. At the right hand side, you can see the new credit products that we launched in that. Of course, the main product here is the FTTS flow, which have -- which has more than 1 million clients that took this credit in act, which is also another indicator not only of monetization models engagement, but we won't, we put also the payroll business in that. We record equity transactions in that. And also in December, we launched the pre-approval credit for Banco Pan clients in that for the debit cards business.

These 5.4 million clients had almost, as you can say, is like 11 -- almost BRL13 billion in outstanding credit, right? And interesting observation here is that the penetration of banking clients in our credit portfolio reached 37% in December. I mean, we had -- in December a BRL35 billion total portfolio and BRL30 billion which represents almost 40% in the banking unit. This figure was less than 20% one year ago. So the good news here is that we are also penetrating credit and all the credit products of the bank only credit cards and personal loan in the banking clients unit, which is one of the main objectives here of the project.

You can also see that this study, BRL13 billion in credit of the banking unit are splitting all the products we have not only vehicles, but the cards they rolling FGTS laws everything and clients are using not only the services, but also all the credit products that we can offer. Just lend up the sessions Slide 12, the next slide we talk we'll bring you an update of Mosaico remembering that the Mosaico deal was already approved by card deal and by the shareholders of both Mosaico and Banco Pan that are still pending the Central Bank approval, which may happen in the next two weeks, but we are already advancing the business working with Mosaico deal and we are very happy with some delivers we already can show you.

The first one is the GMV Mosaico had at the Black Friday during November, which was BRL535 million a very impressive growth regarding -- compared to 2020. And this is the result of the cashback penetration in the client base as Mosaico now have the cashback to withdraw with the main part of Brazilian retails. The second important figure to show needs the financial products which are Banco Pan products offered in Mosaico platform. We had more almost 0.5 million requests of new cards, since November when they operated part was launched and of course, penetrating financial products in the Mosaico platform.

If one of the main ways to monetize the base and to monetize the business and this we will have a lot during '22. And the last topic is the marketplace of Mosaico being offered in our act belong to launch a firm in the end of November and we expect this also to grow a lot during this year. But with this is like, we end this session of the frido[ph] banking clients and then we can move to margins and credit.

Moving on to Slide 14. First of all, some key message and then we'll go to the detailed numbers. The first message, which is very important for the analyst and investors to understand is we are working here at Banco Pan. We found a high level of net interest margin, a high level of omni even after credit costs, right? So we have space, we've room to any kind of the duration. If it happens as we work with high levels of margins, even after credit cost and we charged them in rebates, regarding margins in private.

First -- the first one, the first of them is the NPL ratios the delinquency rate, which is growing of course as we know we are changing the mix of the portfolio and we are seeing the return of the pre-pandemic levels for all the products in terms of NPLs. But this is offset by this high gross margin that we work and we price not products and we are maintaining the renegotiation volumes of our portfolio next to zero irrelevant regarding the size of the portfolio. The second important item is decrease of interest rates in Brazil.

But as all the analysts know, we worked here with our portfolio 100% hedged. We do not take market risk in our portfolio and we reprice it all the products in the origination, right? We had during the second semester of '21 more compressing margins in the payroll business. This was already reviewed when the ceiling rate was changed by the governor along December, so the new origination we are already satisfied, very satisfied with the levels of the proof community, also in the payroll business.

Third, I think to mention is our asset quality. We have almost 90% of the portfolio in assets, a free of credit risk. I mean, the payroll business, and FGTS flows and an order 43% of the portfolio with collateral, which is comprising the vehicles business. So 90% of the portfolio is very defensive in the individuals credit market in our case, of course. Then the next item which is important for the business, is the credit assignment. As you may know, also we like very much the business of assigning credits as we can optimize our channels, our originations and we can generate profits without allocating capital or funding, but this business had a tough moment during the second semester of '21 as the margins were compressed.

Looking forward we see that this the greatest annual business should resume to its previous margins or even above with two main drivers. The first driver is Payroll business going back through the margins we have, we had in the past with the new seal. And the second important driver is we are seeing a lot of our partners in this business. A lot of other banks that work with us. In this business showing interest, either FGTS loans that we are originating a lot with where low origination costs and indeed, very good profitability. So with this two items to mention, we hope that the credit business, the credit assignment business should get back on track, in '22, which is a very important driver for our results.

Moving on, to Slide 15. I will begin to show you the numbers that explain this main topics I put in the Slide 14. So the first one is, we are maintaining our NIM without credit assignments and without credit cost at a high level which indicated in this slide reaching 12% in the first Q of 2021. Even with this is level of margins as I were already mentioned, but I'd like to reinforce is that we keep our portfolio, high collateralized not only because of the vehicles, but also if you consider that the business of the people, whenever you cast have kind of strong collateral to -- in order to take off the credit risk. And the third point, important to mention also, is we are being more conservative on the origination.

And that's were we show you the number of cards sold -- new credit card sold in the quarter, and it decreased compared to last quarters. But on not only in the credit card business, but also the vehicles business, we are being more conservative in the originations. And in the collection, which is very important variables price are very strong in Brazil, so it gives us comfort in order to try to execute decline and get the card back. So we are more conservative expecting that the environment can be more tougher. But as I explained it, we do not have negotiations. We are very diversified, and we are -- cost of operating credits in different moments of the sub.

In Slide 16 indicates the portfolio mix and how it is evolving we reached 12% of the portfolio in the unsecured products, which is small compared to the entire portfolio and brings engagement brings more margin as I already mentioned. The delinquency rates infilteration, the short-term infiltration reached 7.8 which is quite stable during over the year, right? And the 90 days indicator has been increasing as we already explained it because of the mix because all the product are turning back to the levels, the pre-pandemic levels.

And I already mentioned, but just in for some any kind of renegotiation is impacting this figure here. Just to end this last session, before going to financial highlights Slide 17 talks about the gross mart, right? We had as long as we have the portfolio growing 20% in 2021, as you can see, at the left hand side of the slide. Our need, without the impact of great assignments, grew 50%, which is way above the portfolio showing that we are capable of breaking largest equal margin and reprising the apartments that we already operate.

And the consequence is that even with the entire margin, the clear blue line being flagged from '20 to '21. You can see that the if you don't consider the current assignment is growing a lot and as I already mentioned, we expect the apprentice and business to have better margins looking forward. So this is something we see as equalizer for '22 and on. Okay. So Inacio, you can move with the financial highlights, and then we'll be here for the Q&A session.

Inacio Reis Caminha {BIO 19326001 <GO>}

Great. So, jumping to Slide 19. You see the regular charts that we show on results. Some of our interest margin stood fighting in BRL1.7 billion with the -- excluding the assignments, still going up. Provisions expenses remain also quite flat raising marginally to 4.8% of the portfolio and the main message here that's wasn't exported for it is that the expenses, overall expenses reduced in this quarter so it was driven by a reduction in origination expenses, because our CAC is much lower at a very competitive levels and also, we have been originating, more credits, using our app. So, not paying a commission to a significant part of the origination.

When you look at the administrative personnel expenses, they increased a little bit driven, mostly by the annual re-adjustment made that we have on our, payroll, for our employees. And what is important to notice here is that all the structured investments that we have made have been done in terms of personnel, and the growth would be marginal from now on. And we can now start benefiting from everything that we have built, and seek to generate more revenues over the portfolio or over as well regarding services.

And with that, we got to do BRL190 million net income in this quarter, 13.3% accounting ROE. When you look at the same charts in the annual comparison, we see a very strong evolution. So net interest margin freezing at a strong base, also provisions expenses very controlled and reduced a little bit over the portfolio expenses, showing the increased investments that we have done, throughout this year we'll show some detail ahead again hence, finally, net income increased to BRL775 million -- and 13.9% accounting ROE.

The origination we show on Slide 21, we can notice that the FGTS loans were really the main highlight of this quarter and this should remain to be as this product has been growing or has been keeping a very strong base of origination so it was almost BRL800 million per month and we have more than 2.2 million clients with this new loan more than half of it originated through our app or our direct channels. The vehicle financing stood at very strong levels and payroll naturally reduced in fourth Q because margins were still compressed and now, we have a much better environment to originate these loans with more spreads.

We just have to wait for the update, on the 5%, additional margin to reestablish the potential of new origination not only for us, but for the entire market. The credit portfolio, in Slide 21 ended the quarter or and the year at BRL35 billion and increasing 21%, payrolls was that GPS represents 44% while we also represents 43% vehicles, increased 32% on a year basis and credit card also, increased doubled actually in one year, but it still represents only 10% of the portfolio and the final product which are personal loans represents only 1% so when we look at the entire portfolio it is well, it's very defensive with 88% of the portfolio being collateralized or comprised by federal loans plus FGTS and we only have 0.3% of the portfolio renegotiated which also shows a lot of quality in our figures.

Going to the individual products on Slide 23. We have payroll and FGTS loans. So in the upper right chart, we clearly see that FGTS loan have been gaining more traction and will probably lead a big portion of our portfolios, evolution throughout '22. The other metrics remain quite stable, so we see originating a very significant share of all the loans related to federal courts, 97% was what we did in fourth Q, with only 3% related to the states and municipalities. So we are very, very satisfied with the performance, especially with the decrease in origination in our app.

Vehicle financing on Slide 24, we also see a very interesting trend of growth always bear in mind that the origination has been done in a very conservative way, not only in terms of underwriting criterias but also in terms of profitability and other metrics regarding interest rates funding, commissions and also the expected losses on the origination plus obviously the levels of down payments and the term of the loans. And to boost even more the evolution of vehicle financing we are also very satisfied that now we'll be able to --Central Bank approved it's acquisition and we are combining the two operations and we will definitely have a much better experience in that sense because we won't be out we begin the journey when the job as long as the client starts to seek for a new car so we may offer him a finance or send him to a partner dealership that work with us.

And with that, we can create more engagement, not only with fino-client, but also with --. Credit cards on Slide 25. We see a very good level of engagement and also all the volumes and the clients have been using more of our products. So we see that, despite that they should see, is that we decreased in a preventive action because of the upcoming scenario we still see a very strongly evolution, not only in credit card transactions, but also in revenues, interchange revenues that we have from these cards and the portfolio keeps growing so, this is a very interesting product with a very good profitability that generates a lot of engagement with the clients.

And with that, we can definitely improve and increase across seven of self inside our platform. So insurance is another product, that is very important and relevant generates service fees. We have currently 1.7 million clients with insurance -- with active insurance, so we generated only in fourth Q, BRL124 million in premiums generating BRL54 million in revenues for us. When you look at the insurance evolution, the premiums evolution on a yearly basis. We have doubled it in two years, reaching BRL581 billion, and we also see a lot of potential for it to keep growing as we provide more products and offer more new type of insurance to our clients inside our app.

And funding on Slide 27 is another way to see how we have been evolving naturally as our credit portfolio grows it has been performing so as the funding base increase. Just to give a highlight here on a new funding that we took on December we dispersed $150 million in a credit facility with the RAB, it invest we together we got our vectors and this is a specific line that will foster the development of social lending for clients not only micro entrepreneurs, but also for instance finance clients buying motorcycles and contributing to the household income. And the overall performance of funding have been boosted by the ratings that we have.

So '21 was a very important year in which we increased significantly the way that the market notices us, reducing the rates that we pay increasing volumes and increasing exposure to several type of -- investors. Another very interesting point that give more comforting best with these our capital base. So we presented on Slide 28, 50.4% CT1. And we also get here an exercise, showing what is the impact of Mosaico, once it gets approval. So December's figures would have been 17.3% if the deal was already approved. So this shows not only very interesting and high levels of capital, but also our ability to generate capital internally through our results getting all the foundation for us to keep building our books.

And to conclude on Slide 29. We see a summary of how we monetize our business here and how we get more profitable as time goes by, even though we have invested BRL1 billion, in '21 to promote all the growth in client base and also, in products and services offer to our clients, expanding our team, investing in new systems and more technology.

Regardless of that, we see that net interest margin rose 24%, reaching BRL6.7 billion fee revenues had an even stronger, growth growing 54% reaching BRL743 million leading to a net profit of BRL775 million growing 80% on a yearly basis which in the end results the 13.9% accounting ROE, proving as well in comparison to 2020. So this is the conclusion of our presentation and now we open the line for questions.

Questions And Answers

Operator

Question And Answer

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Mr.Gustavo sent us a question via webcast. Do you believe that the reduction in credit cards loans in issuance in 2022 due to asset quality issues could impact the growth of the number of clients as credit cards are important to attract clients?

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Thank you very much Gustavo for your question. The answer is no and I'll explain why. First of all, as you saw in the first -- in the last quarter of '21, even selling less credit cards (inaudible), we saw very strong numbers are related to engagement of the clients, right? And it happens because we have more products, we are more diversified, so we have much more things to offer to the client than only the credit card. So that's why we do expect that we can keep increasing the client base even selling -- for instance selling less credit cards. So with this level of card, we expect to keep increasing the client base at a pace of 35,000 to 40,000 new clients per day, which you will see as a very good number and we can optimize the quality of the clients that are coming to the bank with the level of investment with a very, very competitive cost of acquisition.

Operator

A question from Pedro Leduc. Please Mr.Leduc, you may proceed.

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Sorry Leduc, we can't hear you.

Q - Pedro Leduc {BIO 16665775 <GO>}

Can you hear me now?

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Yes, now we can. We lost you, sorry.

Operator

Yes, Mr.Pedro, you may proceed. (Operator Instructions) Please wait while we collect the questions. And the questions can be also sent via webcast. Please wait while we collect the questions.

A - Unidentified Speaker

Right. So we just received a question from Pedro Leduc here from Itau. Energy credit risk coverage coming down until what level? How are you working to improve recovery of (inaudible) for example? And then another question with you afterwards.

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Okay. Thanks very much, Leduc. Sorry about this logistic problem here, but we are very happy to answer your questions. First of all, let's talk about coverage. Our coverage has been quite stable over the last quarter decreasing a little bit, which we think is normal during credit cycles. But it's very interesting to reinforce that our portfolio is comprised mainly of defensive credit risks, which is the payroll segment, FGTS loans and the vehicles business and we do not postpone loans, we do not renegotiate loans. So this is a clear figure. Any kind of calculation (inaudible) to make regarding coverage is a clear figure as we do not have any impact from the negotiation as other banks do.

A - Unidentified Speaker

And the other question about credit growth. We are repricing credits which is another tool to manage risk, but this reduces growth most likely. What can we expect for loan book growth in '22?

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

We do see our book growing right (inaudible) at a base above the market, above the average of the financial system and why? First of all, because despite the 5% margin issue in the payroll segment which will impact January and February, we expect to grow a lot, to come to our previous levels of origination in the payroll business so to grow this portfolio. We are origination -- we are originating strong amounts in the FGTS segment. So these two segments should help the portfolio to keep on increasing. In the vehicles business, we are adjusting and we'll wait and see, but I do expect that we can come back to higher levels and keep the portfolio increasing. And the unsecured loans are just a small part of the portfolio. So, we do not (inaudible) too much the overall picture of the credit scenario for growth.

Operator

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

A - Mauro Dutra Mediano Dias {BIO 21792010 <GO>}

Thank you very much. Thank you all for being here with us. We are very excited with the opportunity we have, with the size of the client base and engagement levels of our current client base, so we expect to keep on increasing revenues. And regarding the macro scenario or the credit scenario is something natural for us. We've been making credit to Brazil for more than a decade, so we already saw some market movements. And we are prepared, we are making our technical adjustments and prepared to any kind of deterioration that maybe can happen. So expect to you see you in the next quarter and thank you very much.

Operator

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