

BANCO LATINOAMERICANO DE COMERCIO EXTERIOR, S.A.

IN ENGLISH: FOREIGN TRADE BANK
OF LATIN AMERICA, INC.

TICKER: BLX

EXECUTIVE SUMMARY

THE GOOD:

Solid financials coupled with good technical findings.

Amazing management that care about shareholder value.

They're a leader in the market and a mainstay in the industry due to them exporting very sought after goods, and being backed by many central banks in the region.

THE BAD:

Interest rates could slash their earnings if the situation is handled the wrong way.

A weak Chinese economy will most likely hurt LAC and Bladex, to what extent, and the possibility of avoiding the situation, is still unknown.

THE IN-BETWEEN:

Economic outlook for the region is lukewarm. Some analysts see LAC having great growth while others see them declining and falling behind in the global economy.

COMPANY OVERVIEW

BLX (or Bladex) is a multinational bank based out of Panama. Their biggest operation is financing a large percentage of foreign trade in the Latin American and Caribbean (“LAC”) regions.

The bank's activities are funded through interbank deposits, borrowings from international commercial banks, and selling debt securities globally. They are not a retail bank used by the general public.

They operate through two areas of banking, those being commercial and treasury.

The commercial segment:

Encompasses their core business of financial intermediation and fee generating activities they cater to corporations, financial institutions and investors in Latin America

They've introduced a broader range of products, services, and solutions associated with foreign trade; tailoring themselves to the region and their needs.

The treasury segment:

Focuses on managing their investment portfolio and the overall composition of its assets and liabilities to achieve optimized funding and liquidity positions, while simultaneously minimizing the traditional financial risks associated with a bank's balance sheet (I/R, liquidity, currency risk, ect...)

INDUSTRY ANALYSIS



The past 21 months have been the most profitable for banking since the pre- '08 crisis era. One of the major drivers of this has been higher interest rates across the globe. This has led to the best ROE for banks in well over a decade. (Bhattacharyya et al. 2023)

Successful institutions, regardless of prestige or age are in every subsector, but there is massive variation and disbursement among firms. (Bhattacharyya et al. 2023)

The buy-side has seen an increase in revenue pools, while the sell-side revenues have been relatively stagnant. (Srinivas et al. 2023)

The valuation gap between banks and all other major industries is massive. The difference between P/B and P/E ratios of banks vs other industries possibly shows an untapped upside if banks can adapt and “future-proof” themselves (i.e. incorporate AI and other advanced fintech effectively). (Bhattacharyya et al. 2023)

Banking is evolving due to new, specialty firms entering the market. These new banks are pulling customers (and in-turn revenue) away from more traditional fiduciary institutions. This has been hurting banks that aren't following these new firms' innovations and moving away from a product-focused business model. (Srinivas et al. 2023)

COMPANY POSITIONING

Being backed and invested in by 23 different Central Banks of the region lends them massive credibility and security for international investors looking to buy into the region. (Bladex 2024)

They had their IPO on the NYSE in 1992, being the first Latin American bank to have an IPO in the U.S. market. Since then, they've been seen as leaders of the LAC market, spearheading themselves into new territory, and expanding the possibilities for new business within the region. (Bladex 2024)

They've made themselves one of the most important and relevant banks in Latin America. Their tailor made services that aid in facilitating trade throughout the region are invaluable to many of their LAC based clients.

They're viewed as a reliable institution that is able to take care of business even in the face of economic uncertainties and hardship.

FINANCIAL PERFORMANCE

Form 20-F historical analysis (from 2017 to 2022)

Their tier 1 capital ratio was 17.01% on average over the period

Revenues had a CAGR of only 3.8%, with them taking a hit in 2020 due to COVID, but have rebounded nicely; posting a 40 million increase from 2019 to 2022 (+7.1% growth)

Total comprehensive net incomes' CAGR was 5.2%, but since coming out of the pandemic, their income has grown over 45 million US dollars, with them posting an impressive 111 million in TCNI in 2022

Six straight quarters of beating EPS expectations (both GAAP and non-GAAP)

They have a 20-day SMA of \$28.61, and a 200-day SMA of \$23.47; the current price is \$29.62, well above both

Their ROE has grown 61% from 2018 (.97%) to 2022 (10.45%)

Unweighted Equity Capitalization was 13.69% over the period on average, while weighted equity capitalization was 16.86%

They have a net profit margin of +62.44% (TTM) per Charles Schwab

Their beta is .75 (24-month) per seekingalpha.com

RISKS AND CONCERNS

Interest rate variation could negatively affect the interest income they receive, harming their biggest source of revenue. (Form 20-F 2022)

Most of the banks lending activities occur in Latin America and the Caribbean. If this region were to experience economic hardships, stagnation, or even a recession, this would be a big hit to the bank, and hinder their ability to grow. (Form 20-F 2022)

The amount of funding made up by deposits is shrinking (57% in 2017 to 40% in 2022). They've took on more short and long term debt to make up for this.

A weakened Chinese economy will hurt Latin American trade; Bladex could have trouble responding and replacing these lost funds.

If major LAC central banks lower interest rates before the FED, it would weaken their local currency and cause inflation to rise in the region, hindering trade. (Cadena et al.)

Financial institutions could experience another bank run like we did last Spring. This could have a negative effect on the banks liquidity and hurt their ability to borrow from other lenders, as they would most likely be experiencing the same issues.


CATALYSTS AND OPPORTUNITIES



Start-ups, funded by private capital, are breathing a new and younger life into the region. Tech, healthcare, manufacturing, and many other industries are being revitalized and are seeing growth within Latin America. Soon, Bladex will have a small army of homegrown companies knocking at their door, needing capital to expand. (Berg et al. 2024)

Widespread financial-institution-friendly policy has been passed in major markets within the region. Policies allowing for the inclusion of advanced fintech use (including open finance), developing cryptocurrency, and expanding financial literacy/education are all points being addressed by Latin American governments. (OECD et al. 2023)

A global focus on sustainability and being green has brought consistent GDP and job growth to the region, and shows no sign of stopping, as “being green” is an ever-pressing issue among corporations and governments alike. Bladex is heavily devoted to and invested in these sustainable practices, so the continued and consistent growth is promising for them. (OCED et al. 2023)





RECOMMENDATION

This is a **buy**, but a buy with caution.

The opportunity for growth, and subsequent capital gains are there. Latin America has the resources and the youth to do so. Couple this with Bladex's \$0.50 quarterly dividend and low price for entry, and the argument against opening a position in the company is weak.

A small position, 40-50 shares would be my recommendation. Doing so would net you approximately \$100 in dividends per year, and you still have the upside of noticeable capital gains if the bank, or the region, sees an large influx of new business.

Bladex's strong financial statements and world-class risk management team are strong drivers for the recommendation too. Their ability to rebound from the pandemic, galvanize growth, and surpass their pre-COVID state is truly remarkable.

What makes this a buy with caution, is the unknowns surrounding interest rates and the consequences that come with them if they're handled poorly.

SUPPORTING EVIDENCE

Concurring with the catalysts and opportunities:

OECD et al. (2023), Latin American Economic Outlook 2023: Investing in Sustainable Development, OECD Publishing, Paris, <https://doi.org/10.1787/8c93ff6e-en>.

Berg et al. (2024), Catalysts of Change: How Entrepreneurs Are Transforming Latin America, Center for Strategic and International Studies (CSIS), Washington D.C., <https://www.csis.org/analysis/catalysts-change-how-entrepreneurs-are-transforming-latin-america#:~:text=Entrepreneurship%20stands%20as%20a%20pivotal,economies%2C%20and%20reduce%20unemployment%20rates>.

Concurring with risks and concerns:

Cadena et al. (2023), What could a new era mean for Latin America? Current global challenges could usher in a new era. What might this mean for Latin American economies?, McKinsey Global Institute, New York City, <https://www.mckinsey.com/mgi/our-research/what-could-a-new-era-mean-for-latin-america>

Concurring with industry analysis:

Bhattacharyya et al. (2023), Global Banking Annual Review 2023: The Great Banking Transition, McKinsey & Company, New York City, <https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review>

Srinivas et al. (2023), 2024 banking and capital markets outlook, Deloitte Center for Financial Services, New York City, <https://www2.deloitte.com/us/en/insights/industry/financial-services/financial-services-industry-outlooks/banking-industry-outlook.html>

Concurring with company positioning:

Bladex (2024), Overview: glimpse about Bladex, Bladex, Panama City, <https://www.bladex.com/en/about-us#block-14fefd1d-4b61-4057-b330-b47d6349d13d>

All base numerical data used was found and analyzed in their Form 20-F's from 2017 to 2022 unless stated otherwise

CONCLUSION

Three points I want to leave you with.

Latin America (and many other foreign markets) have the ability to, and are growing, but lack U.S. or other more dominate economic leaders involvement to make that growth exponential. ~ **untapped potential**

Bladex is a leader in this specific market. Although, the region faces challenges, the bank will continue to be a constant within international trade. ~ **dominate presents**

The risk for investment is low. The stock is trading at just under \$30/share, and I have them valued at around \$35-37/share. I think they're undervalued, and the risk is worth the reward. ~ **bang for your buck**

Thank you for taking the time to look though this deck, I had a ton of fun making it.

PDM