

PBCom Receives High Credit Rating

Philippine Bank of Communications (PBCom) was assigned an issuer credit rating of **PRS Aa minus (corp.)**, with a **Stable** Outlook, by Philippine Rating Services Corporation (PhilRatings).

A company rated PRS Aa (corp.) differs from the highest rated corporates only to a small degree, and has a **strong capacity** to meet its financial commitments relative to that of other Philippine corporates. The “minus” further qualifies the assigned rating. A Stable Outlook, on the other hand, indicates that the rating is likely to be maintained or to remain unchanged in the next 12 months.

The assigned rating and Outlook took into account the following major factors: (1) Enhanced growth potential following the approval of its universal banking license; (2) Experienced management, complemented by synergies within its major shareholder’s ecosystem; (3) Sustained earnings growth, but short-term profitability will be subdued; (4) Notable improvements in asset quality; and (5) Relatively modest share of low-cost current account and savings account (CASA) to total deposits.

PhilRatings based its assessment on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to PBCom and may change the ratings at any time, should circumstances warrant a change.

PBCom is a licensed universal bank in the country. The bank secured the Certificate of Authority to operate as a universal bank from the Bangko Sentral ng Pilipinas (BSP) in September 2022. With the license upgrade from commercial bank to universal bank, PBCom can provide a broader range of products and services similar to the country’s top lenders.

Presently, PBCom is a mid-sized player in the domestic banking industry, with total assets amounting to ₱148.6 billion as of end-June 2024. The bank has a network of 94 branches (four of which are branch-lites or in pop-up format inside select Puregold stores), 166 automated teller machines (ATMs), and 78 cash deposit machines. As of end-March 2024, PBCom was the country’s 17th largest bank based on assets and deposit liabilities, 15th based on capital, and 16th based on loans and receivables (net).

The Co Family, led by Lucio Co, founder of Puregold Price Club, Inc. (Puregold), beneficially owned 57.2% of PBCom, as of end-2023. Mr. Co is also the Chairman of the bank’s Executive Committee since 2014. Aside from retail, his business portfolio extends to the energy, liquor distribution, real estate development, and hospitality sectors. PBCom’s aspiration to become a significant financial partner of micro, small and medium-sized enterprises (MSMEs) aligns well with Mr. Co’s extensive network of customers and suppliers. This network can support PBCom’s expansion efforts and provide the bank with competitive advantage in the MSME and retail markets. PBCom aims to have a highly-synergistic operational model by leveraging on the data assets and physical network of this ecosystem.

PBCom is also led by a seasoned management team headed by Eric O. Recto as Chairman and Patricia May T. Siy as President and Chief Executive Officer (CEO). Mr. Recto is also an Independent Director of publicly-listed companies, Aboitiz Power Corporation and Manila Water Company, Inc. Prior to his appointment to PBCom, Mr. Recto also served as President of Petron Corporation and Undersecretary of the country’s Department of Finance. Ms. Siy has 39 years of banking experience and held various positions in local and international banks.

PBCom showed sustained growth in its net income, achieving a compound annual growth rate (CAGR) of 13.2% over the past five years, from ₱1.2 billion in 2019 to ₱1.9 billion in 2023. Despite the challenges posed by the pandemic, PBCom also achieved a CAGR of 18.1% from 2020 to 2022, which enabled the bank to turn around its negative retained earnings position of ₱2.8 billion as of end-2019 to a surplus of ₱1.5 billion as of end-2022.

Net income for the first half of 2024 (1H2024) was relatively unchanged at ₱1.0 billion, reflecting a minimal 2.8% increase compared with the same period in 2023. The 28.4% increase in gross interest income in 1H2024 was offset by the bank's elevated interest and operating expenses. For full-year 2024, PBCom anticipates substantial growth in its net interest income, but such will be tempered by higher operating expenses.

In terms of its asset quality, PBCom's non-performing loans (NPL) ratio—both gross and net—showed continued improvement since the onset of the pandemic. Gross NPL ratio declined from 5.8% in 2020 to 2.7% in 2023. The latter was also lower compared with the Philippine banking industry's NPL ratio of 3.2% and the universal and commercial banks' (UKBs) NPL ratio of 3.0%, as of end-2023. Moving forward, PBCom's gross NPL ratio is projected to further improve, largely on account of loan portfolio expansion.

Deposits were the bank's primary funding base, with deposits to liabilities ratio of 89.9% as of end-2023. The share of low-cost current and savings accounts (CASA) to total deposits ratio, however, was modest at 46.9%, as of end-2023. As of end-June 2024, total CASA declined from ₱54.7 billion as of end-2023 to ₱52.8 billion. CASA to total deposits improved marginally to 47.0%, as maturity of the bank's long-term negotiable certificates of deposits (LTNCDs) also pulled down the bank's deposit base. While PBCom sees CASA posting double-digit growth going forward, time deposits will continue to remain as a significant contributor to the bank's deposit base.