

BDO Unibank (BDO PM)

FUNDAMENTAL VIEW ¹

As of 27 Dec 2024

- BDO Unibank (BDO) is the largest bank in the Philippines in terms of assets & market share.
- Given its size and systemic importance, BDO is considered too big to fail and is strongly likely to be supported by its controlling shareholder SM Investments, as well as the Philippine government in times of stress.
- BDO is widely viewed as the soundest bank in the country given its strong fundamentals, well-diversified businesses, and good management. Its CET1 ratio is maintained at a lower level than its first-tier peers, BPI and Metrobank.

RISKS & CATALYSTS

As of 27 Dec 2024

- Sustaining returns will be a challenge without the rates tailwind. Management is thus focused on volume growth in loans as well as CASA, pivoting the loan mix towards higher yielding segments, and releasing provisions, similar to its first tier peers (BPI and MBT).
- We view this as acceptable for BDO given its relatively higher NPL cover (178% at 3Q24) than peers. We would prefer a higher CET1 ratio, but BDO's large corporates-focused book (52% of total loans) and underwriting track record give comfort around potential asset quality deterioration as a result prolonged high interest rates and inflation.
- NIM compression in 3Q24 has been guided by management to revert in Q4 on the back of the BSP's 250 bp reduction in the reserve requirement ratio (RRR) effective 25 October. Still, NIM reduction is likely in FY25 should the market's expectations of more BSP rate cuts come through.
- Any rating downgrade of the Philippine sovereign would negatively impact BDO.

CREDIT QUALITY SCORE (CQS)²

As of 31 Dec 2024

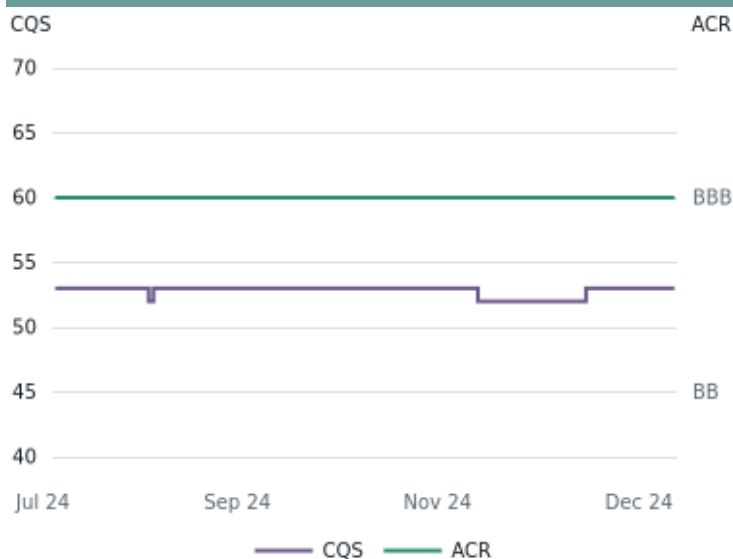
CURRENT CQS

53

CQS OUTLOOK ³

NO OUTLOOK

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 06 Nov 2024

PHP MN	FY20	FY21	FY22	FY23	9M24
NIM	4.36%	4.05%	4.14%	4.37%	4.32%
Reported ROA (Cumulative)	0.9%	1.2%	1.5%	1.7%	1.8%
Reported ROE (Cumulative)	7.6%	10.4%	13.0%	15.2%	15.0%
Equity/Assets	11.6%	11.7%	11.3%	11.5%	11.8%
CET1 Ratio	13.2%	13.6%	13.4%	13.8%	14.1%
NPL ratio	2.7%	2.8%	2.0%	1.9%	1.8%
Provisions/Loans	1.34%	0.72%	0.64%	0.59%	0.44%
PPP ROA	2.3%	2.1%	2.3%	2.7%	2.5%
Liquidity Coverage Ratio	127%	145%	141%	123%	136%
Net Stable Funding Ratio	122%	124%	124%	124%	n/m

BUSINESS DESCRIPTION

As of 06 Nov 2024

- BDO Unibank was established as Acme Savings Bank in 1968, and was then acquired by SM Investments in 1976. It became a commercial bank in 1994 and a universal bank in 1996.
- BDO was listed in May 2002. SM Investments remains the bank's largest shareholder with a 41% stake.
- BDO has expanded through a series of M&As. Among its key transactions, it merged with Dao Heng Bank Philippines in 2001, Banco Santander Philippines in 2003, UOB Philippines in 2005, Equitable PCI Bank in 2007, GE Money Bank in 2009, Citibank Savings, DB Trust and Real Bank in 2014, One Network Bank in 2015 (the largest rural bank in the Philippines), and RB Pandi's banking business in 2019. It also acquired the insurance business of Generali in the Philippines in 2016.
- BDO has the largest distribution network in the country and is ranked the largest bank in terms of consolidated resources, total assets, loans, deposits and trust funds under management.
- Its loan book is split 51% large corporates, 25% middle market, and 24% consumer at 3Q24. 44% of the consumer book comprises mortgages, 25% are credit cards, 13% are auto loans and the remaining are personal loans (13%) and others (5%).

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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