A Financial and Operational Analysis of Banco De Oro

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Abstract: Banco De Oro Unibank, Inc. (BDO) is one of the universal banks in the Philippines that was a product of a merger which made it unprecedented in size and scale in the Philippine banking industry. It offers a variety of services, ranging from the traditional lending and deposit-taking to foreign exchange, brokering, and corporate cash management. It is currently majority owned by the SM Group of Companies, which is headed by business tycoon, Mr. Henry Sy, who is considered the richest man in the Philippines. As of June 30, 2014, in terms of assets and loans, it is ranked number one in the universal and commercial bank group. With this, BDO should be able to compete to uplift its reputation with the increase in competition and constant penetration of international banks. The financials and operations of the bank must be examined to determine if it still has a competitive advantage over the increasing number of international banks in the Philippines. To examine BDO's performance in the financial side, a thorough financial ratio analysis is done. To study where the bank is in terms of its operations side, the SWOT Analysis and Porter's Five Forces Model will be used. The financial ratios show that in terms of resources, gross customer loans, deposit liabilities, capital funds and net income, BDO is doing well and improving as all the figures are increasing. This is due to the bank's strengths and opportunities that it grabbed from the past years. The financial and operations analysis will enable the reader to understand how BDO operates, its standings in terms of finance and operations from the years 2011-2013, and the future strategies it plans to take especially in the upcoming ASEAN integration.

Key Words: BDO; banks; finance; operations; Philippines

1. INTRODUCTION

1.1 Background of the Study

Banco De Oro Unibank, Inc. (BDO) is the number one universal and commercial bank in terms of asset size and loans in the Philippines as of June 30, 2014 (BSP, 2014). It is the product of a merger and through the years it has represented a firm consolidation of strengths and competencies (BDO, 2014). It is a full service universal bank and has the ability to provide a wide array of products and services to its personal consumer and the corporate market (BDO, 2014). Still being run by its founder and chairman emeritus, Mr. Henry Sy Sr., the bank is currently at the top of its game. Henry Sy Sr. is ranked by the Forbes as the number one richest man in the Philippines with self-made worth (Forbes.com LLC, 2014) as evidence with the good reputation of the bank in the past years.

With the continuous increase of international banks in the Philippines, BDO would have to revamp itself and gain more competitive advantage in order to remain sustainable. This paper would focus on the financial status and operations of the bank from the years 2011-2013 in conjunction with the upcoming ASEAN integration.

1.2 Objectives of the Study

This study would analyze BDO in terms of its financial statements by using financial ratio analysis with its matching interpretations and in terms of its operations by using the SWOT Analysis and Porter's Five Forces Model. The specific objectives are as follows: (1) to determine whether BDO can handle the pressures of the ASEAN integration, (2) to recommend a strategy for BDO.

1.3 Significance of the Study

The ASEAN integration is expected to liberalize goods, capital and skilled labor flows in the ASEAN region. This affects the banking industry in positive way by making it more capable of achieving economies of scale; however, on the negative side, there would be more competition in both the domestic and international markets. The banks of several ASEAN countries are still underdeveloped and have fragmented banking systems like the Philippines and Indonesia. With this integration, mergers may occur so as to gain more advantage over the other banks (Ng, 2014).

This study would help readers understand how to deal with such integration while using BDO, the Philippines' number one bank, as the benchmark.

1.4 Scope and Limitations of the Study

This paper would only focus on BDO and not other banks. Hence, other banks would not be analyzed. The ASEAN integration would be used as the independent variable in terms of what strategy BDO should use. Competitors would not be elaborated on and will only be generalized as either local or international/foreign. The data used to analyze BDO financials would come from its annual reports and the data would be compiled into a consolidated table for comparison, this will only cover the years 2011-2013 as these are deemed to be the most significant to the upcoming integration. The financial ratios to be used will only be selected ones, as not every ratio would be relevant in the analysis. Lastly, the researchers would also present their own perspectives in the operations analysis that could be incoherent with the current strategies BDO is presently doing.

2. METHODOLOGY

The researchers used three instruments to analyze BDO, the first is a financial ratio analysis covering years 2011-2013; the second is the SWOT Analysis; and the third is Porter's Five Forces Model.

For analyzing the financial status of BDO, the financial ratio analysis would be used. This technique is one of the simplest techniques in analyzing the financial condition of a company as well as the trend of the changes in its financial condition. It is based on the study of different balance sheet items and other relevant information (Andrijasevic, 2014). The selected financial ratios to be used that will be relevant to this study are: total resource turnover, return on resources, return on equity, debt to equity, debt ratio, gross profit margin, net profit margin and earnings per share. After computing for the ratios, the researchers then interpret the findings.

For the operations analysis, the first instrument is the SWOT analysis. This tool consists of four facets namely: strengths, weaknesses, opportunities, and threats. It is the most widely used instrument in strategic analysis and in other evaluative strategies (Al-Araki, 2013). This was used by the researchers to further analyze the bank more exhaustively to accomplish the objectives of this paper. The second instrument for the operations analysis is Porter's Five Forces, the researchers used this to support the findings of the SWOT analysis. Michael Porter's five competitive forces model is basically composed of five explanatory or causal variables namely: the bargaining power of the buyers, threat of new entrants, rivalry among existing firms, threat of substitutes, and the bargaining power of suppliers. These variables determine the superior or inferior performance of the company (Grundy, 2006).

3. RESULTS AND DISCUSSION

3.1 Financial Ratio Analysis

Table 1 shows the computations for the financials of BDO. The researchers have computed them using the financial ratio formulas with the figures based on the bank's annual reports. Three years have been compared and only eight selected ratios are described as they are the most suitable for determining the financial standing of the bank.

Table 1. BDO Selected Financial Ratios 2011-2013

Ratios	2013	Change	2012
Total Resource Turnover	3.38%	-22.30%	4.35%
Return on Resources	1.35%	+15.38%	1.17%
Return on Equity	13.78%	+46.28%	9.42%
Debt to Equity	917.79%	+30.32%	704.25%
Debt Ratio	90.17%	+2.97%	87.57%
Gross Profit Margin	76.26%	+14.04%	66.87%
Net Profit Margin	40.01%	+48.63%	26.92%
Earnings Per Share	6.22	+37.61%	4.52

Table 1. BDO Selected Financial Ratios 2011-2013

Ratios	2012	Change	2011
Total Resource Turnover	4.35%	-5.64%	4.61%
Return on Resources	1.17%	+18.18%	0.99%
Return on Equity	9.42%	-18.51%	11.56%
Debt to Equity	704.25%	+558.05%	107.02%
Debt Ratio	87.57%	-4.41%	91.43%
Gross Profit Margin	66.87%	+0.44%	66.58%
Net Profit Margin	26.92%	+25.28%	21.49%
Earnings Per Share	4.52	+16.20%	3.89

For a bank, it is usual to have extraordinary debts compared to assets or liabilities because a bank's liabilities mainly comes from deposits of customers. In this case, the great positive change in debt related ratios are good. For a bank to have bigger assets is questionable. Through the years, BDO is improving on its debt ratio and debt to equity ratio and it suggest that more and more consumers (individuals and corporate) are trusting their savings with the bank. However, the ratios suggest that BDO is experiencing a steady, if not great, growth despite inefficiency of managing their resources. For instance, the bank's return on equity in 2013 suggests that the money of company stockholders was efficient and effective in utilizing investments. It can also be implied that the bank's management was able to control its expenses to generate profit, as seen in the gross profit margin and the net profit margin. Lastly its earnings per share suggests a consistent increase from 2011 to 2013, which is a good outlook for investors as the bank is very profitable. From 2011 to 2013 there is an increase of approximately 60%; this proposes that BDO is being competitive in terms of its cash flows.

Overall, the researchers conclude that BDO has a strong financial standing given that its resources, gross customer loans, deposit liabilities, capital funds and net income are increasing. BDO can use this as its competitive advantage against other banks. However, it should also improve in managing its resources to further remain sustainable in the long run.

3.2 SWOT Analysis

Being the premier universal bank in the country, BDO has utilized its strengths in building customer loyalty throughout the years. With their slogan, “We Find Ways”, the bank has been able to build a strong customer base to the extent of operating in extensive banking hours. BDO is capable of meeting the customers' needs efficiently with the use of advanced technology. This allowed the company to diversify and innovate its services through offering loans and deposits, payments and settlement services, asset management, investment banking, dealership and brokerage, insurance services, etc. In addition, BDO has a firm and competent management operated by the Sy family, which pioneered the establishment of SM Malls.

However, due to its limited international presence, BDO has not yet expanded into most of the geographical areas of the ASEAN region. The bank has also limited presence in rural areas, and some branches pose inconsistencies with regard customer services. Also, a big threat to BDO would be the tight competition in the market, with Bank of the Philippine Islands (BPI) and Metropolitan Banking Corporation (Metrobank) as its close competitors. The competitors of BDO in the market are not just confined in domestic financial institutions but also in foreign banks. This can be due to the increase of the presence of foreign banks as there is an existence of foreign bank liberalization act. Other external factors contributing to the threats of BDO includes government regulation. The bank is regulated by laws and the government is in control when it comes to tax implementations; the Bangko Sentral ng Pilipinas (BSP), on the other hand, determines the interest rates which affects the bank's profits.

Table 2. BDO SWOT Matrix

	Strengths Advanced technology, customer loyalty, strong and competent management, diverse and innovative services, extensive banking hours	Weaknesses Limited international presence, limited presence in the rural areas, inconsistencies in customer services
Opportunities Expansion to foreign markets, merge with other banks, increase exposure in the Philippines	Strengths – Opportunities Strategy Expand to foreign markets, grow in the local markets	Weaknesses – Opportunities Strategy Focus on the local level first and strengthen the market
Threats Tight competition in the market, no substitute for financial services, increased amount of foreign banks, government regulation, ASEAN integration	Strengths – Threats Strategy Improve its products and services	Weaknesses – Threats Strategy Expansion and widen customer base

On a lighter note, the weaknesses and threats currently experienced by the BDO can be transformed into opportunities and later on, become strengths of the company. BDO can expand their company to foreign markets by taking advantage in the ASEAN integration since global tie-ups can boost the bank's presence abroad. Another effective option would be to merge with other banks. BDO could also increase its exposure in the Philippines, especially to rural areas to create new and loyal customers. Instead of focusing internationally, the bank can focus on the local level first and strengthen the market, then gradually increase exposure afterwards. BDO can overcome its tight competitors by continuously improving and innovating its product and services. Through this, the bank's market shares would progressively improve soon after.

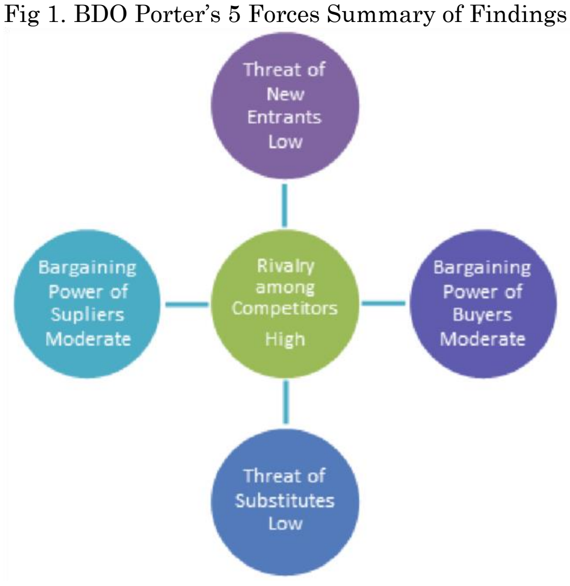
The SWOT matrix presented in Table 2 shows that BDO has more strengths that it could use to counter the threats, especially its competitors. The company can maximize its strengths and eliminate weaknesses through expansion and wide customer base. Using these abilities, it can also maximize the opportunities that come with the ASEAN integration.

As of December 2014, BDO announced that it would acquire Consuji-led One Network Bank (ONB), which is one of the biggest rural banks in the country and leading bank in the Mindanao area (Dumlao, 2014).

3.3 Porter's Five Forces Analysis

Figure 1 summarizes the findings for BDO using Porter's Five Forces Model.

Fig 1. BDO Porter's 5 Forces Summary of Findings



3.3.1 Threat of New Entrants – Low

In the banking industry, there is a high capital requirement (reserve requirement) needed as set by BSP. Setting up a bank requires a huge amount of investments and technology requirements, especially with today's fast-paced digital age. Although there are many international banks present in the Philippines, the law still regulates the number of foreign banks to be present in the country. Customers, on the other hand, still have that brand loyalty and as one of the most trusted banks, most people would still prefer BDO. Lastly, there are high switching costs for the consumers, especially the depositors who have deposited via time-deposit. Customers find it difficult to switch to other banks as their investments have a certain term.

3.3.2 Rivalry among Competitors – High

Banks are constantly competing with one another, either through fast service, variety of products, or innovative measures. BDO has its equally balanced competitors, which are Metrobank and BPI. Lastly, with the undifferentiated services (banks offer the same services like loans and deposits and asset management to name a few) banks would compete with each other even more to get a larger market share.

3.3.3 Threat of Substitutes – Low

There are no substitutes for financial services other than the substitutes of the nonbanks that have quasi-banking functions. In the banking industry alone, only banks are considered.

3.3.4 Bargaining Power of Suppliers – Moderate

Usually the suppliers of banks are only for ATM machines, cards, and slips. They can change their prices depending on the market condition and these materials and equipment are necessary for the banks to function in their daily transactions, but without the banks, suppliers would have no use for these materials.

3.3.5 Bargaining Power of Buyers – Moderate

The buyers are the consumers of the banks and they are either individuals or corporate accounts. They can easily choose to invest their money in a different bank depending on the interest rates. Similarly, the bank being the supplier, gives these products and services to benefit the buyers financially.

4. CONCLUSIONS

BDO is the top local bank in the Philippines and is largest in terms of assets and loans. With the upcoming ASEAN integration, it should focus more on its strengths and enhance its services to compete with its competitors. The main point is that BDO should be better in terms of quality. Financially, it is doing very well from the years 2011 to 2013. It is expected that it would be here for the long run. In its operations side, there are many threats that hinder the bank for 2015. However, with the right strategy, BDO can compete with international banks even with the increase of their presence domestically. It should be noted that the bank must be able to compete internationally as well; currently, it still has not attained this status. Further research must be done on other banks to compare their different characteristics and determine the right strategy to face not only the ASEAN integration, but also globalization in the future. At present, BDO is taking gradual steps to improve its competitiveness, but the question of executing the strategies in time for the future situations to come, still remains.

The researchers would like to recommend the future researchers to improve this study by making other analysis relevant to the subject matter and by getting more inside information in the bank to be studied. This will make the study more accurate and applicable to its current situation.

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