

Investing in NPL in Portugal: The Time is Now!

SPRING UPDATE - PREPARED BY PRIME YIELD

Portugal is making steady improvements in its Non-Performing Loans (NPLs) stock and ratio, but still continues to be challenged by the workout of the so called bad debt. Following the fastening pace of the sale of NPL Portfolios over the last two years, the Portuguese market is set to further gain momentum in 2018, now in an environment where the country's international credibility is stronger and international capital keeps targeting the national market.

Economy

In 2017 the Portuguese Economy recorded its best performance in 17 years (since 2000), with a GDP Growth of about 2.7% (data by the Portuguese Statistics Office INE). This figure not only accelerates the 1.5% growth recorded by the end of 2016 but also exceeds the Governments earlier estimates of 2.6% (this was also the value forecasted both by the EU and IMF). The Portuguese economy also slightly outperformed the Euro Area average GDP-growth (2.5%), this being the second time in over 17 years that Portugal surpasses its European Partners (the first one was in 2009, when the 3.0% national GDP fall compared with the 4,5% average decrease for Euro-area). In Portugal, annual GDP growth in 2017 was positively impacted by investment, which significantly accelerated vis-à-vis 2016. This opens a very positive outlook for 2018, a year for which the Portuguese Government has cautiously forecasted a residual slowdown in the economic growth, estimated to sit at 2.2%.

GDP GROWTH 2017

2.7%

GDP GROWTH FORECASTS 2018

2.2%

Property Market

The Portuguese property market lived an outstanding year in 2017, reinforcing the growth path experienced in 2016. The positive performance was common to all market sectors, but the residential is now more in the spotlight than ever, with housing prices already growing all over the country and dwelling transaction' strongly increasing. In the third quarter (last data available), housing prices in Portugal increased by 10.4% when compared with the same period of the previous year, this being the highest rate of change recorded since 2009. In 2017 (January-September), a total of 110,850 dwellings were transacted in Portugal, a 9-month volume never recorded since the beginning of the series (in 2009). Sales volumes reached €13.8 billion (bn), only €1.0 bn below the total annual volume transacted in 2016 and also a new 9-month maximum in the series. One of the main notes regarding the residential market is the diversification of demand sources, with more and more countries searching for residential properties in Portugal. Boosting the residential market is also the increase in loans for house purchase, which in 2017 totalled over €8.2 bn, the highest level in 7 years and an y-o-y growth of 43%. Commercial property is also on the rise, as the investment volumes reached the €2.0 bn mark in 2017, an all-time high for the Portuguese market. And prospects for 2018 point out to a new increase, with volume possibly peaking at €2.5 billion. In the occupational markets, office take up also performed in a growth path (167.000 sqm in 2017), the highest level in over 9 years.

GROWTH OF HOUSING PRICES
(2017, JAN-SEP)

10.4%

HOUSING SALES VOLUME
(2017, JAN-SEP)

€13.8_{bn}

COMMERCIAL PROPERTY INVESTMENT
EXPECTED IN 2018

€2.5_{bn}

NPL Stock and Ratio

Within the last year (between June 2016 and June 2017), Portugal steadily reduced its NPL stock and ratio. Overall, in that 12-month period, there was a decrease of around €8 bn in NPLs, of which approximately €6 bn placed in the companies' segment (Non-Financial Corporations), and €1,7 bn in households. The Portuguese NPL stock now stands at €42,2 bn (as for June 2017, according to central Portuguese bank Banco de Portugal), reducing about 16.5% when compared with the €50,5 bn stock accounted one year before. As for NPL in Companies, it now totals (June 2017) about €27,2 bn, downsizing from the €33,1 bn stock recorded one year before. In the Household segment, NPL stood at €11,5 bn (as for June 2017), falling about 13% from the €12,8 bn stock as of June 2016.

In Europe, stock is also reducing, now standing at circa €950 bn (European Central Bank data). The downward trend is felt in nearly all Member States, with NPL ratios falling in recent years. This has been the result of stabilising economies in concert with various pro-active measures, including sales of NPL portfolios.

The NPL ratio to total gross loans (in %) In Portugal positively evolved from 17.9% in June 2016 to 15.5% in June 2017. In terms of segments, companies recorded a NPL ratio of about 27.2% in June 2017, down from the 30.3% ratio a year before. As for households, the ratio is significantly lower in the segment (8.1%), also shortening when compared with June 2016 (9.2%).

Nevertheless, the national NPL ratio remained one of the most expressive in the European Union (the third highest to be more precise, only surpassed by Cyprus and Greece whose NPLs are over 30%, almost reaching 47% in the Greek case), and about three times the average 4.6% NPL ratio in total EU. In Europe, this ratio is also decreasing, falling from 5.6% in June 2016 and now reflecting a total European stock of circa €950 billion (European Central Bank data). As a result, the European ratio reached its lowest level since Q4 2014.

Potential NPLs Deal

The pipeline of NPLs portfolios in Portugal remains very strong, as despite recent improvements in reducing the stock (due to increasing flows of write-offs and NPL sales) and in market perception about the Portuguese Banking System, Portuguese Banks continue to be under pressure to fasten the pace of deleverage.

Several deals have come to the market in late 2017 and national financial institutions have already announced their intention in reinforcing the sale of NPLs portfolios during 2018, which can further boost transactional activity. The national bank Caixa Geral de Depósitos is known to have a €1.8 bn NPL portfolio to come into the market and also Novo Banco has a €2,0 bn portfolio for disposal. And overall, the largest banks operating in Portugal have recently announced their intention to reduce the ratio of NPL in their credit portfolios to 10% up until 2021, thus reinforcing the NPL portfolios available for acquisition in the market. So if 2017 could have reached €2.0 billion in NPL deals in Portugal, 2018 should further accelerate the pace of transactions and record high traded volumes, with an y-o-y growth that can reach 15 to 20%.

NPLs STOCK (06.2017)

€42.2_{bn}

NPL RATIO TOTAL (06.2017)

15.5%

NPL RATIO HOUSEHOLDS (06.2017)

8.1%

NPL RATIO COMPANIES (06.2017)

27.2%

ESTIMATED NPL TRANSACTION
VOLUMES (2017)

€2.0_{bn}

2018 NPL TRANSACTION
Y-O-Y EXPECTED GROWTH

20.0%

About Prime Yield | NPL&REO Services

Established in 2005 and with over 4000 assets valued in 2017, Prime Yield delivers valuation, research and advisory/consultancy services and has been focusing on the NPL&REO market, specializing in Portugal and Brazil. Thinking about the players (buy and sell) who want to be actively involved in the transaction of this type of assets, the company created the new business area NPL&REO Services, also supported by Prime AVM&Analytics, an advanced technological solution that allows NPL's investors and sellers to have property valuations in a fast, simple and reliable way both for single assets or entire portfolios (RESI or CRE). Prime Yield is regulated by RICS and REV-TEGoVA, also holding a certification in Quality and Environmental Management (NP EN ISO 9001:2008 and NP EN ISO 14001:2004).