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Analysis: COVID-19 could spur dealmaking in Mexico's financial sector

Analysis

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- Non-performing loans squeeze liquidity
- Larger players could swallow smaller peers
- Some lenders could go bankrupt

The rise of bad loans due to COVID-19 could result in the consolidation of Mexico's financial sector, according to industry executives and a PE managing partner.

The pandemic, which has already killed more than 177,000 people in Mexico, has hit the performance of several local lenders, particularly those with large commercial-and-industrial-loan portfolios, said Sebastian Miralles, managing partner of Mexico City-based private equity firm Tempest Capital.

Mexico's gross domestic product is expected to have contracted 8.5% last year, its worst reduction in almost 90 years, according to national data-gathering agency Inegi.

"This kind of economic situation opens the door for larger players to acquire smaller institutions," Patricio Diez, CEO of Banco Compartamos, Mexico's largest microfinance lender by assets under management, told this news service earlier this month.

Small and mid-sized enterprises (SMEs) have been hit the hardest and might struggle to pay back their loans, which could have a knock-on effect on their creditors that tend to be small banks and non-bank lenders, known locally as Sofomes, Miralles said.

Local manufacturing SMEs saw their revenue drop by about 68% in the first five months of 2020, according to a July study by local online lender Konfio.

The decision by Mexico's central bank (Banxico) to cut interest rates could also spur the sector's consolidation as it hurt the ability of many smaller banks to maintain growth during the pandemic, said Juan Carlos Jimenez, CFO at Grupo Financiero BX+ (Ve Por Mas).

Last week, Banxico reduced Mexico's benchmark interest rate to 4%, the lowest since 2016. In August 2019, Mexico's benchmark interest rate stood at 8.25%.

Lenders whose portfolios have been "mildly harmed" by the pandemic could become targets for larger players with stronger balance sheets, said Miralles. Local and foreign PE firms could seek to invest in small banks and larger, "better capitalized" Sofomes that boast strong client bases, he added.

Local microlender Te Creemos, which is backed by PC Capital and Creation Investments, agreed to acquire Banco Forjadores in December, as reported. Forjadores has a loan portfolio of around MXN 550m (USD 26.9m) and finished 2020 with a delinquency rate of 4.59%, according to data from Mexico's banking and securities regulator CNBV.

Mexico City-based Te Creemos, which has a loan portfolio 10x larger than Forjadores', considers acquiring competitors in the group-lending space and smaller peers that can help develop its digital platform, CEO Jorge Kleinberg told this news service last month.

Ve Por Mas, Mexico's 22nd largest bank by assets, also seeks to complement its organic growth plans with M&A deals and is targeting local peers and Sofomes, as reported.

Mexico's fragmented microfinance sector, which mostly lends to low-income individuals, could also consolidate as lenders suffer loan defaults and delayed payments, said Enrique Brockmann, CFO of local microlender Grupo Findep [BMV:FINDEP].

Companies with "valuable technology and portfolios" will be tempted to divest non-core assets to alleviate liquidity issues, he said.

The 7.2% delinquency rate of personal loans in Mexico, such as those typically originated by microfinance institutions, is currently the highest within the financial sector, according to data from CNBV.

Findep, for instance, sold two non-core units in 2H20. In October, it offloaded its local group-lending business Finsol Mexico to Te Creemos, as reported. Finsol's MXN 659m loan portfolio accounted for 8% of Findep's total loan portfolio.

In December, Findep agreed to sell its payroll lending subsidiary Fisofo to Consupago, the banking unit of local retailer Grupo Comercial Chedraui [BMV:CHDRAUIB], as reported. The deal must still be approved by competition authority Cofece.

Findep could also consider selling Finsol Brazil, its Brazilian group-lending unit, if it receives an attractive offer, as reported.

Mexico City-based Compartamos, a subsidiary of local financial services group Gentera [BMV:GENTERA], completed the sale of its remittance services business Pagos Intermex to Houston-based Transnetwork in June for about MXN 241m.

Compartamos, however, is keeping an eye on potential acquisition opportunities this year, as reported.

Toxic assets

The worst-hit banks and Somofes, however, risk bankruptcy and might have to be rescued by the government, noted Miralles, from Tempest. Consolidation "works" for lenders with fundamentally solid businesses that have been negatively impacted by the situation but not for those with more serious issues, he said.

"There is a real chance we will see more Famsas," said Miralles, referring to Banco Ahorro Famsa, whose banking license was revoked in June for "inappropriate risk management" and "a recurrent breach of several regulations."

Last month BanCoppel, the financial services unit of Sinaloa, Mexico-based retailer Grupo Coppel, acquired the corporate clients' portfolio of Banco Famsa, totaling MXN 2.7bn, in an auction held by the country's Bank Savings Protection Institute (IPAB), as reported.

Grupo Finterra; Banco Autofin, the banking arm of Mexican car dealer and lender Grupo Autofin; the local unit of Beijing-based ICBC; and the local banking unit of Volskwagen [ETR:VOW3] reported the highest delinquency rates in Mexico last year, according to government data.

In July, S&P Global Ratings lowered Finterra's local long-term credit rating to mxB from mxBB for considering that its reduced capital base due to constant negative net results generated high levels of volatility. That same month, local credit-rating agency HR Ratings also lowered Banco Autofin's credit rating.

by Dominic Pasteiner in Mexico City

Charge Code
Not set

Grade
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BIDDERS

- Banco Compartamos SA
- Grupo Financiero Ve por Mas, S.A. De C.V
- Te Creemos, S.A. de C.V. Sociedad Financiera Popular
- Financiera Independencia SAB de CV

OTHERS

Countries
Mexico
USA

Sectors
Automotive
Consumer: Retail
Financial Services
Internet / ecommerce
Services (other)

Sub-Sectors
Automotive components

[Tempest Capital]
[Konfio Limited]
[PC Capital]
[Creation Investments Capital Management, LLC]
[Banco Forjadores, S.A.]
[Financiera Finsol, S.A. de C.V., SOFOM, E.N.R.]
[Fisofo, S.A. De C.V. Sofom, E.N.R]
[Consupago, S.A. de C.V.]
[Grupo Comercial Chedraui SAB de CV]
[Instituto Finsol Brazil]
[Gentera S.A.B de C.V.]
[Pagos Intermex, S.A. De C.V.]
[Translatum Holding S.A.P.I. de C.V.]
[Banco Ahorro Famsa]
[Banco Ahorro Famsa (corporate clients portfolio)]
[Bancoppel]
[Grupo Coppel S.A. de C.V.]
[Banco Finterra S.A. Institucion de Banca Multiple]
[Grupo Autofin Mexico S.A. de C.V.]
[Industrial and Commercial Bank of China Limited]
[Volkswagen AG]

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