



Stocks to bank on



Credit Suisse: Mismanagement of the four key risks
Bloomberg/Michael Nagle

The business model of a bank inherently entails the maturity transformation of deposits. Put differently: banks borrow in the short term to lend for the long term. This foundational principle exposes a bank to four risks that could imperil its solvency: credit risk, market risk, liquidity risk and operational risk.

The stresses the US banking system is now experiencing can be attributed to the interplay between market risk (unrealised losses on held-to-maturity investments) and liquidity risk (significant deposit withdrawals due to clients' risk aversion as well as much higher interest rates being offered by money-market alternatives). Credit Suisse's troubles are attributable to the mismanagement of all four of these fundamental risks. With bank stocks around the globe taking a hit, are there attractive opportunities in the sector now? Let's look at some candidates:

Nubank

While Nubank is headquartered in Brazil, its holding company is registered

in the Cayman Islands, with shares listed in the US. It is the largest Latin American fintech, with a market cap of \$20bn. Founded in 2013, Nubank branched out from Brazil to Mexico in 2019, with Colombia following in 2020. It has no physical branches; it serves its 75-million customers completely digitally.

Services include transactional accounts linked to a mobile app, credit cards, investment/trading accounts, loans, insurance and access to a digital marketplace. Roughly 5-million of the bank's clients have taken out loans with it, and about 7.5-million have opened NuInvest investment/trading accounts. Almost half of Brazil's adult population are already Nubank customers, but in Colombia and Mexico its market share is less than 4%. If Nubank can emulate its Brazilian market share gains in other countries, the shares are worth accumulating at the current price of less than \$5 each.

Ringkjøbing Landbobank

Ringkjøbing Landbobank is regularly ranked as the most popular retail bank in Denmark, based on client reviews. With a market cap of almost \$4bn, it is slightly

smaller than Investec. The bank's shares have returned more than 20% a year over the past decade. No wonder – all the bank's ratios point in the right direction: return on equity is high (consistently above 15%), credit losses are remarkably low (below 0.5% on average), tier 1 capital adequacy is strong (above 17%) and the cost-to-income ratio reached a modest 31% last year.

The bank benefits from Denmark's mortgage market, one of the most sophisticated in the world. A handful of mortgage credit institutions issue all mortgages in the country, package them into covered bonds, and sell these bonds to capital market investors. This system removes most frictional costs from the mortgage market, which allows borrowers to lock in very low rates, banks to avoid significant credit risk, and investors to obtain attractive investment yields. Ringkjøbing Landbobank is conservatively managed, but the shares represent liberal upside.

Banca Generali and FinecoBank

These two Italian banks focus on "capital-light" banking services, such as wealth management, stockbroking and private banking. They have high returns on equity, strong tier 1 capital adequacy ratios and low cost-to-income ratios. Their market caps are roughly \$4bn and \$9bn respectively.

With less emphasis on lending and more on fee-generating services, their risk profiles are substantially lower than those of larger rivals that focus on lending and investment banking activities. Banca Generali is fast becoming Italy's premier private bank and FinecoBank one of the country's most popular stockbrokers (with plans to expand across the rest of Europe).

Niche banks such as these are less susceptible than others to a dent in client confidence and the potential for deposit flight. If you want to gain some profits in this sector, the banks with the cheapest shares are not necessarily the ones to focus on – rather concentrate your interest on those that deliver great service and manage their risks well. **X**

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