NPL&REO in Brazil:
The next (emerging) hot market!

SPRING 2020 UPDATE

Brazil gives a further step in being an emerging target for international players investing in the distressed credit market. The relative initial stage of this market, compared to other mature European countries, gives Brazil an edge in terms of returns and access to large-scale portfolios. A recovering economy and an increasingly professionalized market are the other conditions contributing to another increase in the trade of Non-Performing Loans (NPL) seen over 2019.

Economy

Brazilian Economy started the 2010's decade with a strong growth, recording a 7.5% increase in Gross Domestic Product (GDP). However, during the first half of the decade, Economy began losing momentum and by 2015 the country was plunged into a deep economic recession. That year, GDP decreased 3.5% and in 2016 Economy further fell another 3.3%. 2017 marks the return to positive growth, followed by another GDP advance in 2018, but Economy has been struggling to take off, with GDP expanding only 1.3% on these two previous years.
2019 is expected to follow up this positive path, confirming, however, the modest pace. The year began weaker than 2017 or 2018, with a 0.6% quarterly GDP growth, but the two following quarters accelerated, with q-o-q variation rates of 1.1% and 1.2%. This led analysts and the Brazilian Central Bank to review upward the GDP forecast for 2019. If initially the Economy was expected to grow below 1.0% (namely 0.9%), it is now forecasted to expand 1.2%, consistent with the two previous years. Also forecasts for 2020 were positively reviewed from 1.8% to 2.2%, thus, to be expected that 2020 will be the definitive year for Brazilian Economy to finally take-off.

Property Market

The residential property market in Brazil is expected to have recorded another positive year in 2019, with the Brazilian Chamber for the Construction Industry – CBIB announcing that full year sales should expand 15% and launches another 10%, confirming that the market should have continued to recover over 2019. In cumulative terms (considering a 12-month period ended in Q3 2019), housing sales total 129,139, showing a 9.6% growth over the 117,883 units sold during the previous 12-month period (Q3 2017 - Q3 2018). As for new residential launches, the market is now more active, accounting for 122,757 new houses coming into the market between September 2018 and September 2019, more 9.8% than the 111,793 units released in the same period of the previous year. This means that housing sales are still passing the pace of housing launches, which was reflected on the decrease of 2.6% in the final housing stock, now standing 124,644 (as of Q3 2019), which compares to the 127,919 stock accounted in Q3 2018. Also, in cumulative terms, CBIC calculates that by the end of Q3 2019 it would take 11.6 months to sell the current total stock. This indicator is also showing improvements when faced to Q3 2018, when it stood at 12.8 months.

As for housing prices, 2019 brought no changes (according to FIPEZAP), showing a zero-variation rate comparing to 2018 and average sales prices for residential property in Brazil standing at R$7.235/sqm. This performance represents an improvement from 2018, when prices ended the year with a decrease of 0.21%, although already recovering from the previous fall of -0.53% in 2017.

GDP GROWTH Q3 2019 (YOY)
(SOURCE: IBGE)

1.2%

GDP GROWTH FORECASTS 2020
(SOURCE: BANCO CENTRAL DO BRASIL)

2.2%

GROWTH OF HOUSING PRICES
(2019 YOY)
(SOURCE: FIPEZAP)

0.0%

HOUSING SALES (Q3 2018 - Q3 2019)
(SOURCE: CBIC)

129,139

NEW HOUSING LAUNCHES
(Q3 2018 - Q3 2019)
(SOURCE: CBIC)

122,757

NPL Stock and Ratio

After two years of one of the hardest economic recession in recent years (with GPD falling by over 3.0% both in 2015 and 2016), Brazil has managed to return to positive ground in 2017, but recovery seems to be having a hard time kicking off, with GDP growth just slightly above the 1.0%-mark. There are no official figures about the pile of non-preforming loans (NPL) in Brazil, but data by Brazilian Central Bank accounts for R$111.5 billion of defaulted credit within the total credit granted alone by the National Financial System (as of Q3 2019), which amount to R$ 3,7 trillion. However, if considering all credit granted in Brazil which includes the Non-Financial Sector, this amount is roughly one third of total credit accounted in the country, which totals R$10.06 trillion by Q3 2019. So, it is safe to say that the NPL stock in Brazil could now stand in an amount estimated somewhere between R$550 and R$600 billion.

As for the ratio of NPL (to total gross loans, in %, and only considering the National Financial System credit portfolio) it has ended 2019 at 2.9%, in line with the figure recorded in December 2018. During the course of the year, the NPL ratio exhibited mostly an upward path and for seven months the sat above the 3.00% mark, the highest rate being seen in September (3.05%). Over 2018, although the levels of the NPL rate were similar, the dominant trend pointed to a consistent decrease.

NPL ratio in the corporate segment continued to be lower than the one recorded in households, ending 2019 at 2.1%. As for the household segment, non-performing loans stood at 3.5% of total credit granted. In the corporate segment, NPL ratio went back from the one recorded in December 2018 (2.4%), but in the household segment this indicator is now higher than one year ago, when it reached 3.2%. In the first segment although it went up during the first half of the year, even peaking at 2.6% in May, during the second half the ratio clearly started to decline, thus ending the year below 2018. As for the household segment, the path was similar (peaking at 3.5% at September), but the downward trend was only initiated during the fourth quarter, which meant ending the year above 2018.

NPL STOCK (ESTIMATED)

R$600bn

NPL RATIO TOTAL - DEC. 2019
(SOURCE: BANCO CENTRAL DO BRASIL)

2.9%

NPL RATIO HOUSEHOLDS - DEC. 2019
(SOURCE: BANCO CENTRAL DO BRASIL)

3.5%

Potential NPL Deals

Brazil continues to stand out as a very promising market for international investment in Non-Performing Loans (NPL), benefiting from a combination of several factors. One the one hand, Economy is steadily recovering, and it is finally expected to firmly take off starting 2020. This turns the sale of defaulted credit portfolios more interesting for international companies, that are now more optimistic in ability to recover debt. Also, there's a geographic diversification for global investors, that now search for higher returns and first line jumbo portfolios that are no longer available in most European mature markets.

As for supply, Brazil is able to meet this increasing demand because there's not only a still very high NPL amount to address but also the type of portfolios expected to come into the market are more attractive to investors. Namely because of the increasing number of corporate NPL available for trade, a trend that is more pronounced since 2017 and that involves a type of portfolios that is very appealing for investors looking for more structured investments, and especially in loans that are property secured. This more appealing market is also getting more professionalized, with an increasing number of investors in NPL and servicing companies coming into the market over recent years. Also, some of the largest banks are actively placing NPL portfolios in the market, a trend felt already since 2017.

As for 2019, NPL sales are expected to have reached an amount between R$45-50 billion, reflecting a 10% increase over 2018, which should have traded some R$ 40-45 billion in defaulted credit portfolios. As for 2020, giving the increasing attraction of international players for the Brazilian market, the still very robust stock and the good economic prospects, the trade of NPL in Brazil is expected to at least expand another 10% to R$50-55 billion.

NPL RATIO COMPANIES - DEC. 2019
(SOURCE: BANCO CENTRAL DO BRASIL)

2.1%

NPL TRANSACTION VOLUMES 2019
(ESTIMATED)

R$45-50bn

About Prime Yield part of Gloval NPL&REO Services

Established in 2005 and since 2018 a part of Gloval, a leading property services group that provides integrated valuation, engineering and consulting services, Prime Yield delivers valuation, research and advisory/consultancy services and has been focusing on the NPL&REO market, specializing in Europe and Latin America. The company has an NPL&REO specialized business area, 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 and entire portfolios. Prime Yield is regulated by RICS and REV-TEGoVA, also holding a certification in Quality and Environmental Management (NP EN ISO 9001 and NP EN ISO 14001).

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