

Mossberg's Investor Digest

Best Idea Profile:

Doral Financial Corp. (NYSE:DRL)

DESCRIPTION:

Headquartered in San Juan, Puerto Rico; Doral Financial Corporation operates a bank holding company. Doral Financial manages its business through three operating segments; Banking (including thrift operations), Mortgage banking and an insurance agency. Doral Bank Puerto Rican lending activities have traditionally focused on the origination of residential mortgage loans. Doral Financial is also engaged in the banking business in the New York City metropolitan area through its federal savings bank subsidiary, Doral Bank US. During 2010, Doral Bank US commenced an expansion process opening new branches in New York and in the northwest area of Florida. Doral Bank Puerto Rico and Doral Bank US complement their lending activities by earning fee income, collecting service charges for deposit accounts and other traditional banking services.

KEY INVESTMENT CONSIDERATIONS:

Experienced Management – Glen Wakeman has served as President and CEO since 2008. Mr. Wakeman's previous experience includes the position of Chief Executive Officer of General Electric Consumer Finance Latin America from 1999 to 2006. As the current Doral CEO he is very experienced in the Company's core market.

Loan Loss Reserve Reductions – The allowance for Loan and Lease losses for Q4FY2011 was \$112.7 million vs. \$123.6 million on a year-over-year basis. The provision for loan and lease losses for the fourth quarter of 2011 was \$9.9 million, a decrease of \$31.8 million over the third quarter 2011 provision, and a decrease of \$11.2 million from the provision recorded in the fourth quarter of 2010. An improvement in future results should lead to further reductions in loan reserves against the portfolio.

Puerto Rican Tax Advantages – Under the Puerto Rico Internal Revenue Code the interest received on FHA and VA loans used to finance the original purchase of newly constructed housing in Puerto Rico and mortgage-backed securities backed by such loans is exempt from Puerto Rico income taxes. This favorable tax treatment allows Doral Financial to sell tax exempt Puerto Rico GNMA mortgage-backed securities to local investors at higher prices than those at which comparable instruments trade in the U.S. mainland, and reduces its effective tax rate through the receipt of tax-exempt interest.

NYSE Listing – On February 3rd 2012 the Company announced that it has regained compliance with NYSE listing standards.

Insider Buying – The Company has reported insider purchases of 735,835 shares over the last 6 months. There are no reported insider sales during this time.

Financial Strength – Doral's capital ratios exceed the well-capitalized standards established by the federal banking agencies with ratios of Tier 1 Leverage of 9.13%, Tier 1 Risk-based Capital of 12.15% and Total Risk-based Capital of 13.43%. The Leverage, Tier 1 and Total Risk-based Capital Ratios exceeded the well-capitalized standards by \$326.3 million for Q4FY2011.

VALUATION:

Street Analysts have EPS estimates of \$0.26 for FY2012 and \$0.49 for FY2013. This sustained improvement will allow the company to release loan loss reserves and grow book value. At \$1.49 per share Doral currently trades at 39% of Book value. Doral's current stock price reflects an excessive discount to book value. A more conventional discount to book value for Puerto Rican bank stocks would be 80% of book value or \$3.04 per share.

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Investment Data (as of 2/27/12)

Recent Price	\$1.49
52-Week Range	\$0.56 - \$2.72
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	128MM
Average Trading Volume (3 mos)	929K
Market Capitalization	\$191MM
Cash	\$376MM
Long Term Debt	\$2.5B
Enterprise Value (EV)	\$2.9B
Book Value	\$3.80
TTM Revenue	\$244MM
P/ Revenue	0.8x
TTM EPS	\$(0.16)
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA