State bank stocks in down cycle

Lower prices reflect economy

By CYNDY FALGOUT
Advocate business writer

Banking industry turmoil, a nationwide real estate recession and weak bank earnings have pushed down the price of Louisiana bank stocks in recent months with those in the rest of the country, local bankers and an industry analyst said.

Market prices for actively traded stocks of bank-holding companies serving East Baton Rouge Parish have hovered in recent weeks near the low-end of their 12-month range.

Collectively, closing prices of First Commerce Corp., Grenada Sunburst System Corp., Hibernia Corp. and Premier Bancorp fell 41 percent from Dec. 29, 1989 — the last Friday of that year — through last Friday.

“It just reflects a total lack of interest in the industry,” said banking analyst Peter Tuz of Howard, Weil, Labouisse & Friedricks Inc. in New Orleans.

Neil Williams, executive vice president at Baton Rouge-based Premier, said, “There’s a lot of pressure on the banking industry right now and large, particularly institutional investors — who are the most active investors in bank stocks — probably are looking to other industries that offer better short-term prospects.”

Those investors may shift large blocks of stock from several bank companies to stocks of other industries, such as defense and oil and gas, Williams said.

CONTINUED FROM 1C

“The overall financial condition of the banks nationwide has turned investors off because they still don’t know the extent of the crisis,” said A. Jackson Huff, president and chief executive officer of Sunburst Bank in Baton Rouge, Grenada Sunburst’s Louisiana subsidiary.

“Until you do, you’ll continue to have downward pressure,” Huff said.

“Virtually all banks are trading below their book value,” he said.

Book value is the price at which assets are carried on a financial statement. Market value is the price at which stocks trade in the financial marketplace.

“Performance doesn’t seem to make much of a difference in bank stocks right now, unfortunately,” Huff said.

A snapshot of closing market prices showed the value of each selected bank stock declined markedly during 1990, despite varied financial performance.

- First Commerce stock declined 38 percent to $14.50 from Dec. 29 through last Friday, compared to a high of $22.875 and a low of $12.50 during the past 12 months.
- Grenada Sunburst stock declined 22 percent to $8.50 by Friday, compared to a 12-month high of $14.50 and low of $7.50.
- Hibernia stock dropped 58 percent to a 12-month low of $5.125 on Friday, or about one-third of its $26 high for the past 12 months.
- Premier stock fell 29 percent to $25, compared to its $35.25 high and $2.875 low during the past 12 months.
- Hibernia stock showed the greatest decline during the period.

It also was the only company to report an overall year-to-date loss. Hibernia lost $25 million in the first quarter after reporting increased quarterly earnings for 16 years. It had reclassified about $44 million in performing, real estate-backed loans as nonperforming, partly by order of federal regulators and partly because of the uncertain economy. It also boosted its loan loss reserve by $20 million.

A $17 million profit in the second quarter left Hibernia with an $8 million net loss by June 30.

Hibernia plans to release its third-quarter results within a few days.

Because of that, Hibernia’s investor relations manager James F. Lestelle declined to comment.

“I will not be prudent for me to comment about stock prices,” Lestelle said.

Meanwhile, Premier and Grenada Sunburst reported earnings increases in 1990 over 1989.

Premier earned $5.8 million for the first nine months of 1990 after reporting annual losses from 1986 to 1989. Its stock fell in the second quarter as speculation grew that Premier could not complete financing for its proposed “bad bank” spin-off.

Premier’s books of about $400 million in low-quality assets, mostly bad or risky loans, that had cost the company profits.

Premier announced July 6 it would abandon its spin-off plans and work out its problem assets on its own. The company has liquidated nearly one-third of the total since August 1989.

Also, Grenada Sunburst reported net income increased 122 percent to $7.7 million for the nine months ending Sept. 30 from the 1989 period.

But New Orleans-based First Commerce reported earnings declines 7 percent to $13 million by June 30 from the year before after it boosted loan loss reserves in the second quarter to cover several weak credits in Alexandria and New Orleans. It has not reported third-quarter results.

“The trend in the bank stocks . . . is really consistent with the nationwide trend,” said Michael A. Flick, chief financial officer for First Commerce, which owns City National Bank in Baton Rouge.

“What is concerning investors is that banks are reporting lower earnings than were anticipated.”

That anxiety is heightened by the nation’s major banking players taking large loss reserves and cutting dividends, he said.

“Look at Wells Fargo (Co.), Citicorp, Banc One, First Wachovia (Corp.), NCNB (Corp.),” are all highly regarded names in the banking industry and all have suffered some depreciation in stock value,” Flick said.

The nationwide downturn in bank stock market prices began June 30, Huff said.

Commercial real estate “has turned into a gigantic problem” in many parts of the country, particularly the Northeast, he said.

“As the quarter wore on, the news about the banking industry was overwhelmingly negative,” Huff said.

Also, the Federal Deposit Insurance Corp. announced on Sept. 27 a 60-percent increase in deposit premiums beginning Jan. 1, 1991 which will lower bank profits next year, Huff said.

The scenario being played out nationwide mirrors the economic debacle that gobbled Louisiana banks in the last half of the 1980s, bankers said.

Since 1984, 62 Louisiana banks failed or received last-minute financial help from the FDIC to prevent failure.

Only three Louisiana banks have failed so far in 1990 — including Ambank in Baton Rouge on Aug. 2, compared to 15 by this time in 1989.

“I think the economy here is probably on an upturn, or at least not on a downturn, as in other parts of the country,” Huff said.

However, local banks stocks continue to suffer from the industry turmoil, he said.

Premier’s Williams agreed.

“We don’t have the real estate problems in Louisiana that they do in the Northeast,” he said.

“On the other hand, we have regulators who are aggressively suggesting that banks conserve their capital and to lower dividend rates to conserve capital.”

Talk of dividend-cutting turns off investors, Williams said.

“I think that as soon as we get some agreement in Washington on the budget and Congress can adjourn, there will be less rhetoric about the banking industry and that will give people time to cool off a get a better perspective,” Williams said.

Meanwhile, bank stocks “are good buys,” Huff at Sunburst said.

“This is the time to go buy up bank stocks because maybe they’re bottomed out,” he said.

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<thead>
<tr>
<th>Bank Name</th>
<th>Percentage Change from 12/29/89 to 10/12/90</th>
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<tbody>
<tr>
<td>First Commerce Corp.</td>
<td>-38%</td>
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<tr>
<td>Grenada Sunburst System Corp.</td>
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<tr>
<td>Hibernia Corp.</td>
<td>-58%</td>
</tr>
<tr>
<td>Premier Bancorp</td>
<td>-29%</td>
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Source: Legg Mason Howard Weil

Advocate graphic by Margarel Austin