Premier stock weakens

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Premier Bancorp Inc.'s stock is limping because of investors' questions about the viability of its "bad bank" spinoff, analysts who follow the company said.

"The stock has been weak on and off," said Elizabeth B. Roy of Morgan Keegan. "It's primarily due to concerns over the good bank-bad bank deal."

Premier is attempting to dispose of about $400 million in troubled assets — mostly foreclosed property — through the creation of a separate, liquidating bank, Florida Street National Bank.

The proposal calls for FSNB to buy the assets at a discounted rate of about $280 million. The $120 million discount is expected to fund FSNB's operations through its 10-year life span.

FSNB must raise about $250 million of its capital by selling bonds, half of which are investment-grade and half of which are high-yield or junk bonds. The investment-grade portion sold quickly after hitting the market in November.

But the high-yield bond placement has been hindered by deterioration in the junk bond market.

Premier's stock closed at $3.75 Wednesday. It has been hovering below $4 for several days. The stock has traded between $3.50 and $6.75 over the last 52 weeks.

Premier reported net income of $1.1 million, or 4 cents per share, for the first quarter of 1990, which ended March 31, marking the bank holding company's third consecutive quarter of earnings.

"FSNB has a 50-50 chance of being spun off," said George N. Davies, an analyst with the Dain Bosworth Inc. Denver office.

"They ran 16 cents a share of administrative costs, which were
attached to the bad assets. Without the bad assets, their quarterly earning power is about 20 cents a share or about 80 cents a year."

The transferring of distressed assets to FSNB would immediately increase the earnings of Premier, which would translate into a higher stock price, Davies said.

However, investor “confusion” continues to plague the stock price. "Honestly, there are more sellers than buyers,” Davies said. “Sellers don’t know what to do with the stock.”

Davies is extremely optimistic about the stock’s future: Premier is among his top three buy recommendations. "I’ve got a drum on my desk that I hit when people walk by and yell ‘Premier,’” Davies said. “There is an enormous recovery potential with the company. This is a $20 stock capable of earning $1.50 a share in four or five years. It shouldn’t take too long for investors to see this is a diamond in the rough.”

R. Neil Williams, Premier’s chief financial officer, said Premier is actively pursuing buyers to fund the junk bonds. “We still have both Kidder Peabody and Merrill Lynch involved, working with private placement,” Williams said of the junk bonds. “It’s a very slow process. It’s a buyers’ market for that type of investment. It’s really impossible to set deadlines or enforce cutoff times.”

Morgan Keegan’s Roy said that even if Premier doesn’t have complete success with FSNB, the company still has established a capable management team to liquidate the troubled assets. "But I think the stock price at least for the time being will remain at some low level.”

Williams said the stock is trading well below its book value of $6 per share and that unrelated factors, such as the MMR Holding Corp. Chapter 11 bankruptcy filing, have kept the stock’s price low. "There has been some concern with the MMR situation," Williams said. "We are not involved in that. The banking industry has been taking a beating. There are just a lot of ancillary factors in the market that have had an impact on our stock.”

A group of four banks, including Hibernia Bank, had about $30 million in loans to MMR Holding and its subsidiaries when MMR filed for Chapter 11 bankruptcy. "I don’t think the stock price is based on the fundamentals of the company,” Williams said. “We pretty much see eye-to-eye with the examiners. There is nothing really fundamental that would cause a concern about the stock price.”

"It’s a very sound and stable organization,” Davies said of Premier. “It’s extremely well run. It’s a historically strong bank with good capitalization.”