Bullish signals and strong fundamentals fail to halt PTSB share price tumble

The bank will have to build on its positive financial results and start delivering for investors

Donal MacNamee

Eamonn Crowley says he thinks like an investor, as well as a chief executive.

If that's really the case, then the PTSB boss will have extra reason to feel dismayed this weekend, after the bank's share price dropped 13 per cent to €1.39 even as it reported its highest underlying profits for more than a decade.

In the last year, share prices in PTSB have slumped nearly 50 per cent – a dramatic fall by any reading, even for a bank that is still 57 per cent owned by the state.

The downward trajectory of the bank's valuation has come even as it delivered a series of increasingly bullish signals to the market. PTSB argues it is growing, and has delivered strongly on almost all the key financial metrics – net interest income, profitability, customer deposits – that define the success of a bank.

Crowley sought to emphasise the latter message in a boardroom briefing last Thursday morning, hours after the bank reported its 2023 annual results.

"I am an equity holder – I hold shares," he told reporters, reasonably pointing out that PTSB's share price had soared since he took over as chief executive nearly four years ago.

"If you're an equity investor, I appreciate that there's a one-year game. But there's also a three, five and 10-year story here.

"And that's our story to equity investors: think about this bank over the medium to long-term and its positioning, and where we're positioning as a real challenger now to the other two banks."

As a shareholder, Crowley can afford to preach the virtues of patience: he owns less than 1 per cent of PTSB. As chief executive, however, he has the difficult task of convincing investors who are often focused on short-term returns to back his company for the long term.

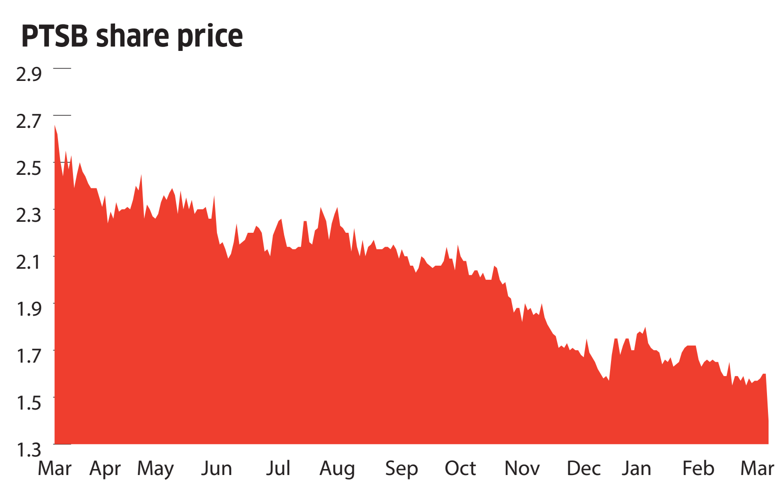
In fairness to Crowley, the outlook for PTSB has been transformed in recent years following the exit of Ulster Bank and KBC from the Irish banking market.

The lender moved fast after these banks announced they were leaving, and completed the acquisition of almost €6.8 billion worth of mortgages and business loans from Ulster Bank – which has turned PTSB from a struggling also-ran in the Irish banking market into a lender with enough scale that it can genuinely aspire to compete head-on with both AIB and Bank of Ireland.

After years in the red, PTSB is now capable of delivering sustained, secure and swelling returns. Diarmaid Sheridan, an analyst at Davy, recently predicted that its operating profit would top €400 million by 2026 – more than double what it reported this year.

Fitch, the ratings agency, last week, upgraded PTSB's status to BBB – the first time the lender has reached investment grade since the crash. And its business banking book is now worth over €1 billion, up from €300 million two years ago.

Eamonn Crowley, chief executive, and Nicola O'Brien, chief financial officer of PTSB at the announcement the bank's interim results Fergal Phillips



Source: Euronext

The bank has also invested heavily in repositioning its brand, with a raft of high-profile sponsorship deals with *The Late Late Show* and the Irish Olympic team as well as a €5 million investment last year to overhaul its brand, imaging and logo. PTSB is in "new chapter" mode: it said so explicitly in its annual report.

Any analysis shows the bank is making tangible progress. So why have investors been so unforgiving over the last year when the share prices of the other Irish banks are far less volatile?

Year of investment

Part of the answer lies in the crash-era scars that are still etched into the bank, nearly 15 years since it was nationalised at the height of the financial crisis. Ireland's Minister for Finance is still by far the largest shareholder in PTSB, while executive pay remains capped at €500,000 a year under government rules.

Investors are also probably spooked by the fact that PTSB's share of the €14 billion new mortgage market fell sharply in the back end of last year, and may have fallen to 15 per cent in the final quarter.

Overall, the lenders' market share stood at 19 per cent over the whole year. The drop in PTSB's share price has tracked its falling share of the mortgage market, suggesting investors are concerned. For all of that, PTSB's fundamentals are solid and its balance sheet continues to strengthen, which represents significant progress for a lender that has struggled for much of the last decade to turn a corner on the financial crisis.

Banking analysts have speculated that PTSB may represent the most compelling growth story of all three retail banks – a bold statement in an era of record profitability at Bank of Ireland and AIB.

Crowley signalled last week that the bank intends to resume paying dividends again by 2026 – by which point, he hopes, it will have enough capital to sustain both shareholder returns and the cost of competing with its rivals.

That gives him 24 months to move past the current inflection point and start delivering for investors. Otherwise there could be more turbulence ahead for PTSB's share price.

The numbers

+11%
Increase in AIB share price since the start of the year

+3.2%
Increase in Bank of Ireland share price since the start of the year

+4.3%
Increase in AIB share price in the last 12 months

-17%
decrease in Bank of Ireland share price in the last 12 months

€2.7bn
AIB operating profits in 2023

€2.4bn
Bank of Ireland operating profits in 2023

Sustainalytics, the environment, social and governance (ESG) rating agency run by Morningstar, gives both banks a low-risk rating, meaning they are not financially at risk from industry issues around ESG.

AIB has a rating of 12.7, while Bank of Ireland is rated at 17.9. This puts AIB on the 72nd spot in the industry, while Bank of Ireland sits just inside the top 200.

As can be seen from all of the different metrics above, there is relatively little difference in the investment rationale of Ireland's two largest banks. A growing number of fund managers continue to add both banks to their portfolios, which is supportive of the share prices.

Overall, Bank of Ireland has attracted more institutional backing than its cross-town rival but more investors currently favour AIB, which is helping the lender catch up fast.

blems: banks grapple mands as profits soar

Separately, AIB's variable pay scheme will allow staff to earn a bonus up to 4.4 per cent of their salary this year, capped at €12,700 per employee. The maximum bonus it could have offered staff was 5 per cent of pay and its variable scheme equates to almost 90 per cent of that.

Regardless, the FSU said it was "underwhelmed" by the bonus scheme, adding that AIB had "failed to impress" employees after it also announced plans to return €1.7 billion in cash to shareholders after a landmark year.

"Over the last nine days our two pillar banks have announced combined pre-tax profits of over €4.5 billion and nearly €2.9 billion in share buyback and cash dividends to shareholders. This contrasts with their attitude to fair reward for employees, as both banks have decided independently to reward their employees with a variable payment of 4 per cent (BOI) and 4.4 per cent (AIB)," John O'Connell, general secretary of the FSU, said in response to the new bonus schemes being announced.

The disgruntled rumblings from staff in both banks over the last two weeks illustrate some of the new problems senior management in AIB and Bank of Ireland must navigate as the industry inches closer to being fully private once again. PTSB is the only lender that didn't announce a staff bonus scheme as part of its full-year results, which showed profits of €166 million, but Eamonn Crowley, the bank's chief executive, confirmed variable pay would be reintroduced later this year.

"We're still in negotiations, or discussions, with representatives on behalf of staff: in effect, the unions. We're not ready to unveil [the bonus scheme] yet," he said.

After going more than a decade without bonus pay structures, it's hardly surprising that banking professionals are crying out for reward, especially when they can clearly see the enormous returns being made by the banks on the back of higher interest rates.

Bank employees understand better than most that these heightened interest rates won't be around forever, and profits will moderate in the coming years. As such, the pressure on senior management of the banks to maximise bonuses into next year is only going to intensify.

The numbers

€4.5bn
Combined pre-tax profits recorded by the two pillar banks

€2.9bn
Share buybacks and cash dividends they have announced