SNL Blogs

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Mack Whittle had it right

By Jeff K. Davis

First Financial Holdings Inc.'s agreement to be acquired by SCBT Financial Corp. has been a long time in the making, and it was perhaps not until the post-crisis environment that SCBT became the logical acquirer.

I covered First Financial for a number of years in the late 1990s and early 2000s and SCBT in the early 2000s before handing each off to a younger analyst at FTN in 2003. I always thought SCBT was a well-managed bank that punched above its weight. First Financial, on the other hand, tended to punch at (or below) its weight. Profitability was OK, and First Financial did not have the same balance sheet as a commercial bank given its thrift charter, but the company had a great franchise in Charleston, S.C., one of the best midsize markets in the U.S.

Coastal real estate unfortunately hurt First Financial in 2009-2011, but it was not fatal. Still, returns are striking. Over the past five years through today, First Financial produced a five-year total return of -21%, versus +54% for SCBT and -12% for the SNL Small Cap U.S. Bank Index.

The Charleston franchise has been viewed as valuable by acquiring banks and institutional investors who traffic in small banks. My assumption over the years was that prior CEO Tom Hood did not want to sell. Mack Whittle, the ex-CEO of the since-acquired The South Financial Group, remarked to me in 2005 that if there was one institution in the Carolinas that he would press his body (or part of it) against the wall to obtain, it was First Financial. Charleston is a thriving port city and tourist destination. Its projected population growth for 2011-2016 is nearly 9%, versus 3% for the U.S. First Financial also has a meaningful presence in other South Carolina markets that add value such as Myrtle Beach, Hilton Head and Greenville as well as Wilmington, N.C.

Deal activity remains muted, but there are a couple of striking things in my view about the recent bank deals — including United Bankshares Inc.'s deal with Virginia Commerce Bancorp Inc., F.N.B. Corp.'s agreement to buy PVF Capital Corp. and Renasant Corp.'s pending purchase of First M&F Corp. One is that the sellers are larger community banks that have managed to extract themselves from the 2009-2011 credit ditch but have since elected to sell. I am not privy to the boards' thought processes, but I assume the challenging outlook for banks given net interest margin pressure from the Fed's zero-rate policies, regulatory burdens and muted loan demand caused the scales to fall from the directors' eyes.

Another common denominator among the sellers is that their franchises are valuable. Virginia Commerce offers significant market share enhancement to United Bankshares in the lucrative northern Virginia market. Renasant gains expense synergies and increased market penetration in existing markets, PVF Capital provides an extension into the industrial Midwest for F.N.B. And First Financial offers an acquirer growth markets and expense synergies. We do not know yet who SCBT outbid and may never formally know. I would assume there was some interest or a high level of interest from BB&T Corp., SunTrust Banks Inc., Capital Bank Financial Corp., Park Sterling Corp. and perhaps Toronto-Dominion Bank. Regions Financial Corp. and Synovus Financial Corp. also may have been interested, though Synovus presumably does not have the regulatory capacity to do so.

In the case of First Financial, it probably did not hurt SCBT to have BB&T's past M&A chief, Burney Warren, join their company to spearhead acquisitions several years ago. I think Mr. Warren has been working on First Financial for nearly 20 years. Persistence often times pays. It also helps — as was the case with United Bankshares, Renasant and F.N.B. — to have a relatively strong currency. Higher public market prices can be the mothers' milk of M&A when boards are focused on absolute price. In the case of SCBT, it trades for about 190% of tangible book value, 21.4x trailing 12-month EPS and 13.5x consensus full-year 2013 EPS. Based upon the announced deal value, the acquisition multiples for First Financial are 133% of tangible book value, 12.1x trailing 12-month EPS and 15.5x full-year 2013 consensus EPS.

One final thought is that it is only easy looking back, even when the seller has a great franchise. Excluding long-term growth stories like Signature Bank or Texas Capital Bancshares Inc. and perhaps even SCBT, investors usually have to buy bank stocks when prices are down to generate above-average returns. In the case of First Financial, the company raised $75 million of common equity at $15.50 per share during September 2009. More than three years later, SCBT is acquiring the company for $18.30 per share, based upon SCBT's Feb. 19 closing price of $43.18 per share and the fixed exchange ratio of 0.4237.

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