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# Street waits for other banks to follow Hancock's energy reserve build

*BY NATHAN STOVALL* *DECEMBER 18, 2015*

Hancock Holding Co.'s plans to increase its allowance for loan losses in its energy portfolio did not surprise many analysts given the continued decline in oil prices, but the disclosure raised questions about other banks with exposure to the energy sector.

Hancock said after the closing bell Dec. 17 that it would increase its allowance for loan losses within its energy loan portfolio by about $42 million in the fourth quarter, building reserves in that portfolio to 5% at year-end. That level is near the high end of the range among Hancock peers, analysts said.

Analysts said $40 million of the $42 million is related to deterioration in Hancock's oil service portfolios, where the investment community expects losses to be higher. Hancock management said the increased provision came because the depth and duration of the current energy cycle is deeper and longer than originally expected.

The bank's energy-related reserve build came after oil prices had fallen to the mid-$30s in recent weeks, down nearly 70% over the last 18 months.

Despite news of the reserve build, Hancock shares dipped just 0.12% to $24.05 on Dec. 18, outperforming the SNL Bank & Thrift Index, which fell 2.72%. The company's stock has come under significant pressure over the last year, falling more than 21% since the beginning of 2015, in part due to concerns over its energy portfolio and its presence in markets where the energy sector plays a notable role in the economy.

Given the performance of Hancock's shares this year and investors' intense focus on the company's energy portfolio, analysts were not surprised by the reserve build, or by the Street's muted reaction.

"The stock has already taken it on the chin and it is very close to tangible book," Raymond James analyst Michael Rose told SNL.

Sandler O'Neill analyst Brad Milsaps noted that the market had largely expected Hancock to build reserves related to its energy portfolio. "We do not think the decision to boost the reserve prior to year end will be a huge surprise considering the level of HBHC's reserve relative to peers and the weakness in the name leading up to the announcement," Milsaps wrote in a Dec. 18 report.

The analyst community believes that Hancock will not be the only bank that builds reserves in light of the continued decline in oil prices. Evercore ISI analysts said in a Dec. 17 report that Hancock's reserve build reflects growing stresses for all energy borrowers and represents a preview of "likely higher losses for energy-centric lenders." The analysts said they remain concerned about significant earnings risk from energy loans.

Morgan Stanley analyst Ken Zerbe said now is not the time to own energy-focused banks. He recommended in a Dec. 17 report taking a cautious stance toward banks including BOK Financial Corp., Cullen/Frost Bankers Inc., Comerica Inc., Zions Bancorp. and Hancock. He said investor concerns were already elevated with oil prices falling to the mid-$30s, and the negative pre-announcement by Hancock will make it "difficult for the banks with large energy portfolios to work near-term."

Rose of Raymond James believes that banks with exposure to the energy business, including Hancock, will continue to face headline risk. He said the current consensus earnings estimate for Hancock implies that it will not meet its operating earnings target, but noted that the company has at least worked to address the Street's concerns over its energy portfolio.

"We'll see what happens, but if anything, hopefully, it shows the market that they're at least cognizant and in front of it," Rose said.

While some analysts seem to advocate staying on the sidelines from Hancock shares for now, Hovde Group's Kevin Fitzsimmons took a more constructive view. He said Hancock's stock has already taken hits over its energy exposure and now trades near tangible book value, leaving minimal downside risk. He believes the bank is taking the opportunity to "kitchen sink" its energy exposure by building reserves to protect against anticipated losses for the entire cycle.

Fitzsimmons further said Hancock's reserve build, current capital levels and declining energy exposure makes the name more investable now as clarity has improved. He noted that Hancock is not just an energy-focused bank, but also has a strong presence in metro New Orleans, Mississippi and Florida.

Longer term, Fitzsimmons said Hancock should benefit from higher interest rates. He further argued that a takeover premium should be steadily built into the company's stock since the regulatory environment for large bank M&A continues to relax and Hancock is one of the top banking franchises with scale in the Southeast, which should help limit downside risk. Right now, there is certainly no takeover premium built into the stock.

"There's much more potential upside than potential downside when you look at where things could go," Fitzsimmons said.

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