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Oil plunge clouding Texas bank M&A outlook

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Bankers think that the plunge in oil prices will slow bank M&A in Texas, for now.

There was recognition in the bank advisory community by early January that the approximately 50% decline in oil prices had begun to leak into banks' strategic planning. When oil prices fell from $100 to $70, some bankers remained optimistic, but by the time the price of black gold had fallen below $50 a barrel, advisers said the further decline caused institutions to rethink some of their plans.

Through Feb. 25, two bank deals had been announced in the Lone Star State in 2015, compared to five deals announced during the same time period in 2014, according to SNL data. While less than two months certainly is not long enough to signify a trend, several banks operating in Texas acknowledged at the KBW Regional Bank Conference in Boston on Feb. 25 that the volatility in oil prices could keep deals at bay in the near term.

Bankers' opinions on just how much or how long Texas bank M&A could be impacted varied, but several bankers said that any buyer could face a real stumbling block when trying to buy a privately owned institution since those banks have not seen the value of their franchise plummet in the equity markets in recent months.

Cullen/Frost Bankers Inc. President Phillip Green compared the current environment to what happened when the tech bubble burst in 2000. M&A activity was buoyant in Texas in the late 1990s, but when the tech bubble burst, deal activity slowed as bank stocks sold off in the broader markets. Despite the selloff in bank stocks, Green said that many private banks at the time did not believe they were worth less.

Green expects the same scenario to play out now, noting that it is simply difficult for a bank not trading on an exchange to understand that weaker currencies at publicly traded banks would reduce M&A pricing.

Since oil prices began their significant slide downward, publicly traded banks in Texas have watched their stocks come under significant pressure, often regardless of their exposure to the energy sector. The "Texas premium," as some members of the sell-side had previously termed it, has eroded, with publicly traded banks in the state watching their stocks fall by 12% on average since November 2014, according to SNL data.

Prosperity Bancshares Inc. Chairman, President and CEO David Zalman acknowledged at the KBW event that a private bank might not recognize that weaker currencies at publicly traded institutions could lead to lower pricing on deals, but he does not think that the decline in oil prices would cause M&A activity in Texas to stall out. While private banks might understand that valuations have fallen in the market, virtually all publicly traded banks in Texas have witnessed the values of their currencies fall, he said.

Some attendees at the conference questioned whether or not the plunge in oil prices could actually spark more banks in Texas to sell since weakness in the energy sector could slow growth in the state's economy and possibly lead to losses for some financial institutions. Bankers discounted that the plunge in prices would pose significant risks to banking institutions, though some noted that weakness in the energy sector could potentially push banks already on the cusp of selling further down the road to partnering with an institution.

Bank of the Ozarks Inc. Chairman and CEO George Gleason II said at the event that the downturn in oil prices could possibly lead to a few more sellers in Texas, though he doubted that many more targets would emerge, noting that sellers in the state are too smart to give up their independence at depressed valuations.

He said the decline in oil prices would not force a company's hand to sell and more likely could cause a pause in M&A activity for a brief time. Ultimately, Gleason believes that the dynamic will be short-lived and said many people are overreacting to the decline in oil prices. *i*