



THE GREAT BREXIT GET-OUT CLAUSE

From bankers to stockbrokers, everybody's blaming everything on Brexit. But are they right?



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Blame Brexit. No matter what the problem is, it can probably in some way be traced back to the shambles of Britain leaving the European Union. In the wake of the latest Brexit crisis, shares in Irish banks fell heavily, as did most other Irish stocks, hardly surprising given the devastation it could wreak on the economy.

"Indiscriminate Brexit selling" was the explanation that one market watcher gave for the sell-off in Irish bank share prices last week.

Brexit is, of course, a major issue for Bank of Ireland and AIB. Not only do both banks have substan-

tial operations in Britain, but there could be second-order impacts through loans extended to exposed sectors of the Irish economy from the agriculture, food and hospitality sectors.

What about Permanent TSB? In recent days, its shares hit their lowest level since its 2015 capital raise. The bank has now lost more than 70 per cent of its value since that time. PTSB, 74 per cent of which is still owned by taxpayers, has no direct Brexit exposure.

Even before the threat of a no-deal Brexit ramped up, Irish financial shares were weak. It's hard to attribute the declines to December's global stock market wobble: they have been out of favour with investors for much longer than that. In what is the fastest-growing economy in Europe, it is puzzling for shareholders.

Executives are usually cautious about public comments on their companies' share prices, even though they pay close attention to movements.

When asked last month about the disconnect between the performance of the bank and its share



Bernard Byrne of AIB

price, PTSB boss Jeremy Masding said: "Really, what the markets want is, every half year, the [chief executive] and [chief financial officer] to show good quality earnings and good growth, and that's what we are about. I have a real core belief that I can't manage the market. All I can do is maximise the intrinsic value of this business. My core belief is that, over time, with consistent delivery and the right story, market value and intrinsic value align."

Last month, AIB, Bank of Ireland and PTSB all reported their annual results for 2018, which saw improvements in dealing with legacy non-performing loans and an



Jeremy Masding of Permanent TSB

expansion in new lending. In the weeks since, only Bank of Ireland's share price has been trading marginally ahead of where it was beforehand.

Over the last month, the banks have been touring the main investor hubs to meet major shareholders and set out their case.

The reaction has been far from positive. Although no major brokers have downgraded their recommendations on Irish banks, many have pulled back their share price targets and many financial estimates for the next couple of years.

The latest cut came to AIB last week from Investec, which



Francesca McDonagh of Bank of Ireland

trimmed its price target from €5.20 to €4.80. Shares in the bank are trading about 15 per cent lower than the price at which the state reduced its stake in the lender less than two years ago.

Investec analyst Owen Callan pointed out that while he was "impressed by the strong top-line earnings power and capital generation", there were concerns about costs rising as a result of pressure on pay and technology investment, and also about the ongoing level of exceptional items the bank was incurring.

Analysts at credit ratings agency Fitch said that should the worst case scenario of a no-deal Brexit

emerge, the banks should still be able to withstand the shock.

"We believe that Irish banks are reasonably well positioned to absorb the impact of the weaker domestic growth likely in the event of a no-deal Brexit, given their generally improved fundamentals," Fitch said in a report on the banking sector last week.

"Large Irish banks' ratings have benefited from rapidly improving fundamentals in recent years: reducing [non-performing loan] stocks, a return to normalised funding, adequate profitability and a much reduced risk appetite, primarily in residential mortgage origination. Capital at the largest banks is managed well above regulatory requirements."

Those strong capital levels should also allow the banks, with the exception of PTSB, to return some of it to investors. Bank of Ireland is raising its dividend payout to shareholders to €173 million from €124 million. AIB is raising its payment by 42 per cent to €461 million.

Investec's Callan said AIB had about €2.3 billion of excess capital right now on its balance sheet and this could rise to €2.7 billion by 2021. That is money it could return to shareholders. The prospect of both banks paying out half their annual profits in dividends should surely improve sentiment

towards them.

But there are still lingering issues for them to deal with. Cost-to-income ratios are far too high. Part of that is much higher regulatory charges, which won't be going away any time soon.

And the banks themselves will have to slim down. AIB's financial solutions group, which deals with borrowers in arrears, employs almost 1,400 staff. PTSB, too, has said its troubled loans unit will shrink as it pares costs.

Also hovering over them is the prospect of political interference to prevent non-performing loans being sold off, which would probably mean the banks would have to spend much more time (and capital) dealing with arrears, and moves to change what offers lenders can pitch to new mortgage customers which could impact their new lending.

Does that explain the weakness of the banking sector? Possibly. International institutions fret when they hear headlines that could affect the value of their investment. Perhaps they are also looking at the low rates of returns the banks are generating in a roaring-hot economy. If the banks cannot make higher returns now, what are the prospects if the economy weakens in the years ahead?

In the meantime, everyone can happily blame Brexit.

COMMERCIAL PROFILE: APWireless

APWireless targets new wave of investment

APWireless own a diverse global portfolio of telecom sites, ranging from rooftop sites in some of the world's biggest cities, to purpose-built towers in suburban and rural areas. Their business model is described simply as "We buy telecom site rent".

"We reached two significant milestones in 2018, acquiring our 200th investment in Ireland and our 5,000th investment globally. APWireless now own assets in 20 countries and the size and diversity of the portfolio is key to everything we do," said Eddie Joyce, associate vice-president, APWireless.

Having completed their first acquisition in Ireland in December 2013, the portfolio has grown rapidly. Their investment model has proven popular with a diverse array of landlords across many industries. "APWireless pay telecom landlords upfront capital and in return, collect the rental income generated by underlying tenants such as Vodafone, Three Ireland and Eir. At the end of the lease term the telecoms rent reverts back to the landlord should the site still be in operation. The common trait shared by all landlords with whom we partner, is the fact they see an opportunity to deploy our upfront capital into their core business or more secure assets that generate higher returns."

Landlords with whom APWireless typically partner include property investors and developers, SMEs, publicans, hoteliers, multinationals, semi-state companies, farmers and sporting organisations such as rugby, golf and GAA clubs.

"Generates a higher return for me than telecoms rent ever could have"

In a recent transaction at Bakers Pub, Dublin 8, the property owner comments: "The sale of a long leasehold interest to APWireless enabled me to free up a considerable amount of capital which we used to fund the renovation of a number of apartments on site. The proceeds were significantly



Eddie Joyce, Associate Vice President, APWireless

more than we had budgeted and the deployment of capital in this way already generates a higher return for me than the telecoms rent ever could have. Therefore, even if the telecoms rent remains payable for many years to come, I am still better off having reinvested the capital upfront. Given the fast pace of technological change, consolidation within the telecoms industry and the uncertainty that 5G brings, I was happy to de-risk my exposure by selling the future income. I found APWireless very flexible and accommodative to my needs as a property owner and we are already discussing further projects together. To me it was the perfect win-win scenario."

APWireless's business model allows for the fact they will not see a positive return on each individual site acquired. Associate director Ronan Loughrey commented: "We can afford to lose the income

from a portion of our investments each year, but still generate a positive return on the overall portfolio. That is the beauty of our investment model - we don't need to get it right every time - and our scale is key to this approach." By its nature, telecoms rental is an unsecured source of income and when you view an individual site in isolation, the investment is undoubtedly risky. However, for a large-scale investor with a diverse portfolio of sites, the level of risk diminishes.

Guaranteed and fully secure upfront capital

Being a landlord in mainstream property, one owns the "bricks and mortar" outright from which rental income is derived. If you lose a tenant, you have the ability to obtain a replacement tenant. For that reason, freehold property al-



APWireless' offers have proven very attractive, particularly for savvy landlords who know how to put capital to work

ways retains a capital value. Contrast this with being a telecoms landlord; if you lose a telecoms



tenant from your property, the chances of finding a replacement tenant are virtually nil, given the limited pool of telecom tenants. At that point the telecoms site no longer has any capital value.

APWireless solves this problem for landlords by providing guaranteed and fully secure upfront capital in return for an unsecured telecoms rental income. A landlord reinvesting that capital into assets they own, understand and fully control, empowers that landlord for the long term.

"From the very first communication, we focus on understanding the landlord. Telecom landlords tend to find themselves in a lease arrangement with a mobile operator by chance rather than design. There is a lack of relevant information readily available to landlords on what constitutes a fair set of terms; APWireless fills this void by educating landlords

on the market." Experience has shown that telecom landlords are simply too busy running their business, managing their property and getting on with their lives to fully concern themselves with how to maximise the value of such a niche asset.

"It is our belief that when a landlord truly understands the telecoms industry and the intricacies relevant to their particular telecoms lease, virtually all landlords will improve their situation by partnering with APWireless, regardless of how long their mast site remains in place," notes Eddie Joyce.

"Many landlords' initial reaction is to consider a capitalisa-

tion in the context of, 'Will my site remain, and am I likely to receive the rent for the foreseeable future?' However, it's more important that a landlord looks at how they can redeploy capital and grow that capital over time. In the vast majority of cases it is apparent that even if the telecoms rent does remain payable long into the future, they will still be better off having secured the equity and reinvested. So our deals are less about removing risk and more about presenting the landlord with an opportunity to outperform their telecoms lease in the long term. That is why APWireless' offers have proven very attractive, particularly for savvy landlords who know how to put capital to work."

Professional services approach

APWireless apply a professional services approach. We seek to understand the landlords' concerns and available opportunities. This allows us to tailor the offer to meet the specific requirements of each landlord. Acquiring sites in a 'leasehold purchase' gives a large degree of flexibility in terms of how to structure a transaction to meet each landlord's requirements. This professional services approach is why the business has been so successful and why it continues to see such rapid growth. APWireless have grown the business year on year since their inception and are excited about what the future holds. We are the first company anywhere in the world to have created this asset class and receive a credit rating against it, of which we are very proud. The plan is to drive further acquisitions in Ireland and abroad and continue to empower telecom landlords.

For more information, contact one of the APWireless team at 091-457880 or visit our website at www.apwireless.ie.

