Taking Stock: Time to withdraw from this bank

by Malcolm_Berko

Dear Mr. Berko: Way back in 2003 I bought 300 shares of FNB, or First National Bank of Pennsylvania, at $33 a share. Almost immediately after I bought the stock it began to slide downhill and has never even come close to that price since. What can you tell me about FNB and do you think I should sell it, hold it or average down and buy another 300 at the current $17 price? If I sell the stock, I could consider buying 200 shares of Alltel because my broker thinks that the company is looking to be bought out. Why would Alltel want to be bought out and at what price do you think this could happen?

M.W.

Waukegan, Ill.

Dear M.W.: FNB Corp. (FNB-$17), is a bank holding company home ported in Hermitage, Pa., which is Mercer County and named after Revolutionary War Brig. Gen. Hugh Mercer. There's some impressive history in this area that borders on the northeastern Pennsylvania/Ohio line. While FNB is an important part and parcel of Mercer County, its last 10 years of operating history have been unimpressive, if not sadly disappointing.

FNB (also peddles insurance, stock brokerage services and consumer finance) posted $421 million in 2006 revenues from 198 branches in Pennsylvania and Ohio. Earnings and revenue growth have been blah and uninspiring and many of FNB's stockholders are in a snit about the performance of their shares. In the last 12 months, FNB traded in a narrow range between $18.85 and $15.20 and 10 years ago, the shares were still trading in that same range. FNB is a low-growth bank with higher-than-average debt that trades at a discount to its sector because its return on equity and return on assets is lower than its peers. FNB's book value has been in constant decline, its loan volume is up and down like a yo-yo while earnings for 2005 and 2006 are the lowest in the last decade. I thought there might be a contagion in the air surrounding Mercer County but the Chamber of Commerce checked and said: "were clean."

FNB's 94-cent dividend, yielding 5.8 percent (it's been raised seven out of the last 10 years), took nearly 85 percent of last year's $1.12 share earnings and in 2005 the dividend required 94 percent of FNB's earnings. That's not good and something feels uncomfortably jejune and grossly wrong here. In an economy that has been quite robust over the past five years, one would normally expect at least some semblance of success, but FNB's numbers suggest the company is moribund and that management lives in a vacuum.

This stock has zero appeal and zero is more than the collective worth of management and its do-nothing board of directors, all of whom should be embarrassed to show their faces on the sidewalks of Hermitage. So sell this stock that you bought at $33 and take your 17-point loss. As long as the current regime remains, you don't have a beggar's chance of getting even.

Alltel Corp. (AT-$66.02) is a sleepy, wireless phone company, the revenues of which have been flat as a flapjack for the past seven years. With flat revenues came flat earnings, even with 11 million subscribers.

AT has a strong balance sheet, modest debt, a good cash position and a dependable fixed cost structure. With average revenue of $50.76 per user, AT's billings are less than those of Verizon, Sprint and Cingular with average revenues of $58.13 per user.

Many observers believe that AT is too small to compete with the big wireless companies whose cost to acquire a customer is about $305 versus $337 per AT customer. Those same observers suggest that their economies of scale allow them to generate more profits per dollar of revenue and more effectively increase revenues per user with various add-ons to service.

AT would not be a good fit for Sprint whose inept chief executive officer really bumbled its Nextel acquisition. Sprint is still smarting and bleeding from the huge customer losses. However, the wireless business in this country is a mature business and growth via acquisition is the current strategy. The two most likely candidates are Verizon and Cingular. Others suggest that Vodephone, a foreign carrier in search of new business, may be interested in AT.

However, the price will be stiff, real stiff. In fact, the price may be so stiff that your question and my answer may be moot. The talk I'm hearing is that the AT people are talking $75 to $80 a share, and that's $30 billion plus debt assumption. So don't hold your breath and I wouldn't buy 200 shares of AT based on merger rumors between $75 and $80.

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