



Myles O'Grady puts lid on BoI share price

IT WAS pretty eyebrow-raising that when Bank of Ireland (BoI) released its full-year results for 2023, showing pre-provisional and pre-exceptional profits that had almost doubled to €2.4bn, the share price actually fell. This seems ridiculous given that, at the current share price of just on €9.50, the bank is capitalised at only €9.9bn. On top of this, BoI announced healthy dividends and a share buy-back scheme with a combined value of €1.15bn. Nevertheless, the share price has been slow to shift, in part thanks to the decision of the rather frank CEO, Myles O'Grady, to talk things down at his bank.

Admittedly, BoI's share price is no longer boosted by Francesca McDonagh's X-factor and short-term outlook, with the far more measured and lower-profile O'Grady running the show. He also managed to take quite a bit of the shine off the results by (sensibly) putting aside €540m in additional provisions to cover future potential loan losses.

O'Grady forecast reduced profits for 2024 on foot of several expected reductions in the European Central Bank's (ECB) base rate this year, which did little to impress the market.

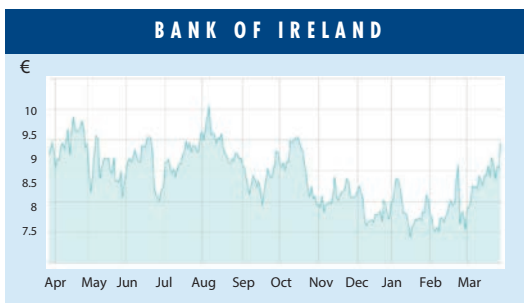
The problem for BoI was simply that much more was expected following the increase in the ECB base rate from -0.5% to 4.5%, which alone should have doubled returns.

O'Grady, however, had a big problem; he was severely curtailed with regard to the bank's variable mortgage rate because McDonagh had hiked it up to a very chunky 4.3% during her regime, even when ECB base rates were at nil and the average mortgage rate in Europe was running at 1.5%. In Ireland, mortgages were on offer at 1.9% from the likes of Ulster Bank, so O'Grady simply could not increase BoI's rate, given that it was already well ahead of the market when he took the reins at the end of 2022.

The market had also set its expectations at the upper end when it came to guesstimating BoI's returns, in large part due to the €8bn loan book that was acquired from KBC at the beginning of 2023, while also factoring in a significant contribution

from the Davy acquisition. The latter, however, doesn't seem to have delivered, with its dealing desk losing out on foot of CRH and Flutter decamping from the Dublin market.

The picture was not improved when AIB released its results just over a week later, showing pre-provisional and pre-exceptional profits of an eye-watering €2.73bn, well over double the



previous year's figures. This was despite the fact that AIB benefited from only a few months' contribution on foot of the acquisition of Ulster Bank's €6bn performing tracker loans portfolio.

On top of this, AIB boss Colin Hunt did not provide anything like the level of provisions O'Grady insisted on, resulting in a pre-tax profit that was almost 16% ahead of BoI. This is despite the fact that AIB is a much smaller bank with a loan business worth €66bn compared to BoI's €80bn, while the former now boasts a market capitalisation of €12.3bn, almost 25% ahead of BoI.

Despite AIB outperforming BoI at the bottom line, it is interesting to note that, following the acquisition of KBC's €8bn Irish residential loan book, BoI is no longer a laggard in the Irish housing finance market – the



Myles O'Grady

inevitable result of McDonagh's harsh interest rates, which were more profitable in the short term but inhibited any organic growth.

Impressively, BoI is now the market leader here, with its €32bn Irish mortgage book representing a 41% market share, which is a long way ahead of the 23% market share under the *ancien régime* in 2021. While the KBC book is the major factor here, O'Grady has also been delivering organic growth.

There was significant erosion in BoI's variable mortgage book because of McDonagh's policy here. Large numbers of mortgage holders switched out and this loan book fell 36% from €2.5bn in 2021 to €1.6bn in 2022. In many cases, customers switched to more competitive fixed-rate mortgages inside BoI, which grew over the two years to €2.5bn, aided by the fact that internal switching is dramatically easier and cheaper than moving bank as it avoids significant legal and administration costs.

Furthermore, since AIB's variable mortgage rate passed the 4% mark at the beginning of last year, BoI has been able to more than double its variable mortgage book to €3.6bn by the end of last year. This was simply because O'Grady took the sensible decision, as base rates soared, not to further increase the lofty variable rates imposed by McDonagh.

Whatever about the increased competitiveness of BoI's interest rate regime, the most striking

aspect of last year's returns is the huge money the bank has earned on the €42bn of surplus cash on which it is sitting.

In the first half of 2022, BoI's surplus liquid assets actually cost it €28m because it had to lodge this with the ECB at negative interest rates. By contrast, in the second half of last year this surplus cash actually earned BoI €867m, an interest rate the equivalent of 4.09%. This was actually higher than the interest the bank earned on its big €80bn loan book, which earned a rate of 3.99%.

CREDIT BALANCES

Taking the year as a whole, BoI earned €1.5bn interest on the surplus cash it deposited with the ECB during 2023.

It is worth highlighting the fact that BoI is sitting on €88bn in customer credit balances and deposits, which last year only cost it €41m in interest, or just under 0.05%. This represents a huge endowment bonus that BoI gets from its deposit customers, whose money is earning a pittance, while the bank makes €1.5bn by depositing half of this with the ECB.

On the non-performing loan side of the business, BoI has now got these loans down to €2.5bn,

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Aryzta's recovery now baked into share price

A COMPANY that has effectively disappeared off the radar here is Aryzta, which is not surprising given its Swiss quote, but there remains significant Irish interest. Although the group ended up a “shambles”, according to executive chairman Urs Jordi, the good news is that the ship has been steadied and is steaming in the right direction, with more progress to come.

Aryzta's convoluted history is well known, dating back to the former IAWS structure, which was transformed by Philip Lynch in the 1990s. His successor, Owen Killian, who took over in 2003, significantly overreached, however, and he resigned shortly after Gary McGann was installed as chairman in October 2016.

McGann then brought in Kevin Toland, whom he knew from Dublin Airport Authority, but the two boys duly managed to walk the business into more trouble, leading to a shareholder revolt in September 2020 that ousted the board and brought Jordi in to fill the roles of chairman and temporary CEO.

Impressively, Jordi has not only steadied the ship but has set it on a pretty remarkable course, with the whole business being transformed over the last three years. At the end of the current year, Jordi plans to bring in a permanent CEO to take over from him.

Aryzta still has a large number of Irish shareholders, although it is now quoted only in Switzerland on foot of Killian's strategy for taking over the big Swiss Hiestand group. This was done by reversing the IAWS group into the target company and changing the name of the enlarged group to the unusual Aryzta (a name that is derived from the Latin for arista, which is the apex of a wheat grain).

Lynch had hugely expanded IAWS before handing over the reins to Killian in 2003, only for the latter to aggressively expand the group through the takeover of US operation Otis Spunkmeyer in 2006 and the reversal into Heistand in August 2008. This was followed by buying Honey Top Foods in the US in 2011, the German Klemme group in 2013, the Pineridge and Cloverhill bakeries in Canada and the US respectively in 2014 (these latter two for a combined very chunky €730m), and also Group Hubert in France.

The initial phase of McGann and Toland's rescue plan had been to sell off some of the more problematic US bakeries at the

beginning of 2018, notably the Cloverhill operation in Ohio, before establishing a three-year restructuring plan in May 2018, aimed at delivering €200m in savings over the period.

The boys then proceeded to dispose of the group's UK Delice de France business for a sum so small that it was not even disclosed. In 2019 they also sold off the bulk of its stake in the 1,000-outlet French frozen foods retail operation Picard for €156m (with a further €91m on foot of a special dividend income). The 49% shareholding in the latter company had originally cost Aryzta just on €450m to acquire in 2015.

As Moneybags had reported by then (see *The Phoenix* 30/11/18): “Since the appointment of Gary McGann as chairman of Aryzta in December 2016, the share price has fallen from €40 to its current



€1.20, a drop of 97%. This is one of the single worst episodes of equity destruction of any Irish company.”

In 2022, Moneybags noted: “The five-year chairmanship of Aryzta is the gig that Gary McGann may best be remembered for. He oversaw a huge equity destruction, with the share price dropping from €40 when he went in as chairman in December 2016 to 46c, after turning in a €900m half-year pre-tax loss shortly before he exited completely. This share price drop of just on 99% was effectively a full write off, representing €5bn up in smoke.”

It was into this carnage that the new regime emerged after the successful shareholder revolt at the EGM in September 2020, when Jordi found himself at the helm. He had a background in the par-baked confectionary business



Urs Jordi

and had run the group's European business from 2008 to 2013.

Jordi brought in the experienced Gordon Hardie, ex-CEO of the big Goodman Fielder bakery group in Australia, as well as Heiner Kamps, a bakery executive who had previously run his own chain.

Jordi took charge of a group that had dropped €1bn in the year to August 2017 and €500m in the following 12 months to August 2018. In 2019, Toland and McGann nearly broke even but in the year to August 2020 the loss recorded was €1bn.

What still rankles with the many Irish shareholders was the hugely damaging fundraising the two boys carried out in September 2018, courtesy of a heavily discounted rights issue on a 10-for-one basis. This raised €800m at

80c a share when the shares in the company had been trading at €8 a share. Happily for Toland and McGann, the 90% dilution had little personal impact given their tiny shareholdings in Aryzta.

Strikingly, in Aryzta's most recent 2023 annual report (which covers a 17-month period), Jordi confirms that, when he took over at the end of 2020, “the group was in a shambles”.

OVERSTRETCHED

Despite the damaging September 2018 €800m rights issue fundraiser, Aryzta was severely overstretched financially and probably operationally too. In 2021, Jordi decided to sell off the group's South American business, mainly centred in Brazil, for €150m and the company's remaining North

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which represents just 3.1% of the total €81bn advanced and is well under the ECB's 5% guideline.

Despite putting aside much more than AIB last year, however, BoI's total loan loss provisions only come to €1.2bn, representing just 46% of the €2.6bn of non-performing loans. Back in the early 1980s, Irish banks, as a matter of course, always covered non-performing loans in full, which looks like a far more sensible position and one that the likes of BoI and AIB should be aiming to return to.

What probably unleased the market most was O'Grady's blunt honesty regarding BoI's net interest income. He said it will fall by 5%-6% in the current year, which will represent a near €200m drop in income. With costs expected to rise by 5% and the loan book by an even more modest figure, this will drive the return on equity down from over 17% last year to 15% in for 2024.

So, despite significant dividend payouts and a chunky share buy-back programme in play, this scenario has made it hard for investors to get excited about BoI shares. Presumably, the Patrick Kennedy-chaired board was happy enough with the CEO's downbeat delivery.

O'Grady confirms that he is

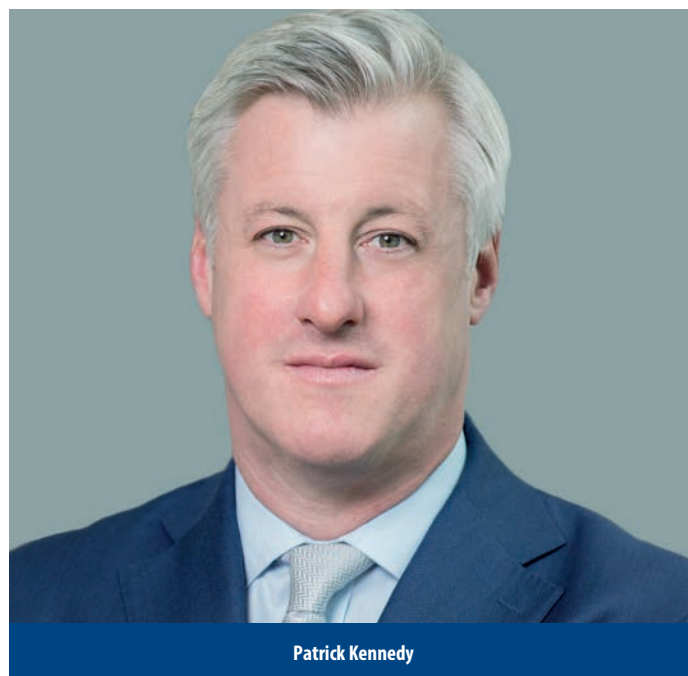
only one year into his so-called "refreshed strategy", which is "built on the three pillars" of strong relationships with customers, a simpler business and a more sustainable company. "It is guided by our purpose, which is to help customers, colleagues, shareholders and society to thrive," he said.

The CEO supports these claims with his group's exceptional profits last year – which were primarily driven by the step-change in the ECB's interest rates – stating that BoI is "outperforming our 15% target" on return on equity.

Overseeing a very significant increase in the dividend to 60c does have an impact in that it represents a healthy dividend yield of almost 6.3% on the shares at their current price of €9.45. This is not, however, the main driver of a share price but rather the prospect of increasing returns – the opposite of the forecast that O'Grady delivered.

Moreover, the pessimistic CEO's forecasts make 2025 look even less enticing, as O'Grady believes that ECB rates will fall 2.75% by the end of this year and, therefore, will not make as significant an impact next year. (Many market observers believe a 1.5% drop is a more accurate forecast of the ECB's intentions this year.)

At €9.45, BoI shares are on a price/earning multiple of over



Patrick Kennedy

five times and this goes up to a prospective p/e of six in 2025, depending on the interest rate reduction adopted by the ECB. In the meantime, BoI intends to pay out significant dividends, which means that, in the short to medium term, it is hard to see any convincing grounds for the bank's shares failing to maintain current levels, although they may not get back to the €10.70 they hit just over a year ago.

Clearly, the shares are unlikely to ever return to the €20 hit in 2006 as a result of the billions of shares that were issued to the likes of Prem Watsa in 2015 at 10c a share – the equivalent after consolidation of €3 a share. He duly dumped all of these and tripled his money in the process, but the dilution impact has been immense. In today's consolidated form, BoI shares would have to hit €600 to return to the 2006 value.

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American interest for €850m.

This allowed the new management structure to focus on Aryzta's big European and smaller Far Eastern and Australian operations. Jordi has delivered on this front and, on the back of sales of €1.75bn in the 12 months to the end of July 2022, the group turned in pre-exceptional operating profits of €90m, delivering dramatically improved trading margins of just over 5%.

INNOVATION

To bring Aryzta into line with the calendar year, the latest trading period reported on covers 17 months to the end of December 2023. In this period, Jordi turned in sales of just over €3bn, which is the equivalent of €2.1bn on an annualised basis and represents an equivalent 21% increase in sales.

What is more significant is that Jordi turned in an operating profit of €220m for the 17-month period to return trading margins of a much more respectable 7.3%. On an annualised basis, the operating profit works out at €155m, up 73% on an annualised basis from the preceding year.

Jordi has not just restructured and simplified the business but brought in innovation and new product development. Last year these represented 14% of turnover. Meanwhile, Aryzta is targeting 5% growth and 10% trading margins in the group's 26 bakeries throughout Europe and the Far East.

Jordi has overseen selective expansions such as the doubling of its bakery capacity in Malaysia in 2022 and a doubling of its production capacity for sourdough specialist breads in its Grangecastle bakery in Dublin for the UK and Irish markets. Most recently the group has announced the construction of a new €40m bakery in Perth, Australia, with the capacity for 220 million burger buns per annum.

Jordi predictably admits that Aryzta will not be achieving the recent rapid rate of progress in the years ahead but targeting 5% expansion pa should increase margins all around.

The executive chairman is also significantly reducing the very expensive hybrid debt funding instrument that had hit €1bn, but has now been halved to €500m, with plans to reduce this further by increasing the level of conventional debt. The group's total debt



Heiner Kamps

is down from €1.1bn in July 2022 to €1bn in December 2023.

For now at least, Aryzta finally looks to be in safe hands. From a low of 0.42 Swiss Francs (CHF) in June 2020, the shares gradually recovered, increasing to CHF1.00 in June 2022 and are currently trading at CHF1.65.

On the basis of earnings per share, this puts the shares on a price/earnings multiple of almost 17, which seems fair.

Obviously, these shares are

never going to get back to the heights reached before the wheels really came off following that 90% equity dilution exercise in September 2018. As a result of this rights issue, Aryzta's shares at CHF1.65 currently should be the equivalent of CHF17 in an undamaged state.

This is still quite the recovery and it looks like Jordi has further to go, although obviously most of the pre-September 2018 Irish shareholders are still suffering massively.



Seapoint
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COMMERCIAL PROFILE



Create A Beautiful, Natural-Looking Smile...

Founded more than 15 years ago, the hugely successful **Seapoint Dental Clinic**, originally based in Blackrock, has just invested €2m in a new, state-of-the-art practice in **Beacon Court, Sandyford, Co Dublin.**

THE PRACTICE is in the unique position to be at the epicentre of advances in cosmetic and biomimetic dentistry, with composite bonding, teeth whitening and orthodontic treatments, such as Invisalign being among its most in-demand treatments. The team are passionate about dentistry and combine current research with proven knowledge and years of clinical expertise, which allows them to combine their skills to offer patients the very best experience that is individually tailored while never compromising on quality.

Dentistry has evolved significantly since the inception of Seapoint Dental Clinic. Not so long ago cosmetic dentistry was very much considered a luxury. Now however, an entirely new mindset exists around this field. Recent research by Kelton Global has shown that 30% of people surveyed say that a person's smile is the first thing they notice about them and 38% said they would opt out of a second date with someone because of crooked teeth. Simply put, a nice, wide smile has never been more in fashion.

The benefits of a beautiful smile also go well beyond being perceived as attractive. Research has shown that not only can it help enhance your career, but discoloured or broken/missing teeth can even inhibit your career success.

Dr Clodagh Myers, dentist and director of the clinic, notes the rising demand for cosmetic dentistry and attributes this in part to the rise of social media: "With direct access to influencer profiles, who all appear to have 'the perfect smile', shifts in people's self-



image have created a surge in both male and female patients seeking cosmetic treatments. These range from lunch hour whitening treatments, to diamond clean hygiene, to the Invisalign and minimally invasive composite bonding."

Natural-Looking Results

Seapoint believes in producing natural-looking results, where only you and your dentist know of any work completed, and is committed to restoring people's confidence in dentistry by providing the time and care to achieve the best possible results.

A traditional approach to correcting misaligned teeth involves aggressive tooth preparation to create the ideal archform before placing porcelain veneers.

"There has been a paradigm shift away from this," reports Dr Myers. "One of the most popular treatment packages we offer is called the ABC package, where the patient's teeth are aligned, usually using Invisalign. Then we brighten or whiten the teeth, using a combination of our one-hour whitening

and home kit. Finally, we complete treatment by placing some composite bonding on any teeth that have chipped or worn edges to achieve a natural, long-lasting result. None of the natural teeth have been compromised and the result looks completely natural, which is what our patients want.

"With the use of intraoral scanners and sophisticated 3D imaging software, the ability to show patients what their teeth will look like when the treatment finishes has transformed the patient experience. They can see what their smile will look like after clear aligner treatment to straighten their teeth, before commencing treatment, which has led to increased case acceptance," continues Dr Myers.

Digital smile design concepts are used to produce a mock-up of a potential smile design and can be transferred to the mouth using the trial smile concept.

"This really helps educate patients and allows them to appreciate the parameters involved in the creation of a beautiful smile, as a huge barrier to patient acceptance used to be 'fear of the unknown'. For example, a 50-year-old man does not want Hollywood white teeth, so now he can not only achieve a natural result, he's involved in the process every step of the way," Dr Myers concludes.

The ethos on which Seapoint Dental in Blackrock was founded has withstood the test of time. By blending innovative dental practices with compassionate expertise, the clinic consistently delivers an exceptional patient journey. Seapoint at the Beacon strives not only to emulate this, but to build on this to bring the patient experience to the next level.

Visit www.seapointclinic.ie
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telephone **01 284 2570** for information.