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ATB FINANCIAL VALUATION ANALYSIS

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EXECUTIVE SUMMARY

ATB Financial (ATB) is only remaining regional banking institution owned by a provincial government in Canada. With advances in technology and public policy in Alberta, it is time for Albertans to reconsider the benefits of owning a regional bank. ATB was established many decades ago when financial products and services were not easily accessible by customers. In the 1930's it was difficult for rural Albertans to access banking services, however, with advances in communication technology such as the internet and telephone services, all financial services are now readily available and accessible to both urban and the remotest citizens of Alberta.

To estimate the value of ATB, this analysis uses three common valuation methods. These methods give Albertans an idea of how much the ATB could be worth if sold and the amount of public money that could be freed up to be used for alternative uses for the betterment of all Albertans.

Using the comparison method, the analysis compares ATB to similar banking institutions. This method values ATB's worth between \$2.995 billion and \$6.955 billion with the lower mean average being approximately \$5.274 billion.

Using the discounted cash flow analysis, the analysis considers ATB as a stand-alone financial institution for investors. This method values ATB's worth between \$1.390 billion and \$6.950 billion with the lower mean average being approximately \$2.317 billion.

INTRODUCTION

The first ATB branch was opened in Rocky Mountain House in 1938. A system of temporary financial institutions called 'Treasury Branches' were created by the Social Credit government of the day as an alternative source for Albertans to turn to for credit. Over the past 75 years, ATB has grown across Alberta to include 173 branches, servicing 244 communities. ATB's mandate is to facilitate access to financial services for Albertans. Customers must be predominantly Alberta residents, and corporations headquartered in Alberta must be operating independently from the provincial government. Since ATB is the last and only crown bank on the prairies, it is time to reexamine Albertans' public choice.

To help decide on its future, it is important that Albertans have an accurate estimate of the value of ATB's financial operations. There are two ways to value companies: using comparisons with other companies that are publicly listed and traded on stock exchanges, and estimating the intrinsic value (the discount cash flow method) of the company using the present value of the net cash flow generated.

THE VALUATION

In the case of ATB Financial, for a market valuation comparison, there are only two comparable banking institutions in Canada that are similar because they are small regional savings and lending institutions. Those institutions are the Canadian Western Bank and the Laurentian Bank of Canada. Some comparisons may be made with large chartered banks, such as Bank of Montreal or Canadian Imperial Bank of Commerce, but because they have

major differences in scale, nature of operations, and geographical spread there are serious limitations to comparing ATB with these institutions. Some smaller U.S. regional banks could be used in the comparison, but even those comparisons need to be used with caution.

The valuation range of ATB Financial, using established investment analysis methods appropriate for financial institutions, is estimated to be between \$2.955 billion and \$6.955 billion with the lower mean average being approximately \$5.274 billion.

Table 1

Market Value of ATB Financial, Using Canadian Chartered Banks, US Regional Banks, Financial Metrics

Valuation Metrics Applied to ATB	Market Value from Enterprise Value/Revenue	Trailing P/E (Market Value to Net Income)	(Market Value to Estimated Next Year Net Income)	Price to Sales	Price to Book
Average Big Six Canadian	\$14,993.23	\$1,977.47	\$3,568.31	\$4,917.37	\$5,513.00
Average CWB & Laurentian	\$18,259.15	\$2,146.06	\$3,497.57	\$4,410.88	\$3,524.96
Average Canada	\$15,809.71	\$2,019.62	\$3,558.21	\$4,790.75	\$5,015.99
Average USA	\$5,785.50	\$3,249.91	\$5,059.11	\$7,587.72	\$5,828.20
Average of All the Above	\$6,079.45	\$2,954.70	\$4,735.42	\$6,955.13	\$5,644.49
Minimum of Average of All the Above	\$2,954.70				
Maximum of Average of All the Above	\$6,955.13				
Mean of Average of All the Above	\$5,273.84				
Median of Average of All the Above	\$5,644.49				
Range:	\$2,954.70	\$6,955.13			
Lower of Mean or Median:	\$5,273.84				

The other valuation method is called the discounted cash flow analysis, (DCF, analysis). In this method, judgments are made as to the appropriate and reasonable rates of return, growth rates, normal profitability, and normalized current or recent cash flows. This method can be quite sensitive to the judgments made by the person conducting the analysis. Using the DCF method, the value of ATB Financial is estimated between \$1.390 billion and \$6.950 billion the lower mean average being approximately \$2.317 billion. As the company has been paying the equivalent of income tax to the province for years, all valuations shown here are fully taxed.

Note that as both these methods only provide estimates of the value of the company, readers need to consider them as estimates only. The actual value of ATB can only be accurately established by selling part or the whole company.

Readers must also note that the economy in Alberta has been depressed due to lower oil prices that dropped considerably three years ago and still have not yet recovered. ATB's corporate reports, which this valuation is based, are likely to reflect a depressed value of ATB. In addition, ATB's operating and free cash flows have been erratic over time, so an estimate of 'normal' free cash flow and net income for the next year, which have been used in the DCF analysis, may not fully be reliable.

Table 2

Intrinsic Value, Estimated Using Discounted Free Cash Flow

Free Cash Flow for Next Year (Estimate)	\$69,496						
Growth Rate, g=>		1.00%	2.00%	3.00%	4.00%	5.00%	6.00%
Required Rate of Return, r=v	5.00%	\$1,737,411	\$2,316,549	\$3,474,823	\$6,949,646	#DIV/0!	-\$6,949,646
	6.00%	\$1,389,929	\$1,737,411	\$2,316,549	\$3,474,823	\$6,949,646	#DIV/0!
	7.00%	\$1,158,274	\$1,389,929	\$1,737,411	\$2,316,549	\$3,474,823	\$6,949,646
	8.00%	\$992,807	\$1,158,274	\$1,389,929	\$1,737,411	\$2,316,549	\$3,474,823
	9.00%	\$868,706	\$992,807	\$1,158,274	\$1,389,929	\$1,737,411	\$2,316,549
	10.00%	\$772,183	\$868,706	\$992,807	\$1,158,274	\$1,389,929	\$1,737,411
Intrinsic Value, r=6-8%, g=3-5%:	\$2,857,077						

CONCLUSION & RECOMMENDATION

Alberta is the only province with a consumer-and-business-oriented commercial bank. With considerable technological, economic, social, financial, and public policy changes in the province and the banking sector, the reasons the provincial government established the ATB so many decades ago are no longer valid. All Albertans, urban and rural, now have access to the same banking services and banking conveniences, thanks to the internet, online banking services, electronic money transfers, online credit applications, electronic deposits, email transfers, etc.

Alberta is economically depressed at present and the provincial government probably needs funds without borrowing money or, alternatively without harsher austerity measures imposed on its residents. To free up financial capital, the provincial government could monetize the asset of ATB by selling part or all of it.

The longer the Alberta government owns ATB, the more likely ATB will become unfocused in its financial strategy which will harm its potential value. Therefore, ATB should be sold and the proceeds be reallocated elsewhere for the benefit of all Albertans.

Rationale for Divestiture or Privatization

In a democracy, it is up to the citizens through their elected representatives to decide if a Crown corporation or other government agency should be privatized, and what should be done with the proceeds to benefit citizens and taxpayers. There are, thankfully, some established reasons to embark on the privatization for some Crown Corporations:

1. Some people believe that governments have no mandate to own or run commercial enterprises. Libertarians believe that governments should only provide for citizens' safety, security, and justice. and the involvement of governments in private businesses is not good policy.
2. Regulation can usually accomplish any public policy reason for direct involvement in an industry. If regulation is not easily feasible, then a direct contract or subsidy to any affected individuals, entity or entities may be more efficient or effective and less economically disruptive or costly.
3. If a government-controlled or sponsored enterprise has a monopoly position, near-monopoly, or effective monopoly in a line or lines of business or businesses, then opportunities are lost in one or more commercial or potentially commercial sectors for entrepreneurs and investors to try to create and grow businesses to enrich and sustain themselves, employees, suppliers, and others.
4. A monopoly, near-monopoly, or effective monopoly market position by a government-owned or sponsored entity could result in far higher prices for customers, the general public, or a section of the public, than would be the case in a fully competitive marketplace for the industry involved.
5. A government-owned or -sponsored enterprise may compete directly against private sector firms, which are owned by or employ citizens, or against individual citizens, all of whom the government is supposed to serve, not disadvantage.
6. The government-owned or -sponsored enterprise may compete unfairly against its private sector rivals in that it had or has access to lower-cost government-sourced and -guaranteed capital (debt). It may have a much larger debt component in its capital versus that which would be tolerated in the private sector. Thus, it may not have to meet high standards for profit and cost control, allowing it to offer lower than true free market-based competitive pricing.
7. Government-owned firms may not need to pay provincial or federal income taxes. This can allow such firms to supply goods or services more cheaply than the private sector companies they are competing with.

8. Government-owned or -sponsored enterprises may not have any kind of profit orientation or target, may be used as public policy vehicles and may be given preference in their activities or even in their transgressions, such as labour or environmental abuses.
9. Government-owned or -sponsored enterprises, by virtue of being public sector vehicles overseen by bureaucrats and politicians, may be places where favoured individuals find employment, particularly at management levels.
10. Since profit is a secondary goal of a government-owned or -sponsored enterprise, it is difficult to evaluate the effectiveness, efficiency or productivity of the enterprise or its employees. Consequently, these employees and assets may not be very productive or effective.
11. Government-owned or -sponsored enterprises are often creations of certain time-fixed circumstances and outlive whatever use or public policy role their creators may have conceived. Often, advances in technology; the modernization of transport, telecommunication or information technology; the evolution of the economy and available products and services and the increasing standard of living make these enterprises potentially obsolete. In the private sector, firms and individuals must adapt and evolve, or decline.
12. Government-owned or -sponsored enterprises perpetuate their possibly obsolete existences by virtue of the constituencies that build up around them: employees, managers, directors and bureaucrats, customers, suppliers and associated advocates or consultants. They can lobby to keep the enterprise going, despite dysfunction or losses. They are far more motivated to do so than are the taxpayers, whose average cost is much less per person and may be indirect, hidden or difficult to calculate.
13. Because they are not profit-oriented, government-owned or -sponsored enterprises are usually less efficient, and thus they lower the overall efficiency of the entire economy. This can make a whole nation less competitive than its global rivals are, whether nations or individual companies. The effects are worse the greater the government involvement in the economy. When taken to its most extreme, as happened in 20th-century communist nations, the countries were unable to compete against capitalist companies, despite their immense direct and indirect subsidies, government support and the lack of profit requirement.
14. Funds tied up in the capital of government-owned or -sponsored enterprises could be used to reduce government debt or lower taxes on individuals or corporations, which they could then spend or invest as they freely choose, and thus they could inject money back into the economy in more-lucrative and -constructive ways.
15. Governments, generally, have a poor record of picking winners, or creating or owning enterprises that have market-competitive profitability, or attractive returns on assets, equity, or even returns that exceed governments' own cost of debt service. If, rarely, they actually do, it generally turns out that they have been provided unusually good market, operational, regulatory, or other conditions not available to other, investor-owned firms.
16. The greater the number and size of government owned or government sponsored enterprises in an economy, the greater the size and power of the government, which is usually the largest single entity in society, increasing the dangers of abuse of power, including injuring individual citizens, companies, or groups. Effective capacity of opposition or recourse against this power diminishes as the portion of the economy the government occupies increases.

