

Professional IR adds up to a quarter of value at GCC banks, finds research

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Iridium Advisors study looks at quantifying the value of investor relations

IR quality is the third-most important valuation driver at banks in the Gulf Cooperation Council (GCC) region, with top-level IR able to add as much as 24.2 percent to price/tangible book value (P/TBV), according to new analysis from Dubai-based Iridium Advisors.

The firm built AI algorithms, known as the Iridium Quant Lens ML algorithms, to run through around 9 mn data points, covering 673 banks worldwide for each quarter over the last 10 years. Iridium says the system is based on ‘the classical understanding that risk-and-return factors drive valuation’, and seeks to ‘take a scientific and systematic approach... to crack the IR algorithm’ and quantify the value of investor relations. These findings are published in the report: [*The value of investor relations quantified*](#).

[Oliver Schutzmann, CEO of Iridium Advisors](#), tells *IR Magazine* that the IR profession is in a process of evolution. ‘IR is now on the verge of becoming a data science, rather than simply a finance function or – previously – a communications function,’ he says.

Iridium chose the banking sector because ‘banks tend to be more difficult to understand and value,’ says Schutzmann, and because the consultant has experience and expertise in the sector. In the report, Iridium writes that ‘a significant finding of this study is that the quality of investor relations is a highly material factor consistently influencing valuations of GCC banks. In fact, for most GCC models it is the third-most important factor impacting P/TBV and explains 6 percent of its variability on average.’

Schutzmann explains a little of how the algorithms were built. ‘We used four different types of machine learning algorithms to decompose 30 different risk-and-return factors that include financial and non-financial drivers of evaluation,’ he explains. ‘We looked at the impact IR quality has on valuation: it can push valuations upward or it can push valuations down.’

The result, he continues, is very accurate: ‘We can explain up to 98 percent of valuation with some of these models.’

While the study looks at valuation across the banking sector, Iridium also focuses in on those banks closer to home, across six countries in the GCC region: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE. At these 65 banks, it finds that professional investor relations can add up to 24.2 percent to market valuation. And the opposite is true for low IR quality: citing an unnamed bank ‘that currently operates at an ‘IR-agnostic’ level, Iridium says this failure to push good IR ‘subtracts 0.07x from its P/TBV valuation.’

The firm rates IR at GCC banks as ‘agnostic’, ‘basic’ or ‘emerging’ and says ‘the impact of upgrading investor relations is significant.’ Each upgrade step – for example from IR-agnostic to IR-basic – commands a 12 percent valuation premium on average, according to Iridium’s research, while ‘a complete move along the investor relations upgrade path adds 24 percent to valuations.’