

Associated Banc-Corp (ASB)

\$14.41 (As of 04/10/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: B

Summary

Associated Banc-Corp's shares have underperformed the industry over the past year. Its earnings have surpassed the Zacks Consensus Estimate in three and matched in one of the trailing four quarters. Lower interest rates will likely continue to put pressure on the company's net interest margin (NIM), thus hurting revenue growth to some extent. Mounting expenses (resulting from increase in technology costs and inorganic growth initiatives) will likely hamper the bottom line. While continued rise in demand for loans, inorganic growth strategy (including the acquisition of First Staunton Bancshares), a solid liquidity position and improving credit quality are expected to support Associated Banc-Corp's profitability in the quarters ahead, the company's increased dependence on commercial loans is a concern and might hamper growth.

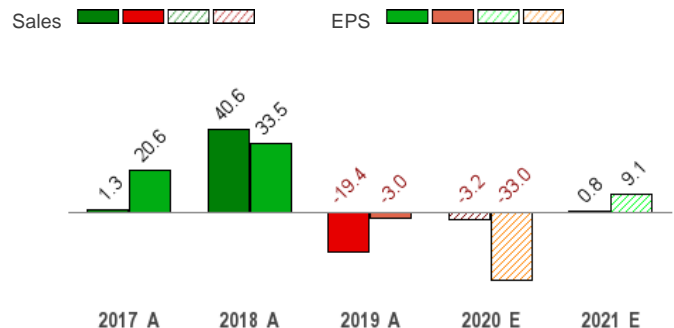
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.26 - \$10.23
20 Day Average Volume (sh)	1,836,186
Market Cap	\$2.3 B
YTD Price Change	-34.6%
Beta	1.34
Dividend / Div Yld	\$0.72 / 5.0%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 12% (222 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.8%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-27.3%
Expected Report Date	04/23/2020
Earnings ESP	-4.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	290 E	298 E	300 E	299 E	1,187 E
2020	295 E	298 E	298 E	295 E	1,178 E
2019	307 A	309 A	307 A	293 A	1,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.40 E	\$0.42 E	\$0.43 E	\$0.42 E	\$1.44 E
2020	\$0.34 E	\$0.39 E	\$0.40 E	\$0.40 E	\$1.32 E
2019	\$0.50 A	\$0.51 A	\$0.50 A	\$0.45 A	\$1.97 A

*Quarterly figures may not add up to annual.

P/E TTM	7.4
P/E F1	10.9
PEG F1	1.6
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

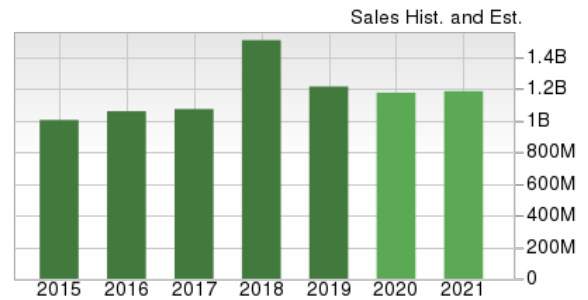
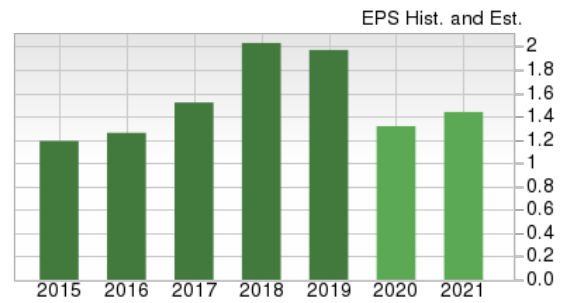
Overview

Associated Banc-Corp – founded in 1964 – is headquartered in Green Bay, WI. This bank holding company, through its subsidiaries Associated Bank, National Association and various non-banking subsidiaries, provides an array of banking and non-banking products and services.

The company provides a full range of financial products and services through more than 240 banking offices in Wisconsin, Illinois and Minnesota as well as commercial financial services in Indiana, Michigan, Missouri, Ohio and Texas.

Associated Banc-Corp operates through the following three business segments:

- **Corporate and Commercial Specialty** (constituting 35.2% of total revenues in 2019) offers lending solutions, deposit and cash management solutions and specialized financial services.
- **Community, Consumer, and Business** (61.2%) provides lending solutions, deposit and transactional solutions, investable funds solutions, insurance, benefits related products and services as well as fiduciary services to individuals as well as small and mid-sized businesses.
- **Risk Management and Shared Services** (3.6%) includes Corporate Risk Management, Credit Administration, Finance, Treasury, Operations and Technology functions.



In 2015, Associated Banc-Corp acquired Ahmann & Martin Co and in 2017, it acquired Whitnell & Co. Further, in 2018, the company acquired Bank Mutual Corporation, Diversified Insurance Solutions and Anderson Insurance. In 2019, it acquired 32 Wisconsin branch locations from Huntington Bancshares. In February, 2020, it acquired First Staunton Bancshares.

As of Dec 31, 2019, Associated Banc-Corp had total assets of \$32.4 billion, net loans of \$22.6 billion, total deposits of \$23.8 billion and stockholders' equity of \$3.9 billion.



Reasons To Sell:

- ▼ While Associated Banc-Corp's NIM increased from 2.80% in 2016 to 2.82% in 2017 and 2.97% in 2018, the same declined in 2019 to 2.86%. Moreover, despite continued growth in loans, the company's NIM is expected to be hurt in the near term due to the decline in yield on loans and the Federal Reserve's accommodative monetary policy.
- ▼ Associated Banc-Corp has been witnessing a consistent rise in non-interest expenses. While expenses declined in 2019, the same witnessed a CAGR of 3.2% over the last six years (2014-2019). The rise was mainly due to higher personnel costs and technology expenses. Moreover, overall costs are expected to remain elevated in the near term, given the company's inorganic growth efforts and continued investment in franchise.
- ▼ A major part of Associated Banc-Corp's loan portfolio — 59.1% as of Dec 31, 2019 — comprised total commercial loans (commercial and business lending as well as commercial real estate lending). Higher concentration on commercial loans may pose regulatory and market challenges for the company.
- ▼ Further, Associated Banc-Corp's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 9.17% compares unfavorably with ROE of 10.88% for the industry. This reflects that it is less efficient in using shareholders' funds.
- ▼ Shares of Associated Banc-Corp have underperformed the industry over the past year. Also, the company's earnings estimate for the current year has been revised 13.2% lower over the past seven days. Given the concerns and downward estimate revisions, the stock has limited upside potential.

Near-zero interest rates will likely hamper Associated Banc-Corp's margins. Also, higher costs (due to investments in franchise and integration costs) will hurt the bottom line in the near term.

Risks

- Associated Banc-Corp is focused on its organic growth strategy, as evident from consistent growth in loans and deposit balances as well as net interest income (NII). While NII declined in 2019 on a year-over-year basis, the same witnessed a CAGR of 4.2% over the last six years (2014-2019). Moreover, continuous change in deposit mix backed by rising non-interest-bearing deposit accounts (non-interest-bearing demand deposits as a percentage of total deposits were 22.9% as of Dec 31, 2019) has been impressive.
 - Associated Banc-Corp is growing inorganically as well. Recently, the company completed the acquisition of First Staunton Bancshares. In June 2019 it acquired 32 branches in Wisconsin. Earlier in the first half of 2018, it had acquired Anderson Insurance, Diversified Insurance Solutions and Bank Mutual. These deals are expected to be accretive to the company's earnings. The company is well positioned to grow further from opportunistic acquisitions, given its strong liquidity position.
 - We remain encouraged by Associated Banc-Corp's enhanced capital deployment activities. The company has been raising dividends on a regular basis. The latest hike of 5.9% was announced in October 2019. Further, in December 2019, the company announced additional share repurchase authorization of up to \$150 million. As of Dec 31, 2019, \$184 million worth of shares were left to be repurchased (includes prior authorizations). Given a strong balance sheet position and earnings strength, the company's capital deployment activities look sustainable.
 - Further, Associated Banc-Corp seems undervalued compared with the broader industry. Its current price/book and PEG ratios are below the respective industry averages.
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Last Earnings Report

Associated Banc-Corp Q4 Earnings Beat Estimates, Revenues Down

Quarter Ending 12/2019

Associated Banc-Corp's fourth-quarter 2019 adjusted earnings of 45 cents per share outpaced the Zacks Consensus Estimate of 41 cents. However, the figure was 12% below the prior-year quarter number. Earnings (in the reported quarter) excluded certain acquisition-related costs.

Rise in non-interest income, no provisions and slight improvement in loan balance acted as tailwinds. However, lower rates, fall in deposit balance and higher operating expenses were the undermining factors.

Report Date	Jan 23, 2020
Sales Surprise	-1.42%
EPS Surprise	9.76%
Quarterly EPS	0.45
Annual EPS (TTM)	1.96

Net income available to common shareholders (GAAP basis) was \$68.3 million, down 20% year over year.

For 2019, adjusted earnings were \$1.97 per share, which beat the consensus estimate of \$1.91 and increased 4% year over year. Net income available to common shareholders (GAAP basis) was \$312 million, down 3%.

Revenues Down, Expenses Rise

Net revenues for the quarter were \$293.1 million, down 5% year over year. Also, the figure lagged the Zacks Consensus Estimate of \$297.3 million.

For 2019, net revenues declined 2% to \$1.21 billion. Also, the top line lagged the Zacks Consensus Estimate of \$1.23 billion.

Net interest income was \$200.1 million, marking a fall of 11% from the year-ago quarter. NIM was 2.83%, down 19 basis points (bps).

Non-interest income totaled \$92.9 million, up 11% year over year. A significant increase in mortgage banking income and net capital markets fees primarily drove the rise.

Non-interest expenses were \$203.6 million, up 5% from the year-ago quarter. The increase was largely due to higher technology costs, and loan and foreclosure costs.

Efficiency ratio (fully tax-equivalent basis) was 63.72%, up from 60.93% in the prior-year quarter. Rise in efficiency ratio indicates deterioration in profitability.

As of Dec 31, 2019, net loans were \$22.6 billion, up marginally on a sequential basis. Total deposits decreased 3% from the prior quarter to \$23.8 billion.

Credit Quality: Mixed Bag

The company reported nil provision for credit losses against provision of \$1 million in the prior-year quarter. Further, total non-accrual loans were \$118.4 million, down 7%.

However, as of Dec 31, 2019, total non-performing assets were \$145.5 million, up 4% year over year. Also, the ratio of net charge-offs to annualized average loans was 0.24% in the fourth quarter, up 11 bps.

Capital & Profitability Ratios Deteriorate

As of Dec 31, 2019, Tier 1 risk-based capital ratio was 11.26%, down from 11.35% as of Dec 31, 2018. In addition, common equity Tier 1 capital ratio was 10.21% compared with 10.27% at the end of the prior-year quarter.

Annualized return on average assets was 0.89%, down from 1.07%. Moreover, return on average tangible common equity was 11.33% compared with 15.08% a year ago.

Share Repurchases

During the quarter, Associated Banc-Corp repurchased nearly 2 million shares for \$48 million.

2020 Outlook

Management expects average loan growth to be in the range of 2-4%.

The company expects the ratio of investments to total assets to remain above 17%.

The company expects NIM to be between 2.80% and 2.85% on the assumption of a stable interest rate environment.

Non-interest income is projected to be in the range of \$375-\$385 million, excluding investment securities gains and losses.

Non-interest expenses are expected to be on the range of \$790-\$795 million, including acquisition-related costs in connection with the First Staunton deal.

Initial CECL impact is expected to be \$70-\$80 million after-tax and a corresponding 21-24 bps decrease is anticipated in the tangible common equity tier 1 ratio.

Effective tax rate will be in the range of 19-21%.

Recent News

Associated Banc-Corp Lowers Prime Lending Rate – Mar 16, 2020

Pursuant to the U.S. Federal Reserve interest rates cut by 100 bps, Associated Banc-Corp decreased its prime lending rate to 3.25% from 4.25%.

Associated Banc-Corp Closes Acquisition of First Staunton - Feb 14, 2020

Associated Banc-Corp closed the deal to acquire First Staunton Bancshares. The all-cash deal, valued at \$76.3 million, was announced in July 2019.

Per the terms, Staunton, IL-based First Staunton's subsidiary, The First National Bank in Staunton, will merge with Associated Banc-Corp's arm, Associated Bank, N.A.

Additionally, Associated Banc-Corp expects the deal to be accretive to its earnings in 2020 (excluding one-time charges). Further, the transaction is likely to produce strong returns on capital. The company anticipates to realize nearly 35% cost savings from back office and frontline branch operating efficiencies.

"Associated Bank is pleased to welcome the customers and employees of First Staunton to our company," said Philip B. Flynn, Associated President and CEO. "Our teams will continue to collaborate to ensure First Staunton customers enjoy the added conveniences, products and services available to them. This merger further enables us to invest in the Southern Illinois market and provide increased value for our customers and shareholders."

Dividend Update

On Feb 4, Associated Banc-Corp announced a quarterly cash dividend of 18 cents per share. The dividend was paid on Mar 16 to shareholders of record as of Mar 2.

Valuation

Associated Banc-Corp's shares are down 34.6% in the year-to-date period and 35.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.1% and 23.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 24.5% and 17.5%, respectively.

The S&P 500 index is down 13.4% in the year-to-date period and 4.3% in the past year.

The stock is currently trading at 7.93X forward 12 months earnings, which compares to 10.80X for the Zacks sub-industry, 13.30X for the Zacks sector and 18.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 6.38X, with a 5-year median of 14.04X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$11 price target reflects 6.04X forward earnings.

The table below shows summary valuation data for ASB

Valuation Multiples - ASB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.93	10.8	13.3	18.16
	5-Year High	20.53	16.92	16.19	19.34
	5-Year Low	6.38	9.03	11.23	15.19
	5-Year Median	14.04	13.58	13.95	17.45
P/TB TTM	Current	0.98	2.09	2.5	10.5
	5-Year High	2.14	3.94	3.97	12.78
	5-Year Low	0.74	1.66	1.97	6.02
	5-Year Median	1.67	2.95	3.45	9.15
P/S F12M	Current	1.86	3.53	4.93	3.08
	5-Year High	3.83	6.05	6.65	3.44
	5-Year Low	1.5	3.17	4.93	2.54
	5-Year Median	2.84	4.81	6.03	3.01

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 253)



Top Peers

Bank of Hawaii Corporation (BOH)	Neutral
First Republic Bank (FRC)	Neutral
New York Community Bancorp, Inc. (NYCB)	Neutral
Prosperity Bancshares, Inc. (PB)	Neutral
Signature Bank (SBNY)	Neutral
SVB Financial Group (SIVB)	Neutral
Comerica Incorporated (CMA)	Underperform
Zions Bancorporation, N.A. (ZION)	Underperform

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	ASB Underperform	X Industry	S&P 500	BOH Neutral	FRC Neutral	SIVB Neutral
VGM Score	F	-	-	D	F	C
Market Cap	2.25 B	336.61 M	19.66 B	2.51 B	16.76 B	9.57 B
# of Analysts	7	3.5	13	4	10	11
Dividend Yield	5.00%	3.05%	2.18%	4.27%	0.76%	0.00%
Value Score	F	-	-	C	F	C
Cash/Price	0.33	0.27	0.06	0.26	0.12	0.94
EV/EBITDA	8.96	6.67	11.72	5.69	18.72	2.10
PEG Ratio	1.46	2.49	2.04	1.71	2.83	1.58
Price/Book (P/B)	0.63	0.88	2.66	1.96	1.93	1.52
Price/Cash Flow (P/CF)	5.16	6.85	10.44	9.12	15.69	8.35
P/E (F1)	10.25	10.02	17.51	13.67	21.00	12.60
Price/Sales (P/S)	1.45	2.00	2.12	3.26	4.03	2.71
Earnings Yield	9.16%	10.00%	5.65%	7.32%	4.76%	7.93%
Debt/Equity	1.02	0.39	0.70	0.07	1.55	0.06
Cash Flow (\$/share)	2.79	2.79	7.01	6.88	6.34	22.23
Growth Score	F	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	15.14%	14.63%	10.92%	9.76%	13.27%	38.74%
Proj. EPS Growth (F1/F0)	-33.14%	-14.38%	-1.14%	-17.49%	-8.90%	-32.20%
Curr. Cash Flow Growth	-1.86%	13.30%	5.93%	3.89%	10.31%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	9.43%	16.06%	8.55%	4.36%	17.90%	34.83%
Current Ratio	0.94	0.91	1.24	0.70	1.01	0.67
Debt/Capital	48.75%	28.17%	42.36%	6.23%	57.77%	4.99%
Net Margin	20.79%	23.35%	11.64%	29.31%	22.38%	32.20%
Return on Equity	9.17%	10.88%	16.74%	17.60%	11.08%	19.33%
Sales/Assets	0.05	0.05	0.54	0.04	0.04	0.05
Proj. Sales Growth (F1/F0)	-3.20%	0.00%	0.45%	-1.66%	6.80%	-9.58%
Momentum Score	B	-	-	C	F	F
Daily Price Chg	4.88%	6.55%	2.48%	6.25%	6.53%	10.15%
1 Week Price Chg	-9.54%	-4.84%	-4.40%	2.13%	-0.68%	-12.55%
4 Week Price Chg	12.49%	6.89%	11.26%	8.18%	13.81%	35.58%
12 Week Price Chg	-31.58%	-30.75%	-20.02%	-33.28%	-16.44%	-26.40%
52 Week Price Chg	-35.70%	-23.70%	-11.31%	-22.16%	-2.98%	-22.12%
20 Day Average Volume	1,836,186	77,531	3,931,994	402,442	2,053,764	828,296
(F1) EPS Est 1 week change	-13.10%	0.00%	-0.12%	0.00%	-4.32%	-6.05%
(F1) EPS Est 4 week change	-27.34%	-11.69%	-5.78%	-14.85%	-10.40%	-21.63%
(F1) EPS Est 12 week change	-26.89%	-14.07%	-7.64%	-16.84%	-10.85%	-24.64%
(Q1) EPS Est Mthly Chg	-12.78%	-11.62%	-10.13%	-4.63%	-10.89%	-19.64%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	B
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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