

Associated Banc-Corp (ASB)

\$12.23 (As of 05/14/20)

Price Target (6-12 Months): **\$10.00**

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. Lower interest rates will likely continue to put pressure on the company's net interest margin (NIM), in turn hurting revenue growth to some extent. Mounting expenses (resulting from an increase in technology costs and inorganic growth initiatives) are also likely to hamper the bottom line. Its earnings surpassed the Zacks Consensus Estimate in each of the trailing four quarters. The bank's first-quarter 2020 results benefited from a stable expense level. Although persistent increase in the demand for loans, efforts to focus on fee income and inorganic growth strategy (including the acquisition of First Staunton Bancshares) are expected to aid Associated Banc-Corp, loan exposure to sectors hit hardest by coronavirus-led slowdown is a major concern.

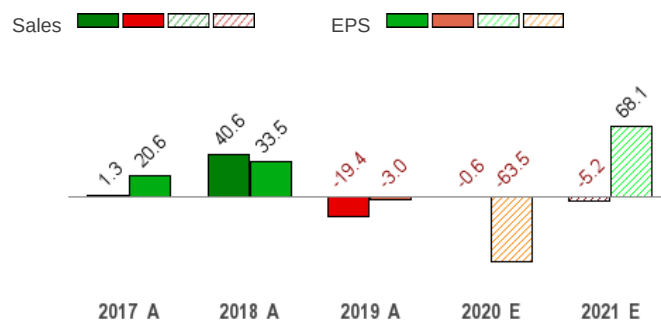
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$22.60 - \$10.23
20 Day Average Volume (sh)	1,400,050
Market Cap	\$1.9 B
YTD Price Change	-44.5%
Beta	1.27
Dividend / Div Yld	\$0.72 / 5.9%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 8% (234 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.8%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	13.2%
Expected Report Date	07/23/2020
Earnings ESP	-0.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	274 E	279 E	282 E	281 E	1,147 E
2020	305 A	306 E	299 E	284 E	1,210 E
2019	307 A	309 A	307 A	293 A	1,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.39 E	\$0.42 E	\$0.41 E	\$0.39 E	\$1.21 E
2020	\$0.28 A	\$0.12 E	\$0.12 E	\$0.08 E	\$0.72 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	7.0
P/E F1	17.0
PEG F1	2.4
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/14/2020. The reports text is as of 05/15/2020.

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.

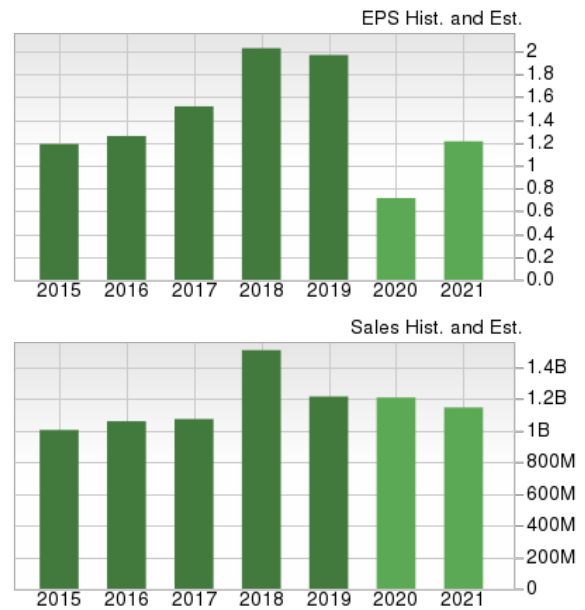
The company provides a full range of financial products and services through more than 240 banking offices in Wisconsin, Illinois and Minnesota as well as commercial financial services in Indiana, Michigan, Missouri, Ohio and Texas.

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, the bank acquired 32 Wisconsin branch locations from Huntington Bancshares. In February 2020, it acquired First Staunton Bancshares.

As of Mar 31, 2020, Associated Banc-Corp had total assets of \$33.9 billion, net loans of \$24 billion, total deposits of \$25.7 billion and stockholders' equity of \$3.8 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%. The trend continued in first-quarter 2020. Moreover, despite persistent growth in loans, the company's NIM is expected to be hurt in the near term due to lower yield on loans and the Federal Reserve's accommodative monetary policy.
- ▼ As of Mar 31, 2020, Associated Banc-Corp had total debt of \$3.93 billion, while cash and due from banks was \$480.3 million. Its times-interest-earnings ratio of 4.7 at first quarter-end declined sequentially. Further, the company's bank senior notes worth \$300 million are due in 2021. Thus, in case the economic situation further worsens, there might be a default in repayments of near-term debts and interest payable.
- ▼ 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. Though operating expenses remained stable in first-quarter 2020, the same is expected to remain elevated in the near term, given the company's inorganic growth efforts and continued investment in franchise.
- ▼ Major part of Associated Banc-Corp's loan portfolio — 61.7% as of Mar 31, 2020 — comprised total commercial loans (commercial and business lending, and commercial real estate lending). Higher concentration on commercial loans may pose regulatory and market challenges for the company. Also, the company's exposures to some of the sectors — retailers, energy, restaurants and transportations — hit hardest by coronavirus-induced economic slowdown was 9% of total loans at first quarter-end.
- ▼ Associated Banc-Corp's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 8.13% compares unfavorably with 10.14% 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 estimates for the current year have been revised 14.3% downward over the past 30 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. While net interest income declined in 2019 and first-quarter 2020 on a year-over-year basis, the same has witnessed a CAGR of 4.2% over the last six years (2014-2019). Moreover, continuous change in deposit mix due to rising non-interest-bearing deposit accounts (non-interest-bearing demand deposits as a percentage of total deposits were 23.8% as of Mar 31, 2020) is impressive.
 - Associated Banc-Corp is growing inorganically as well. In February, the company acquired First Staunton Bancshares and 32 branches in Winconsin in June 2019. 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. Notably, the company inked a deal to divest a multi-line insurance agency — Associated Benefits & Risk Consulting — for \$266 million in cash. This will likely strengthen the bank's balance sheet 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 Mar 31, 2020, \$113 million worth of shares were remaining under the repurchase program. In mid-March, the bank suspended share buybacks to enhance liquidity levels amid coronavirus concerns. Given earnings strength, the company's capital deployment activities look sustainable.
 - Associated Banc-Corp seems undervalued than 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 Q1 Earnings Beat, Provisions Rise

Associated Banc-Corp's first-quarter 2020 adjusted earnings of 28 cents per share comfortably outpaced the Zacks Consensus Estimate of a breakeven. However, the figure declined 46% from the prior-year reported number. Earnings in the reported quarter excluded certain acquisition-related costs.

Rise in non-interest income, improvement in loan and deposit balances, as well as relatively stable operating expenses supported the results. However, lower interest rates and a significant rise in provisions were the undermining factors.

Net income available to common shareholders (on a GAAP basis) was \$42 million, down 49% year over year.

Revenues Down, Expenses Stable

Net revenues were \$301.2 million, down 2% year over year. However, the figure beat the Zacks Consensus Estimate of \$293.7 million.

Net interest income was \$202.9 million, reflecting fall of 6% from the year-ago quarter. Net interest margin was 2.84%, down 6 basis points (bps).

Non-interest income totaled \$98.3 million, up 8% year over year. Significant increase in mortgage banking income and net capital markets fees primarily drove the same.

Non-interest expenses remained relatively stable year over year at \$192.2 million.

Efficiency ratio (on a fully tax-equivalent basis) was 68.47%, up from 61.83% in the prior-year quarter. Rise in efficiency ratio indicates deterioration in profitability.

As of Mar 31, 2020, net loans were \$24 billion, up 6% on a sequential basis. Total deposits increased 8% from the prior quarter to \$25.7 billion.

Credit Quality: Mixed Bag

The company reported provision for credit losses of \$53 million, up substantially from \$6 million in the prior-year quarter. The rise was mainly due to a reserve build, done to combat coronavirus-related woes. Also, the ratio of net charge-offs to annualized average loans was 0.29% in the first quarter, up 16 bps. However, as of Mar 31, 2020, total non-performing assets were \$165.3 million, down 2% year over year. Further, total non-accrual loans were \$136.7 million, down 12%.

Capital & Profitability Ratios Deteriorate

As of Mar 31, 2020, Tier 1 risk-based capital ratio was 10.35%, down from 11.36% in the corresponding period of 2019. In addition, common equity Tier 1 capital ratio was 9.36% compared with 10.30% at the end of the prior-year quarter.

Annualized return on average assets was 0.57%, down from 1.05% in the comparable prior-year period. Moreover, return on average tangible common equity was 7.31% compared with 14.52% in the corresponding year-ago period.

Share Repurchase Update

During the first quarter, Associated Banc-Corp repurchased nearly 4 million shares for \$71 million. In mid-March, it suspended the share buyback plan "until economic conditions improve and stabilize" to enhance liquidity levels amid coronavirus concerns.

2020 Outlook

Management is withdrawing the prior 2020 outlook "due to extraordinary economic uncertainty" and plans to update the same as "conditions become more clear."

The company expects to maintain loan-to-deposit ratio of less than 100%, excluding the paycheck protection program (PPP). Further, it expects the ratio of investments to total assets (excluding PPP) to be 15%.

Among fee income components, mortgage banking fees are expected to remain solid driven by elevated refinancing activities. Service charges and other fee-based revenues are anticipated to be low due to the company's "COVID-19 Relief Program". Muted market conditions for assets under management will likely result in lower wealth management fees.

Operating expenses for the remaining quarters of 2020 are projected to be relatively stable with the first-quarter level.

Effective tax rate will likely be in the range of 18-20%.

Quarter Ending 03/2020

Report Date	Apr 23, 2020
Sales Surprise	3.95%
EPS Surprise	9.76%
Quarterly EPS	0.28
Annual EPS (TTM)	1.74

Recent News

Associated Banc-Corp Agrees to Sell Insurance Business – May 4, 2020

Associated Banc-Corp has agreed to sell Associated Benefits & Risk Consulting to USI Insurance Services LLC for \$265.8 million in cash. Closing of the deal, expected in late second-quarter or early third-quarter 2020, is subject to antitrust clearance under HSR and customary closing conditions.

Per the agreement, the purchase price is subject to adjustment for, among other things, transaction expenses and working capital changes.

Being a multi-line insurance agency with 400 employees, Associated Benefits & Risk Consulting provides employee benefits, retirement plans, compliance, business insurance, risk management and individual insurance solutions.

Headquartered in Valhalla, NY, USI Insurance Services is one of the largest insurance brokerage and consulting firms in the world. It delivers property and casualty, employee benefits, personal risk, program and retirement solutions to large risk management clients, middle market companies, smaller firms and individuals.

Associated Banc-Corp's president and CEO, Philip B. Flynn, stated, "This transaction allows us to monetize our investment in ABRC and further our strategic goals of enhancing shareholder value and being a source of strength for our customers, colleagues and communities."

The deal is expected to strengthen the company's capital base through increase in tangible common equity by approximately \$210 million. It will lower \$99 million of goodwill and other intangible assets. Also, Associated Banc-Corp's pro-forma efficiency ratio is projected to decline nearly 1%.

He added, "The meaningful valuation difference between regional banks and insurance brokers is not reflected in Associated's share price, and that difference will also make it difficult for ABRC to grow through acquisitions. In addition, the capital provided from this transaction will support loan growth, create an added buffer during these trying economic times, and support our dividend policy."

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 realizing 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 Apr 28, Associated Banc-Corp announced a quarterly cash dividend of 18 cents per share. The dividend will be paid on Jun 15 to shareholders of record as of Jun 1.

Valuation

Associated Banc-Corp's shares are down 44.5% in the year-to-date period and 45.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 41.5% and 29.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 35.2% and 22.4%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 0.3% in the past year.

The stock is currently trading at 13.29X forward 12 months earnings, which compares to 12.26X for the Zacks sub-industry, 14.40X for the Zacks sector and 20.42X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 6.28X, with a 5-year median of 13.95X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$10 price target reflects 10.87X forward earnings.

The table below shows summary valuation data for ASB

Valuation Multiples - ASB			
Stock	Sub-Industry	Sector	S&P 500
13.29	12.26	14.40	20.42

P/E F12M	Current	13.29	12.26	14.4	20.42
	5-Year High	20.53	16.92	16.18	20.79
	5-Year Low	6.28	9.51	11.58	15.19
	5-Year Median	13.95	13.58	13.94	17.45
P/TB TTM	Current	0.87	1.74	2.34	11.24
	5-Year High	2.14	3.94	4	12.78
	5-Year Low	0.74	1.66	1.99	6.02
	5-Year Median	1.67	2.95	3.47	9.24
P/S F12M	Current	1.62	3.09	1.98	3.7
	5-Year High	3.83	6.05	2.9	4.55
	5-Year Low	1.42	3.09	1.71	2.84
	5-Year Median	2.83	4.81	2.53	3.65

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (234 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bank of Hawaii Corporation (BOH)	Neutral	3
First Republic Bank (FRC)	Neutral	3
New York Community Bancorp, Inc. (NYCB)	Neutral	3
Prosperity Bancshares, Inc. (PB)	Neutral	3
Signature Bank (SBNY)	Neutral	3
SVB Financial Group (SIVB)	Neutral	3
Comerica Incorporated (CMA)	Underperform	5
Zions Bancorporation, N.A. (ZION)	Underperform	5

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	ASB	X Industry	S&P 500	BOH	FRC	SIVB
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	D	F	B
Market Cap	1.91 B	257.63 M	18.95 B	2.30 B	16.48 B	8.93 B
# of Analysts	8	4	14	3	9	11
Dividend Yield	5.89%	3.48%	2.2%	4.66%	0.83%	0.00%
Value Score	F	-	-	C	F	B
Cash/Price	0.31	0.31	0.06	0.22	0.22	1.00
EV/EBITDA	8.33	5.80	11.58	5.04	19.99	0.03
PEG Ratio	2.38	3.82	2.60	1.81	2.65	1.78
Price/Book (P/B)	0.54	0.74	2.59	1.73	1.79	1.31
Price/Cash Flow (P/CF)	4.38	6.00	10.20	8.36	15.17	7.79
P/E (F1)	16.69	11.10	19.00	14.49	19.68	14.23
Price/Sales (P/S)	1.26	1.66	1.93	2.98	3.84	2.50
Earnings Yield	5.89%	9.01%	5.05%	6.91%	5.08%	7.03%
Debt/Equity	1.07	0.39	0.75	0.05	1.96	0.05
Cash Flow (\$/share)	2.79	2.79	7.01	6.88	6.34	22.23
Growth Score	F	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	14.51%	13.80%	10.82%	9.39%	12.89%	37.90%
Proj. EPS Growth (F1/F0)	-63.64%	-31.59%	-10.48%	-28.66%	-6.03%	-43.94%
Curr. Cash Flow Growth	-1.86%	14.44%	5.68%	3.89%	10.31%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	9.43%	15.97%	8.52%	4.36%	17.90%	34.83%
Current Ratio	0.96	0.91	1.27	0.70	1.06	0.72
Debt/Capital	49.82%	28.17%	44.25%	4.36%	63.50%	4.62%
Net Margin	18.59%	21.25%	10.54%	26.13%	21.46%	27.57%
Return on Equity	8.13%	10.14%	16.29%	15.55%	10.64%	15.82%
Sales/Assets	0.05	0.05	0.54	0.04	0.04	0.05
Proj. Sales Growth (F1/F0)	-0.51%	0.00%	-2.55%	2.03%	10.11%	-5.78%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	4.00%	0.00%	1.17%	3.23%	0.49%	8.37%
1 Week Price Chg	3.05%	-0.77%	3.23%	-1.91%	3.30%	0.54%
4 Week Price Chg	6.44%	-0.68%	1.06%	6.46%	1.04%	7.39%
12 Week Price Chg	-40.11%	-39.64%	-22.80%	-36.77%	-18.28%	-36.01%
52 Week Price Chg	-45.06%	-31.86%	-12.40%	-28.56%	-4.49%	-25.41%
20 Day Average Volume	1,400,050	52,510	2,553,422	283,932	956,473	482,110
(F1) EPS Est 1 week change	-3.21%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	13.24%	-9.58%	-5.57%	17.94%	12.80%	-6.08%
(F1) EPS Est 12 week change	-60.71%	-31.86%	-16.22%	-27.72%	-8.98%	-37.81%
(Q1) EPS Est Mthly Chg	58.30%	-17.27%	-11.63%	421.05%	17.07%	-8.28%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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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