

Associated Banc-Corp (ASB)

\$20.83 (As of 01/21/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 12/25/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Associated Banc-Corp's shares have underperformed the industry over the past year. Its earnings outpaced the Zacks Consensus Estimate in three and matched in one of the trailing four quarters. Earnings estimates have remained unchanged ahead of its fourth quarter 2019 results. While continued rise in demand for loans, inorganic growth strategy, a solid liquidity position and improving credit quality are expected to support the company's profitability, lower interest rates will likely put pressure on net interest margin. This will, thus, likely hamper revenue growth in the upcoming quarters. Also, mounting expenses (largely resulting from increase in technology costs and inorganic growth initiatives) are expected to hamper bottom line to some extent. Further, the company's increased dependence on commercial loans remains a concern.

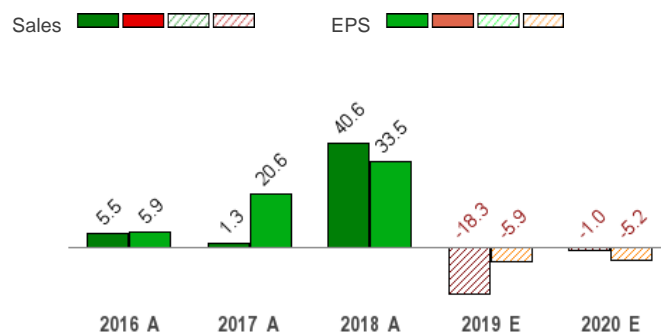
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.84 - \$18.52
20 Day Average Volume (sh)	816,550
Market Cap	\$3.3 B
YTD Price Change	-5.5%
Beta	1.21
Dividend / Div Yld	\$0.72 / 3.5%
Industry	Banks - Midwest
Zacks Industry Rank	Top 44% (113 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.7%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/23/2020
Earnings ESP	0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	300 E	307 E	309 E	310 E	1,221 E
2019	307 A	309 A	307 A	297 E	1,233 E
2018	300 A	319 A	308 A	308 A	1,510 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.41 E	\$0.45 E	\$0.47 E	\$0.47 E	\$1.81 E
2019	\$0.50 A	\$0.51 A	\$0.50 A	\$0.41 E	\$1.91 E
2018	\$0.50 A	\$0.50 A	\$0.49 A	\$0.50 A	\$2.03 A

*Quarterly figures may not add up to annual.

P/E TTM	10.4
P/E F1	11.5
PEG F1	1.6
P/S TTM	2.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

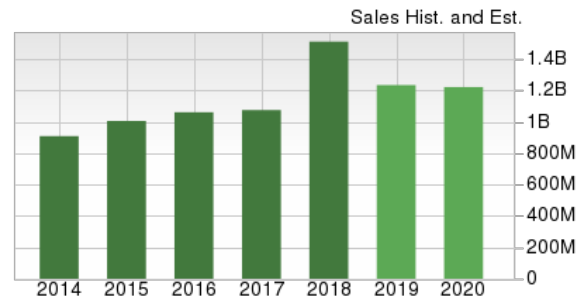
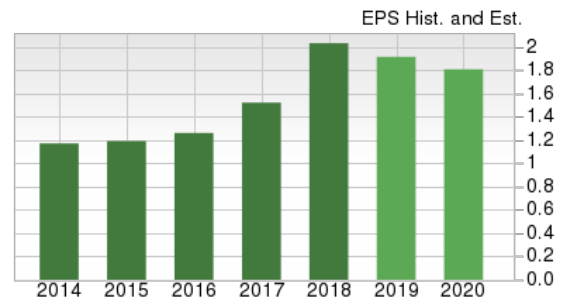
Overview

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** (36.7% of net revenues in 2018) offers lending solutions, deposit and cash management solutions and specialized financial services.
- **Community, Consumer, and Business** (60%) 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** (3.3%) 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.

As of Sep 30, 2019, Associated Banc-Corp had total assets of \$32.6 billion, net loans of \$22.5 billion, total deposits of \$24.4 billion and stockholders' equity of \$3.9 billion.



Reasons To Sell:

- ▼ While Associated Banc-Corp's net interest margin (NIM) increased from 2.80% in 2016 to 2.82% in 2017 and 2.97% in 2018, the same declined during the first nine months of 2019. Moreover, despite continued growth in loans, the company's NIM is expected to be hurt to some extent in the near term due to the decline in yield on loans and the Federal Reserve's accommodative monetary policy.
- ▼ Increasing non-interest expenses remain a cause of concern for Associated Banc-Corp. The company has been witnessing a persistent rise in operating expenses at a five-year (2014-2018) CAGR of 4.9%, mainly due to higher personnel costs and technology expenses. While expenses declined in the first nine months of 2019, 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 — 59.6% as of Sep 30, 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.
- ▼ Shares of Associated Banc-Corp have underperformed the industry over the past six months. Also, the company's earnings estimate for 2019 has been revised marginally lower over the past 60 days. Given the concerns and downward estimate revisions, the stock has limited upside potential.

Lower interest rates will put pressure on Associated Banc-Corp's net interest margin. Higher costs (due to investments in franchise and integration costs) will hurt profitability 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) over the past several years. While NII declined in the first nine months of 2019, the same witnessed a CAGR of 6.4% over the last five years (2014-2018). 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 nearly 22.5% as of Sep 30, 2019) has been impressive.
 - Associated Banc-Corp is growing inorganically as well. In July 2019, the company signed a deal to acquire First Staunton Bancshares. Earlier in June 2019, the company acquired 32 branches in Wisconsin, while in the first half of 2018 it 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 and favorable banking consolidation environment.
 - 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. Given a strong balance sheet position and earnings strength, the company's capital deployment activities look sustainable.
 - Strong credit quality is another positive for Associated Banc-Corp. Though the same displayed weakness in 2016 largely due to continued slump in energy sector loans, the trend reversed in 2017 and 2018. Besides, non-performing assets and non-accrual loans have been steadily declining over the past several quarters, with the trend continuing in the first nine months of 2019. Asset quality is expected to continue improving in the quarters ahead, driven by improving economy.
 - Further, Associated Banc-Corp seems undervalued compared with the broader industry. Its current price/book and price/earnings (F1) ratios are below the respective industry averages. Also, the stock has a Value Score of A.
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Last Earnings Report

Associated Banc-Corp Q3 Earnings Beat Estimates, Expenses Down

Associated Banc-Corp's third-quarter 2019 adjusted earnings of 50 cents per share outpaced the Zacks Consensus Estimate of 46 cents. The figure compared favorably with 48 cents reported in the prior-year quarter. Earnings (in the reported quarter) excluded certain acquisition-related costs.

Results benefited primarily from lower expenses and rise in non-interest income. However, decline in net interest income, fall in loan and deposit balances, lower rates, and considerable rise in credit costs were the undermining factors.

Net income available to common shareholders (GAAP basis) was \$79.5 million, down 5% year over year.

Revenues & Expenses Down

Net revenues were \$307.2 million, down marginally year over year. Also, the figure lagged the Zacks Consensus Estimate of \$311.1 million.

Net interest income was \$206.4 million, a fall of 6% from the year-ago quarter. Net interest margin was 2.81%, down 11 basis points (bps).

Non-interest income totaled \$100.9 million, up 14% year over year. A significant increase in mortgage banking income primarily drove the rise.

Non-interest expenses were \$200.9 million, down 2% from the year-ago quarter. The decline was largely attributable to fall in loan and foreclosure costs, and FDIC assessment charges. Also, acquisition-related costs decreased 28%.

Efficiency ratio (fully tax-equivalent basis) was 64.78% compared with 64.66% in the prior-year quarter. Rise in efficiency ratio indicates deterioration in profitability.

As of Sep 30, 2019, net loans were \$22.5 billion, down 2% on a sequential basis. Total deposits decreased 3% from the prior quarter to \$24.4 billion.

Credit Quality: Mixed Bag

As of Sep 30, 2019, total non-performing assets were \$154.6 million, down 17% year over year. Further, total non-accrual loans were \$129 million, down 16%.

However, the company reported provision for credit losses of \$2 million compared with provision benefits of \$5 million in the prior-year quarter. Also, the ratio of net charge-offs to annualized average loans was 0.24% in the third quarter, up 6 bps.

Capital & Profitability Ratios Deteriorate

As of Sep 30, 2019, Tier 1 risk-based capital ratio was 11.27%, up from 11.45% as of Sep 30, 2018. In addition, common equity Tier 1 capital ratio was 10.21% compared with 10.38% at the end of the prior-year quarter.

Annualized return on average assets was 1.00%, down from 1.02%. Moreover, return on average tangible common equity was 13.27% compared with 14.14% a year ago.

Share Repurchases

During the reported quarter, Associated Banc-Corp repurchased nearly 3 million shares for \$60 million.

Outlook

Associated Banc-Corp expects average loan growth of less than 3% in 2019. This is below the previous guidance range of 3-6%.

The company expects to maintain loan to deposit ratio under 100% in 2019, with some seasonality.

Further, the company expects NIM to be nearly 2.84% in 2019 on the assumption of one more rate cut this year.

Management expects restructuring charges to be \$3 million in the fourth quarter 2019. Also, the company anticipates the same to result in flat to modestly lower non-interest expenses in 2020, including the pending First Staunton deal costs.

The company projects non-interest expenses to be nearly \$790-\$795 million in 2019.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.26%
EPS Surprise	8.70%
Quarterly EPS	0.50
Annual EPS (TTM)	2.01

Recent News

Associated Banc-Corp Lowers Prime Lending Rate – Oct 30, 2019

Pursuant to the U.S. Federal Reserve interest rates cut by 25 bps, Associated Banc-Corp decreased its prime lending rate to 4.75% from 5.00%.

Update on Associated Banc-Corp's Deal to Acquire First Staunton Bancshares - Oct 14, 2019

Associated Banc-Corp received regulatory approval from the Office of the Comptroller of the Currency to acquire Staunton, IL-based First Staunton Bancshares, Inc. The all-cash deal was announced in July 2019 and valued at \$76.3 million. It is expected to close in first-quarter 2020.

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

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

Associated Banc-Corp Lowers Prime Lending Rate – Sep 18, 2019

Pursuant to the U.S. Federal Reserve interest rates cut by 25 bps, Associated Banc-Corp decreased its prime lending rate to 5.00% from 5.25%.

Associated Banc-Corp Lowers Prime Lending Rate – Jul 31, 2019

Pursuant to the U.S. Federal Reserve interest rates cut by 25 bps, Associated Banc-Corp decreased its prime lending rate to 5.25% from 5.50%.

Dividend Update

On Oct 29, 2019, Associated Banc-Corp announced a quarterly cash dividend of 18 cents per share, a hike of 5.9% from the prior payout. The dividend was paid on Dec 16 to shareholders of record as of Dec 2.

Valuation

Associated Banc-Corp's shares are down 2.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.4% and 13% over the past year, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 11.50X forward 12 months earnings, which compares to 12.65X for the Zacks sub-industry, 14.71X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 9.15X, with a 5-year median of 14.23X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$17 price target reflects 9.39X 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	11.5	12.65	14.71	19.18
	5-Year High	20.53	16.92	16.21	19.34
	5-Year Low	9.15	10.38	12.01	15.17
	5-Year Median	14.23	13.62	13.98	17.44
P/B TTM	Current	0.91	2.2	2.86	4.55
	5-Year High	1.39	2.81	2.89	4.55
	5-Year Low	0.82	1.74	1.83	2.85
	5-Year Median	1.05	2.21	2.51	3.61
P/S F12M	Current	2.72	5.05	6.53	3.57
	5-Year High	3.83	6.05	6.61	3.57
	5-Year Low	2.17	3.31	5.2	2.54
	5-Year Median	2.84	4.86	6.04	3

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 44% (113 out of 255)



Top Peers

Bank of Hawaii Corporation (BOH)	Neutral
Comerica Incorporated (CMA)	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
Zions Bancorporation, N.A. (ZION)	Neutral

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	ASB Underperform	X Industry	S&P 500	BOH Neutral	FRC Neutral	SIVB Neutral
VGM Score	A	-	-	F	C	C
Market Cap	3.32 B	470.94 M	24.43 B	3.74 B	19.73 B	13.11 B
# of Analysts	6	2	13	1	10	10
Dividend Yield	3.46%	2.31%	1.75%	2.88%	0.65%	0.00%
Value Score	A	-	-	C	C	B
Cash/Price	0.23	0.20	0.04	0.10	0.09	0.52
EV/EBITDA	10.66	9.75	14.00	10.25	23.21	5.12
PEG Ratio	1.64	1.93	2.06	2.13	2.93	1.63
Price/Book (P/B)	0.91	1.27	3.39	2.90	2.27	2.17
Price/Cash Flow (P/CF)	7.61	11.58	13.69	14.56	19.95	14.87
P/E (F1)	11.51	12.15	19.00	17.05	21.79	13.06
Price/Sales (P/S)	2.10	2.94	2.68	4.90	4.75	3.90
Earnings Yield	8.69%	8.23%	5.26%	5.86%	4.59%	7.66%
Debt/Equity	1.00	0.41	0.72	0.09	1.55	0.12
Cash Flow (\$/share)	2.74	2.56	6.94	6.38	5.87	17.09
Growth Score	C	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	14.82%	13.99%	10.60%	9.38%	13.27%	36.95%
Proj. EPS Growth (F1/F0)	-5.62%	0.26%	7.57%	-0.18%	3.35%	-8.32%
Curr. Cash Flow Growth	25.80%	27.46%	14.00%	11.32%	13.96%	91.61%
Hist. Cash Flow Growth (3-5 yrs)	8.41%	12.16%	9.00%	4.11%	22.33%	34.23%
Current Ratio	0.94	0.92	1.23	0.70	1.01	0.66
Debt/Capital	48.38%	29.10%	42.99%	7.89%	57.77%	10.34%
Net Margin	21.73%	23.06%	11.15%	29.05%	22.38%	33.95%
Return on Equity	9.71%	10.82%	17.16%	17.33%	11.08%	20.38%
Sales/Assets	0.05	0.05	0.55	0.04	0.04	0.05
Proj. Sales Growth (F1/F0)	-1.02%	2.14%	4.05%	-0.53%	10.56%	0.92%
Momentum Score	A	-	-	F	A	D
Daily Price Chg	-1.37%	-0.92%	-0.27%	-1.27%	-0.90%	-1.63%
1 Week Price Chg	1.00%	0.51%	2.29%	0.93%	3.39%	2.65%
4 Week Price Chg	-5.92%	-2.53%	2.13%	-2.38%	-0.11%	0.85%
12 Week Price Chg	1.66%	2.39%	6.99%	5.59%	8.78%	10.93%
52 Week Price Chg	-2.89%	9.43%	21.25%	23.32%	22.36%	12.61%
20 Day Average Volume	816,550	26,011	1,415,064	135,197	1,074,922	323,497
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.15%	0.00%
(F1) EPS Est 4 week change	0.41%	0.00%	0.00%	-0.91%	1.38%	-0.15%
(F1) EPS Est 12 week change	-5.77%	-0.84%	-0.34%	-2.33%	0.83%	1.01%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.18%	-0.70%

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	A
Growth Score	C
Momentum Score	A
VGM Score	A

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.

Disclosures

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