

Associated Banc-Corp (ASB)

\$20.75 (As of 01/24/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

Summary

Associated Banc-Corp's shares have underperformed the industry over the past year. Its earnings surpassed the Zacks Consensus Estimate in three and met in one of the trailing four quarters. Its fourth-quarter 2019 results were driven by higher fee income, partly offset by rise in expenses. Continued rise in demand for loans, inorganic growth strategy and a solid liquidity position are expected to support the company's profitability. Improving credit quality is another positive for Associated Banc-Corp. However, lower interest rates will likely put pressure on 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 hurt the bottom line. Also, the company's increased dependence on commercial loans is a concern.

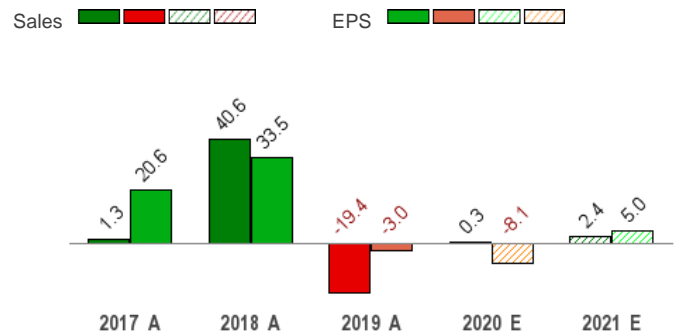
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.84 - \$18.52
20 Day Average Volume (sh)	999,387
Market Cap	\$3.3 B
YTD Price Change	-5.9%
Beta	1.21
Dividend / Div Yld	\$0.72 / 3.5%
Industry	Banks - Midwest
Zacks Industry Rank	Top 34% (86 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.8%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	NA
Earnings ESP	1.2%
P/E TTM	10.6
P/E F1	11.5
PEG F1	1.6
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	313 E	323 E	328 E	326 E	1,250 E
2020	300 E	307 E	309 E	310 E	1,221 E
2019	307 A	309 A	307 A	293 A	1,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.49 E	\$0.50 E	\$0.49 E	\$1.90 E
2020	\$0.42 E	\$0.45 E	\$0.47 E	\$0.46 E	\$1.81 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

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.

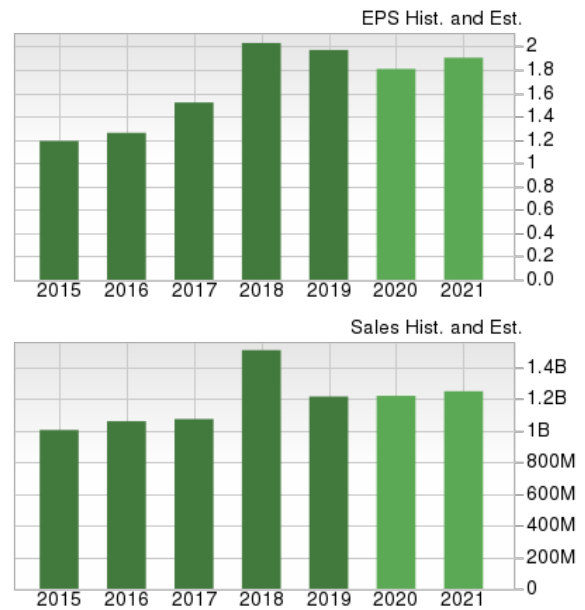
The company provides a full range of financial products and services through more than 240 banking offices in Wisconsin, Illinois and Minnesota as well as commercial financial services in Indiana, Michigan, Missouri, Ohio and Texas.

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

- **Corporate and Commercial Specialty** offers lending solutions, deposit and cash management solutions and specialized financial services.
- **Community, Consumer, and Business** 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** 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 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 Buy:

- ▲ 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. In July 2019, the company signed a deal to acquire First Staunton Bancshares, while 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. 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 credit quality displayed weakness in 2016 largely due to continued slump in energy sector loans, the trend reversed off late. Besides, non-performing assets and non-accrual loans have been declining over the past several quarters. 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.

Associated Banc-Corp's organic and inorganic growth efforts will likely enhance profitability. Additionally, solid loan and deposit growth, and strong asset quality will further support growth.

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 to some extent 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 9.20% compares unfavorably with ROE of 11.06% 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 unchanged over the past seven days. Given the concerns and no estimate revisions, the stock has limited upside potential.

Relatively lower interest rates will likely hurt Associated Banc-Corp's margins. Higher costs (due to investments in franchise and integration costs) will hamper the bottom line in the near term.

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.

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

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.

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 – 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.

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 7.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 2.9% and 10% over the past year, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 11.44X forward 12 months earnings, which compares to 12.24X for the Zacks sub-industry, 14.53X for the Zacks sector and 18.94X 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 Neutral recommendation indicates that the stock will perform in line with the market. Our \$22 price target reflects 12.15X 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	11.44	12.24	14.53	18.94
	5-Year High	20.53	16.92	16.21	19.34
	5-Year Low	9.15	10.38	12.01	15.18
	5-Year Median	14.23	13.62	13.98	17.45
P/TB TTM	Current	1.41	2.85	3.27	12.62
	5-Year High	2.14	3.94	3.98	12.75
	5-Year Low	1.31	2.08	2.44	6.03
	5-Year Median	1.67	2.95	3.46	9.09
P/S F12M	Current	2.7	4.85	6.53	3.52
	5-Year High	3.83	6.05	6.61	3.52
	5-Year Low	2.17	3.31	5.2	2.54
	5-Year Median	2.84	4.85	6.04	3

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 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 Neutral	X Industry	S&P 500	BOH Neutral	FRC Neutral	SIVB Neutral
VGM Score	B	-	-	F	B	C
Market Cap	3.31 B	468.76 M	24.13 B	3.70 B	19.16 B	13.03 B
# of Analysts	7	2	13	1	10	11
Dividend Yield	3.47%	2.34%	1.78%	2.92%	0.67%	0.00%
Value Score	A	-	-	C	C	B
Cash/Price	0.23	0.20	0.04	0.10	0.09	0.52
EV/EBITDA	10.64	9.65	14.02	10.13	22.81	5.06
PEG Ratio	1.61	1.86	2.03	2.11	2.85	1.62
Price/Book (P/B)	0.90	1.25	3.30	2.87	2.20	2.15
Price/Cash Flow (P/CF)	7.58	11.46	13.52	14.40	19.37	14.78
P/E (F1)	11.27	12.07	18.92	16.87	21.17	12.97
Price/Sales (P/S)	2.13	2.90	2.65	4.85	4.61	3.69
Earnings Yield	8.72%	8.30%	5.28%	5.93%	4.72%	7.71%
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	D	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	14.82%	13.99%	10.60%	9.38%	13.27%	36.95%
Proj. EPS Growth (F1/F0)	-8.27%	-0.30%	7.59%	-0.18%	3.35%	-10.33%
Curr. Cash Flow Growth	25.80%	25.80%	13.90%	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	1.22	0.70	1.01	0.66
Debt/Capital	48.38%	29.10%	42.99%	7.89%	57.77%	10.34%
Net Margin	20.79%	23.19%	11.35%	29.05%	22.38%	32.20%
Return on Equity	9.20%	11.06%	17.10%	17.33%	11.08%	19.78%
Sales/Assets	0.05	0.05	0.55	0.04	0.04	0.06
Proj. Sales Growth (F1/F0)	0.33%	1.45%	4.03%	-0.53%	10.56%	-1.46%
Momentum Score	A	-	-	D	A	C
Daily Price Chg	-2.21%	-0.40%	-1.01%	-1.07%	-1.86%	-2.48%
1 Week Price Chg	1.00%	0.51%	2.29%	0.93%	3.39%	2.65%
4 Week Price Chg	-6.32%	-2.91%	1.02%	-3.52%	-3.52%	-0.21%
12 Week Price Chg	3.18%	2.19%	6.85%	5.29%	6.95%	14.08%
52 Week Price Chg	-2.63%	7.63%	20.39%	21.47%	19.31%	10.64%
20 Day Average Volume	999,387	28,028	1,536,379	140,298	1,156,694	379,991
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	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	-4.84%	-0.82%	-0.23%	-2.33%	0.83%	-1.78%
(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	D
Momentum Score	A
VGM Score	B

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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