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Aug 11, 2020

BOK Financial Corp (BOKF)

$61.00 (As of 08/10/20)

Price Target (6-12 Months): **$64.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/25/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: C	

Summary

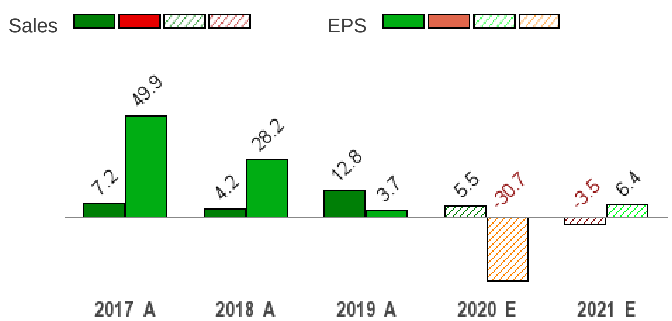
Shares of BOK Financial have outperformed the industry over the past three months. The second-quarter 2020 results reflected elevated expenses and provisions, partly offset by top-line strength. The company's diversified revenue mix and efforts to expand continuously through strategic acquisitions will drive growth in the coming period. Growth in loan balances is likely to aid its margin in the coming period amid declining interest rates. However, BOK Financial has a disappointing earnings surprise history, having missed the Zacks Consensus Estimate in three of the trailing four quarters, while beat in one. Also, consistently rising operational costs result in operational inefficiency and the capital-deployment activities seem unsustainable for the long run. Further, changing conditions of the global financial markets could affect businesses.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$88.28 - $34.57**
20 Day Average Volume (sh)	**218,450**
Market Cap	**$4.3 B**
YTD Price Change	**-30.2%**
Beta	**1.60**
Dividend / Div Yld	**$2.04 / 3.3%**
Industry	**Banks - Southwest**
Zacks Industry Rank	**Top 32% (81 out of 253)**
Last EPS Surprise	**-21.4%**
Last Sales Surprise	**13.7%**
EPS F1 Est- 4 week change	**2.0%**
Expected Report Date	**10/28/2020**
Earnings ESP	**0.0%**
P/E TTM	**11.4**
P/E F1	**12.6**
PEG F1	**2.1**
P/S TTM	**2.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	454 E	462 E	465 E	462 E	1,841 E
2020	442 A	511 A	480 E	473 E	1,907 E
2019	435 A	458 A	466 A	449 A	1,807 A

EPS Estimates

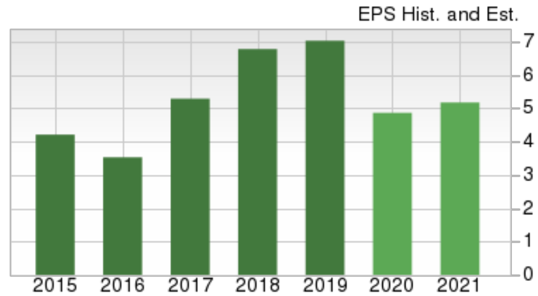
	Q1	Q2	Q3	Q4	Annual*
2021	$1.24 E	$1.23 E	$1.31 E	$1.35 E	$5.18 E
2020	$0.88 A	$0.92 A	$1.53 E	$1.58 E	$4.87 E
2019	$1.54 A	$1.93 A	$2.00 A	$1.56 A	$7.03 A

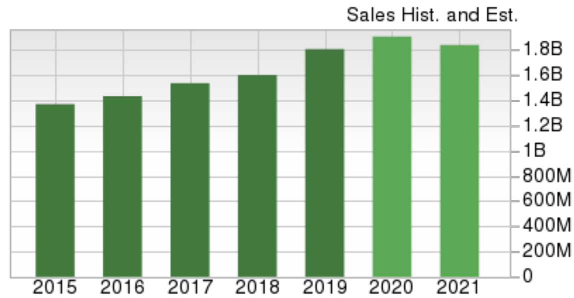
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

BOK Financial Corporation is a regional financial services company, headquartered in Tulsa, OK. Its principal subsidiary – BOKF, NA ("the Bank") – operates the TransFund, Cavanal Hill Investment Management, MBM Advisors and 7 banking divisions: Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, Bank of Kansas City, Bank of Oklahoma, Bank of Texas and Colorado State Bank and Trust. Other wholly owned subsidiary includes the broker/dealer subsidiary BOK Financial Securities, Inc. and investment adviser The Milestone Group, Inc. The company operates primarily in the metropolitan areas of Tulsa and Oklahoma City, Oklahoma; Dallas, Fort Worth and Houston, Texas; Albuquerque, New Mexico; and Denver, Colorado; Phoenix, Arizona, and Kansas City, Kansas/Missouri.





BOK Financial operates three principal lines of business:

- **Commercial banking** includes lending, treasury and cash management services, and customer risk management products for small businesses, middle-market and larger commercial customers. Commercial banking also includes the TransFund electronic funds network.

- **Consumer banking** includes retail lending as well as deposit services and all mortgage banking activities.

- **Wealth management** provides fiduciary services, brokerage and trading, private bank services and investment advisory services in all markets.

In addition, the company has a **fund management unit**. The primary purpose of this unit is to manage overall liquidity needs and interest rate risks. Each line of business borrows and provides funds to the fund management unit as needed to support their operations.

In October 2018, BOK Financial completed the merger with Denver-based CoBiz Financial Inc and strengthened its foothold in Colorado and Arizona. In November 2016, the company acquired MBT Bancshares (Mobank) in Kansas City in an all cash deal.

Reasons To Buy:

BOK Financial's expansion moves bolster its growth prospects. Also, the company continues to benefit from consistent growth in loans. Further, improving asset quality remains a tailwind.

- Over the past several years, BOK Financial has transformed from merely being a bank in Oklahoma to a chief financial service provider. The company has consistently continued its expansion into carefully selected markets in neighbouring states. Since 2016, it has completed a number of acquisitions expanding asset management business and its footprint. The company strengthened its foothold in Colorado and Arizona following the merger with Denver-based CoBiz Financial in 2018. We remain encouraged by such expansion moves that boost the company's growth prospects.

- With the gradual change in the rate environment, margin pressure for BOK Financial eased. In 2016, 2017, 2018, the company reported a rise in net interest margin (NIM) after facing a declining trend for years. Also, it has been benefiting from improved loan yields. Though 2019 and the first six months of 2020 reported margin declines, decent loan growth and low deposit costs might further support margin expansion.

- Amid a competitive banking environment, when most of the banks are facing challenges in achieving decent loan growth, BOK Financial has been able to post continuous loan growth on increase in commercial and consumer loans with a Compound Annual Growth Rate (CAGR) of 8.2% in the last five years (2015-2019). We believe, given the continuation of such trend, the company is poised for organic growth. Notably, the increasing trend continued in the first six months of 2020.

- We see the improved asset quality trends at BOK Financial as encouraging. Non-performing assets, charge offs and allowance for credit losses have been declining consistently over the past few years with some quarter volatility. As energy loans form a major part of the company's lending portfolio, though volatility in the oil prices resulted in elevated provision for credit losses in 2015 and 2016, the company did not book provisions in the prior few years. Notably, management noted that the energy credit environment stabilized, along with commodity prices and the energy portfolio contributed to grow in 2017, 2018 and 2019. We believe the company is poised to strengthen its balance sheet, if the economy recovers from the coronavirus crisis. Notably, management views great opportunity for the energy franchise over the next several years.

- Shares of BOK Financial have outperformed the industry over the past three months. Along with this favorable trend, the company's current-year earnings estimates have been revised 2.1% upward, over the last 30 days. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

Reasons To Sell:

> Consistently increasing expenses and unsustainable capital deployment activities remain near term headwinds. Also, lower transaction volumes due to uncertain global financial markets are a concern.

- BOK Financial is exposed to operational risks. Though operating expenses declined in the first six months of 2020, it escalated at a CAGR of 7.1% over the last five years (2015-2019), due to a rise in almost all the components. Any further escalation in costs cause operational inefficiency and might hinder bottom-line expansion in the near term. Notably, as part of expense control initiatives, the company hired a consultant to work on FDIC expense who identified $5.1 million in refunds of insurance assessments paid in 2013 through 2016. It is anticipated that such move will reduce ongoing FDIC expense by about $1 million per quarter, all other things being equal.

- Changing conditions of the global financial markets and general economic conditions could adversely affect BOK Financial's businesses. Notably, brokerage and trading revenues that constitute a major source of other operating revenues are exposed to risks as it depends on the volume of transactions. The volume of transactions increases with market volatility and decreases with market stability. Therefore, potential reduction in transaction volumes might negatively affect earnings in the coming quarters.

- BOF Financial has a share-repurchase plan in place but has suspended it through the second quarter of 2020. Also, the company has been announcing a dividend hike every year with the latest hike of 11.1% in July 2018, but its debt/equity ratio and dividend payout ratio seems unfavorable compared with the broader industry. Further, the company's performance in the past few quarters has been quite fluctuating. Hence, we believe these capital-deployment activities might not be sustainable.

Last Earnings Report

BOK Financial Lags Q2 Earnings Estimates on High Provisions

Quarter Ending	06/2020
Report Date	Jul 22, 2020
Sales Surprise	13.70%
EPS Surprise	-21.37%
Quarterly EPS	0.92
Annual EPS (TTM)	5.36

BOK Financial reported a negative earnings surprise of 21.4% for second-quarter 2020. Earnings per share of 92 cents lagged the Zacks Consensus Estimate of $1.17. Further, the bottom line compares unfavorably with the prior-year quarter's $1.93.

Expenses and provisions escalated in the reported quarter. Moreover, pressure on margin was visible. Yet, top-line strength on fee income growth, and rise in loans and deposits were driving factors.

Net income attributable to shareholders came in at $65 million compared with the $137.6 million recorded in the year-ago quarter.

Revenues Climb, Costs Up, Loans Increase

Revenues in the second quarter came in at $510.8 million, up 12.9% year over year. The revenue figure also handily outpaced the Zacks Consensus Estimate of $449.3 million.

Net interest revenues totaled $278.1 million, down 2.6% year over year. Further, net interest margin (NIM) shrunk 47 basis points year over year to 2.83%.

BOK Financial's fees and commissions revenues amounted to $213.7 million, up 21.4% on a year-over-year basis. Higher brokerage and trading revenues, transaction card revenues, along with elevated mortgage banking revenues, primarily led to this upswing. This was partly offset by lower deposit service charges and fees, fiduciary and asset management revenues, along with reduced other revenues.

Total other operating expenses were $295.4 million, up 6.6% year over year. This uptick mainly stemmed from higher personnel expenses and mortgage banking costs.

Efficiency ratio increased to 59.57% from the prior years' 59.51%. Generally, a higher ratio indicates decline in profitability.

Total loans as of Jun 30, 2020, were $24.2 billion, up 7.6% sequentially. As of the same date, total deposits amounted to $33.9 billion, up 16.1% sequentially.

Credit Quality: A Concern

During the June-end quarter, credit metrics deteriorated. Provisions for credit losses of $135.3 million came in significantly higher than the prior-year quarter. The combined allowance for credit losses was 1.80% of outstanding loans as of Jun 30, 2020, up from the year-ago period's 0.91%.

Additionally, non-performing assets totaled $405.3 million or 1.68% of outstanding loans and repossessed assets as of Jun 30, 2020, up from the $296.7 million or 1.33% recorded in the prior-year period. Net charge-offs were $14.1 million, up 83.1% year over year.

Capital Position

Armed with healthy capital ratios, BOK Financial and its subsidiary banks exceeded the regulatory well-capitalized level. As of Jun 30, 2020, the common equity Tier 1 capital ratio was 11.41% as compared with 10.84% as of Jun 30, 2019.

Tier 1 and total capital ratios on Jun 30, 2020, were 11.41% and 13.40%, respectively, compared with 10.84% and 12.34% as of Jun 30, 2019. Leverage ratio was 7.74% compared with 8.75% as of Jun 30, 2019.

Return on average equity was 5.14% compared with the year-earlier quarter's 12.02%. Return on average assets was 0.52% compared with the 1.35% witnessed in the year-ago quarter.

Outlook

Management expects loan growth to remain soft in the foreseeable future. Given the sustained low rate environment, prepayments could reach more than $700 million per quarter. It expects to reinvest those cash flows at current rates around 90-100 basis points.

Per management, the pressure of asset yields and little scope to lower deposit costs will put some pressure on net interest margin in the next quarter. Management expects fee revenues likely to continue to show strength, though seasonality in the mortgage industry might impact current levels of production.

Notably, mortgage origination and servicing business is likely to remain solid, but might slow some as refinance opportunities abate and seasonality trends slow as the year progresses. Further, brokerage and trading activity are expected to continue at elevated levels, given products and capabilities in the mortgage-backed trading space.

Operating expenses are likely to remain at relatively same levels of the past few quarters.

Reduction in significant loan loss reserve building based on assumed economic conditions.

Quarterly cash dividend is to be maintained.

Recent News

Dividend Update

On Aug 4, BOK Financial's board of directors announced a quarterly cash dividend of 51 cents per share. The dividend will be paid on Aug 26 to shareholders on record as of Aug 17.

Valuation

BOK Financial's shares are down 30.2% in the year-to-date period and 21.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23.5% and 15.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 13% and 6.1%, respectively.

The S&P 500 Index is up 3.9% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 12.07X forward 12 months earnings, which compares to 14.21X for the Zacks sub-industry, 16.77X for the Zacks sector and 22.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.01X and as low as 5.52X, with a 5-year median of 13.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $64 price target reflects 12.67X earnings per share.

The table below shows summary valuation data for BOKF

Valuation Multiples - BOKF

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.07	14.21	16.77	22.75
	5-Year High	22.01	17.87	16.77	22.75
	5-Year Low	5.52	10.53	11.59	15.25
	5-Year Median	13.7	14.14	14.26	17.58
P/TB TTM	Current	1.13	1.58	3.39	15.36
	5-Year High	2.47	2.92	4	15.36
	5-Year Low	0.71	1.06	2.01	5.96
	5-Year Median	1.78	2.16	3.48	9.56
P/S F12M	Current	2.3	3.49	6.22	3.66
	5-Year High	4.29	5.29	6.66	3.66
	5-Year Low	1.41	2.74	4.96	2.53
	5-Year Median	3.17	4.16	6.06	3.05

As of 08/10/2020

Industry Analysis **Zacks Industry Rank:** Top 32% (81 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Banc of California, Inc. **(BANC)**	Neutral	3
BancFirst Corporation **(BANF)**	Neutral	3
CullenFrost Bankers, Inc. **(CFR)**	Neutral	3
First Financial Bankshares, Inc. **(FFIN)**	Neutral	3
Prosperity Bancshares, Inc. **(PB)**	Neutral	3
Southside Bancshares, Inc. **(SBSI)**	Neutral	3
Texas Capital Bancshares, Inc. **(TCBI)**	Neutral	3
UMB Financial Corporation **(UMBF)**	Neutral	3

Industry Comparison Industry: Banks - Southwest

	BOKF	X Industry	S&P 500	CFR	PB	TCBI
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	C	F
Market Cap	4.29 B	187.73 M	23.56 B	4.69 B	5.41 B	1.87 B
# of Analysts	6	2	14	6	5	7
Dividend Yield	3.34%	1.38%	1.71%	3.80%	3.15%	0.00%
Value Score	D	-	-	C	B	F
Cash/Price	0.74	0.73	0.07	1.41	0.06	5.39
EV/EBITDA	4.88	4.03	13.39	-2.43	10.53	-8.85
PEG Ratio	2.16	7.11	2.92	1.70	1.09	20.29
Price/Book (P/B)	0.84	0.90	3.18	1.17	0.91	0.72
Price/Cash Flow (P/CF)	7.34	9.54	12.69	7.64	13.23	5.17
P/E (F1)	12.94	14.10	22.16	16.19	10.85	162.36
Price/Sales (P/S)	1.95	2.11	2.55	3.00	4.63	1.37
Earnings Yield	7.97%	7.08%	4.33%	6.18%	9.21%	0.62%
Debt/Equity	0.68	0.24	0.77	0.06	0.02	1.20
Cash Flow ($/share)	8.31	1.71	6.94	9.78	4.42	7.18
Growth Score	F	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	15.63%	12.93%	10.41%	8.31%	5.94%	17.59%
Proj. EPS Growth (F1/F0)	-30.80%	-18.03%	-6.51%	-32.50%	7.25%	-96.33%
Curr. Cash Flow Growth	7.34%	8.59%	5.26%	1.26%	12.62%	8.59%
Hist. Cash Flow Growth (3-5 yrs)	8.19%	14.05%	8.55%	10.10%	2.48%	19.05%
Current Ratio	0.78	1.00	1.34	0.71	0.79	1.19
Debt/Capital	40.33%	19.05%	44.59%	5.54%	2.06%	53.10%
Net Margin	17.26%	20.84%	10.13%	23.29%	36.72%	8.10%
Return on Equity	7.65%	7.90%	14.59%	7.27%	8.25%	6.68%
Sales/Assets	0.05	0.05	0.51	0.04	0.04	0.04
Proj. Sales Growth (F1/F0)	5.53%	0.00%	-1.54%	2.11%	38.68%	-4.52%
Momentum Score	C	-	-	A	F	C
Daily Price Chg	2.78%	0.00%	0.91%	-0.09%	1.13%	3.92%
1 Week Price Chg	6.55%	3.77%	2.30%	3.83%	4.00%	7.50%
4 Week Price Chg	15.25%	3.32%	8.54%	6.91%	6.59%	34.02%
12 Week Price Chg	29.07%	2.69%	13.68%	6.76%	-3.00%	32.87%
52 Week Price Chg	-21.47%	-28.64%	3.71%	-13.17%	-9.80%	-31.61%
20 Day Average Volume	218,450	16,198	2,015,804	417,459	490,838	492,838
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.03%	7.65%	1.67%	26.35%	-0.36%	23.46%
(F1) EPS Est 12 week change	4.18%	4.18%	2.27%	34.63%	0.63%	1.82%
(Q1) EPS Est Mthly Chg	6.85%	8.41%	0.67%	21.56%	-3.37%	39.65%

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	D
Growth Score	F
Momentum Score	C
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.

Disclosures

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