

BOK Financial Corp (BOKF)

\$79.75 (As of 02/12/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/04/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: B

Summary

Shares of BOK Financial have underperformed the industry over the past three months. However, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The fourth-quarter results reflected higher expenses and provisions, partly offset by top-line strength on fee income growth. We believe BOK Financial's diversified revenue mix will drive growth in the upcoming quarters. The company's efforts to expand continuously through strategic acquisitions are also anticipated to further boost the top line. Growth in loan balances is expected to aid margin in the coming quarters, amid declining interest rates. Yet, consistently escalating operational costs might lead to operational inefficiency and the capital-deployment activities seem unsustainable for the long run.

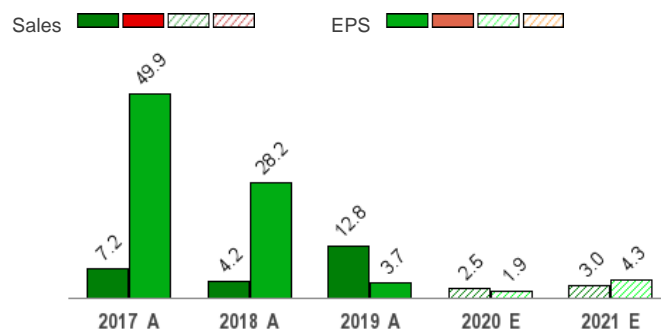
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|-----------------------------------|
| 52 Week High-Low | \$93.22 - \$72.29 |
| 20 Day Average Volume (sh) | 215,718 |
| Market Cap | \$5.7 B |
| YTD Price Change | -8.8% |
| Beta | 1.27 |
| Dividend / Div Yld | \$2.04 / 2.6% |
| Industry | Banks - Southwest |
| Zacks Industry Rank | Top 14% (35 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | -15.7% |
| Last Sales Surprise | -1.3% |
| EPS F1 Est- 4 week change | -0.8% |
| Expected Report Date | 04/22/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 11.3 |
| P/E F1 | 11.1 |
| PEG F1 | 1.9 |
| P/S TTM | 2.5 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 465 E | 477 E | 487 E | 488 E | 1,908 E |
| 2020 | 452 E | 459 E | 467 E | 470 E | 1,852 E |
| 2019 | 435 A | 458 A | 466 A | 449 A | 1,807 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.77 E | \$1.89 E | \$1.98 E | \$1.96 E | \$7.47 E |
| 2020 | \$1.68 E | \$1.77 E | \$1.84 E | \$1.85 E | \$7.16 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 02/12/2020. The reports text is as of 02/13/2020.

Overview

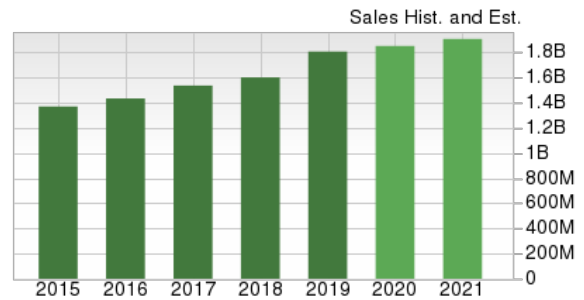
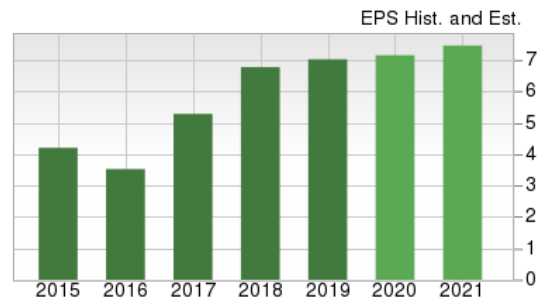
BOK Financial Corporation is a regional financial services company, headquartered in Tulsa, OK. Its principal subsidiary – BOKF, NA (“the Bank”) – operates the TransFund, Cavanal Hill Investment Management, MBM Advisors and 7 banking divisions: Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, 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:

- ▲ 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 neighboring 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 completed 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 reported margin declines, amid the Fed's accommodative monetary-policy stance, improvement in economy and decent loan growth 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.
- ▲ 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, on continued economic recovery.
- ▲ The stock seems undervalued when compared with the broader industry. The company's price-to-earnings (P/E) (F1) and price-to-book ratios are below the respective industry averages.

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.

Reasons To Sell:

- ▼ BOK Financial is exposed to operational risks. Operating expenses 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 will lead to 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.
- ▼ Though BOK Financial has been announcing a dividend hike every year with the latest hike of 11.1% in July 2018, 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.
- ▼ Shares of BOK Financial have underperformed the industry over the past three months. Along with this unfavorable trend, the company's current-year earnings estimates have been revised slightly downward, over the last 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

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.

Last Earnings Report

BOK Financial's Q4 Earnings Miss Estimates on High Costs

BOK Financial reported a negative earnings surprise of 15.7% in fourth-quarter 2019. Earnings per share of \$1.56 lagged the Zacks Consensus Estimate of \$1.85. Further, the bottom line compares unfavorably with the prior-year quarter's \$1.65.

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

Net income came in at \$110.4 million compared with the \$108.5 million recorded in the year-ago quarter.

For 2019, net income was \$500.8 million or \$7.03 per share compared with the \$445.6 million or \$6.63 reported in 2018.

Quarter Ending **12/2019**

| Report Date | Jan 22, 2020 |
|------------------|--------------|
| Sales Surprise | -1.30% |
| EPS Surprise | -15.68% |
| Quarterly EPS | 1.56 |
| Annual EPS (TTM) | 7.03 |

Revenues Climb, Costs Up, Loans Down

For 2019, revenues were \$1.8 billion, up 12.5% year over year. The revenue figure comes in line with the Zacks Consensus Estimate.

Revenues in the fourth quarter came in at \$449.6 million, up around 1% year over year. The revenue figure, however, missed the Zacks Consensus Estimate of \$454.8 million.

Net interest revenues totaled \$270.2 million, down 5.4% year over year. Further, net interest margin (NIM) shrunk 60 basis points year over year to 2.88%.

BOK Financial's fees and commissions revenues amounted to \$179.4 million, up 12.1% on a year-over-year basis. Higher fiduciary and asset management revenues, 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, along with reduced other revenues.

Total other operating expenses were \$288.8 million, up 1.5% year over year. This uptick mainly stemmed from higher personnel expenses and mortgage banking costs.

Efficiency ratio increased to 63.65% from the prior years' 63.25%. Generally, a higher ratio indicates decline in profitability.

Total loans as of Dec 31, 2019, were \$21.8 billion, down 2.2% sequentially. As of the same date, total deposits amounted to \$27.6 billion, up 5.7% sequentially.

Credit Quality: A Mixed Bag

During the December-end quarter, provisions for credit losses of \$19 million more than doubled from the prior-year quarter. The combined allowance for credit losses was 0.97% of outstanding loans as of Dec 31, 2018, up from 0.96% in the year-ago period.

Additionally, non-performing assets totaled \$293.8 million or 1.35% of outstanding loans and repossessed assets as of Dec 31, 2019, up from \$267.2 million or 1.23% in the prior-year period. Net charge-offs were \$12.5 million, up 1.6% year over year.

Capital Position

Armed with healthy capital ratios, BOK Financial and its subsidiary banks exceeded the regulatory well-capitalized level. As of Dec 31, 2019, the common equity Tier 1 capital ratio was 11.39% as compared with 10.92% as of Dec 31, 2018.

Tier 1 and total capital ratios on Dec 31, 2019, were 11.39% and 12.94%, respectively, compared with 10.92% and 12.50% as of Dec 31, 2018. Leverage ratio was 8.40% compared with 8.96% as of Dec 31, 2018.

Share Repurchase Update

During the October-December period, the company repurchased 280,000 million common shares at an average price of \$81.59 per share.

2020 Outlook

Management expects 3-4% average loan growth for the consolidated entity with lower growth in Energy. Average deposits are expected to cover loan growth for the year.

Net interest revenue is expected to remain relatively flat compared to 2019; given overall lower interest rates for the year.

Stable NIM from the current level or slight improvement if overall interest rate environment remains flat.

Revenues from fee-generating businesses are expected to grow mid-single digits, particularly continued growth in Brokerage & Trading and assets under management in Wealth.

Efficiency ratio is expected to be slightly above 60%, as fee revenues grow faster than net interest revenue.

Per management, day 2 CECL provision levels will provide for loan growth and will be influenced by changing economic outlooks. Management is not expecting any significant changes in the historical loss rates during 2020 that drive the company's models. Management expects the pretax transition adjustment to range between \$60 and \$65 million.

Tax rate are anticipated to be 21% of pre-tax income.

Management will continue to provide sufficient capital for loan and balance-sheet growth, a competitive dividend payment, and a modest level of opportunistic share repurchases. Capital ratios are expected to improve slightly over the course of 2020.

Recent News

Dividend Update

On Oct 29, BOK Financial's board of directors announced a quarterly cash dividend of 51 cents per share. The dividend was paid on Nov 27 to shareholders on record as of Nov 12.

Valuation

BOK Financial's shares are down 8.8% in the year-to-date period and 9.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.1% while in the Zacks Finance sector is up 1.3% in the year-to-date period. Over the past year, the Zacks sub-industry is down 0.6%, while the sector is up 10.3%.

The S&P 500 Index is up 4.9% in the year-to-date period and 21.9% in the past year.

The stock is currently trading at 11.08X forward 12 months earnings, which compares to 13.6X for the Zacks sub-industry, 15.01X for the Zacks sector and 19.41X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.01X and as low as 9.52X, with a 5-year median of 14.15X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 11.67X 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 | 11.08 | 13.6 | 15.01 | 19.41 |
| | 5-Year High | 22.01 | 17.85 | 16.21 | 19.41 |
| | 5-Year Low | 9.52 | 10.8 | 12.01 | 15.18 |
| | 5-Year Median | 14.15 | 14.04 | 14.15 | 17.47 |
| P/TB TTM | Current | 1.62 | 2.03 | 3.33 | 12.63 |
| | 5-Year High | 2.47 | 2.86 | 3.98 | 12.63 |
| | 5-Year Low | 1.15 | 1.5 | 2.44 | 6.03 |
| | 5-Year Median | 1.78 | 2.22 | 3.46 | 9.11 |
| P/S F12M | Current | 3.04 | 3.94 | 6.55 | 3.58 |
| | 5-Year High | 4.29 | 5.24 | 6.65 | 3.58 |
| | 5-Year Low | 2.1 | 2.95 | 5.39 | 2.54 |
| | 5-Year Median | 3.23 | 4.16 | 6.04 | 3 |

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 14% (35 out of 254)



Top Peers

| | |
|---|------------|
| Banc of California, Inc. (BANC) | Outperform |
| Opus Bank (OPB) | Outperform |
| Prosperity Bancshares, Inc. (PB) | Outperform |
| BancFirst Corporation (BANF) | Neutral |
| Cullen/Frost Bankers, Inc. (CFR) | Neutral |
| First Financial Bankshares, Inc. (FFIN) | Neutral |
| Southside Bancshares, Inc. (SBSI) | Neutral |
| Texas Capital Bancshares, Inc. (TCBI) | Neutral |

| Industry Comparison Industry: Banks - Southwest | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|---------------|--------------|
| | BOKF Neutral | X Industry | S&P 500 | CFR Neutral | PB Outperform | TCBI Neutral |
| VGM Score | F | - | - | F | C | F |
| Market Cap | 5.65 B | 285.12 M | 24.53 B | 5.85 B | 5.02 B | 2.84 B |
| # of Analysts | 6 | 2.5 | 13 | 8 | 9 | 8 |
| Dividend Yield | 2.56% | 1.22% | 1.75% | 3.04% | 2.51% | 0.00% |
| Value Score | D | - | - | C | C | C |
| Cash/Price | 0.51 | 0.43 | 0.04 | 0.66 | 0.12 | 1.83 |
| EV/EBITDA | 12.23 | 9.53 | 13.98 | 3.46 | 9.53 | 1.47 |
| PEG Ratio | 1.86 | 1.60 | 2.09 | 1.60 | 1.36 | 1.27 |
| Price/Book (P/B) | 1.17 | 1.24 | 3.29 | 1.55 | 0.84 | 1.09 |
| Price/Cash Flow (P/CF) | 9.52 | 13.24 | 13.69 | 9.54 | 12.88 | 8.51 |
| P/E (F1) | 11.17 | 13.45 | 19.19 | 15.17 | 13.57 | 10.15 |
| Price/Sales (P/S) | 2.54 | 2.81 | 2.68 | 3.91 | 5.24 | 1.95 |
| Earnings Yield | 8.98% | 7.44% | 5.21% | 6.59% | 7.36% | 9.85% |
| Debt/Equity | 1.47 | 0.28 | 0.71 | 0.06 | 0.02 | 1.11 |
| Cash Flow (\$/share) | 8.38 | 1.57 | 6.92 | 9.78 | 5.69 | 6.63 |
| Growth Score | F | - | - | F | D | F |
| Hist. EPS Growth (3-5 yrs) | 15.98% | 13.60% | 10.85% | 13.60% | 3.30% | 22.72% |
| Proj. EPS Growth (F1/F0) | 1.87% | 1.23% | 7.30% | -10.03% | 7.64% | -10.69% |
| Curr. Cash Flow Growth | 27.64% | 29.38% | 8.56% | 1.26% | 4.79% | 37.24% |
| Hist. Cash Flow Growth (3-5 yrs) | 4.87% | 14.44% | 8.36% | 10.10% | 1.02% | 20.22% |
| Current Ratio | 0.86 | 0.97 | 1.23 | 0.63 | 0.75 | 1.20 |
| Debt/Capital | 59.47% | 22.09% | 42.91% | 5.67% | 2.06% | 51.22% |
| Net Margin | 22.49% | 22.55% | 11.81% | 29.62% | 34.66% | 22.15% |
| Return on Equity | 10.86% | 10.52% | 16.92% | 12.19% | 8.04% | 12.87% |
| Sales/Assets | 0.05 | 0.05 | 0.54 | 0.05 | 0.04 | 0.05 |
| Proj. Sales Growth (F1/F0) | 2.46% | 0.21% | 3.96% | 1.79% | 39.77% | -2.32% |
| Momentum Score | B | - | - | C | B | C |
| Daily Price Chg | 0.39% | 0.00% | 0.64% | 0.18% | -0.10% | 0.41% |
| 1 Week Price Chg | 0.91% | 1.32% | 2.47% | 2.97% | 3.15% | 2.71% |
| 4 Week Price Chg | -7.42% | -0.18% | 1.87% | -1.38% | 5.37% | 3.90% |
| 12 Week Price Chg | -2.24% | 0.37% | 6.69% | -0.33% | 5.94% | -1.19% |
| 52 Week Price Chg | -10.19% | 4.00% | 16.42% | -7.86% | -1.56% | -5.65% |
| 20 Day Average Volume | 215,718 | 18,130 | 2,019,212 | 345,232 | 830,930 | 415,661 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -0.83% | 1.07% | -0.06% | 0.67% | 4.79% | -2.12% |
| (F1) EPS Est 12 week change | -1.10% | -1.06% | -0.19% | -0.46% | 4.20% | -0.72% |
| (Q1) EPS Est Mthly Chg | -2.89% | 1.32% | -0.16% | -2.07% | 5.18% | 0.63% |

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 | 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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.