

BOK Financial Corp (BOKF)

\$47.53 (As of 04/17/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: C

Summary

Shares of BOK Financial have underperformed the industry over the past three months. Though earnings estimate has been revised down prior to the first quarter earnings release, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Consistently, escalating costs might lead to operational inefficiency for the company. Further, the company's capital-deployment activities seem unsustainable for the long run. We believe BOK Financial's diversified revenue mix and strategic acquisitions will drive growth in the upcoming quarters. Nevertheless, the uncertain economic environment due to the coronavirus outbreak is hurting business activities heavily. Therefore, brokerage and trading revenues are exposed to risks as it depends on transaction volumes.

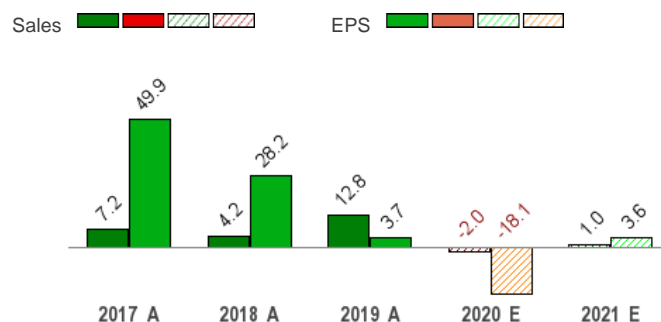
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.70 - \$34.57
20 Day Average Volume (sh)	415,274
Market Cap	\$3.3 B
YTD Price Change	-45.6%
Beta	1.60
Dividend / Div Yld	\$2.04 / 4.3%
Industry	Banks - Southwest
Zacks Industry Rank	Bottom 26% (187 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.7%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-9.3%
Expected Report Date	04/22/2020
Earnings ESP	0.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	434 E	443 E	452 E	453 E	1,787 E
2020	448 E	437 E	439 E	439 E	1,770 E
2019	435 A	458 A	466 A	449 A	1,807 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.50 E	\$1.58 E	\$1.59 E	\$5.97 E
2020	\$1.40 E	\$1.43 E	\$1.50 E	\$1.47 E	\$5.76 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.

P/E TTM	6.8
P/E F1	8.3
PEG F1	1.4
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

Overview

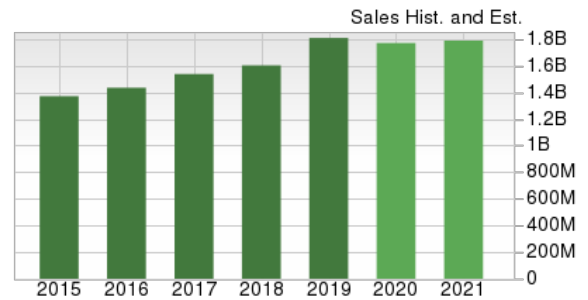
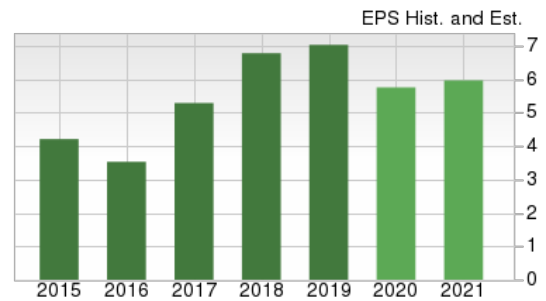
BOK Financial Corporation is a regional financial services company, headquartered in Tulsa, OK. Its principal subsidiary – BOKF, NA (“the Bank”) – operates the TransFund, Cavanal Hill Investment Management, MBM Advisors and 7 banking divisions: Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, 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 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 9.3% 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.

Risks

- 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, 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, if economic recovery continues.
 - 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. Also, it has a Value Score of A.
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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.

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.

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

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

BOK Financial Ratings Affirmed by Moody's, Outlook Negative - Mar 31, 2020

BOK Financial and its bank subsidiary BOKF, NA's ratings have been affirmed by Moody's Investors Service — the rating services arm of Moody's Corporation. The subsidiary is rated a2 standalone baseline credit assessment (BCA) and Aa3/Prime-1 for deposits. Also, the holding company's issuer rating of A3 has been affirmed.

However, the outlook for the company and its subsidiary has been downgraded to 'negative' from 'stable'. This downward revision reflects high energy concentration with outstanding energy loans equivalent to 109% of the company's Moody's-adjusted tangible common equity (TCE) as of Dec 31, 2019.

Moreover, amid coronavirus crisis, Moody's expects reduced oil product demand and the supply shock on disagreement among the OPEC and oil-producing countries to strain oil prices throughout 2020.

Reasons for Ratings Affirmation

Per Moody's, the company's ratings affirmation reflects strong liquidity and adequate capitalization anticipated to aid BOK Financial's buoyancy to unexpected losses. Also, the ratings agency was impressed by the company's historical good asset quality performance.

Credit effects of the coronavirus pandemic, weakening global economic outlook, fall in oil prices and asset-price declines is unprecedented, per Moody's. Notably, BOK Financial's energy exposure, highest among rated U.S. banks, is mainly concentrated to the exploration and production (E&P) sector, sensitive to demand and oil prices, which is expected to be stressed in the second or third quarters of 2020.

Additionally, in absence of any clarity over conditions to improve, Moody's predicts low oil prices to prevail in 2020 and likely to recover in 2021, depending on the normalization of economic activity, international trade and supply-chain disruptions.

Therefore, BOK Financial's energy portfolio is likely to be strained under the current low oil prices. Though high exposure to energy loans poses a concern, the firm's good underwriting, as seen by its strong track record in energy-price downturn compared to peers, is a tailwind.

Furthermore, profitability benefits from healthy fee-based revenues, which provides some level of resilience in its earnings profile in a low interest-rate environment. BOK Financial's funding profile benefits from a stable core deposit base. In addition, the bank has sizeable holdings of liquid assets, which support its strong liquidity profile.

Factors That Might Trigger Change in Ratings

Upward movement in ratings depends on substantial and sustained improvement in capitalization, asset quality metrics and profitability with BOK Financial's energy portfolio reflecting resilience to the oil-price shock.

Meanwhile, a downward ratings movement could occur if the company's profitability and asset quality are significantly impacted amid low oil prices and the global economic shock.

Dividend Update

On Jan 28, BOK Financial's board of directors announced a quarterly cash dividend of 51 cents per share. The dividend was paid on Feb 27, 2020 to shareholders on record as of Feb 12.

Valuation

BOK Financial's shares are down 45.6% in the year-to-date period and 44.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 37.4% and 25.4%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 34.3% and 19.8%, respectively.

The S&P 500 Index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 8.17X forward 12 months earnings, which compares to 10.79X for the Zacks sub-industry, 13.96X for the Zacks sector and 19.53X 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 14.13X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$40 price target reflects 6.87X 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	8.17	10.79	13.96	19.53
	5-Year High	22.01	17.8	16.16	19.53
	5-Year Low	5.52	8.78	11.2	15.46

P/B TTM	5-Year Low	5.52	9.78	11.2	15.19
	5-Year Median	14.13	14	13.92	17.45
	Current	0.96	1.26	2.47	10.83
	5-Year High	2.47	2.84	4	12.78
	5-Year Low	0.71	1.05	2	6.02
P/S F12M	5-Year Median	1.78	2.2	3.47	9.15
	Current	1.89	2.84	4.93	3.2
	5-Year High	4.29	5.22	6.64	3.44
	5-Year Low	1.41	2.74	4.93	2.54
	5-Year Median	3.23	4.2	6.01	3.01

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - Southwest				Industry Peers		
	BOKF Underperform	X Industry	S&P 500	CFR Underperform	PB Neutral	TCBI Underperform
VGM Score	C	-	-	F	F	D
Market Cap	3.35 B	189.31 M	19.60 B	3.91 B	4.76 B	1.21 B
# of Analysts	6	2	14	8	9	7
Dividend Yield	4.29%	1.62%	2.17%	4.56%	3.67%	0.00%
Value Score	A	-	-	F	D	B
Cash/Price	0.76	0.67	0.06	0.86	0.11	3.00
EV/EBITDA	5.53	5.59	11.73	0.68	8.71	-0.51
PEG Ratio	1.37	1.38	2.19	1.61	1.02	0.88
Price/Book (P/B)	0.69	0.81	2.67	1.04	0.80	0.45
Price/Cash Flow (P/CF)	5.72	7.57	10.55	6.37	11.36	3.35
P/E (F1)	8.24	10.03	18.18	15.28	10.24	7.08
Price/Sales (P/S)	1.50	1.90	2.08	2.61	4.97	0.83
Earnings Yield	12.12%	9.97%	5.38%	6.54%	9.76%	14.13%
Debt/Equity	0.99	0.31	0.70	0.06	0.02	1.04
Cash Flow (\$/share)	8.31	1.99	7.01	9.78	4.42	7.18
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	15.98%	13.60%	10.92%	13.60%	3.30%	22.72%
Proj. EPS Growth (F1/F0)	-18.11%	-11.61%	-3.36%	-40.37%	-2.39%	-45.40%
Curr. Cash Flow Growth	7.34%	12.62%	5.93%	1.26%	12.62%	8.59%
Hist. Cash Flow Growth (3-5 yrs)	8.19%	12.62%	8.55%	10.10%	2.48%	19.05%
Current Ratio	0.80	0.97	1.24	0.63	0.75	1.21
Debt/Capital	49.69%	23.22%	42.78%	5.67%	2.06%	49.67%
Net Margin	22.49%	22.60%	11.64%	29.62%	34.66%	22.15%
Return on Equity	10.77%	10.46%	16.74%	12.19%	8.04%	12.66%
Sales/Assets	0.05	0.05	0.54	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-2.08%	0.00%	-0.14%	-3.24%	34.71%	-8.59%
Momentum Score	C	-	-	C	D	B
Daily Price Chg	9.79%	4.22%	4.04%	9.62%	7.43%	7.94%
1 Week Price Chg	28.24%	8.99%	16.01%	28.52%	20.46%	31.67%
4 Week Price Chg	19.18%	-1.05%	18.93%	8.19%	-8.06%	-3.76%
12 Week Price Chg	-42.17%	-32.85%	-19.39%	-34.40%	-27.34%	-55.19%
52 Week Price Chg	-44.92%	-32.49%	-11.34%	-39.19%	-29.79%	-61.57%
20 Day Average Volume	415,274	29,513	3,220,598	661,017	938,420	857,795
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-9.34%	-8.60%	-7.09%	-27.25%	-7.04%	-31.53%
(F1) EPS Est 12 week change	-20.29%	-12.97%	-9.32%	-33.27%	-4.65%	-39.78%
(Q1) EPS Est Mthly Chg	-4.51%	-6.24%	-10.68%	-29.06%	-2.27%	-28.00%

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	F
Momentum Score	C
VGM Score	C

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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