

BOK Financial Corp (BOKF)

\$48.64 (As of 04/27/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: F

Summary

Shares of BOK Financial have underperformed the industry over the past three months. The company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. 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. BOK Financial carries lower credit risk backed by strong liquidity position. Yet, the company's consistently rising operational costs result in operational inefficiency and the capital-deployment activities seem unsustainable for the long run. Also, uncertain markets remain a concern.

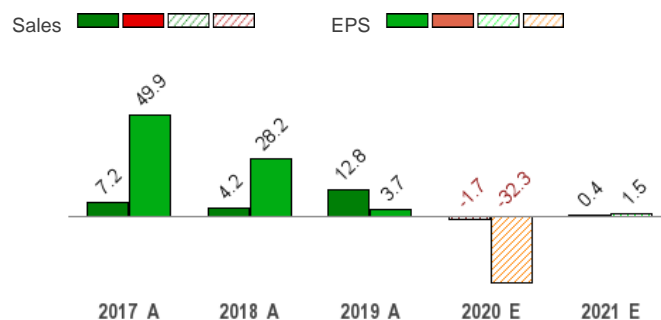
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.70 - \$34.57
20 Day Average Volume (sh)	395,321
Market Cap	\$3.4 B
YTD Price Change	-44.4%
Beta	1.60
Dividend / Div Yld	\$2.04 / 4.2%
Industry	Banks - Southwest
Zacks Industry Rank	Bottom 8% (234 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-31.8%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	-21.9%
Expected Report Date	07/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	439 E	447 E	452 E	452 E	1,783 E
2020	442 A	446 E	443 E	439 E	1,776 E
2019	435 A	458 A	466 A	449 A	1,807 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.41 E	\$1.51 E	\$1.57 E	\$4.83 E
2020	\$0.88 A	\$1.10 E	\$1.18 E	\$1.26 E	\$4.76 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	7.6
P/E F1	10.2
PEG F1	1.7
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/27/2020. The reports text is as of 04/28/2020.

Overview

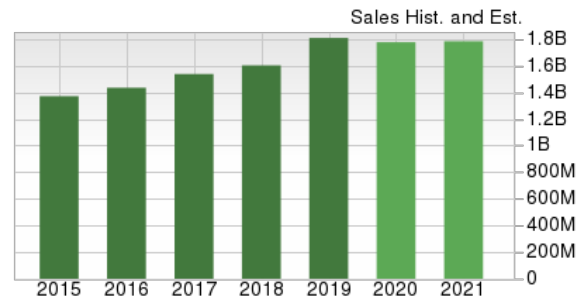
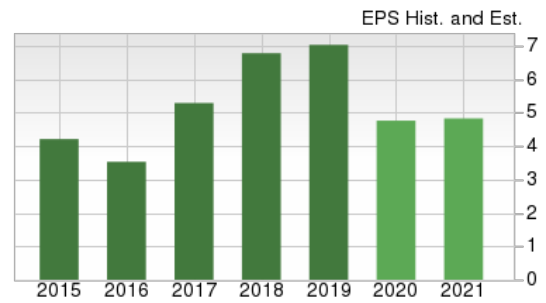
BOK Financial Corporation is a regional financial services company, headquartered in Tulsa, OK. Its principal subsidiary – BOKF, NA (“the Bank”) – operates the TransFund, Cavanal Hill Investment Management, MBM Advisors and 7 banking divisions: Bank of Albuquerque, Bank of Arizona, Bank of Arkansas, 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 and first-quarter 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 first-quarter 2020.
- ▲ Amid the coronavirus crisis and its impact on economy, the company holds a debt level of \$5.8 billion and debt-capital of 49.69% (compared with industry average of 23.22%), as of Mar 31, 2020. With a time-interest-earned of 3.5% over the past few quarters and a record of consistent earnings, BOK Financial carries lower credit risk, and a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ 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.
- ▲ 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 B.

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. Though operating expenses declined in first-quarter 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. 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.
- ▼ 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 18.7% 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 Lags Q1 Earnings Estimates, Stock Rises

BOK Financial reported net income per share of 88 cents lagged the Zacks Consensus Estimate of \$1.29 for the first quarter of 2020. Further, the bottom line compared unfavorably with the prior-year quarter's earnings per share of \$1.54.

Contracting margin and deteriorating credit quality were concerning. Nonetheless, top-line growth, lower expenses and rise in deposits were driving factors.

Net income was \$62.1 million compared with \$110.6 million recorded in the year-ago quarter.

Revenues Climb, Costs & Loans Decline

Adjusted revenues in the first quarter were \$441.7 million, up 3.7% year over year. The revenue figure, however, missed the Zacks Consensus Estimate of \$448.2 million.

Net interest revenues totaled \$261.4 million, down 6% year over year. Further, NIM shrunk 50 basis points year over year to 2.80%.

BOK Financial's fees and commission revenues amounted to \$192.7 million, up 20% on a year-over-year basis. Higher fiduciary and asset management revenues, brokerage and trading revenues, transaction card revenues, and elevated mortgage banking revenues primarily led to the upswing. This was partly offset by lower deposit service charges and fees along with reduced other revenues.

Total other operating expenses were \$268.6 million, down 6.5% year over year. This mainly stemmed from lower personnel expenses.

Efficiency ratio improved to 58.62% from the prior year's 64.80%. Generally, a lower ratio indicates improving profitability.

Total loans as of Mar 31, 2020, were \$22.5 billion, up 3.2% sequentially. As of the same date, total deposits amounted to \$29.2 billion, up 15.4% sequentially.

Credit Quality Deteriorates

During the March-end quarter, provisions for credit losses of \$93.8 million compared with \$8 million in the prior-year quarter. The combined allowance for loan losses was 1.40% of outstanding loans as of Mar 31, 2019, up from 0.94% in the year-ago period.

Additionally, non-performing assets totaled \$292 million or 1.30% of outstanding loans and repossessed assets as of Mar 31, 2020, up from \$261.5 million or 1.20% in the prior-year period. Net charge-offs were \$17.2 million, up 7.1% year over year.

Capital Position

Armed with healthy capital ratios, BOK Financial and its subsidiary banks exceeded the regulatory well-capitalized level. As of Mar 31, 2020, the common equity Tier 1 capital ratio was 10.98% as compared with 10.71% as of Mar 31, 2019.

Tier 1 and total capital ratios on Mar 31, 2020, were 10.98% and 12.58%, respectively, compared with 10.71% and 12.24% as of Mar 31, 2019. Leverage ratio was 8.16% compared with 8.76% as of Mar 31, 2019.

Share Repurchase Update

During the January-March period, the company repurchased 442,000 million common shares at an average price of \$75.52 per share.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	-1.46%
EPS Surprise	-31.78%
Quarterly EPS	0.88
Annual EPS (TTM)	6.37

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 44.4% in the year-to-date period and 44.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.7% and 25.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is down 31.5% and 21.5%, respectively.

The S&P 500 Index is down 12% in the year-to-date period and 4.2% in the past year.

The stock is currently trading at 9.55X forward 12 months earnings, which compares to 13.18X for the Zacks sub-industry, 14.38X for the Zacks sector and 20.21X 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 14.1X. Our Neutral recommendation indicates that the stock will perform better than the market. Our \$51 price target reflects 10.02X 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	9.55	13.18	14.38	20.21
	5-Year High	22.01	17.8	16.17	20.21
	5-Year Low	5.52	9.78	11.19	15.19
	5-Year Median	14.1	14	13.93	17.45
P/TB TTM	Current	0.98	1.35	2.46	10.84
	5-Year High	2.47	2.84	4	12.78
	5-Year Low	0.71	1.05	2	6.02
	5-Year Median	1.78	2.2	3.47	9.16
P/S F12M	Current	1.92	3.15	4.96	3.23
	5-Year High	4.29	5.22	6.69	3.44
	5-Year Low	1.41	2.74	4.96	2.54
	5-Year Median	3.23	4.2	6.05	3.01

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (234 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Banc of California, Inc. (BANC)	Neutral	3
BancFirst Corporation (BANF)	Neutral	4
First Financial Bankshares, Inc. (FFIN)	Neutral	3
Opus Bank (OPB)	Neutral	4
Prosperity Bancshares, Inc. (PB)	Neutral	3
Southside Bancshares, Inc. (SBSI)	Neutral	4
Cullen/Frost Bankers, Inc. (CFR)	Underperform	5
Texas Capital Bancshares, Inc. (TCBI)	Underperform	5

Industry Comparison Industry: Banks - Southwest

	BOKF	X Industry	S&P 500	CFR	PB	TCBI
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	5	3	5
VGM Score	D	-	-	F	F	F
Market Cap	3.42 B	211.32 M	19.77 B	4.17 B	5.16 B	1.36 B
# of Analysts	7	3	14	9	10	2
Dividend Yield	4.19%	1.57%	2.13%	4.27%	3.38%	0.00%
Value Score	B	-	-	F	D	C
Cash/Price	0.89	0.68	0.06	0.97	0.12	7.36
EV/EBITDA	5.61	5.81	12.09	1.05	9.54	-5.49
PEG Ratio	1.78	1.81	2.36	1.81	1.15	1.86
Price/Book (P/B)	0.71	0.90	2.70	1.11	0.86	0.51
Price/Cash Flow (P/CF)	5.86	8.17	10.70	6.79	12.34	3.77
P/E (F1)	10.67	12.23	18.72	17.16	11.52	14.90
Price/Sales (P/S)	1.54	1.99	2.12	2.78	5.39	0.96
Earnings Yield	9.79%	8.18%	5.19%	5.82%	8.68%	6.73%
Debt/Equity	0.99	0.31	0.72	0.06	0.02	2.00
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)	16.47%	13.60%	10.88%	13.60%	3.30%	21.32%
Proj. EPS Growth (F1/F0)	-32.27%	-23.96%	-5.87%	-43.36%	-5.74%	-70.87%
Curr. Cash Flow Growth	7.34%	12.62%	5.92%	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	0.80	0.97	1.23	0.63	0.75	1.29
Debt/Capital	49.69%	23.22%	43.90%	5.67%	2.06%	65.39%
Net Margin	20.35%	22.52%	11.32%	29.62%	34.66%	15.73%
Return on Equity	9.41%	9.82%	16.60%	12.19%	8.04%	9.11%
Sales/Assets	0.05	0.05	0.55	0.05	0.04	0.04
Proj. Sales Growth (F1/F0)	-1.75%	0.00%	-1.15%	-3.24%	34.73%	-8.56%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	5.24%	3.86%	2.63%	6.34%	6.74%	3.80%
1 Week Price Chg	-2.76%	0.14%	-1.74%	0.27%	1.69%	8.27%
4 Week Price Chg	16.25%	4.89%	8.71%	17.98%	10.35%	27.23%
12 Week Price Chg	-38.81%	-30.00%	-17.57%	-26.67%	-23.66%	-50.54%
52 Week Price Chg	-44.76%	-30.36%	-11.60%	-34.92%	-26.21%	-58.79%
20 Day Average Volume	395,321	24,173	2,734,148	620,397	742,347	912,316
(F1) EPS Est 1 week change	-10.04%	0.00%	0.00%	0.00%	0.00%	-28.60%
(F1) EPS Est 4 week change	-21.90%	-10.56%	-6.57%	-26.20%	-5.36%	-48.03%
(F1) EPS Est 12 week change	-33.52%	-24.06%	-12.64%	-36.61%	-7.92%	-62.62%
(Q1) EPS Est Mthly Chg	-26.54%	-18.31%	-10.33%	-35.82%	-8.23%	-37.31%

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	B
Growth Score	F
Momentum Score	F
VGM Score	D

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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