

BancorpSouth Bank (BXS)

\$26.00 (As of 03/02/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/06/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

Shares of BancorpSouth have underperformed the industry over the past six months. Yet, it displays impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Given a strong balance-sheet position, the company has been growing through acquisitions, which helped it diversify sources of fee income and expand its geographical reach. Despite low interest rates, the company's net interest margin (NIM) is likely to improve due to decent lending. Also, improving credit quality and involvement in capital deployment activities are encouraging. However, consistently mounting expenses, due to investments in inorganic growth and digitization efforts, might deter bottom-line growth to some extent. Further, BancorpSouth's significant exposure to risky loan portfolios keeps us apprehensive.

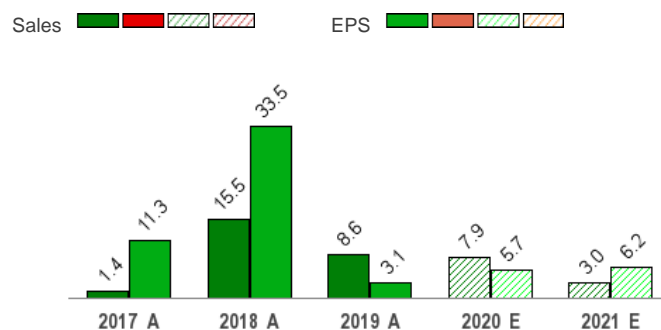
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.97 - \$23.87
20 Day Average Volume (sh)	385,429
Market Cap	\$2.7 B
YTD Price Change	-17.2%
Beta	1.40
Dividend / Div Yld	\$0.74 / 2.8%
Industry	Banks - Southeast
Zacks Industry Rank	Top 42% (108 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.3%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	04/15/2020
Earnings ESP	0.0%
P/E TTM	10.4
P/E F1	10.7
PEG F1	NA
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	257 E	267 E	270 E	265 E	1,035 E
2020	246 E	252 E	254 E	252 E	1,005 E
2019	217 A	226 A	242 A	245 A	931 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.61 E	\$0.69 E	\$0.70 E	\$0.65 E	\$2.58 E
2020	\$0.56 E	\$0.62 E	\$0.64 E	\$0.63 E	\$2.43 E
2019	\$0.56 A	\$0.61 A	\$0.69 A	\$0.65 A	\$2.30 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 03/02/2020. The reports text is as of 03/03/2020.

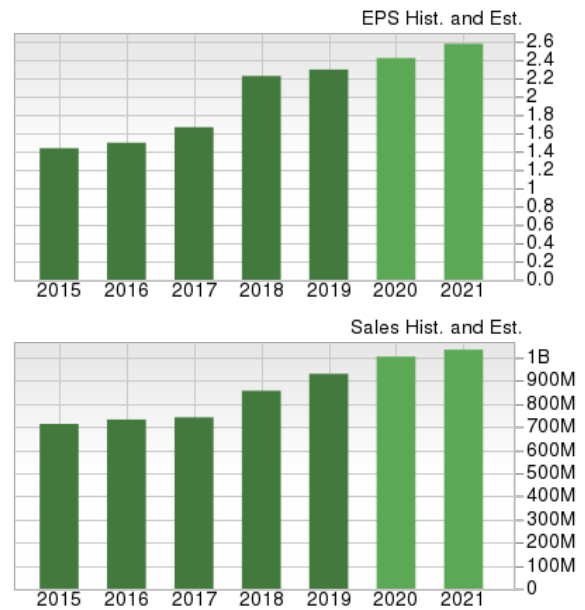
Overview

Founded in 1982 and based in Tupelo, MS, BancorpSouth Bank is a financial holding company. Apart from specializing in providing commercial banking and financial services to individuals and small-to-medium businesses, the company operates subsidiaries of investment services and insurance agencies, which engage in investment brokerage services and sale of other insurance products. The company offers its services through 285 offices in nine states.

BancorpSouth has traditionally focused on a strategy that includes expanding and diversifying of its franchise in terms of revenues, profitability and asset size, while maintaining a relationship-based approach to banking. BancorpSouth primarily operates through the **Banking Services Group** segment (comprising 77% of total revenues in 2019), which provides a full range of deposit products, commercial loans and consumer loans. It also reports through this segment. Other four reportable segments are:

- **Mortgage** segment includes mortgage banking activities and servicing of mortgage loans sold on a servicing retained basis.
- **Insurance Agencies** segment provides agents for the sale of commercial lines of insurance and full lines of property and casualty, life, health and employee benefits products and services.
- **Wealth Management** segment offers individuals, businesses, governmental institutions and non-profit entities solutions such as credit related products, trust and investment management, asset management, and much more.
- **General Corporate and Other** segment provides other activities not allocated to other segments.

In September 2019, BancorpSouth completed the mergers with Van Alstyne Financial Corporation and Summit Financial Enterprises. In April 2019, the company completed the acquisitions of Merchants Trust, Inc. and Casey Bancorp, Inc., while in October 2018, the company purchased Icon Capital Corporation. In January 2018, the company acquired Ouachita Bancshares Corp. and Central Community Corporation. In October 2017, BancorpSouth completed the merger of the company with and into BancorpSouth Bank, following which the bank continues as the surviving entity.



Reasons To Buy:

- ▲ BancorpSouth has been undertaking measures to improve its non-interest income. Fee income recorded a five-year (2015-2019) CAGR of around 1%, with some annual volatility, mainly on higher credit and debit card income, along with rise in deposit service charges. The company is anticipated to witness a rising trend on improving economic conditions, thereby supporting top-line growth.
- ▲ We remain encouraged by BancorpSouth's ability to generate positive cash flows and enhance shareholders' value through regular dividend payments and share repurchases. Notably, in July 2019, the company raised its quarterly cash dividend by 8.8%. Also, last December, BancorpSouth announced a share repurchase program of up to 8 million shares of its outstanding common stock through December 2020. Moreover, its debt/equity ratio compares favorably with that of the broader industry and the consistently improving performance over the last few quarters keep us encouraged.
- ▲ BancorpSouth's credit quality continues to normalize as evident from the last few quarters. We are impressed with the overall improving trend in the company's credit metrics. Given the company's consistent efforts to reduce problematic assets, the asset quality is expected to remain relatively stable or modestly improve in the near term.
- ▲ Driven by its solid liquidity position, BancorpSouth has been making strategic investments through mergers and acquisitions (M&As). For the past few years, the company has maintained an acquisition spree fortifying its footprint in various areas. These transactions are anticipated to keep being accretive to earnings. In January 2020, the company completed the acquisition of Texas First Bancshares, and expanded presence geographically, while in September 2019, it completed the mergers with Van Alstyne Financial Corporation and Summit Financial Enterprises. Moreover, the company looks forward to tap similar opportunities in future as well.
- ▲ BancorpSouth has experienced volatile NIM. With NIM exhibiting steady decline for the past few years with some annual volatility, it improved in 2017, 2018 and 2019. The upward repricing of loan and securities portfolios outpaced the increase in deposit costs. Therefore, the trend is likely to continue in the quarters ahead with decent lending scenario.
- ▲ Shares of BancorpSouth have underperformed the industry in the past three months. Despite this unfavorable trend, the company's earnings estimates for 2020 have been revised slightly upward over the past 30 days. Also, the stock seems undervalued compared with the broader industry. Its current price-to-cash flow (P/CF) ratio is below the industry average. Also, BancorpSouth has a Value Score of B. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

BancorpSouth's improving credit quality continues to support its growth prospects. Also, improving fee income is expected to aid bottom-line growth. Inorganic growth efforts are encouraging.

Reasons To Sell:

- ▼ BancorpSouth's non-interest expenses witnessed a three-year compounded annual growth rate (CAGR) of 11.4% in 2019 due to rise in almost all components of expenses, including higher personnel costs. Therefore, inorganic growth and digitization efforts are expected to result in higher expenses in the days to come.
- ▼ BancorpSouth has significant exposure to consumer mortgage and commercial real estate loans. As of Dec 31, 2019, the company's exposure to these loan portfolios constituted around 61% of total loans. Though the housing sector has been gradually improving, any future deterioration in the real estate prices will pose a risk for the company. Such exposure calls for higher provisions, which will strain the company's near-term profitability.
- ▼ Mortgage segment's performance remains a matter of concern. While mortgage origination revenues increased in 2019 (driven by relatively lower interest rate environment), the same decreased 29% in 2017 and 14% in 2018. Any hike in interest rates in the future will lead to lower origination volumes, in turn, putting further strain on the segment's performance.

BancorpSouth's huge exposure to consumer mortgage and commercial real estate loans remain a concern and may hurt financials. Rising cost base due to investment in technology remains a headwind.

Last Earnings Report

BancorpSouth's Q4 Earnings Beat Estimates on High Revenues

BancorpSouth Bank delivered positive earnings surprise of 8.3% in fourth-quarter 2019 on higher interest income. Net operating earnings of 65 cents per share beat the Zacks Consensus Estimate of 60 cents. Also, the bottom line increased 14% from the prior-year quarter.

Higher net revenues aided by rise in interest income and non-interest revenues were the driving factors. Also, nil provisions during the quarter came as a tailwind. However, mounting expenses was a major drag.

After considering certain non-recurring items, the company's net income for the fourth quarter amounted to \$65.8 million or 63 cents per share, up from the \$47.1 million or 47 cents reported in the year-ago quarter.

For full-year 2019, BancorpSouth reported net income of \$234.3 million or \$2.30 per share compared with \$221.3 million or \$2.23 in prior-year.

Revenues & Deposits Climb, Expenses Rise

Net revenues for the reported quarter increased 15.8% year over year to \$245.5 million. Also, the top-line figure outpaced the Zacks Consensus Estimate of \$242.6 million.

For 2019, the company reported net revenues of \$930.6 million, up 8.6% from 2018. The reported figure surpassed the consensus estimate of \$929.3 million.

Net interest revenues for the quarter came in at \$170.8 million, up 11.7% year over year. Fully-taxable equivalent NIM was 3.76%, contracting 4 basis points (bps).

Non-interest revenues increased 26.5% year over year to \$74.7 million. However, the figure included a positive mortgage servicing rights valuation adjustment of \$3.2 million. This upswing resulted from rise in all the components except insurance commissions and credit card, debit card and merchant fees.

Non-interest expenses were \$162.4 million, up 6.6% from the year-ago quarter. The upside stemmed from the impact of higher salaries and employee benefits, net occupancy and equipment expenses.

As of Dec 31, 2019, total deposits were \$16.4 billion, up 2.4% sequentially, while loans and leases, net of unearned income, declined marginally to \$14.1 billion.

Credit Quality: A Mixed Bag

Non-performing loans and leases were 0.79% of net loans and leases as of Dec 31, 2019, up from 0.67% as of Dec 31, 2018. Also, non-performing assets came in at \$118.3 million, up 11.5% from the prior-year quarter.

However, allowance for credit losses to net loans and leases was 0.85% as of Dec 31, 2019, down from the year-ago quarter's 0.92%. Moreover, in the fourth quarter, the company recorded nil provision for credit losses against \$1 million provisions reported in the year-ago quarter.

Strong Capital Position

As of Dec 31, 2019, tier I capital and tier I leverage capital was 11.6% and 9.69%, up from 10.84% and 9.06%, respectively, at the end of the prior-year quarter. Also, the ratio of tangible shareholders' equity to tangible assets shrunk 49 bps to 8.92%.

Also, ratio of its total shareholders' equity to total assets was 12.75% at the end of the December-ended quarter, up from 12.25% as of Dec 31, 2018.

Share Repurchases

During the reported quarter, the company repurchased 0.29 million common shares at a weighted average price of \$32.46 per share. In full-year 2019, BancorpSouth repurchased 2.5 million common shares at a weighted average price of \$28.20 per share.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	1.19%
EPS Surprise	8.33%
Quarterly EPS	0.65
Annual EPS (TTM)	2.51

Recent News

BancorpSouth on Buyout Spree, Closes Texas First Merger – Jan 2, 2020

BancorpSouth Bank completed its proposed merger with Texas First Bancshares, effective Jan 1, 2020. Notably, the company had announced the acquisition last September, marching ahead with its efforts to strengthen the bank's footprint through strategic opportunities.

Last month, BancorpSouth also received the Federal Deposit Insurance Corporation's (FDIC) regulatory approval for the completion of this transaction.

"We're delighted to announce the completion of our merger with Texas First," said BancorpSouth chairman and chief executive officer Dan Rollins. "Both of our banks share similar philosophies and a strong commitment to our customers and communities. This is a positive step in our growth strategy, and we're excited to welcome Texas First's customers and teammates to BancorpSouth and expand our geographic footprint," Rollins further added.

Currently, clients will use existing branches, checks, bank cards, online banking and other banking services as usual. Also, Texas First customers will be informed prior to the system conversions.

Founded in 1906, the company and its subsidiary, Texas First State Bank, operate through six banking offices in the Waco, Texas and Killeen-Temple, Texas metropolitan statistical areas. As of Jan 1, 2020, Texas First collectively reported total assets of \$396.9 million, total loans of \$185.7 million and total deposits of \$369.3 million.

Under the terms of the merger agreement, BancorpSouth issued approximately 1,040,000 shares of the company's common stock along with \$13.0 million in cash for all outstanding shares of Texas First.

Dividend Update

On Jan 22, BancorpSouth's board of directors announced a quarterly cash dividend of 18.5 cents per share. The dividend will be paid on Apr 1, to its shareholders on record as of Mar 13, 2020.

Valuation

BancorpSouth's shares are down 17.2% in the year-to-date period and 19% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 19.3% and 11.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.6% and 3.9%, respectively.

The S&P 500 Index is down 8.3% in the year-to-date period but up 4.9% in the past year.

The stock is currently trading at 10.6X forward 12 months earnings, which compares to 9.83X for the Zacks sub-industry, 13.18X for the Zacks sector and 16.86X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.7X and as low as 9.98X, with a 5-year median of 14.56X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 11.13X forward earnings.

The table below shows summary valuation data for BXS

Valuation Multiples - BXS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.6	9.83	13.18	16.86
	5-Year High	20.7	18.08	16.21	19.34
	5-Year Low	9.98	9.83	12.01	15.18
	5-Year Median	14.56	13.76	13.97	17.44
P/TB TTM	Current	1.68	1.95	2.8	11.29
	5-Year High	2.42	3.33	3.98	12.94
	5-Year Low	1.33	1.76	2.44	6.03
	5-Year Median	1.95	2.47	3.46	9.13
P/S F12M	Current	2.69	3.25	6.55	3.12
	5-Year High	4.06	5.08	6.65	3.43
	5-Year Low	2.25	3.09	5.39	2.54
	5-Year Median	3.13	4	6.04	3.01

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Top 42% (108 out of 255)



Top Peers

South State Corporation (SSB)	Outperform
Towne Bank (TOWN)	Outperform
First BanCorp. (FBP)	Neutral
Home BancShares, Inc. (HOMB)	Neutral
Pinnacle Financial Partners, Inc. (PNFP)	Neutral
Simmons First National Corporation (SFNC)	Neutral
Trustmark Corporation (TRMK)	Neutral
United Bankshares, Inc. (UBSI)	Neutral

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	BXS Neutral	X Industry	S&P 500	HOMB Neutral	SFNC Neutral	UBSI Neutral
VGM Score	C	-	-	C	B	D
Market Cap	2.72 B	294.45 M	22.14 B	2.89 B	2.16 B	3.11 B
# of Analysts	6	3	13	3	5	3
Dividend Yield	2.85%	2.06%	1.98%	2.99%	2.86%	4.57%
Value Score	B	-	-	C	B	B
Cash/Price	0.13	0.36	0.05	0.18	0.48	0.33
EV/EBITDA	8.71	7.66	12.79	7.33	8.69	11.86
PEG Ratio	NA	1.08	1.92	NA	NA	NA
Price/Book (P/B)	1.08	1.05	3.00	1.15	0.72	0.93
Price/Cash Flow (P/CF)	9.98	10.00	11.97	8.92	8.56	13.28
P/E (F1)	10.70	10.79	17.43	10.45	9.31	12.12
Price/Sales (P/S)	2.57	2.54	2.48	3.53	2.19	3.41
Earnings Yield	9.35%	9.27%	5.74%	9.55%	10.72%	8.26%
Debt/Equity	0.12	0.22	0.70	0.39	0.56	0.59
Cash Flow (\$/share)	2.60	2.50	6.94	1.95	2.61	2.31
Growth Score	F	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	14.94%	15.32%	10.85%	15.91%	15.68%	6.73%
Proj. EPS Growth (F1/F0)	5.51%	0.00%	6.48%	-3.86%	-11.94%	-0.91%
Curr. Cash Flow Growth	36.80%	19.81%	6.03%	-4.04%	26.57%	39.89%
Hist. Cash Flow Growth (3-5 yrs)	13.38%	14.92%	8.52%	14.99%	40.20%	18.59%
Current Ratio	0.83	0.96	1.23	0.98	0.94	1.04
Debt/Capital	10.10%	17.77%	42.57%	28.29%	36.06%	37.03%
Net Margin	22.19%	21.30%	11.57%	35.42%	24.10%	28.49%
Return on Equity	10.65%	9.75%	16.66%	11.91%	10.48%	7.82%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	8.01%	0.23%	4.07%	-0.74%	6.77%	19.12%
Momentum Score	B	-	-	D	B	C
Daily Price Chg	6.25%	1.85%	3.82%	3.67%	4.68%	6.02%
1 Week Price Chg	-14.47%	-8.67%	-12.06%	-14.31%	-13.37%	-13.79%
4 Week Price Chg	-10.38%	-7.10%	-6.43%	-9.83%	-8.05%	-10.73%
12 Week Price Chg	-17.25%	-8.99%	-5.15%	-8.60%	-13.94%	-18.82%
52 Week Price Chg	-19.05%	-6.10%	4.77%	-11.31%	-17.05%	-20.43%
20 Day Average Volume	385,429	14,313	2,363,047	571,307	512,923	470,488
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.90%	0.00%	-0.04%	-0.84%	0.42%	0.53%
(F1) EPS Est 12 week change	0.04%	-1.12%	-0.33%	-0.10%	-0.25%	3.84%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.38%	-0.81%	0.00%	0.00%

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	B
Growth Score	F
Momentum Score	B
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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