

BancorpSouth Bank (BXS)

\$23.29 (As of 08/14/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

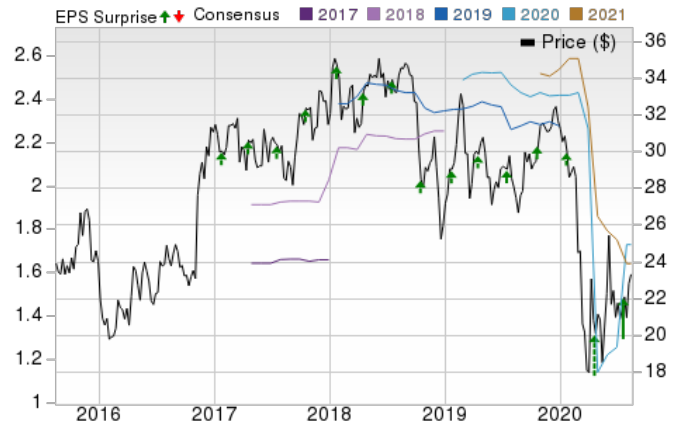
Growth: B

Momentum: A

Summary

Shares of BancorpSouth have outperformed the industry over the past year. Also, the company's earnings outpaced the Zacks Consensus Estimate in all of the trailing four quarters. The second-quarter 2020 results reflected higher net revenues, rising deposit and loan balances and elevated expenses. The company has been growing through acquisitions, which helped it diversify the sources of fee income which is likely to keep driving top-line expansion. Despite low rates, decent lending scenario might support margins of the company. However, BancorpSouth's mounting expenses due to investments in inorganic growth and digitization efforts might deter bottom-line growth. Further, significant exposure to real estate loans is a headwind. Moreover, deterioration in credit metrics and stretched valuation are other concerns for the company.

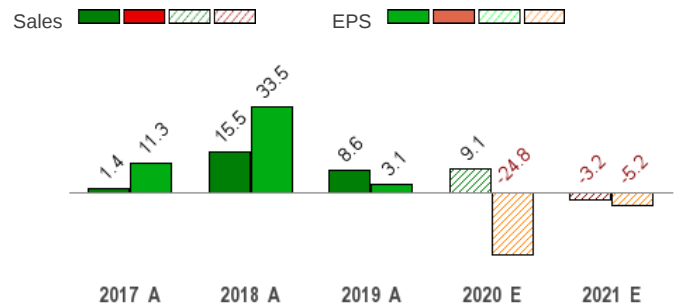
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.97 - \$17.21
20 Day Average Volume (sh)	423,737
Market Cap	\$2.4 B
YTD Price Change	-25.9%
Beta	1.40
Dividend / Div Yld	\$0.74 / 3.2%
Industry	Banks - Southeast
Zacks Industry Rank	Top 44% (112 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	90.3%
Last Sales Surprise	5.9%
EPS F1 Est- 4 week change	24.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.3
P/E F1	13.5
PEG F1	NA
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	245 E	250 E	252 E	248 E	983 E
2020	244 A	262 A	258 E	249 E	1,016 E
2019	217 A	226 A	242 A	245 A	931 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.40 E	\$0.43 E	\$0.41 E	\$1.64 E
2020	\$0.33 A	\$0.59 A	\$0.51 E	\$0.39 E	\$1.73 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 08/14/2020. The reports text is as of 08/17/2020.

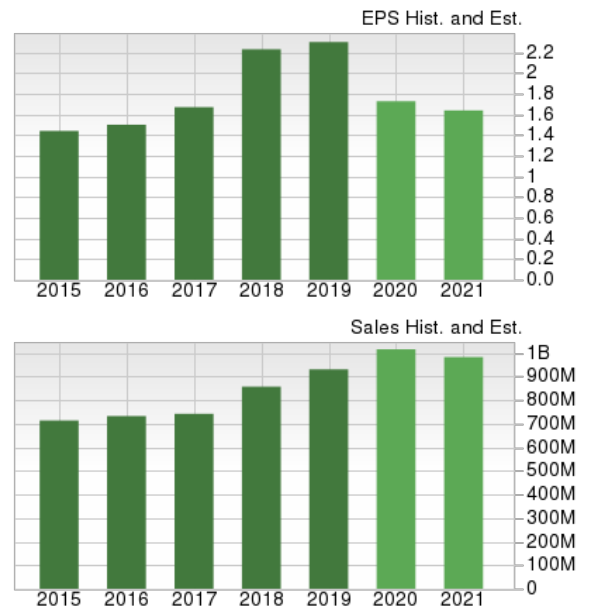
Overview

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 310 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 January 2020, BancorpSouth completed its merger with Texas First Bancshares. In September 2019, the company 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, 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 rising trend continued in the first six months of 2020. The company's fee income is expected to continue rising in the quarters ahead, as lower interest rates are likely to support the mortgage segment's performance, resulting in higher originations.
- ▲ As of Jun 30, 2020, the company holds debt of \$971.8 billion, which has declined consistently in the past few quarters. Furthermore, its earnings before interest and tax are 14.2 times the interest expenses and have increased with some volatility in the past few quarters. With record of consistent earnings, BancorpSouth has an advantageous position if the economic situation worsens.
- ▲ 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.
- ▲ 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 rise in net interest margin (NIM) over the past few years. It improved in 2017, 2018 and 2019 as the upward repricing of loan and securities portfolios outpaced the increase in deposit costs. Though interest rates at near-zero level in order to support the U.S. economy from the coronavirus-induced slowdown might impact the company's NIM, decent lending scenario is likely to support. Notably, NIM declined in the first half of 2020 on lower rates.
- ▲ Shares of BancorpSouth have outperformed the industry in the past three months. With this favorable trend, the company's earnings estimates for 2020 have been revised 21% upward over the past 30 days. Therefore, given the robust fundamentals and positive estimate revisions, the stock has upside potential.

BancorpSouth's improving fee income is expected to aid bottom-line. Also, decent lending scenario continues to support growth prospects. The bank's inorganic growth efforts are commendable.

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. Costs continued to rise in the first six months of 2020. 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 Jun 30, 2020, the company's exposure to these loan portfolios constituted around 58% of total loans. Though there has been an improvement in the housing sector over the past few years, if there is significant deterioration in the real estate prices due to the virus-induced slowdown, it will strain the company's near-term profitability.
 - ▼ Though BancorpSouth's credit quality continues to normalize from the last few quarters, it has deteriorated in 2020 due to the pandemic. Allowance for credit losses, net charge-offs and provisions increased compared with the last year. Though the company is consistently making efforts to reduce problematic assets, the asset quality is expected to remain strained on coronavirus crisis.
 - ▼ The stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-cash flow ratios are above the respective industry averages.
-

BancorpSouth's huge exposure to consumer mortgage and commercial real estate loans remain a concern. Rising cost base due to investment in technology and deteriorating credit metrics are headwinds.

Last Earnings Report

BancorpSouth Q2 Earnings Top Estimates, Revenues Up

BancorpSouth delivered an earnings surprise of a whopping 90.3% in second-quarter 2020 on higher interest income. Net operating earnings of 59 cents per share beat the Zacks Consensus Estimate of 31 cents. However, the bottom line compares unfavorably with the year-ago quarter's 61 cents.

Higher net revenues, aided by rise in interest income and non-interest revenues were the driving factors. Moreover, higher deposit and loan balances boosted profitability. However, elevated expenses were a drag.

The company's net income for the second quarter amounted to \$58.8 million or 57 cents per share, up from the \$53.1 million or 53 cents reported in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Jul 20, 2020
Sales Surprise	5.94%
EPS Surprise	90.32%
Quarterly EPS	0.59
Annual EPS (TTM)	2.26

Revenues & Deposits Climb, Expenses Rise

Net revenues for the reported quarter inched up 1.7% year over year to \$261.8 million. Moreover, the top-line figure surpassed the Zacks Consensus Estimate of \$247.2 million.

Net interest revenues for the quarter were \$170.6 million, up 6.6% year over year. Fully-taxable equivalent NIM was 3.35%, contracting 52 basis points (bps) year over year.

Non-interest revenues climbed 37.7% year over year to \$91.3 million. Also, the figure included a negative mortgage servicing rights valuation adjustment of \$2.4 million. This upswing resulted from rise in all the components except for Credit card, debit card, and merchant fee revenues, Deposit service charge revenues and insurance commissions.

Non-interest expenses were \$162.5 million, up 3% from the year-ago quarter. This upside stemmed primarily from higher salaries and employee benefits, and net occupancy and expenses.

As of Jun 30, 2020, total deposits were \$19.2 billion, up 13.6% sequentially, while loans and leases, net of unearned income, improved 8.5% sequentially to \$15.4 billion.

Credit Quality Deteriorates

Non-performing loans and leases were 0.96% of net loans and leases as of Jun 30, 2020, up from 0.66% as of Jun 30, 2019. Also, non-performing assets were \$155.4 million, up 62% from the prior-year quarter. In addition, in the second quarter, the company recorded \$20 million provision for credit losses against \$0.5 million provisions reported in the year-ago quarter.

However, allowance for credit losses to net loans and leases was 1.67% as of Jun 30, 2020, flat year on year.

Capital Position

As of Jun 30, 2020, tier 1 capital and tier 1 leverage capital ratios were 11.22% and 8.54% compared with the 10.52% and 8.96%, respectively, recorded at the end of the prior-year quarter. Also, the ratio of tangible shareholders' equity to tangible assets expanded 23 bps to 8.65%.

However, ratio of its total shareholders' equity to total assets was 11.76% at the end of the June-end quarter, down from 12.29% as of Jun 30, 2019.

Share Repurchases

During the reported quarter, the company did not repurchase any shares under its share-repurchase program.

Recent News

Dividend Update

On Jul 23, BancorpSouth's board of directors announced a quarterly cash dividend of 18.5 cents per share. The dividend will be paid on Oct 1 to its shareholders of record as of Sep 15, 2020.

Valuation

BancorpSouth's shares are down 25.8% in the year-to-date period and 16.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32% and 15.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 23.3% and 6.5%, respectively.

The S&P 500 Index is up 4.6% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 13.93X forward 12 months earnings, which compared to 12.38X for the Zacks sub-industry, 16.84X for the Zacks sector and 22.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.7X and as low as 7.49X, with a 5-year median of 14.20X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 14.95X 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	13.93	12.38	16.84	22.87
	5-Year High	20.7	18.13	16.84	22.87
	5-Year Low	7.49	8.32	11.59	15.25
	5-Year Median	14.2	13.54	14.26	17.58
P/TB TTM	Current	1.44	1.55	3.39	15.41
	5-Year High	2.42	3.26	4	15.45
	5-Year Low	1.13	1.17	2.01	5.96
	5-Year Median	1.95	2.41	3.48	9.57
P/S F12M	Current	2.4	2.67	6.22	3.7
	5-Year High	4.06	4.96	6.66	3.7
	5-Year Low	1.82	2.29	4.96	2.53
	5-Year Median	3.12	3.87	6.06	3.05

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Towne Bank (TOWN)	Outperform	2
Home BancShares, Inc. (HOMB)	Neutral	2
Pinnacle Financial Partners, Inc. (PNFP)	Neutral	3
Simmons First National Corporation (SFNC)	Neutral	3
South State Corporation (SSB)	Neutral	3
Trustmark Corporation (TRMK)	Neutral	3
United Bankshares, Inc. (UBSI)	Neutral	3
First BanCorp. (FBP)	Underperform	3

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	BXS	X Industry	S&P 500	HOMB	SFNC	UBSI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	F	D	F
Market Cap	2.39 B	215.70 M	23.68 B	2.88 B	2.00 B	2.92 B
# of Analysts	7	3	14	4	4	4
Dividend Yield	3.18%	2.41%	1.68%	2.98%	3.71%	4.88%
Value Score	B	-	-	C	B	C
Cash/Price	0.24	0.67	0.07	0.42	1.29	0.62
EV/EBITDA	6.32	4.56	13.36	5.57	3.74	7.92
PEG Ratio	NA	2.71	2.99	NA	NA	NA
Price/Book (P/B)	0.93	0.79	3.22	1.16	0.69	0.70
Price/Cash Flow (P/CF)	8.16	7.63	12.82	8.97	7.01	11.98
P/E (F1)	13.28	12.57	22.06	15.25	9.05	15.40
Price/Sales (P/S)	2.13	1.91	2.51	3.60	1.86	3.05
Earnings Yield	7.43%	7.93%	4.30%	6.53%	11.07%	6.48%
Debt/Equity	0.12	0.24	0.77	0.36	0.61	0.41
Cash Flow (\$/share)	2.85	2.51	6.94	1.95	2.61	2.39
Growth Score	B	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	14.05%	13.83%	10.41%	13.83%	15.79%	6.05%
Proj. EPS Growth (F1/F0)	-24.91%	-25.56%	-6.32%	-33.82%	-25.82%	-26.96%
Curr. Cash Flow Growth	14.72%	10.94%	5.20%	-4.04%	26.57%	2.25%
Hist. Cash Flow Growth (3-5 yrs)	13.04%	13.66%	8.55%	14.99%	40.20%	13.02%
Current Ratio	0.82	0.96	1.33	0.96	0.99	1.01
Debt/Capital	9.94%	19.32%	44.59%	26.56%	37.95%	28.92%
Net Margin	19.19%	16.78%	10.13%	26.11%	25.20%	23.18%
Return on Equity	9.33%	8.19%	14.51%	11.97%	10.25%	6.23%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.04
Proj. Sales Growth (F1/F0)	9.14%	1.52%	-1.43%	3.35%	6.73%	30.59%
Momentum Score	A	-	-	C	C	D
Daily Price Chg	1.70%	0.37%	0.12%	0.23%	1.44%	1.24%
1 Week Price Chg	8.89%	4.61%	2.30%	6.74%	9.31%	8.47%
4 Week Price Chg	6.15%	4.81%	4.41%	7.12%	9.11%	3.35%
12 Week Price Chg	13.72%	9.16%	13.66%	27.44%	15.28%	9.80%
52 Week Price Chg	-13.32%	-23.66%	5.80%	0.00%	-23.94%	-17.89%
20 Day Average Volume	423,737	12,828	1,984,154	780,262	497,236	462,240
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	24.72%	8.17%	2.08%	15.73%	6.12%	-2.08%
(F1) EPS Est 12 week change	37.54%	8.09%	2.66%	28.14%	3.72%	-9.37%
(Q1) EPS Est Mthly Chg	16.97%	3.22%	0.94%	-7.56%	-5.49%	0.00%

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	B
Momentum Score	A
VGM Score	B

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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