

BancorpSouth Bank (BXS)

\$21.94 (As of 05/26/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

BancorpSouth's mounting expenses due to investments in inorganic growth and digitization efforts might deter bottom-line growth. Also, margins and interest income are likely to be impacted by the Fed's accommodative monetary policy and near-zero interest rates in order to support U.S. economy from the coronavirus-induced slowdown. Nevertheless, shares of BancorpSouth have outperformed the industry over the past six months. First-quarter 2020 results reflect higher revenues, partly offset by rise in costs. The company's earnings outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Though it has been growing through acquisitions, which helped it diversify sources of fee income, significant exposure to real estate loans is concerning as fall in real estate prices would strain the company's profitability.

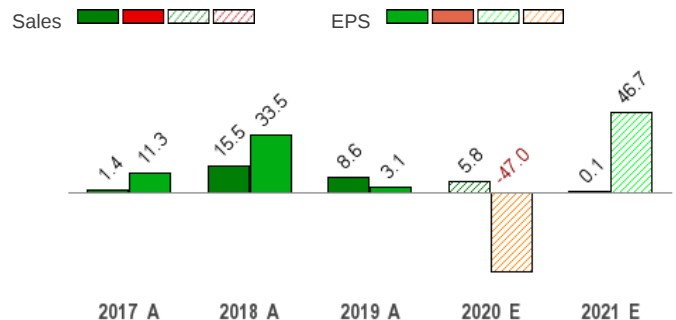
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$32.97 - \$17.21
20 Day Average Volume (sh)	467,042
Market Cap	\$2.3 B
YTD Price Change	-30.2%
Beta	1.45
Dividend / Div Yld	\$0.74 / 3.4%
Industry	Banks - Southeast
Zacks Industry Rank	Bottom 6% (237 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	43.5%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/15/2020
Earnings ESP	0.0%
P/E TTM	9.6
P/E F1	16.1
PEG F1	NA
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	249 E	263 E	264 E	260 E	986 E
2020	244 A	245 E	252 E	245 E	985 E
2019	217 A	226 A	242 A	245 A	931 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$0.52 E	\$0.52 E	\$0.49 E	\$1.79 E
2020	\$0.33 A	\$0.27 E	\$0.36 E	\$0.34 E	\$1.22 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 05/26/2020. The reports text is as of 05/27/2020.

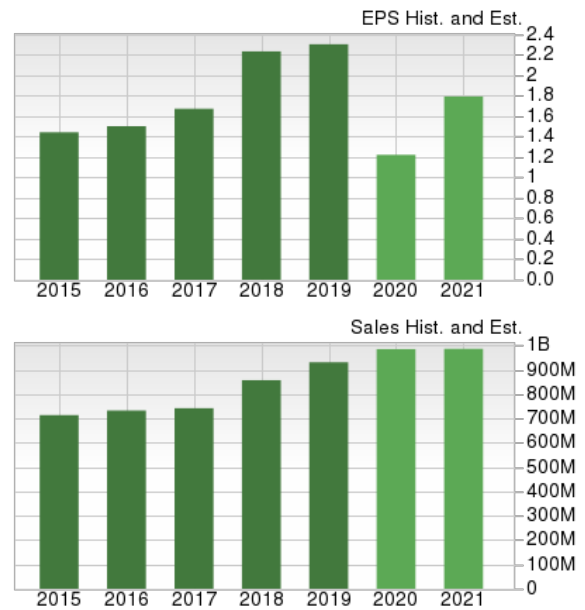
Overview

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 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 three 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 Mar 31, 2020, the company's exposure to these loan portfolios constituted around 62% 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.
- ▼ Shares of BancorpSouth have outperformed the industry in the past three months. Despite the favorable trend, the company's earnings estimates for 2020 have been revised 5.4% downward over the past 30 days. Also, the stock seems overvalued compared with the broader industry. Its current price-to-earnings (F1) and price-to-book value (P/B) ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

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.

Risks

- 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 first-quarter 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 Mar 31, 2020, the company holds debt of \$1.13 billion, which has declined consistently in the past few years. Furthermore, its earnings before interest and tax is 12.9 times the interest expenses and has remained almost stable in the past few quarters. With record of consistent earnings, BancorpSouth remains at a advantageous position if 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.
 - 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 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 first-quarter 2020 due to lower rates.
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Last Earnings Report

BancorpSouth Q1 Earnings Top Estimates, Revenues Rise

BancorpSouth delivered a positive earnings surprise of 43.5% in first-quarter 2020 on higher interest income. Net operating earnings of 33 cents per share beat the Zacks Consensus Estimate of 23 cents. However, the bottom line compared unfavorably with the year-ago quarter's figure of 56 cents.

Higher net revenues, aided by rise in interest income and non-interest revenues, were the driving factors. However, higher expenses were a major drag.

The company's net income for the first quarter amounted to \$21.9 million or 21 cents per share, up from \$51.6 million or 52 cents reported in the year-ago quarter.

Revenues & Deposits Climb, Expenses Rise

Net revenues for the reported quarter increased 12.5% year over year to \$244 million. Also, the top-line figure surpassed the Zacks Consensus Estimate of \$243.9 million.

Net interest revenues for the quarter were \$167.5 million, up 9.8% year over year. Fully-taxable equivalent net interest margin was 3.54%, contracting 32 basis points (bps) year over year.

Non-interest revenues increased 19.1% year over year to \$76.5 million. Also, the figure included a negative mortgage servicing rights valuation adjustment of \$11.1 million. The upswing resulted from rise in all the components, except for insurance commissions, annuity fees and net securities losses.

Non-interest expenses were \$168 million, up 12% from the year-ago quarter. The upside stemmed primarily from the impact of higher salaries and employee benefits, net occupancy, and equipment expenses.

As of Mar 31, 2020, total deposits were \$16.9 billion, up 3% sequentially, while loans and leases, net of unearned income, improved 0.9% sequentially to \$14.2 billion.

Credit Quality Deteriorates

Non-performing loans and leases were 0.90% of net loans and leases as of Mar 31, 2020, up from 0.67% as of Mar 31, 2019. Also, non-performing assets were \$137.8 million, up 42% from the prior-year quarter.

Allowance for credit losses to net loans and leases was 1.53% as of Mar 31, 2020, up from the year-ago quarter's 0.89%. Also, in the first quarter, the company recorded \$46 million provision for credit losses against \$0.5 million provisions reported in the year-ago quarter.

Capital Position

As of Mar 31, 2020, tier I capital and tier I leverage capital were 11.11% and 8.85% compared with 10.75% and 9.03%, respectively, at the end of the prior-year quarter. Also, the ratio of tangible shareholders' equity to tangible assets shrunk 41 bps to 8.82%.

Also, ratio of its total shareholders' equity to total assets was 12.75% at the end of the March-end quarter, up from 12.16% as of Mar 31, 2019.

Share Repurchases

During the reported quarter, the company repurchased 3.3 million common shares at a weighted average price of \$26.42 per share.

Quarter Ending 03/2020

Report Date	Apr 20, 2020
Sales Surprise	0.05%
EPS Surprise	43.48%
Quarterly EPS	0.33
Annual EPS (TTM)	2.28

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 Apr 22, BancorpSouth's board of directors announced a quarterly cash dividend of 18.5 cents per share. The dividend will be paid on Jul 1 to its shareholders of record as of Jun 15, 2020.

Valuation

BancorpSouth's shares are down 30.2% in the year-to-date period and 21.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 37.2% and 23.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.3% and 15.2%, respectively.

The S&P 500 Index is down 7% in the year-to-date period but up 6.6% in the past year.

The stock is currently trading at 14.33X forward 12 months earnings, which compares to 12.13X for the Zacks sub-industry, 15.99X for the Zacks sector and 21.76X 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 14.33X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$19 price target reflects 12.18X 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	14.33	12.13	15.99	21.76
	5-Year High	20.7	18.09	16.18	21.76
	5-Year Low	7.49	8.28	11.58	15.23
	5-Year Median	14.33	13.7	13.94	17.49
P/TB TTM	Current	1.43	1.41	3.11	11.8
	5-Year High	2.42	3.32	4	12.77
	5-Year Low	1.13	1.17	1.99	5.97
	5-Year Median	1.95	2.46	3.47	9.24
P/S F12M	Current	2.29	2.58	5.81	3.37
	5-Year High	4.06	5.07	6.7	3.44
	5-Year Low	1.82	2.32	4.99	2.53
	5-Year Median	3.13	3.94	6.05	3.01

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (237 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
First BanCorp. (FBP)	Neutral	3
Home BancShares, Inc. (HOMB)	Neutral	3
Pinnacle Financial Partners, Inc. (PNFP)	Neutral	4
Simmons First National Corporation (SFNC)	Neutral	4
South State Corporation (SSB)	Neutral	4
Towne Bank (TOWN)	Neutral	3
Trustmark Corporation (TRMK)	Neutral	3
United Bankshares, Inc. (UBSI)	Neutral	3

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	BXS	X Industry	S&P 500	HOMB	SFNC	UBSI
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	4	3
VGM Score	C	-	-	C	B	D
Market Cap	2.25 B	221.62 M	21.18 B	2.40 B	1.85 B	2.85 B
# of Analysts	5	3	14	3	5	5
Dividend Yield	3.37%	2.84%	2.03%	3.59%	4.00%	5.01%
Value Score	C	-	-	B	B	C
Cash/Price	0.13	0.60	0.06	0.26	1.01	0.51
EV/EBITDA	6.70	5.02	12.37	6.81	5.79	11.42
PEG Ratio	NA	2.61	2.88	NA	NA	NA
Price/Book (P/B)	0.90	0.78	2.90	0.99	0.68	0.85
Price/Cash Flow (P/CF)	7.69	7.25	11.55	7.45	6.51	11.68
P/E (F1)	16.98	12.85	21.24	11.31	9.52	13.12
Price/Sales (P/S)	2.07	1.85	2.24	2.96	1.74	3.13
Earnings Yield	6.20%	7.80%	4.57%	8.82%	10.52%	7.62%
Debt/Equity	0.12	0.26	0.76	0.54	0.63	0.77
Cash Flow (\$/share)	2.85	2.52	6.96	1.95	2.61	2.39
Growth Score	C	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	14.50%	14.18%	10.87%	14.88%	15.90%	6.71%
Proj. EPS Growth (F1/F0)	-41.04%	-33.42%	-10.31%	-25.87%	-34.51%	-16.39%
Curr. Cash Flow Growth	14.72%	10.59%	5.46%	-4.04%	26.57%	2.25%
Hist. Cash Flow Growth (3-5 yrs)	13.04%	14.63%	8.55%	14.99%	40.20%	13.02%
Current Ratio	0.82	0.96	1.29	1.00	0.99	1.08
Debt/Capital	10.10%	20.61%	44.54%	35.22%	38.55%	43.39%
Net Margin	19.00%	18.87%	10.59%	27.02%	25.09%	26.00%
Return on Equity	9.47%	8.79%	16.29%	11.82%	10.86%	7.07%
Sales/Assets	0.05	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	5.83%	0.00%	-2.34%	-3.02%	3.90%	23.84%
Momentum Score	B	-	-	D	D	C
Daily Price Chg	7.34%	2.89%	2.82%	7.64%	7.18%	8.20%
1 Week Price Chg	10.61%	6.86%	4.99%	8.93%	7.73%	10.47%
4 Week Price Chg	1.76%	-0.26%	3.55%	-2.72%	-6.64%	-4.02%
12 Week Price Chg	-13.21%	-22.74%	-4.95%	-13.87%	-20.84%	-6.45%
52 Week Price Chg	-21.76%	-27.33%	-3.04%	-19.24%	-28.19%	-23.79%
20 Day Average Volume	467,042	23,653	2,429,758	920,273	575,284	1,320,666
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-9.70%	-2.27%	-6.39%	-2.51%	1.43%
(F1) EPS Est 12 week change	-44.12%	-31.71%	-16.39%	-22.90%	-25.62%	-15.62%
(Q1) EPS Est Mthly Chg	0.00%	-6.25%	-4.03%	0.00%	0.00%	12.28%

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	C
Growth Score	C
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.

Disclosures

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