

BancorpSouth Bank (BXS)

\$31.64 (As of 12/27/19)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/06/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

Shares of BancorpSouth have outperformed the industry over the past six months. Also, it displays decent 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 to diversify sources of fee income and expand its geographical reach. Also, its improving credit quality, steady capital deployment activities and strong liquidity position are key tailwinds. Despite low interest rates, the company's net interest margin (NIM) is likely to improve due to decent lending. Yet, mounting expenses, owing to investments in inorganic growth and digitization efforts, might deter bottom-line growth to some extent. Further, significant exposure toward risky loan portfolios keeps us apprehensive.

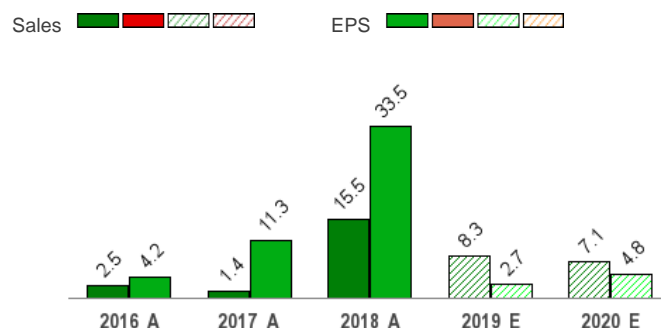
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.45 - \$25.61
20 Day Average Volume (sh)	492,236
Market Cap	\$3.3 B
YTD Price Change	21.0%
Beta	1.44
Dividend / Div Yld	\$0.74 / 2.3%
Industry	Banks - Southeast
Zacks Industry Rank	Bottom 35% (163 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.1%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	01/22/2020
Earnings ESP	0.0%
P/E TTM	13.0
P/E F1	13.8
PEG F1	NA
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	243 E	250 E	252 E	250 E	994 E
2019	217 A	226 A	242 A	242 E	928 E
2018	217 A	215 A	214 A	212 A	857 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.56 E	\$0.61 E	\$0.62 E	\$0.60 E	\$2.40 E
2019	\$0.56 A	\$0.61 A	\$0.69 A	\$0.60 E	\$2.29 E
2018	\$0.54 A	\$0.56 A	\$0.56 A	\$0.57 A	\$2.23 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 12/27/2019. The reports text is as of 12/30/2019.

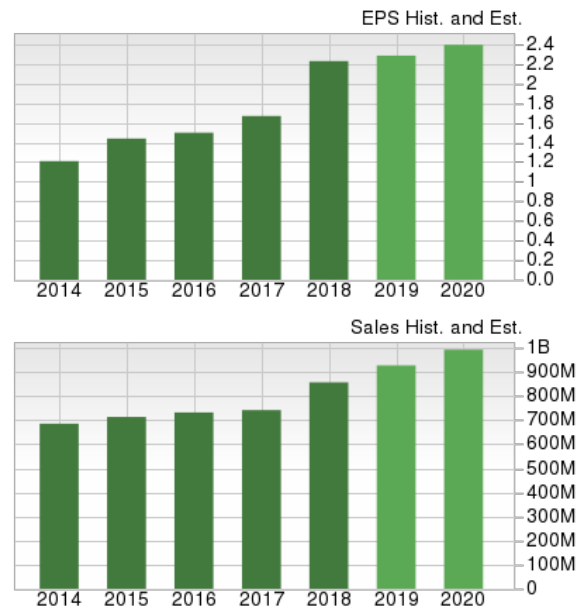
Overview

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 75.2% of total revenues in 2018), 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 (5.6%) includes mortgage banking activities and servicing of mortgage loans sold on a servicing retained basis.
- **Insurance Agencies** segment (14.3%) 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 (3%) 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 (1.9%) provides other activities not allocated to other segments.

In April 2019, BancorpSouth 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. Previously, 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 (2014-2018) CAGR of 1.2%, mainly on higher credit and debit card income, along with rise in deposit service charges. The trend continued in the first nine months of 2019. 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, this 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 April 2019, the company completed the acquisition of Merchants Trust and Casey Bancorp, and expanded presence geographically, while recently, it acquired 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 the first three quarters of 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.
- ▲ 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.

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:

- ▼ Though BancorpSouth's non-interest expenses declined at a three-year compounded annual growth rate (CAGR) of 2.7% during 2015-2017, it increased 15.8% in 2018 due to rise in almost all components of expenses including higher personnel costs. The increasing trend continued in the first nine months of 2019 as well. Therefore, inorganic growth and digitization efforts are expected to lead to higher expenses going ahead.
- ▼ BancorpSouth has significant exposure to consumer mortgage and commercial real estate loans. As of Sep 30, 2019, the company's exposure to these loan portfolios constituted around 62% 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.
- ▼ Shares of BancorpSouth have underperformed the industry in the year-to-date period. With this unfavorable trend, the company's earnings estimates for 2019 have remained unchanged over the past 30 days. Therefore, given the 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.

Last Earnings Report

BancorpSouth Q3 Earnings & Revenues Top, Revenues Rise Y/Y

BancorpSouth's third-quarter 2019 net operating earnings of 69 cents per share beat the Zacks Consensus Estimate of 61 cents. Also, the bottom line increased 23.2% from the prior-year quarter.

Higher net revenues aided by rise in loan and deposit balance along with improvement in NIM were driving factors. However, elevated provisions and mounting expenses were major drags.

After considering certain non-recurring items, the company's net income for the third quarter amounted to \$63.8 million or 63 cents per share, down from the \$66.7 million, or 67 cents reported in the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Oct 21, 2019
Sales Surprise	1.40%
EPS Surprise	13.11%
Quarterly EPS	0.69
Annual EPS (TTM)	2.43

Revenues Climb, Expenses Rise, Loans & Deposits Improve

Net revenues for the reported quarter increased 13.2% year over year to \$242 million. Also, the top-line figure outpaced the Zacks Consensus Estimate of \$238.7 million.

Net interest revenues for the quarter came in at \$166.6 million, up 17.2% year over year. Fully-taxable equivalent NIM was 3.88%, expanding 21 basis points (bps).

Non-interest revenues increased 5.3% year over year to \$75.4 million. However, the figure included a negative mortgage servicing rights valuation adjustment of \$4 million. This upswing resulted from rise in all the components except insurance commissions and credit card, debit card and merchant fees.

Non-interest expenses came in at \$159.6 million, up 12.1% from the year-ago quarter. The upside stemmed from the impact of higher salaries and employee benefits, net occupancy and equipment expenses.

As of Sep 30, 2019, total deposits were \$16 billion, up 5.9% sequentially while loans and leases, net of unearned income, increased 3.4% to \$14.1 billion.

Credit Quality: A Mixed Bag

Non-performing loans and leases were 0.77% of net loans and leases as of Sep 30, 2019, up from 0.53% as of Sep 30, 2018. Also, non-performing assets came in at \$116 million, up from the prior-year quarter's \$70.3 million.

However, annualized net recoveries, as a percentage of average loans and leases, edged down to 0.02% year over year from 0.04% recorded on Sep 30, 2018. Allowance for credit losses to net loans and leases was 0.83% as of Sep 30, 2019, down from the year-ago quarter's 0.97%.

Moreover, the company recorded provision for credit losses of \$0.5 million against no provisions in the year-ago quarter.

Capital Ratios

As of Sep 30, 2019, tier I capital and tier I leverage capital was 10.54% and 9.14%, down from 11.71% and 9.68%, respectively, at the end of the prior-year quarter. Also, the ratio of tangible shareholders' equity to tangible assets shrunk 49 bps to 8.47%.

However, ratio of its total shareholders' equity to total assets was 12.54% at the end of September quarter, up from 12.27% as of Sep 30, 2018.

Share Repurchases

During the reported quarter, the company repurchased 0.56 million common shares at a weighted average price of \$27.04 per share.

Recent News

BancorpSouth Gets Regulatory Nod to Buy Texas First - Dec 16, 2019

BancorpSouth has received regulatory approval from the Federal Deposit Insurance Corporation (FDIC) to close its merger deal with Texas First Bancshares. The deal was announced in September 2019, with an objective of boosting its presence in the Central Texas region.

The transaction is expected to be completed on Jan 1, 2020, subject to the satisfaction of other customary closing conditions.

BancorpSouth's chairman and CEO, Dan Rollins, stated, "I'm looking forward to welcoming Texas First's teammates and customers to BancorpSouth. This merger will provide us with a greater presence in Central Texas and with a respected team of bankers who share our commitment to exceeding customers' expectations and improving our communities."

Notably, the total deal value ranges within \$38.8-\$46.5 million.

At the time of announcement of the deal, it was agreed that BancorpSouth will issue 1,065,000 shares of common stock and pay \$13 million in cash, for all outstanding shares of Texas First, subject to certain conditions and potential adjustments.

In order to maintain the deal value within the specified collar, the number of shares of BancorpSouth common stock may be adjusted downward or the cash consideration may be adjusted upward.

With this deal, BancorpSouth seeks to boost its deposit market share and exploit opportunities for continued expansion along the rapidly-growing I-35 corridor between Austin and Dallas/Fort Worth, TX.

BancorpSouth Closes Summit Financial & Van Alstyne Mergers - Sep 3, 2019

BancorpSouth completed the proposed mergers with Van Alstyne Financial Corporation and Summit Financial Enterprises. Notably, the company had announced the transactions this March, marching ahead with its efforts to strengthen footprint through strategic opportunities.

Last month, BancorpSouth also received the FDIC's regulatory approvals for the completion of these transactions.

"We're pleased to combine with these two great community banks that share our core values," said BancorpSouth chairman and chief executive officer Dan Rollins. "These partnerships allow us to build scale and add talented bankers in strategically important markets for us in Florida and Texas," noted Rollins.

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

Terms of the Mergers

At the time of announcement, the acquisition of Van Alstyne Financial was valued in terms of stock and cash, with a boundary in place for a total deal value of \$80 million to \$86.7 million.

Per the terms, BancorpSouth will issue 2.1 million shares of its common stock and distribute \$20.5 million in cash, for all outstanding shares of Van Alstyne Financial's capital stock. However, if need be, the share count or the cash consideration may be adjusted in accordance with the respective caps of the deal value.

With this merger, BancorpSouth will fortify its foothold in Dallas-Fort Worth, TX (CMSA), giving access to seven full-service branches, along with additional locations north of Dallas, Texas and one in Oklahoma.

In case of Summit Financial, the acquirer will issue 2.5 million shares plus \$20 million in cash, for all outstanding shares of the former. This deal too comes with a cap placed on either side of the total deal value of \$95 million to \$107.5 million.

The merger will substantially expand BancorpSouth's presence in Florida. Summit Financial operates from four offices located in Panama City, Panama City Beach, Fort Walton Beach and Pensacola. It offers a comprehensive range of personal and business accounts, lending solutions, wealth management and investment services.

Dividend Update

On Oct 23, 2019, BancorpSouth's board of directors announced a quarterly cash dividend of 18.5 cents per share. The dividend will be paid on Jan 2, 2020 to its shareholders on record as of Dec 13, 2019.

Valuation

BancorpSouth's shares are up 21% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 26.8% and 21.8%, respectively.

The S&P 500 Index is up 30.7% in the trailing 12-month period.

The stock is currently trading at 13.21X forward 12 months earnings, which compares to 12.84X for the Zacks sub-industry, 14.80X for the Zacks sector and 18.77X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.70X and as low as 10.48X, with a 5-year median of 14.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$33 price target reflects 13.78X 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	13.21	12.84	14.8	18.77
	5-Year High	20.7	18.05	16.21	19.34
	5-Year Low	10.48	9.99	12.01	15.17
	5-Year Median	14.64	13.77	13.98	17.43
P/TBV TTM	Current	2	2.46	3.28	12.36
	5-Year High	2.42	3.32	3.98	12.36
	5-Year Low	1.33	1.76	2.44	6.03
	5-Year Median	1.94	2.46	3.46	9.06
P/S F12M	Current	3.34	4.02	6.56	3.41
	5-Year High	4.06	5.07	6.61	3.41
	5-Year Low	2.25	3.08	5.2	2.54
	5-Year Median	3.11	4	6.03	3

As of 12/27/2019

Industry Analysis Zacks Industry Rank: Bottom 35% (163 out of 252)



Top Peers

First BanCorp. (FBP)	Neutral
Home BancShares, Inc. (HOMB)	Neutral
Pinnacle Financial Partners, Inc. (PNFP)	Neutral
Simmons First National Corporation (SFNC)	Neutral
South State Corporation (SSB)	Neutral
Towne Bank (TOWN)	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	D	-	-	D	B	F
Market Cap	3.32 B	325.62 M	23.80 B	3.26 B	2.59 B	3.90 B
# of Analysts	5	2	13	3	1	2
Dividend Yield	2.34%	1.76%	1.78%	2.66%	2.39%	3.64%
Value Score	B	-	-	C	B	C
Cash/Price	0.24	0.33	0.04	0.13	0.20	0.25
EV/EBITDA	7.78	8.49	13.88	8.22	12.28	14.18
PEG Ratio	NA	1.28	2.13	NA	NA	NA
Price/Book (P/B)	1.33	1.21	3.33	1.33	1.02	1.17
Price/Cash Flow (P/CF)	12.25	12.36	13.55	10.03	12.43	16.72
P/E (F1)	13.83	12.82	19.62	11.43	10.24	15.12
Price/Sales (P/S)	3.27	2.95	2.66	4.00	2.75	4.29
Earnings Yield	7.24%	7.82%	5.09%	8.75%	9.77%	6.61%
Debt/Equity	0.00	0.25	0.71	0.43	0.57	0.59
Cash Flow (\$/share)	2.60	2.36	6.94	1.96	2.16	2.31
Growth Score	D	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	14.44%	14.14%	10.48%	16.68%	15.87%	6.09%
Proj. EPS Growth (F1/F0)	2.51%	5.95%	6.14%	-2.29%	10.55%	3.67%
Curr. Cash Flow Growth	36.80%	32.98%	14.75%	44.45%	94.56%	39.89%
Hist. Cash Flow Growth (3-5 yrs)	13.38%	15.18%	8.93%	35.28%	42.70%	18.59%
Current Ratio	0.89	0.97	1.24	0.98	0.99	1.04
Debt/Capital	0.21%	19.65%	42.92%	30.05%	36.32%	37.03%
Net Margin	21.23%	20.48%	11.06%	35.22%	25.59%	28.68%
Return on Equity	10.51%	9.83%	17.10%	12.22%	10.68%	7.89%
Sales/Assets	0.05	0.05	0.54	0.05	0.06	0.05
Proj. Sales Growth (F1/F0)	8.23%	0.00%	2.49%	-1.09%	6.96%	1.17%
Momentum Score	D	-	-	D	B	F
Daily Price Chg	0.00%	0.00%	0.21%	0.56%	0.52%	0.34%
1 Week Price Chg	0.62%	0.58%	1.46%	2.95%	4.63%	1.30%
4 Week Price Chg	1.49%	1.28%	1.98%	3.64%	0.98%	1.53%
12 Week Price Chg	11.42%	7.60%	9.78%	7.56%	12.52%	5.21%
52 Week Price Chg	23.87%	22.38%	28.47%	21.91%	13.56%	26.69%
20 Day Average Volume	492,236	12,636	1,778,443	664,042	863,989	382,214
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.41%	0.00%	0.00%	-0.29%	2.03%	0.00%
(F1) EPS Est 12 week change	3.20%	0.65%	0.12%	-0.44%	14.11%	0.40%
(Q1) EPS Est Mthly Chg	-0.98%	0.00%	0.00%	-1.97%	1.51%	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	D
Momentum Score	D
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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