

Commerce Bancshares (CBSH)

\$61.05 (As of 08/11/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: D

Summary

Commerce Bancshares' shares have outperformed the industry so far this year. The bank's earnings outpaced the Zacks Consensus Estimate in only two of the trailing four quarters. Its second-quarter 2020 results reflect higher provisions and decline in revenues. Lower interest rates and the Federal Reserve's accommodative monetary policy will likely hurt revenues to some extent. Further, the company's high debt levels and significant exposure to risky loans are major near-term concerns. Moreover, persistently increasing expenses are likely to impede bottom-line growth to an extent. Nevertheless, robust loan and deposit balances, along with the company's efforts to strengthen fee income sources will likely support financials, going forward. Its efficient capital deployment activities will continue to enhance shareholder value.

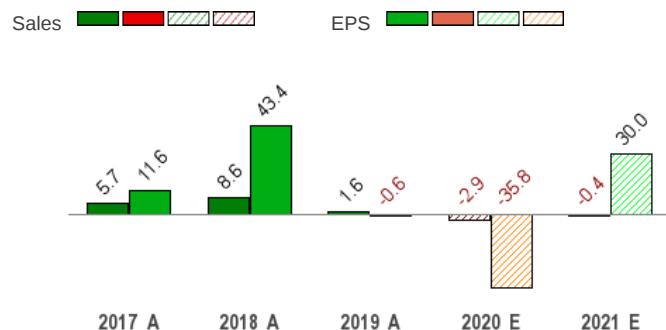
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.92 - \$45.51
20 Day Average Volume (sh)	525,102
Market Cap	\$6.8 B
YTD Price Change	-10.1%
Beta	0.99
Dividend / Div Yld	\$1.08 / 1.8%
Industry	Banks - Midwest
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-35.9%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-6.1%
Expected Report Date	10/21/2020
Earnings ESP	0.0%
P/E TTM	22.7
P/E F1	26.5
PEG F1	NA
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	310 E	316 E	319 E	322 E	1,302 E
2020	325 A	321 A	334 E	331 E	1,307 E
2019	325 A	339 A	336 A	346 A	1,346 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.71 E	\$0.78 E	\$0.82 E	\$2.99 E
2020	\$0.44 A	\$0.34 A	\$0.71 E	\$0.79 E	\$2.30 E
2019	\$0.81 A	\$0.91 A	\$0.93 A	\$0.93 A	\$3.58 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 08/11/2020. The reports text is as of 08/12/2020.

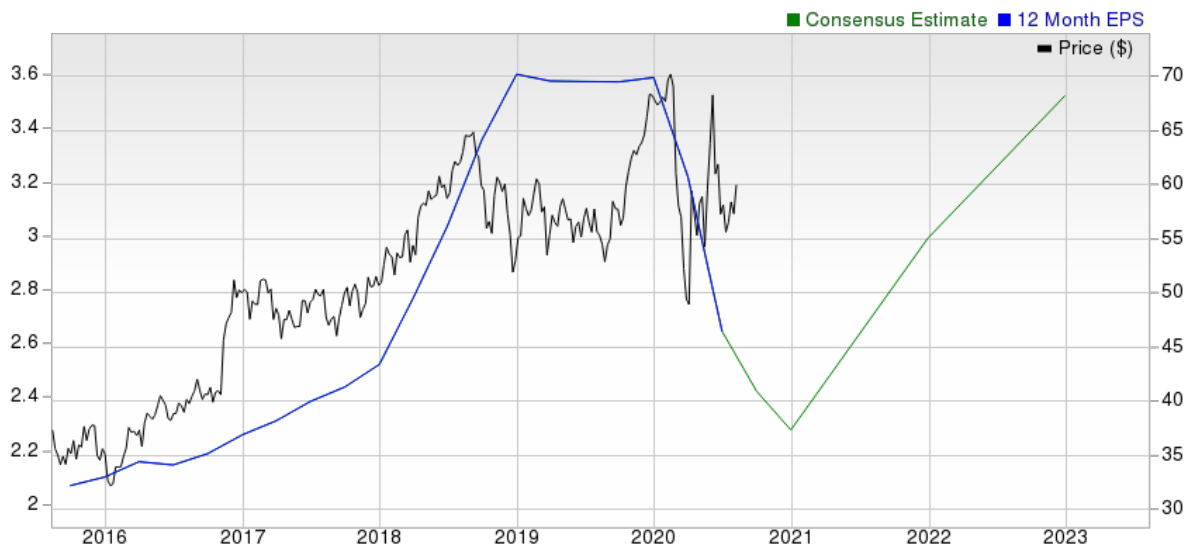
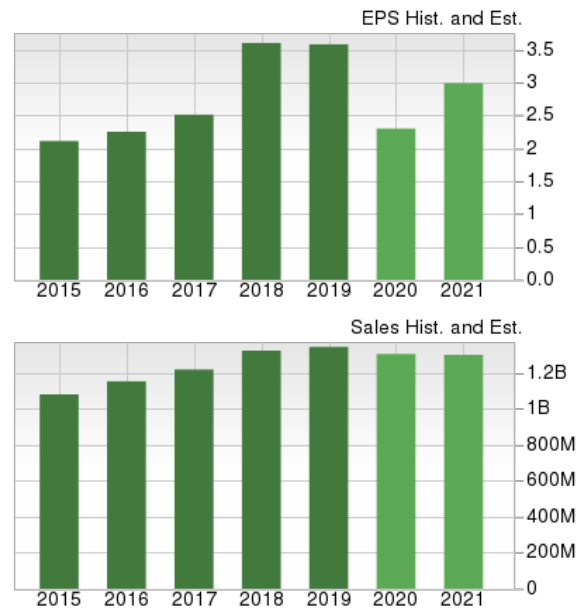
Overview

Incorporated in 1966, Commerce Bancshares Inc. is one of the largest bank holding companies in Missouri, with its principal offices located in Kansas City and St. Louis. It has significant operations in the states of Missouri, Kansas, Illinois, Oklahoma and Colorado. Operating through a network of around 315 bank/ATM locations, the company engages in the general banking business, providing a wide range of retail, corporate, investment, trust and asset management products as well as services to individuals and businesses.

Commerce Bancshares, along with its subsidiaries, offers diversified financial services organized under the following segments:

- The **Consumer** segment (constituting 33.5% of total revenue in 2019) includes the retail branch network, indirect and other consumer financing, consumer debit and credit bank cards and student lending.
- The **Commercial** segment (40.6%) provides an array of corporate lending, leasing and international services, as well as business and government deposits, cash management services and Merchant and Commercial bank card products. The segment includes the Capital Markets Group, which offers fixed-income securities and also provides investment safekeeping and bond accounting services.
- The **Wealth** segment (17.2%) provides traditional trust and estate tax planning services, as well as advisory and discretionary investment portfolio management services to both personal and institutional corporate customers. It also manages brokerage services, the Private Banking product portfolio and Commerce Bancshares' family of proprietary mutual funds.
- The **Other/Elimination** segment (8.7%) includes activities not related to the above-mentioned segments, such as certain administrative functions, the investment securities portfolio and the effect of certain expense allocations to the segments.

As of Jun 30, 2020, the company had total assets of \$30.5 billion, total loans of \$16.4 billion and total deposits of \$24.5 billion. Its stockholders' equity was \$3.4 billion as of the same date.



Reasons To Buy:

- ▲ Commerce Bancshares' growth strategy is driven by organic expansion efforts. The company's net revenues witnessed a five-year (2015-2019) CAGR of 6.2%. The upside mainly stemmed from higher loan and deposit balances, along with strength in fee income sources. Though revenues declined in the first half of 2020, a steady rise in demand for loans and solid fee income performance are likely to continue driving revenues despite lower interest rates.
- ▲ Commerce Bancshares is engaged in impressive capital deployment activities. The company has been consistently paying a 5% stock dividend for more than a decade now (the last payment was announced in November 2019). Apart from this, the company pays regular quarterly cash dividends and has a share repurchase program in place. Given its earnings strength, the company will likely be able to sustain the current capital deployment activities.
- ▲ As of Jun 30, 2020, Commerce Bancshares had total debt worth \$1.74 billion, while its cash and due from banks totaled \$391.3 million. Nonetheless, the company's times-interest-earned ratio of 19.1 and total debt to total capital improved at the end of second-quarter 2020 on a sequential basis. Thus, given the earnings strength, the company will likely be able to fulfil debt obligations even if economic situation worsens.
- ▲ Further, Commerce Bancshares' trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 10.03% compares favorably with the industry average of 9.16%.

Improving loan and deposit balances are expected to keep supporting Commerce Bancshares' revenues in the near term. Its steady capital deployment activities will likely enhance shareholder value.

Reasons To Sell:

- ▼ Although Commerce Bancshares' net yield on interest earning assets witnessed an uptrend during 2016-2018, the same declined in 2019 and in first-half 2020. This was mainly due to flattening of the yield curve and low interest rates. Net yield on interest earning assets is expected to remain under pressure owing to the Federal Reserve's dovish monetary policy and near-zero interest rates.
- ▼ Mounting non-interest expenses continue to be a concern for Commerce Bancshares. The company witnessed an increase in the same over the last five years (2015-2019), at a CAGR of 4.2%. The rise was mainly due to higher salaries and employee benefit costs. Operating expenses remained relatively stable over the first six months of 2020. Overall expenses are expected to remain elevated owing to the company's strategy to invest in technology upgrades.
- ▼ Commerce Bancshares has significant exposure to revolving home equity and real estate loans. As of Jun 30, 2020, the company's exposure to these loan portfolios was 42.7% of net loans. Though there has been an improvement in the housing sector, any further deterioration in the real estate prices will pose a problem for the company.
- ▼ Shares of Commerce Bancshares have outperformed the industry over the past six months. However, the company's 2020 earnings estimates have moved 6.1% lower over the past 30 days. Further, the stock seems overvalued than the broader industry. Its current price/book and price/earnings (F1) ratios are higher than the respective industry averages. Therefore, given the concerns and downward estimate revisions, the upbeat price performance is not expected to continue in the near term.

Lower interest rates and a persistent rise in operating expenses remain major concerns for Commerce Bancshares. Further, the company's exposure to risky loan portfolios makes us apprehensive.

Last Earnings Report

Commerce Bancshares' Q2 Earnings Miss on Higher Provisions

Commerce Bancshares' second-quarter 2020 earnings per share of 34 cents lagged the Zacks Consensus Estimate of 53 cents. Also, the bottom line represents a decline of 62.6% from the prior-year quarter.

The results were primarily hurt by a significant increase in provisions, decline in revenues and lower interest rates. However, a rise in loan balance and lower operating expenses were tailwinds.

Net income attributable to common shareholders was \$37.6 million, down 64.4% from the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	1.82%
EPS Surprise	-35.85%
Quarterly EPS	0.34
Annual EPS (TTM)	2.64

Revenues & Expenses Decline

Total revenues were \$320.6 million, down 5.4% from the prior-year quarter. However, the top line surpassed the Zacks Consensus Estimate of \$314.8 million.

Net interest income was \$203.1 million, down 4.1% year over year. Net yield on interest-earning assets declined 67 basis points (bps) to 2.94%.

Non-interest income was \$117.5 million, reflecting a decline of 7.7% year over year. This was mainly due to decline in almost all fee income components, except for loan fees and sales, and capital market fees.

Non-interest expenses declined 1.2% year over year to \$187.5 million, mainly due to lower market costs. This was partially offset by increase in salaries and employee benefit expenses.

The efficiency ratio increased to 58.10% from 55.88% reported in the year-ago quarter. A rise in efficiency ratio indicates lower profitability.

Balance Sheet Strong

As of Jun 30, 2020, total loans were \$16.4 billion, up 8.8% from the prior quarter. Total deposits as of the same date were \$24.5 billion, up 18.1% from the previous quarter.

Total stockholders' equity was \$3.4 billion as of Jun 30, 2020, reflecting a rise of 3.3% from the prior quarter-end.

Credit Quality: Mixed Bag

Provision for credit losses for the reported quarter was \$80.5 million, up significantly from \$11.8 million recorded in the prior-year quarter. Allowance for loan losses as a percentage of total loans was 1.47%, up 34 bps year over year.

The ratio of net loan charge-offs to average loans was 0.21%, down from 0.32% in the prior-year quarter.

Capital & Profitability Ratios Deteriorate

As of Jun 30, 2020, Tier I leverage ratio was 10.78%, down from 11.75% recorded in the year-ago quarter. Also, tangible common equity to tangible assets ratio declined to 11.12% from 11.25% in the prior-year quarter.

At the end of the reported quarter, return on average assets was 0.54%, down from 1.73% in the year-ago period. Return on average common equity was 4.77%, down from 14.46% recorded in the prior-year quarter.

Recent News

Dividend Update

On Jul 31, Commerce Bancshares declared a quarterly cash dividend of 27 cents per share. The dividend will be paid on Sep 21 to shareholders of record as of Sep 4.

Valuation

Commerce Bancshares' shares are down 10.2% in the year-to-date period and up 11.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.9% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 18.8% and 7%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 15% in the past year.

The stock is currently trading at 22.42X forward 12 months earnings, which compares to 13.43X for the Zacks sub-industry, 16.76X for the Zacks sector and 22.80X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.39X and as low as 13.81X, with a 5-year median of 17.45X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$64 price target reflects 23.50X forward earnings.

The table below shows summary valuation data for CBSH

Valuation Multiples - CBSH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.42	13.43	16.76	22.8
	5-Year High	26.39	16.92	16.76	22.8
	5-Year Low	13.81	9.51	11.59	15.25
	5-Year Median	17.45	13.58	14.26	17.58
P/TB TTM	Current	2.21	2.13	3.39	15.36
	5-Year High	3.08	3.94	4	15.36
	5-Year Low	1.78	1.66	2.01	5.96
	5-Year Median	2.41	2.95	3.48	9.56
P/S F12M	Current	5.22	3.68	6.22	3.67
	5-Year High	5.98	6.05	6.66	3.67
	5-Year Low	3.16	3.15	4.96	2.53
	5-Year Median	4.72	4.81	6.06	3.05

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Associated BancCorp (ASB)	Neutral	4
First Financial Bancorp. (FFBC)	Neutral	3
First Interstate BancSystem, Inc. (FIBK)	Neutral	3
First Midwest Bancorp, Inc. (FMBI)	Neutral	4
Heartland Financial USA, Inc. (HTLF)	Neutral	3
Old National Bancorp (ONB)	Neutral	3
UMB Financial Corporation (UMBF)	Neutral	3
Wintrust Financial Corporation (WTFC)	Neutral	3

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	CBSH	X Industry	S&P 500	ASB	UMBF	WTFC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	B	C	F
Market Cap	6.81 B	339.44 M	23.61 B	2.19 B	2.61 B	2.73 B
# of Analysts	8	3	14	4	4	8
Dividend Yield	1.77%	3.01%	1.69%	5.05%	2.28%	2.36%
Value Score	C	-	-	A	C	C
Cash/Price	0.40	0.47	0.07	0.94	1.41	1.69
EV/EBITDA	6.78	6.02	13.32	5.93	-2.15	1.93
PEG Ratio	NA	2.36	2.95	1.26	3.59	0.76
Price/Book (P/B)	2.12	0.89	3.22	0.61	0.94	0.76
Price/Cash Flow (P/CF)	14.04	7.43	12.79	5.10	7.95	6.01
P/E (F1)	26.67	11.27	22.02	10.11	16.17	12.94
Price/Sales (P/S)	4.83	1.97	2.57	1.37	2.06	1.45
Earnings Yield	3.77%	8.86%	4.29%	9.89%	6.19%	7.72%
Debt/Equity	0.00	0.38	0.77	0.87	0.03	0.68
Cash Flow (\$/share)	4.35	2.79	6.94	2.79	6.85	7.90
Growth Score	F	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	13.21%	12.81%	10.41%	12.79%	12.81%	16.31%
Proj. EPS Growth (F1/F0)	-35.79%	-19.17%	-6.51%	-28.43%	-32.52%	-39.22%
Curr. Cash Flow Growth	-1.69%	14.44%	5.22%	-1.86%	12.97%	7.75%
Hist. Cash Flow Growth (3-5 yrs)	8.41%	15.97%	8.55%	9.43%	9.00%	18.77%
Current Ratio	0.72	0.92	1.34	0.98	0.71	1.02
Debt/Capital	0.04%	27.49%	44.59%	44.34%	2.49%	37.82%
Net Margin	21.82%	21.59%	10.13%	21.70%	14.62%	14.33%
Return on Equity	10.03%	9.16%	14.59%	6.88%	7.22%	7.63%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-2.92%	1.73%	-1.45%	-3.08%	5.29%	9.18%
Momentum Score	D	-	-	B	B	D
Daily Price Chg	1.73%	1.25%	-0.17%	1.71%	2.00%	2.84%
1 Week Price Chg	4.68%	5.60%	2.30%	8.02%	6.33%	4.81%
4 Week Price Chg	10.08%	9.81%	6.41%	15.39%	17.50%	18.07%
12 Week Price Chg	6.60%	14.53%	15.42%	13.45%	22.72%	33.45%
52 Week Price Chg	11.73%	-16.87%	2.88%	-28.25%	-16.45%	-26.40%
20 Day Average Volume	525,102	40,973	2,007,486	1,047,583	224,358	324,899
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.13%	11.08%	1.84%	-9.63%	34.74%	-12.45%
(F1) EPS Est 12 week change	-5.23%	12.10%	2.40%	1.86%	33.47%	0.45%
(Q1) EPS Est Mthly Chg	-0.47%	-0.36%	0.72%	8.70%	2.29%	-15.70%

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	F
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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