

Commerce Bancshares (CBSH)

\$54.40 (As of 04/15/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 04/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Shares of Commerce Bancshares have outperformed the industry over the past year. The company has an impressive earnings surprise history. Its earnings have surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Decline in interest rates amid the Federal Reserve's accommodative policy stance will likely hurt the company's revenues to an extent in the near term. Moreover, persistently increasing operating expenses mainly due to higher compensation costs are likely to impede bottom-line growth to some extent. While solid growth in loan and deposit balances, efforts to increase fee income and a strong capital position are expected to continue supporting top-line growth, a stretched valuation indicates the stock's limited upside potential. Further, the company's significant exposure toward risky loans is a concern.

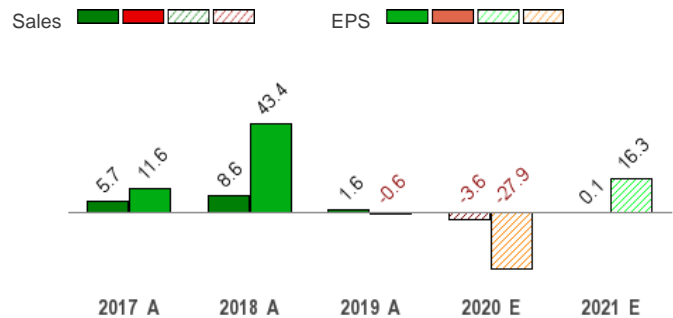
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.92 - \$45.51
20 Day Average Volume (sh)	600,220
Market Cap	\$6.1 B
YTD Price Change	-19.9%
Beta	0.93
Dividend / Div Yld	\$1.08 / 2.0%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 21% (201 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.7%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	-23.7%
Expected Report Date	04/14/2020
Earnings ESP	0.0%
P/E TTM	14.6
P/E F1	21.1
PEG F1	3.8
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	306 E	314 E	319 E	318 E	1,299 E
2020	324 E	320 E	321 E	320 E	1,298 E
2019	325 A	339 A	336 A	346 A	1,346 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.67 E	\$0.72 E	\$0.76 E	\$0.73 E	\$3.00 E
2020	\$0.48 E	\$0.55 E	\$0.66 E	\$0.78 E	\$2.58 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 04/15/2020. The reports text is as of 04/16/2020.

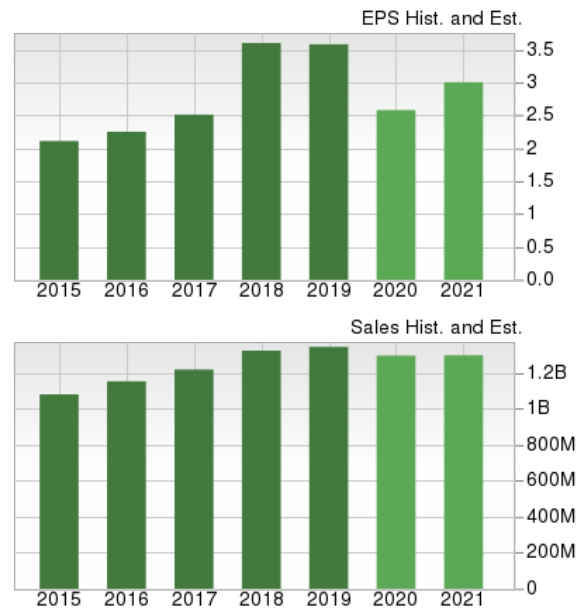
Overview

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 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 Dec 31, 2019, the company's total loans were \$14.7 billion, total deposits amounted to \$20.5 billion and stockholders' equity was \$3.1 billion.



Reasons To Sell:

- ▼ After witnessing an increasing trend in net yield on interest earning assets over the last three years, Commerce Bancshares saw a fall in the same in 2019. This was mainly due to flattening of the yield curve and fall in interest rates. Net yield on interest earning assets is expected to remain under pressure owing to the Federal Reserve's accommodative money policy.
- ▼ 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 benefits costs. 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 Dec 31, 2019, the company's exposure to these loan portfolios was 43.7% of total 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 year. However, the company's 2020 earnings estimates have moved 12.8% lower over the past seven days. Further, the stock seems overvalued compared with the broader industry. Its current price/book (P/B) and price/earnings (P/E) (F1) ratios are higher than the respective industry averages. Thus, given the concerns and downward estimate revisions, the stock has limited upside potential.

A persistent rise in expenses and lower interest rates remain major matters of concern for Commerce Bancshares. Further, the company's exposure to risky loan portfolio makes us apprehensive.

Risks

- 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. Rise in demand for loans is likely to continue driving revenues despite lower interest rates amid the Federal Reserve's accommodative policy stance.
 - 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 latest one was announced in November 2019). Apart from this, the company pays regular quarterly cash dividends and has a share repurchase program in place. In December 2019, it completed its accelerated share repurchase agreement. Given its strong capital position, earnings strength and almost negligible debt, the company is expected to continue boosting shareholder value through efficient capital deployment activities.
 - Further, Commerce Bancshares' trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 14.18% compares favorably with the industry's average of 10.86%.
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Last Earnings Report

Commerce Bancshares Q4 Earnings Beat on Higher Fee Income

Commerce Bancshares' fourth-quarter 2019 earnings per share of 93 cents surpassed the Zacks Consensus Estimate of 88 cents. The bottom line jumped 2.2% from the prior-year quarter.

Results benefited from improvement in non-interest income. Moreover, the company's balance sheet position remained strong in the quarter. However, escalating expenses, lower net interest income and higher provisions were the undermining factors.

Net income attributable to common shareholders was \$104.6 million, down 2.6% from the prior-year quarter.

For 2019, earnings were \$3.58 per share compared with the prior year's figure of \$3.60. The bottom line outpaced the consensus estimate of \$3.54. Net income dropped 2.9% to \$412.2 million.

Revenues Up, Expenses Rise

Total revenues for the quarter were \$346.1 million, reflecting marginal increase year over year. Also, the top line beat the consensus estimate of \$332.9 million.

For 2019, total revenues of \$1.3 billion matched the consensus estimate. Also, the top line rose 1.6% year over year.

Net interest income was \$202.7 million, down 4.5% year over year. This decline is mainly due to lower interest rates, partly offset by improved loan balances and funding costs.

Non-interest income was \$143.5 million, up 7.8% year over year. The rise was due to improvement in trust fees, deposit account charges and other fees, loan fees and sales, capital market fees along with the sale of corporate trust business.

Non-interest expenses rose 3.5% year over year to \$195.2 million. The rise was due to an increase in all expense components, except for costs related to supplies and communication, marketing, deposit insurance, community service and other expenses.

Efficiency ratio increased to 56.29% from 54.53% reported in the year-ago quarter. A rise in efficiency ratio indicates lower profitability.

Balance Sheet Strong

As of Dec 31, 2019, total loans were \$14.7 billion, up 1.9% from the prior quarter. Total deposits as of the same date were \$20.5 billion, up 1% from the previous quarter.

Total stockholders' equity was \$3.1 billion as of Dec 31, 2019, reflecting a rise of 1% from the prior quarter.

Credit Quality: A Mixed Bag

Provision for loan losses for the reported quarter was \$15.2 million, up 24.1% year over year. Moreover, the ratio of net loan charge-offs to average loans was 0.42%, up from 0.34% witnessed in the prior-year quarter. However, allowance for loan losses as a percentage of total loans was 1.09%, down 4 basis points year over year.

Capital Ratios Mixed, Profitability Ratios Worsen

As of Dec 31, 2019, Tier I leverage ratio was 11.38%, down from 11.52% recorded in the year-ago quarter. However, tangible common equity to tangible assets ratio grew to 10.99% from 10.45%.

At the end of the reported quarter, return on average assets was 1.65%, down from 1.75% witnessed in the year-ago quarter. Return on average common equity was 13.90%, down from 15.85% in the prior-year quarter.

Share Repurchases

During the quarter, the company repurchased 229,313 shares of treasury stock for \$65.12 per share.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	3.98%
EPS Surprise	5.68%
Quarterly EPS	0.93
Annual EPS (TTM)	3.59

Recent News

Dividend Update

On Apr 15, Commerce Bancshares declared a quarterly cash dividend of 27 cents per share. The dividend will be paid out on Jun 22 to shareholders of record as of Jun 5.

Valuation

Commerce Bancshares' shares are down 20% in the year-to-date period and 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.8% and 24.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 31.1% and 19.1%, respectively.

The S&P 500 index is down 11.8% in the year-to-date period and 2.4% in the past year.

The stock is currently trading at 16.08X forward 12 months earnings, which compares to 11.16X for the Zacks sub-industry, 13.70X for the Zacks sector and 18.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.17X and as low as 13.81X, with a 5-year median of 17.13X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$44 price target reflects 13.02X 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	16.08	11.16	13.7	18.98
	5-Year High	22.17	16.92	16.19	19.34
	5-Year Low	13.81	9.03	11.23	15.19
	5-Year Median	17.13	13.58	13.95	17.45
P/TB TTM	Current	2.14	1.94	2.46	10.73
	5-Year High	3.08	3.94	3.97	12.78
	5-Year Low	1.78	1.66	1.97	6.02
	5-Year Median	2.41	2.95	3.45	9.15
P/S F12M	Current	4.57	3.31	4.93	3.16
	5-Year High	5.98	6.05	6.65	3.44
	5-Year Low	3.16	3.17	4.93	2.54
	5-Year Median	4.64	4.81	6.03	3.01

As of 04/15/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 253)



Top Peers

First Financial Bancorp. (FFBC)	Neutral
First Interstate BancSystem, Inc. (FIBK)	Neutral
First Midwest Bancorp, Inc. (FMBI)	Neutral
Heartland Financial USA, Inc. (HTLF)	Neutral
Old National Bancorp (ONB)	Neutral
UMB Financial Corporation (UMBF)	Neutral
Associated Banc-Corp (ASB)	Underperform
Wintrust Financial Corporation (WTFC)	Underperform

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	CBSH Underperform	X Industry	S&P 500	ASB Underperform	UMBF Neutral	WTFC Underperform
VGM Score	F	-	-	F	D	D
Market Cap	6.11 B	286.01 M	19.18 B	1.86 B	2.15 B	1.86 B
# of Analysts	8	3.5	14	7	5	8
Dividend Yield	1.99%	3.45%	2.24%	6.04%	2.82%	3.45%
Value Score	F	-	-	F	F	B
Cash/Price	0.26	0.26	0.06	0.26	1.36	1.07
EV/EBITDA	7.12	6.09	11.46	8.35	-2.58	2.10
PEG Ratio	3.80	2.66	2.08	2.48	2.84	NA
Price/Book (P/B)	2.05	0.80	2.58	0.52	0.83	0.52
Price/Cash Flow (P/CF)	12.51	6.43	10.15	4.27	6.43	4.11
P/E (F1)	20.90	9.24	17.24	19.84	12.82	9.58
Price/Sales (P/S)	4.22	1.80	1.99	1.20	1.67	1.04
Earnings Yield	4.74%	10.83%	5.64%	5.03%	7.79%	10.45%
Debt/Equity	0.00	0.39	0.70	1.02	0.04	0.50
Cash Flow (\$/share)	4.35	2.79	7.01	2.79	6.85	7.90
Growth Score	D	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	15.65%	14.63%	10.92%	15.14%	14.60%	19.10%
Proj. EPS Growth (F1/F0)	-27.93%	-14.69%	-2.92%	-69.47%	-31.18%	-43.82%
Curr. Cash Flow Growth	-1.69%	13.30%	5.93%	-1.86%	12.97%	7.75%
Hist. Cash Flow Growth (3-5 yrs)	8.41%	16.06%	8.55%	9.43%	9.00%	18.77%
Current Ratio	0.73	0.91	1.24	0.94	0.71	0.98
Debt/Capital	0.08%	28.17%	42.36%	48.75%	3.61%	32.57%
Net Margin	29.06%	23.35%	11.64%	20.79%	18.89%	19.85%
Return on Equity	14.18%	10.86%	16.74%	9.17%	9.80%	10.50%
Sales/Assets	0.06	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-3.57%	0.00%	0.00%	-3.97%	-0.96%	-1.49%
Momentum Score	F	-	-	C	B	D
Daily Price Chg	-3.03%	-4.82%	-3.26%	-7.59%	-6.50%	-9.91%
1 Week Price Chg	21.49%	15.71%	16.01%	25.52%	17.82%	28.04%
4 Week Price Chg	-11.34%	0.00%	16.73%	2.93%	-5.66%	33.48%
12 Week Price Chg	-20.82%	-35.52%	-22.44%	-43.25%	-33.74%	-50.26%
52 Week Price Chg	-4.47%	-30.70%	-14.41%	-47.38%	-34.61%	-58.15%
20 Day Average Volume	600,220	67,754	3,301,889	1,659,268	352,138	953,115
(F1) EPS Est 1 week change	-12.84%	0.00%	0.00%	-52.05%	0.00%	-25.39%
(F1) EPS Est 4 week change	-23.67%	-13.99%	-6.78%	-66.08%	-22.87%	-36.50%
(F1) EPS Est 12 week change	-24.08%	-15.17%	-9.07%	-66.69%	-22.97%	-45.10%
(Q1) EPS Est Mthly Chg	-33.58%	-11.66%	-11.31%	-85.80%	-17.52%	-44.80%

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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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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