

Commerce Bancshares (CBSH)

\$57.27 (As of 05/19/20)

Price Target (6-12 Months): **\$60.00**

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:F

Value: D

Growth: F

Momentum: F

Summary

Commerce Bancshares' earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Its first-quarter 2020 results were adversely impacted by a drastic rise in provisions. Decline in interest rates to near zero and the Federal Reserve's accommodative policy will likely hurt revenues to some extent. The company's significant exposure to risky loans is a concern. Also, persistently increasing expenses — mainly due to higher compensation costs — are likely to impede bottom-line growth to an extent. However, shares of the bank have outperformed the industry so far this year. Moreover, solid growth in loan and deposit balances, and the company's efforts to increase fee income will likely continue supporting profitability. Its efficient capital deployment activities indicate a solid capital position.

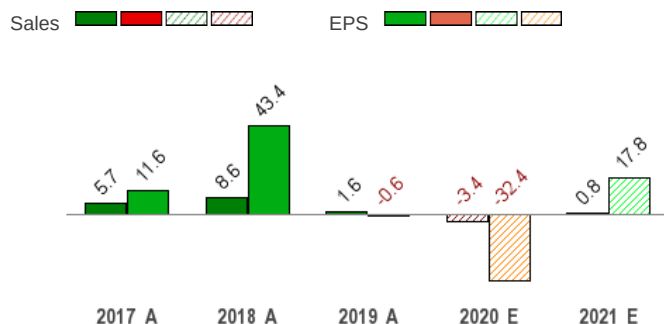
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.92 - \$45.51
20 Day Average Volume (sh)	495,551
Market Cap	\$6.4 B
YTD Price Change	-15.7%
Beta	1.03
Dividend / Div Yld	\$1.08 / 1.9%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-4.3%
Expected Report Date	07/21/2020
Earnings ESP	1.5%
P/E TTM	17.3
P/E F1	23.7
PEG F1	NA
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	304 E	312 E	313 E	314 E	1,311 E
2020	325 A	323 E	329 E	326 E	1,300 E
2019	325 A	339 A	336 A	346 A	1,346 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.72 E	\$0.78 E	\$0.79 E	\$0.80 E	\$2.85 E
2020	\$0.44 A	\$0.51 E	\$0.66 E	\$0.60 E	\$2.42 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 05/19/2020. The reports text is as of 05/20/2020.

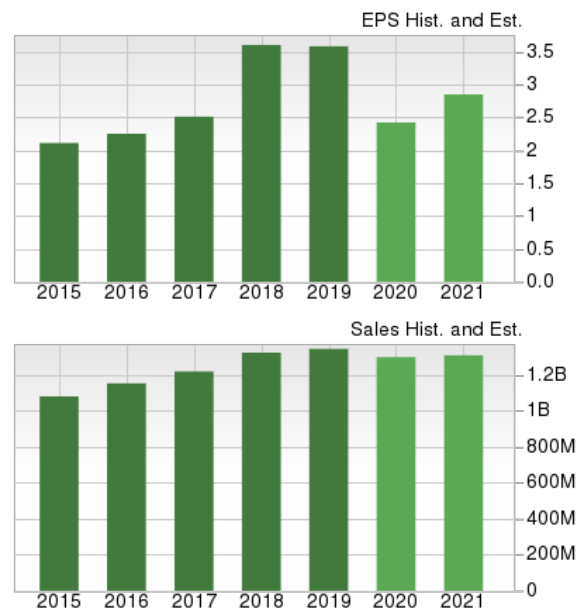
Overview

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 Mar 31, 2020, the company's total loans were \$15.1 billion, total deposits amounted to \$20.8 billion and stockholders' equity was \$3.3 billion.



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. Notably, revenues were relatively stable on a year-over-year basis in the first quarter of 2020. 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. As of Mar 31, 2020, 3.6 million shares were left to be repurchased. Given a strong capital position and earnings strength, the company will likely be able to sustain the current 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 12.44% compares favorably with the industry average of 10.14%.

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 over the last three years, the same declined in 2019, with the trend continuing in first-quarter 2020. 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 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%. A similar trend persisted in the first quarter. The rise was mainly due to higher salaries and employee benefit costs. Overall expenses are expected to remain elevated owing to the company's strategy to invest in technology upgrades.
- ▼ As of Mar 31, 2020, Commerce Bancshares had total debt worth \$2.18 billion while its cash and cash equivalents and due from banks totaled \$401.2 million. Moreover, its times-interest-earned ratio of 17.87 in first-quarter 2020 declined on a sequential basis. Also, the total debt to total capital of 18.9% in first-quarter 2020 deteriorated on a sequential basis. Thus, the company has a higher credit risk and may not be able to make debt repayments if economic situation worsens.
- ▼ Commerce Bancshares has significant exposure to revolving home equity and real estate loans. As of Mar 31, 2020, the company's exposure to these loan portfolios was 44.1% 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 4.3% downward 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. Thus, given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

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 Q1 Earnings Lag on Higher Provisions

Commerce Bancshares, Inc.'s first-quarter 2020 earnings per share of 44 cents lagged the Zacks Consensus Estimate of 50 cents. Also, the bottom line represents a decline of 45.7% from the prior-year quarter.

Results were primarily hurt because of a significant increase in provisions. Moreover, higher expenses and lower net interest income (NII) were the undermining factors. Nevertheless, improvement in non-interest income supported results to some extent. Moreover, the balance sheet position remained strong during the quarter.

Net income attributable to common shareholders was \$49.6 million, down 47.7% from the prior-year quarter.

Revenues Stable, Expenses Rise

Total revenues were \$324.7 million, reflecting no change from the prior-year quarter. The top line surpassed the Zacks Consensus Estimate of \$323.5 million.

NII was \$201.1 million, down 1.2% year over year. Net yield on interest-earning assets declined to 3.33% from 3.52% recorded in the prior-year quarter.

Non-interest income was \$123.7 million, up 2% year over year. The rise was due to an improvement in almost all fee income components, except for loan fees and sales, and other revenues.

Non-interest expenses rose 1.2% year over year to \$193.7 million. The rise was due to an increase in all expense components, except for costs related to supplies and communication, and other expenses.

The efficiency ratio increased to 59.17% from 58.76% reported in the year-ago quarter. A rise in efficiency ratio indicates lower profitability.

Strong Balance Sheet

As of Mar 31, 2020, total loans were \$15.1 billion, up 2.3% from the prior quarter. Total deposits as of the same date were \$20.8 billion, up 1.2% from the previous quarter.

Total stockholders' equity was \$3.3 billion as of Mar 31, 2020, reflecting a rise of 3.7% from the prior quarter end.

Credit Quality: A Mixed Bag

Provision for credit losses for the reported quarter was \$58 million, up significantly from \$12.5 million recorded in the prior-year quarter.

The ratio of net loan charge-offs to average loans was 0.30%, down from 0.34% witnessed in the prior-year quarter. Allowance for loan losses as a percentage of total loans was 1.14%, unchanged year over year.

Capital Ratios Mixed, Profitability Ratios Worsen

As of Mar 31, 2020, Tier I leverage ratio was 11.13%, down from 11.67% recorded in the year-ago quarter. However, tangible common equity to tangible assets ratio grew to 11.13% from 11.06%.

At the end of the reported quarter, return on average assets was 0.80%, down from 1.58% witnessed in the year-ago quarter. Return on average common equity was 6.48%, down from 13.64% recorded in the prior-year quarter.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	0.38%
EPS Surprise	-12.00%
Quarterly EPS	0.44
Annual EPS (TTM)	3.22

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 15.7% in the year-to-date period and 0.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 36.5% and 26.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 30.0% and 19.6%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period and up 3.0% in the past year.

The stock is currently trading at 22.15X forward 12 months earnings, which compares to 13.25X for the Zacks sub-industry, 15.39X for the Zacks sector and 21.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.89X and as low as 13.81X, with a 5-year median of 17.21X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 23.26X 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	22.15	13.25	15.39	21.51
	5-Year High	23.89	16.92	16.18	21.51
	5-Year Low	13.81	9.51	11.58	15.23
	5-Year Median	17.21	13.58	13.94	17.49
P/TB TTM	Current	2.16	1.9	3.46	11.64
	5-Year High	3.08	3.94	4	12.77
	5-Year Low	1.78	1.66	2	5.97
	5-Year Median	2.41	2.95	3.49	9.21
P/S F12M	Current	4.9	3.36	5.81	3.34
	5-Year High	5.98	6.05	6.7	3.44
	5-Year Low	3.16	3.17	4.99	2.53
	5-Year Median	4.66		6.05	3.01

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
First Interstate BancSystem, Inc. (FIBK)	Neutral	4
Heartland Financial USA, Inc. (HTLF)	Neutral	4
Old National Bancorp (ONB)	Neutral	3
Wintrust Financial Corporation (WTFC)	Neutral	3
Associated BancCorp (ASB)	Underperform	4
First Financial Bancorp. (FFBC)	Underperform	5
First Midwest Bancorp, Inc. (FMBI)	Underperform	4
UMB Financial Corporation (UMBF)	Underperform	4

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	CBSH	X Industry	S&P 500	ASB	UMBF	WTFC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	F	-	-	F	F	D
Market Cap	6.39 B	277.62 M	19.91 B	1.96 B	2.14 B	2.05 B
# of Analysts	9	4	14	8	4	8
Dividend Yield	1.89%	3.41%	2.14%	5.73%	2.79%	3.15%
Value Score	D	-	-	D	F	C
Cash/Price	0.29	0.39	0.07	0.36	1.10	1.22
EV/EBITDA	8.78	5.18	12.09	8.41	-0.09	3.56
PEG Ratio	NA	3.48	2.68	1.95	4.25	NA
Price/Book (P/B)	2.07	0.78	2.75	0.56	0.80	0.57
Price/Cash Flow (P/CF)	13.17	6.37	10.68	4.50	6.48	4.50
P/E (F1)	24.41	11.51	19.96	15.63	19.19	9.78
Price/Sales (P/S)	4.42	1.73	2.01	1.29	1.67	1.12
Earnings Yield	4.23%	8.70%	4.83%	6.37%	5.21%	10.21%
Debt/Equity	0.24	0.37	0.76	1.07	0.05	0.66
Cash Flow (\$/share)	4.35	2.79	7.01	2.79	6.85	7.90
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	15.11%	14.00%	10.87%	14.51%	13.80%	18.50%
Proj. EPS Growth (F1/F0)	-32.34%	-31.66%	-10.48%	-59.20%	-53.66%	-39.74%
Curr. Cash Flow Growth	-1.69%	14.44%	5.51%	-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	0.75	0.91	1.28	0.96	0.69	0.99
Debt/Capital	18.87%	27.19%	44.46%	49.82%	4.37%	38.86%
Net Margin	26.01%	21.25%	10.59%	18.59%	14.24%	17.96%
Return on Equity	12.44%	10.14%	16.27%	8.13%	7.17%	9.49%
Sales/Assets	0.06	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-3.41%	0.00%	-2.49%	-2.72%	3.82%	4.40%
Momentum Score	F	-	-	A	D	C
Daily Price Chg	-3.00%	-4.88%	-1.38%	-5.28%	-6.21%	-4.51%
1 Week Price Chg	-7.87%	-9.06%	-4.56%	-14.38%	-8.42%	-15.73%
4 Week Price Chg	3.32%	-1.39%	6.08%	5.46%	-0.38%	6.02%
12 Week Price Chg	-12.74%	-32.82%	-13.96%	-31.78%	-29.59%	-40.08%
52 Week Price Chg	-0.24%	-31.69%	-7.85%	-42.60%	-34.62%	-51.13%
20 Day Average Volume	495,551	53,685	2,586,392	1,379,195	380,414	653,427
(F1) EPS Est 1 week change	-0.14%	0.00%	0.00%	0.00%	0.00%	-1.12%
(F1) EPS Est 4 week change	-4.34%	-9.21%	-4.62%	27.08%	-26.19%	7.27%
(F1) EPS Est 12 week change	-29.48%	-31.86%	-16.58%	-55.91%	-46.23%	-38.12%
(Q1) EPS Est Mthly Chg	1.33%	-15.56%	-10.10%	197.30%	-34.23%	2.28%

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	D
Growth Score	F
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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