

Commerce Bancshares (CBSH)

\$67.61 (As of 01/20/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/26/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

Shares of Commerce Bancshares have outperformed the industry over the past year. Its earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Solid loan and deposit balances, and efforts to grow fee income will likely aid the bank's revenues. The company's enhanced capital deployment plan (share buybacks and dividends) reflect strong balance sheet position and likely continue to enhance shareholder value. Yet, elevated operating expenses (due to higher compensation costs) are likely to hamper bottom-line growth to some extent. The bank's exposure to risky loan portfolios remains a major near-term concern as it will likely hamper financials. A stretched valuation indicates the stock's limited upside potential. Also, the earnings estimates have been going down ahead of its fourth quarter 2019 results.

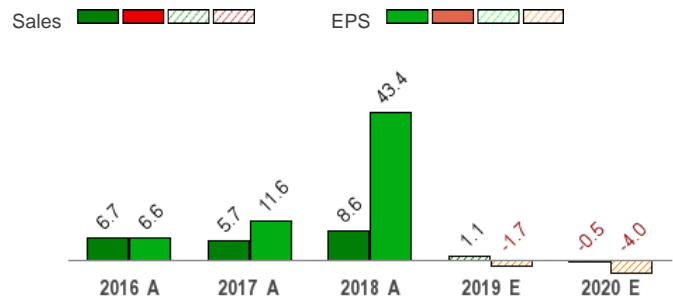
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.65 - \$52.05
20 Day Average Volume (sh)	413,633
Market Cap	\$7.6 B
YTD Price Change	-0.5%
Beta	0.78
Dividend / Div Yld	\$1.04 / 1.5%
Industry	Banks - Midwest
Zacks Industry Rank	Top 38% (96 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.4%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	01/22/2020
Earnings ESP	0.1%
P/E TTM	18.0
P/E F1	19.9
PEG F1	3.6
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	327 E	333 E	338 E	340 E	1,333 E
2019	325 A	339 A	336 A	333 E	1,340 E
2018	313 A	336 A	331 A	345 A	1,325 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.81 E	\$0.84 E	\$0.87 E	\$0.88 E	\$3.40 E
2019	\$0.81 A	\$0.91 A	\$0.93 A	\$0.88 E	\$3.54 E
2018	\$0.83 A	\$0.92 A	\$0.93 A	\$0.91 A	\$3.60 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 01/20/2020. The reports text is as of 01/21/2020.

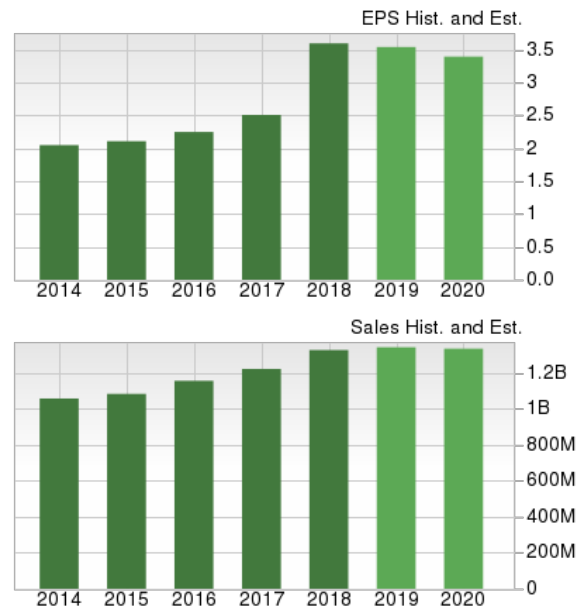
Overview

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 319 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 (constitutes 31.9% of total revenues in 2018) includes the retail branch network, indirect and other consumer financing, consumer debit and credit bank cards and student lending.
- The **Commercial** segment (constitutes 41.3% of total revenues in 2018) 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 (constitutes 16.6% of total revenues in 2018) 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 (constitutes 10.2% of total revenues in 2018) 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 Sep 30, 2019, the company's total loans were \$14.5 billion, total deposits amounted to \$20.3 billion and stockholders' equity was \$3.1 billion.



Reasons To Buy:

- ▲ After witnessing a declining trend in net yield on interest earning assets over the last several years, Commerce Bancshares recorded a rise in the same over the last three years — 3.53% in 2018, 3.19% in 2017 and 3.04% in 2016. Moreover, the uptrend continued in the first nine months of 2019 despite the decline in loan yields. Thus, given the consistent rise in loan demand, net yield on interest earning assets is expected to be positively impacted in the near term.
- ▲ 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 August 2019, it entered into an accelerated share repurchase agreement. As of Sep 30, 2019, nearly 2.6 million shares were left to be repurchased. Further, in November 2019, the company announced additional share buyback authorization, bringing the total shares to be repurchased to 5 million as of Nov 1, 2019. 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 14.52% compares favorably with the industry's average of 10.82%.

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:

- ▼ Mounting non-interest expenses continue to be a concern for Commerce Bancshares. The company witnessed an increase in the same, over the last six years (2013-2018), at a CAGR of 3.2%, with the trend continuing in the first nine months of 2019. 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 franchise.
- ▼ Commerce Bancshares has significant exposure to revolving home equity and real estate loans. As of Sep 30, 2019, the company's exposure to these loan portfolios was 43.8% 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 2019 earnings estimates have moved marginally down over the past 30 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 negative estimate revisions, the stock has limited upside potential.

Persistently increasing expenses and exposure to real estate loans remain matters of concern for Commerce Bancshares. Further, a stretched valuation indicates limited upside potential for the stock.

Last Earnings Report

Commerce Bancshares Q3 Earnings Beat Estimates, Costs Rise

Commerce Bancshares' third-quarter 2019 earnings per share of 98 cents surpassed the Zacks Consensus Estimate of 93 cents. The figure was in line with 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, an increase in expenses, lower net interest income and higher provisions were the undermining factors.

Net income attributable to common shareholders was \$107 million, down 3% from the prior-year quarter.

Revenues Improve, Expenses Rise

Total revenues for the quarter under review were \$336.3 million, reflecting a year-over-year increase of nearly 1.4%. However, the reported figure marginally lagged the Zacks Consensus Estimate of \$336.9 million.

Net interest income was \$203.5 million, down 2% year over year.

Non-interest income was \$132.7 million, up 7.3% year over year. The rise was due to an improvement in all components of fee income.

Non-interest expenses rose 3.2% year over year to \$191 million. The rise was due to an increase in almost all expense components, except for deposit insurance costs, community service costs and other expenses.

Efficiency ratio increased to 56.66% from 55.73% reported in the year-ago quarter. A rise in efficiency ratio indicates lower profitability.

Balance Sheet Strong

As of Sep 30, 2019, total loans were \$14.5 billion, up nearly 1.4% from the prior quarter. Total deposits as of the same date were nearly \$20.3 billion, up 2.4% from the previous quarter.

Total stockholders' equity was \$3.1 billion as of Sep 30, 2019, reflecting a decline from \$3.2 billion recorded in the prior quarter.

Credit Quality: A Mixed Bag

Provision for loan losses for the reported quarter was \$11 million, up 9.6% year over year. Moreover, the ratio of net loan charge-offs to average loans was 0.32%, up from 0.28% witnessed in the prior-year quarter. However, allowance for loan losses as a percentage of total loans was 1.11%, down 3 bps year over year.

Capital Ratios Mixed, Profitability Ratios Worsen

As of Sep 30, 2019, Tier I leverage ratio was 11.32%, down from 11.38% recorded in the year-ago quarter. However, tangible common equity to tangible assets ratio grew to 10.95% from 10.10%.

At the end of the reported quarter, return on average assets was 1.72%, down from 1.81% witnessed in the year-ago quarter. Return on average common equity was 14.21%, down from 16.43% in the prior-year quarter.

Share Repurchases

During the quarter, the company repurchased 581,685 shares of treasury stock for \$58.26 per share.

Quarter Ending **09/2019**

Report Date	Oct 16, 2019
Sales Surprise	-0.19%
EPS Surprise	5.38%
Quarterly EPS	0.93
Annual EPS (TTM)	3.57

Recent News

Dividend Update

On Nov 1, 2019, Commerce Bancshares declared a quarterly cash dividend of 26 cents per share. The dividend was paid on Dec 18 to shareholders of record as of Dec 3.

Valuation

Commerce Bancshares' shares are up 18.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.3% and 11.7%, over the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 19.87X forward 12 months earnings, which compares to 12.65X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.19X 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 16.95X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$72 price target reflects 21.18X 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	19.87	12.65	14.73	19.19
	5-Year High	22.17	16.92	16.21	19.34
	5-Year Low	13.81	10.38	12.01	15.17
	5-Year Median	16.95	13.62	13.98	17.44
P/TBV TTM	Current	2.72	2.96	3.32	12.75
	5-Year High	3.08	3.94	3.98	12.75
	5-Year Low	1.78	2.08	2.44	6.03
	5-Year Median	2.39	2.95	3.46	9.08
P/S F12M	Current	5.71	5.05	6.53	3.57
	5-Year High	5.76	6.05	6.61	3.57
	5-Year Low	3.16	3.31	5.2	2.54
	5-Year Median	4.6	4.86	6.04	3

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 254)



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
Wintrust Financial Corporation (WTFC)	Neutral
Associated Banc-Corp (ASB)	Underperform

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	CBSH Neutral	X Industry	S&P 500	ASB Underperform	UMBF Neutral	WTFC Neutral
VGM Score	D	-	-	A	D	D
Market Cap	7.62 B	474.00 M	24.65 B	3.37 B	3.33 B	3.94 B
# of Analysts	7	3	13	6	5	8
Dividend Yield	1.54%	2.27%	1.73%	3.41%	1.83%	1.45%
Value Score	C	-	-	A	B	B
Cash/Price	0.23	0.21	0.04	0.23	0.41	0.69
EV/EBITDA	9.98	9.80	14.11	10.74	5.86	5.26
PEG Ratio	3.60	1.94	2.08	1.46	2.90	NA
Price/Book (P/B)	2.57	1.29	3.39	0.92	1.30	1.15
Price/Cash Flow (P/CF)	15.89	11.85	13.81	7.72	11.37	9.30
P/E (F1)	19.78	12.20	19.19	11.70	15.22	11.18
Price/Sales (P/S)	5.27	2.99	2.69	2.13	2.64	2.28
Earnings Yield	5.03%	8.22%	5.21%	8.57%	6.57%	8.94%
Debt/Equity	0.09	0.41	0.72	1.00	0.03	0.49
Cash Flow (\$/share)	4.26	2.56	6.94	2.74	5.97	7.42
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	15.00%	13.99%	10.56%	14.82%	13.70%	18.83%
Proj. EPS Growth (F1/F0)	-4.13%	-0.03%	7.57%	-5.62%	-6.31%	0.26%
Curr. Cash Flow Growth	30.57%	27.73%	14.73%	25.80%	2.75%	27.95%
Hist. Cash Flow Growth (3-5 yrs)	8.38%	12.16%	9.00%	8.41%	5.16%	20.25%
Current Ratio	0.73	0.92	1.24	0.94	0.68	1.00
Debt/Capital	7.65%	29.10%	42.99%	48.38%	3.28%	32.12%
Net Margin	29.34%	22.99%	11.14%	21.73%	16.06%	20.24%
Return on Equity	14.52%	10.82%	17.16%	9.71%	8.55%	10.65%
Sales/Assets	0.06	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-0.61%	2.42%	4.16%	-1.02%	1.16%	3.39%
Momentum Score	A	-	-	A	C	D
Daily Price Chg	0.27%	-0.07%	0.27%	0.28%	-0.78%	0.35%
1 Week Price Chg	-0.61%	-0.69%	0.39%	-3.95%	-2.34%	-3.02%
4 Week Price Chg	-0.29%	-1.36%	2.95%	-4.52%	-1.87%	-2.93%
12 Week Price Chg	9.89%	5.30%	7.76%	4.09%	3.62%	6.75%
52 Week Price Chg	17.48%	10.92%	22.29%	0.00%	0.91%	-6.17%
20 Day Average Volume	413,633	31,953	1,536,375	807,232	172,409	274,510
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.60%
(F1) EPS Est 4 week change	0.58%	0.00%	0.00%	0.19%	0.00%	0.47%
(F1) EPS Est 12 week change	-0.68%	-1.47%	-0.40%	-5.98%	-3.65%	-0.90%
(Q1) EPS Est Mthly Chg	-1.65%	0.00%	0.00%	0.00%	0.00%	-0.70%

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	A
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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