

Comerica Incorporated (CMA)

\$64.44 (As of 02/05/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: F

Summary

Shares of Comerica have underperformed the industry over the past six months. Yet, it has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate for earnings in three of the trailing four quarters. Fourth-quarter results reflect fee income growth and lower provisions, partially offset by elevated expenses. Comerica's prospects look promising as its revenues and efficiency initiatives will help boost financials. Moreover, rising non-interest income is likely to support top-line growth in the future. Also, steady capital deployment activities continue to enhance shareholders' confidence. However, escalating expenses, owing to rising salaries and benefit costs and investment in technology, continue to affect profitability. Further, exposure to challenging economies of California and Michigan is a concern.

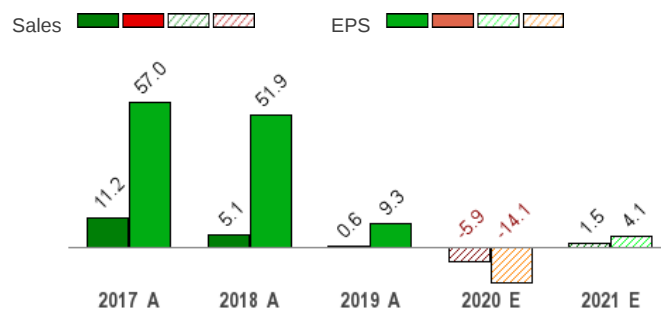
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.96 - \$58.54
20 Day Average Volume (sh)	1,805,013
Market Cap	\$9.3 B
YTD Price Change	-10.2%
Beta	1.55
Dividend / Div Yld	\$2.72 / 4.2%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 15% (38 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.3%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	04/21/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	782 E	797 E	809 E	813 E	3,196 E
2020	776 E	783 E	791 E	794 E	3,150 E
2019	844 A	853 A	842 A	810 A	3,349 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$1.75 E	\$1.80 E	\$1.81 E	\$7.04 E
2020	\$1.64 E	\$1.69 E	\$1.72 E	\$1.70 E	\$6.76 E
2019	\$2.08 A	\$1.94 A	\$1.93 A	\$1.85 A	\$7.87 A

*Quarterly figures may not add up to annual.

P/E TTM	8.3
P/E F1	9.5
PEG F1	1.4
P/S TTM	2.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

Overview

Headquartered in Dallas, TX, Comerica Incorporated is a banking and financial services company. The company delivers financial services in three primary geographic markets - Texas, California, Michigan, as well as Arizona and Florida. Also, the firm has operations in numerous other U.S. states as well as in Canada and Mexico. Comerica reports its results through the following business segments:

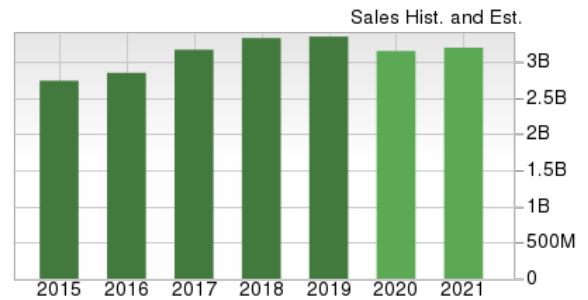
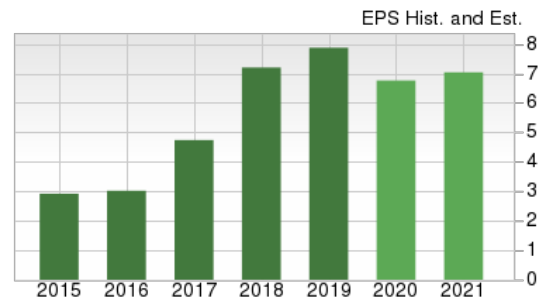
The **Business Bank** segment offers various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, foreign exchange management services and loan syndication services for small and middle market businesses, multinational corporations and governmental entities.

The **Retail Bank** segment includes small business banking and personal financial services, which consists of consumer lending, consumer deposit gathering and mortgage loan origination. This segment also provides consumer products, including deposit accounts, credit cards, home equity lines of credit and residential mortgage loans.

The **Wealth Management** segment offers products and services such as fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and discount securities brokerage services. Additionally, the sale of annuity products, life, disability and long-term care insurance products are offered by this segment.

Moreover, the **Finance** segment includes Comerica's securities portfolio and asset and liability management activities while the **Other** category includes discontinued operations, the income and expense impact of equity and cash and tax benefits not related to specific business segments.

As of Dec 31, 2019, Comerica had total assets of around \$73.4 billion, total loans of \$50.4 billion, total deposits of \$57.3 billion and shareholders' equity of approximately \$7.3 billion.



Reasons To Buy:

- ▲ Comerica's focus on improving operational efficiency led to the introduction of GEAR Up initiatives in mid-2016. Since the implementation of this initiative, the bank has consolidated 38 banking centers, reduced retirement plan expenses significantly and retrenched around 800 employees, among others. Execution of these initiatives resulted in an efficiency ratio of 51.8% in 2019, improving from 53.6% in 2018, 58.6% in 2017 and 67.5% in 2016. Further, return on equity improved to 16.4% in 2019 from 15.8% in 2018, 9.3% in 2017 and 6.2% in 2016. Also, the company remains on track to generate higher revenues through product enhancements, enhanced sales tools and training and improved customer analytics to drive opportunities.
- ▲ With the relatively higher interest rate environment, margin pressure for Comerica eased. Since 2016, the company has reported a rise in net interest margin (NIM) after years of decline. Also, it has been benefiting from improved loan yields. Though margin declined slightly in 2019 due to lower rates, the bank's key metric might continue to benefit from improving lending scenario in the quarters ahead.
- ▲ Comerica remains focused on its revenue growth strategy. Net interest income (NII) witnessed a CAGR of 5.3% over the last five years (2015-2019). We remain optimistic of the company's income generation capability, given the implementation of strategic initiatives. Also, total loans have increased at a five-year CAGR of about 1% (ended 2019). With the improving economy, the company's loans balance is expected to continue improving, thereby aiding NII growth.
- ▲ Comerica's capital deployment activities are encouraging. In January 2020, the board of directors hiked quarterly dividend by 1.5%. Also, last November, the company announced an additional share-buyback plan, with authorization to repurchase 7 million shares. Moreover, the company's improving performance reflects the fact that such capital deployment activities are sustainable in the future.
- ▲ Comerica's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 16.2% compares favorably with 11.95% for the industry.
- ▲ Comerica seems undervalued when compared with the broader industry. Its current price-to-cash flow (P/CF) and price-earnings (P/E) (F1) ratios are below the respective industry averages. Also, Comerica has a Value Score of A.

Comerica's focus on revenue enhancing initiatives might drive operational efficiency. Also, it benefits from a strong capital position. Sustainable capital deployment activities are a tailwind.

Reasons To Sell:

- ▼ Comerica's non-interest expenses saw a CAGR of 2.7% over the five years (ended 2018) due to rising salaries and benefits expense, restructuring charges and changes in accounting presentation. Though expenses decreased 2.8% in 2019 due to the GEAR Up initiatives, continued investments in technology might escalate expenses, hindering bottom-line expansion. Also, management expects expenses to increase about 3% in 2020.
- ▼ Though Comerica is trying to diversify its geographical footprint, it still derives the major part of its total revenue from California and Michigan, where the economic environment has continued to be increasingly challenging over the past few years. While an improving environment is visible in these regions, any significant turnaround still remains elusive, thereby restricting significant earnings power from these regions.
- ▼ Comerica has substantial exposure to commercial and real estate construction loans. As of Dec 31, 2019, the company's exposure to the loan portfolio was approximately 88% of the total loans. Such high exposure to commercial loans depicts lack of diversification which can be risky for the company amid challenging economy and competitive markets.
- ▼ Shares of Comerica have underperformed the industry over the past six months. With this unfavorable trend, the company's earnings estimates for the current year have moved 2.9% downward over the past 30 days. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

Comerica's exposure to challenging economies of California and Michigan remains a concern. Further, rising expenses through continued investments in technology deter bottom line growth.

Last Earnings Report

Comerica Q4 Earnings Beat Estimates, Revenues Down Y/Y

Comerica delivered positive earnings surprise of 6.3% in fourth-quarter 2019. Earnings per share of \$1.85 surpassed the Zacks Consensus Estimate of \$1.74. Earnings, however, came in lower than the prior-year quarter figure of \$1.95.

Higher non-interest income and lower provisions were recorded. Moreover, rise in deposits was a tailwind. Yet, lower loans and rise in expenses were undermining factors. Further, decline in net interest income was a major drag.

Net income came in at \$269 million in the quarter, down 13.2% year over year.

Furthermore, segment wise, on a year-over-year basis, net income decreased 3% at Business Bank, 52.2% at Retail Bank and 9.4% at Wealth Management. The Finance segment reported net loss against the income recorded in the prior-year quarter.

In full-year 2019, adjusted net income was \$1.19 billion or \$7.81 per share compared with the prior year's \$1.24 billion or \$7.24 per share. Earnings per share surpassed the Zacks Consensus Estimate of \$7.74. Notably, the 2019 results include securities repositioning charge and discrete tax items.

Revenues Down, Expenses Escalate

Comerica's fourth-quarter net revenues were \$810 million, down 6.3% year over year. However, the figure surpassed the Zacks Consensus Estimate of \$802 million.

In full-year 2019, the company reported net revenues of \$3.35 billion, slightly up year over year. Further, it beat the Zacks Consensus Estimate of \$3.34 billion.

Net interest income slipped 11.4% on a year-over-year basis to \$544 million in the quarter. In addition, net interest margin contracted 49 basis points (bps) to 3.20%.

Total non-interest income came in at \$266 million, up 6.4% on a year-over-year basis. Higher fiduciary income, commercial lending fees and other non-interest income mainly aided the results, partly mitigated by decrease in card fees and service charges on deposit accounts.

In addition, non-interest expenses totaled \$451 million, slightly up year over year. The upswing resulted mainly from higher salaries and benefits expense, outside processing fee expense and other non-interest expenses.

Adjusted efficiency ratio was 55.46% compared with the prior-year quarter's 51.93%. A rise in ratio indicates a fall in profitability.

Solid Balance Sheet

As of Dec 31, 2019, total assets and common shareholders' equity were \$73.4 billion and \$7.3 billion, respectively, compared with \$70.8 billion and \$7.5 billion as of Dec 31, 2018.

Total loans were down 2.1% on a sequential basis to \$50.4 billion. However, total deposits inched up around 1% from the prior quarter to \$57.3 billion.

Credit Quality: A Mixed Bag

Credit metrics were a mixed bag during the reported quarter. Total non-performing assets dropped 6.5% year over year to \$215 million. Also, allowance for loan losses was \$637 million, down 5.1% from the prior-year period. Additionally, allowance for loan losses to total loans ratio was 1.27% as of Dec 31, 2019, down from 1.34% as of Dec 31, 2018.

In addition, provision for credit losses came in at \$8 million, plunging 50% from the prior-year quarter. However, net loan charge-offs surged 90.9% on a year-over-year basis to \$21 million.

Strong Capital Position

As of Dec 31, 2019, the company's tangible common equity ratio was 9.19%, down 59 bps year over year. Common equity Tier 1 capital ratio was 10.14%, down from the 11.14% reported in the year-ago quarter. Total risk-based capital ratio was 12.13%, down from the prior-year quarter's 13.21%.

Capital Deployment Update

Comerica's capital-deployment initiatives highlight the company's capital strength. During 2019, the bank repurchased 18.6 million shares for \$1.4 billion under its existing share repurchase program. This, combined with dividends, resulted in a total payout of \$1.8 billion to shareholders in the year.

Notably, during the reported quarter, Comerica repurchased 2.1 million shares for \$150 million under its existing equity repurchase program. This, combined with dividends, resulted in a total payout of \$246 million to shareholders.

Impressive Outlook for 2020

Comerica has guided for full-year 2020, taking into consideration the current economic and rate environment.

Quarter Ending **12/2019**

Report Date	Jan 21, 2020
Sales Surprise	1.03%
EPS Surprise	6.32%
Quarterly EPS	1.85
Annual EPS (TTM)	7.80

Comerica expects average loans to be up 2-3%. The outlook reflects growth across most lines of business, partly offset by declines in Mortgage Banker Finance and National Dealer Services. Further, average deposits are likely to be up 1-2%, with the focus on attracting and holding relationship-based deposits.

The company expects lower net interest income, impacted by lower interest rates, funding actions in the prior year and softer non-accrual interest recoveries (down \$6-8 million), partially muted by loan growth. Notably, management expects \$10-\$15 million reduction sequentially in the first quarter, while slight decline is anticipated for the remainder of 2020.

Non-interest income is predicted to be up 1%, driven by growth in card fees and fiduciary income, partially mitigated by reduced derivative and warrant income, with the assumption of no returns on deferred compensation assets.

Non-interest expenses are estimated to jump 3% due to higher outside processing expenses, in line with growing revenues, technology costs, inflationary pressures and elevated pension expense.

Net charge-offs are anticipated to be at the 2019 levels of 15-25 bps, with persistent solid credit quality.

Income tax expenses are expected to be approximately 23% of pre-tax income.

Common equity Tier 1 capital ratio is targeted at 10%.

Recent News

Comerica Decreases Its Prime Lending Rate by 25 Bps - Oct 30, 2019

Pursuant to the Federal Reserve's interest rate cut by 25 bps, Comerica reduced its prime lending rate from 5% to 4.75%, effective Oct 31. Previously, in September, the company had reduced rate to 5%.

Dividend Update

On Jan 28, Comerica announced a quarterly cash dividend of 68 cents per share, up 1.5% from previous payout. The dividend will be paid on Apr 1 to shareholders on record as of Mar 13.

Valuation

Comerica's shares are down 22.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 18.8% and 9.7% over the past year, respectively.

The S&P 500 Index is up 21% in the past year.

The stock is currently trading at 9.5X forward 12 months earnings, which compares to 11.56X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.09X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.21X and as low as 7.42X, with a 5-year median of 13.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$68 price target reflects 9.47X forward earnings.

The table below shows summary valuation data for CMA

Valuation Multiples - CMA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.5	11.56	14.92	19.09
	5-Year High	23.21	13.85	16.21	19.34
	5-Year Low	7.42	9.04	12.01	15.18
	5-Year Median	13.86	11.49	14.07	17.46
P/TB TTM	Current	1.27	2.3	3.3	12.75
	5-Year High	2.28	2.68	3.98	12.75
	5-Year Low	0.74	1.44	2.44	6.03
	5-Year Median	1.51	2.11	3.46	9.1
P/S F12M	Current	2.95	3.97	6.53	3.54
	5-Year High	5.23	4.59	6.61	3.54
	5-Year Low	1.85	2.61	5.39	2.54
	5-Year Median	3.29	3.59	6.04	3

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 255)



Top Peers

BankUnited, Inc. (BKU)	Neutral
East West Bancorp, Inc. (EWBC)	Neutral
Fifth Third Bancorp (FITB)	Neutral
First Republic Bank (FRC)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
M&T Bank Corporation (MTB)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
Regions Financial Corporation (RF)	Neutral

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	CMA Neutral	X Industry	S&P 500	FITB Neutral	HBAN Neutral	MTB Neutral
VGM Score	C	-	-	D	D	D
Market Cap	9.29 B	41.71 B	24.26 B	21.42 B	14.55 B	22.83 B
# of Analysts	12	8	13	11	11	8
Dividend Yield	4.16%	2.71%	1.75%	3.18%	4.26%	2.54%
Value Score	A	-	-	B	B	B
Cash/Price	0.68	0.68	0.04	0.27	0.10	0.41
EV/EBITDA	5.87	5.87	14.19	8.99	9.73	7.47
PEG Ratio	1.36	1.42	2.04	1.42	1.90	2.09
Price/Book (P/B)	1.27	1.29	3.31	1.10	1.37	1.58
Price/Cash Flow (P/CF)	7.63	10.63	13.70	9.01	9.97	11.72
P/E (F1)	9.47	11.56	19.17	10.19	10.98	12.36
Price/Sales (P/S)	2.43	2.56	2.67	2.19	2.57	3.29
Earnings Yield	10.49%	8.65%	5.22%	9.81%	9.08%	8.09%
Debt/Equity	0.99	0.86	0.71	0.77	0.93	0.48
Cash Flow (\$/share)	8.45	5.04	6.92	3.35	1.41	14.77
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	30.93%	13.58%	10.80%	13.58%	12.41%	17.92%
Proj. EPS Growth (F1/F0)	-14.11%	4.22%	7.35%	6.96%	1.00%	1.85%
Curr. Cash Flow Growth	40.97%	-1.79%	10.12%	-9.51%	-22.59%	-7.87%
Hist. Cash Flow Growth (3-5 yrs)	14.77%	7.08%	8.55%	-1.28%	7.58%	8.67%
Current Ratio	1.03	0.91	1.20	0.88	0.90	1.02
Debt/Capital	49.80%	43.35%	42.91%	41.38%	45.51%	30.77%
Net Margin	31.33%	22.06%	11.79%	25.65%	24.95%	27.79%
Return on Equity	16.20%	11.95%	17.21%	10.96%	13.44%	13.37%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.06
Proj. Sales Growth (F1/F0)	-5.93%	0.82%	4.15%	-6.35%	1.85%	-1.61%
Momentum Score	F	-	-	D	F	C
Daily Price Chg	2.45%	2.39%	1.40%	2.37%	1.59%	1.47%
1 Week Price Chg	-5.52%	-2.55%	-2.60%	-1.35%	-1.09%	-1.73%
4 Week Price Chg	-7.52%	-2.12%	1.96%	0.87%	-3.03%	3.78%
12 Week Price Chg	-8.00%	1.24%	6.04%	1.24%	-3.92%	6.04%
52 Week Price Chg	-19.05%	12.95%	16.68%	12.95%	5.31%	7.04%
20 Day Average Volume	1,805,013	5,517,419	1,966,046	5,029,892	10,854,819	733,117
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.24%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.83%	0.15%	0.00%	0.02%	-2.41%	3.80%
(F1) EPS Est 12 week change	-3.77%	0.46%	-0.08%	0.43%	-2.76%	4.54%
(Q1) EPS Est Mthly Chg	-1.74%	-0.72%	0.00%	-6.00%	-3.68%	-0.40%

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	A
Growth Score	D
Momentum Score	F
VGM Score	C

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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