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Aug 10, 2020

Comerica Incorporated (CMA)

$41.44 (As of 08/07/20)

Price Target (6-12 Months): **$42.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/01/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: F | Momentum: C	**3-Hold** VGM:F

Summary

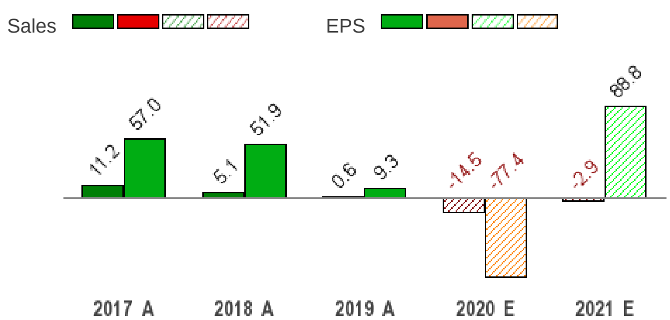
Shares of Comerica have outperformed the industry over the past three months. Also, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate for earnings in two of the trailing four quarters for as many misses. The second-quarter 2020 results reflected lower revenues, rise in expenses and provisions. Comerica's prospects look promising as revenues and efficiency initiatives are expected to help boost financials. Capital-deployment activities, including dividend hikes are impressive. Despite low rates, rising loans balance is likely to augment top-line expansion. Additionally, execution of GEAR Up initiatives is a tailwind for the company. Yet, escalating costs due to rising salaries, and investment in technology might affect profitability. Also, the lack of diversification in loans is a woe.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$73.43 - $24.28**
20 Day Average Volume (sh)	**1,810,119**
Market Cap	**$5.6 B**
YTD Price Change	**-44.2%**
Beta	**1.83**
Dividend / Div Yld	**$2.72 / 6.8%**
Industry	**Banks - Major Regional**
Zacks Industry Rank	**Bottom 15% (213 out of 252)**
Last EPS Surprise	**281.0%**
Last Sales Surprise	**3.8%**
EPS F1 Est- 4 week change	**67.5%**
Expected Report Date	**NA**
Earnings ESP	**-4.0%**
P/E TTM	**9.7**
P/E F1	**23.3**
PEG F1	**3.3**
P/S TTM	**1.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	684 E	691 E	699 E	703 E	2,780 E
2020	750 A	718 A	702 E	705 E	2,862 E
2019	844 A	853 A	842 A	810 A	3,349 A

EPS Estimates

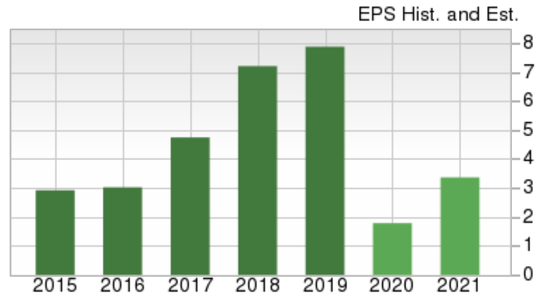
	Q1	Q2	Q3	Q4	Annual*
2021	$0.83 E	$0.84 E	$0.93 E	$0.98 E	$3.36 E
2020	-$0.46 A	$0.80 A	$0.73 E	$0.79 E	$1.78 E
2019	$2.08 A	$1.94 A	$1.93 A	$1.85 A	$7.87 A

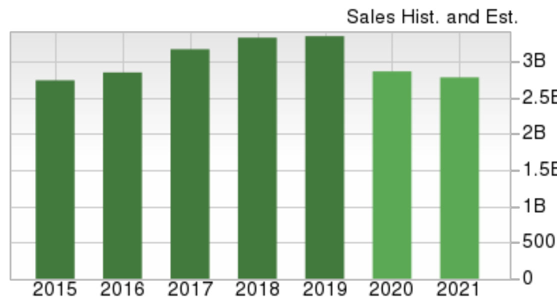
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

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 **Commercial 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 Jun 30, 2020, Comerica had total assets of $84.4 billion, total loans of $53.4 billion, total deposits of $67.7 billion and shareholders' equity of $7.8 billion.

Reasons To Buy:

> 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.

- ▲ 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. Though both metrics deteriorated in the first half of 2020 due to a challenging macroeconomic environment, the company remains on track to generate higher revenues through product enhancements, enhanced sales tools and training and improved customer analytics to drive opportunities.

- ▲ Since 2016, Comerica 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 and the first six months of 2020 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). While loans improved in the first half of 2020, NII declined on lower interest income. With the expected improvement in 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 and favorable debt-to-equity ratio when compared with the industry reflects the fact that such capital deployment activities are sustainable in the future. Notably, the company has temporarily suspended share buybacks, following the "unprecedented challenge" from the coronavirus pandemic.

- ▲ Shares of Comerica have outperformed the industry over the past three months. Moreover, the company's earnings estimates for the current year have moved 66.4% upward over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current price-to-cash flow (P/CF) and price-to-book value (P/B) ratios are below the respective industry averages. Therefore, given the strong fundamentals and positive estimates revision, the stock has decent upside potential.

Reasons To Sell:

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.

- 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 in 2019 due to the GEAR Up initiatives, it escalated in the first half of 2020 on continued investments in technology, hindering bottom-line expansion. Also, management expects expenses to flare up in the third quarter.

- As of Jun 30, 2020, the company held debt worth $7.3 billion which has remained volatile over the past few quarters. However, the company's time-interest-earned ratio has decreased in the past few quarters and is currently at 5.9X. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe Comerica has higher likelihood of default of interest and debt repayments if the economic situation worsens.

- 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 Jun 30, 2020, the company's exposure to the loan portfolio was approximately 89% 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.

Last Earnings Report

Comerica Q2 Earnings Miss Estimates on High Provisions

Quarter Ending	06/2020
Report Date	Jul 21, 2020
Sales Surprise	3.76%
EPS Surprise	280.95%
Quarterly EPS	0.80
Annual EPS (TTM)	4.12

Comerica has reported second-quarter 2020 earnings per share of 80 cents, significantly surpassing the Zacks Consensus Estimate of 21 cents. Earnings, however, came in lower than the prior-year quarter figure of $1.94.

Lower revenues, aided by reduction in net interest as well as non-interest income, were recorded. Moreover, rise in expenses and provisions were major drags. Nevertheless, rise in loans and deposits acted as tailwinds.

Net income came in at $113 million in the quarter, significantly down 62.1% year over year.

Furthermore, segment wise, on a year-over-year basis, net income decreased 26.5% at Commercial Bank and 64.1% at Wealth Management. The Retail and Finance segments reported net loss.

Revenues Down, Expenses Up

Comerica's second-quarter net revenues were $718 million, down 15.8% year over year. However, the revenue figure surpassed the Zacks Consensus Estimate of $692 million.

Net interest income slipped 21.9% on a year-over-year basis to $471 million in the quarter, on lower short-term rates, partially negated by elevated loan volumes. In addition, net interest margin contracted 116 basis points (bps) to 2.50%.

Total non-interest income came in at $247 million, down 1.2% on a year-over-year basis. Lower service charges on deposit accounts, commercial lending fees and other non-interest income mainly impacted the results, partly mitigated by increase in securities trading income, customer derivative income and card fees.

Non-interest expenses totaled $440 million, up 3.8% year over year. The upswing resulted chiefly from higher salaries and benefits expense, software expense and other non-interest expenses.

Efficiency ratio was 61.14% compared with the prior-year quarter's 49.65%. A rise in ratio indicates a fall in profitability.

Solid Balance Sheet

As of Jun 30, 2020, total assets and common shareholders' equity were $81.6 billion and $7.4 billion, respectively, compared with $70.5 billion and $7.4 billion as of Jun 30, 2019.

Total loans climbed 8% on a sequential basis to $53.5 billion. Also, total deposits jumped 13% from the prior quarter to $64.3 billion.

Credit Quality: A Concern

Credit metrics deteriorated during the June-end quarter. Total non-performing assets increased 21% year over year to $282 million. Also, allowance for loan losses was $1 billion, up 53.3% from the prior-year period. Additionally, the allowance for loan losses to total loans ratio was 1.88% as of Jun 30, 2020, up from 1.27% as of Jun 30, 2019.

Moreover, provision for credit losses came in at $138 million, more than doubled from the prior-year quarter, reflecting the expected impact of the COVID-19 pandemic and continued pressure on the Energy sector. Further, net loan charge-offs surged 51.5% on a year-over-year basis to $50 million.

Strong Capital Position

As of Jun 30, 2020, the company's tangible common equity ratio was 8.08%, down 122 bps year over year. Common equity Tier 1 capital ratio was 9.97%, down from the 10.18% reported in the year-ago quarter. Total capital ratio was 12.93%, up from the prior-year quarter's 12.17%.

Q3 Outlook Compared With Q2

Comerica has guided for third-quarter 2020, taking into consideration the recessionary conditions.

Comerica expects average loans to decline. The outlook reflects decline in Mortgage Banker Finance, Large Corporate and National Dealer Services, partly offset by lending to small businesses with a full-quarter benefit of PPP. Furthermore, average deposits are expected to be relatively stable on customers' utilization of economic stimulus proceeds.

The company projects lower net interest income, unusually impacted by lower interest rates (assuming 1-month LIBOR of 17 basis points and deposit cost of 20 basis points) and reduced loan balances, partly offset by reduced wholesale debt and one additional day. Notably, management expects $10-15 million reduction sequentially in the September-end quarter.

Non-interest income will likely decline on lower card fees related to transaction activity and reduced market-based investment banking and derivative fees, partially mitigated by elevated service charges on deposit accounts due to increased activity. Remarkably, higher securities trading income and deferred compensation levels recorded in the second quarter are not expected in the third.

Non-interest expenses are estimated to flare up, resulting from higher costs related to technology and occupancy projects, as well as higher charitable contributions and seasonal impacts of marketing and staff insurance expenses. This will be mostly negated by continued expense discipline and reduction in COVID-19-related costs.

Provisions for credit losses are expected to be reflective of economic environment, including the impact of the duration and sternness of the pandemic.

Recent News

Dividend Update

On Jul 28, Comerica announced a quarterly cash dividend of 68 cents per share. The dividend will be paid on Oct 1 to shareholders of record as of Sep 15.

Valuation

Comerica's shares are down 44.2% in the year-to-date period and 34.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.7% and 6.8%, respectively.

The S&P 500 Index is up 4.1% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 14.59X forward 12 months earnings, which compares to 13.50X for the Zacks sub-industry, 16.67X for the Zacks sector and 22.81X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.21X and as low as 4.39X, with a 5-year median of 13.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $42 price target reflects 15.31X 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	14.59	13.5	16.67	22.81
	5-Year High	23.21	14.2	16.67	22.81
	5-Year Low	4.39	8.01	11.59	15.25
	5-Year Median	13.53	11.3	14.21	17.55
P/TB TTM	Current	0.75	1.54	3.43	15.12
	5-Year High	2.28	2.68	4	15.12
	5-Year Low	0.49	1.21	2.01	5.96
	5-Year Median	1.51	2.11	3.48	9.56
P/S F12M	Current	1.98	2.82	6.05	3.67
	5-Year High	5.23	4.59	6.66	3.67
	5-Year Low	1.29	2.39	4.97	2.53
	5-Year Median	3.27	3.59	6.06	3.04

As of 08/07/2020

Industry Analysis **Zacks Industry Rank:** Bottom 15% (213 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank **(FRC)**	Outperform	3
BankUnited, Inc. **(BKU)**	Neutral	3
East West Bancorp, Inc. **(EWBC)**	Neutral	3
Huntington Bancshares Incorporated **(HBAN)**	Neutral	3
MT Bank Corporation **(MTB)**	Neutral	3
Peoples United Financial, Inc. **(PBCT)**	Neutral	4
Regions Financial Corporation **(RF)**	Neutral	4
Fifth Third Bancorp **(FITB)**	Underperform	4

Industry Comparison Industry: Banks - Major Regional

Industry Peers

	CMA	X Industry	S&P 500	FITB	HBAN	MTB
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	F	-	-	C	C	D
Market Cap	5.56 B	33.43 B	23.30 B	14.56 B	9.83 B	13.80 B
# of Analysts	12	9	14	9	11	7
Dividend Yield	6.80%	4.09%	1.76%	5.28%	6.21%	4.09%
Value Score	D	-	-	C	A	C
Cash/Price	2.51	2.51	0.07	2.26	0.68	1.73
EV/EBITDA	-0.53	-0.69	13.32	0.16	6.07	-0.69
PEG Ratio	3.33	2.32	2.94	1.77	3.31	4.27
Price/Book (P/B)	0.75	0.85	3.19	0.71	0.93	0.94
Price/Cash Flow (P/CF)	4.43	6.53	12.51	5.62	5.55	6.37
P/E (F1)	23.28	14.40	22.02	14.60	16.30	12.01
Price/Sales (P/S)	1.59	1.90	2.53	1.58	1.80	2.08
Earnings Yield	4.45%	6.94%	4.37%	6.85%	6.11%	8.33%
Debt/Equity	0.88	0.88	0.77	0.79	0.92	0.43
Cash Flow ($/share)	9.04	6.63	6.94	3.64	1.74	16.90
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	25.58%	10.96%	10.46%	10.96%	8.14%	16.43%
Proj. EPS Growth (F1/F0)	-73.76%	-43.93%	-6.80%	489.19%	-53.33%	6,993.38%
Curr. Cash Flow Growth	-4.61%	2.66%	5.39%	17.50%	-4.72%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	12.59%	9.49%	8.55%	6.10%	12.14%	11.65%
Current Ratio	1.02	0.90	1.33	0.90	0.92	1.07
Debt/Capital	45.53%	44.79%	44.50%	42.23%	44.20%	28.39%
Net Margin	17.42%	18.16%	10.13%	16.55%	16.27%	22.36%
Return on Equity	8.22%	8.52%	14.39%	7.37%	8.35%	10.22%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-14.54%	-1.23%	-1.51%	-9.39%	1.65%	-4.89%
Momentum Score	C	-	-	A	B	B
Daily Price Chg	4.96%	3.42%	0.90%	3.41%	3.87%	3.90%
1 Week Price Chg	2.94%	-0.16%	0.14%	1.64%	-3.44%	0.78%
4 Week Price Chg	19.82%	12.83%	8.95%	17.60%	19.85%	13.02%
12 Week Price Chg	26.81%	20.27%	18.90%	25.23%	25.29%	16.49%
52 Week Price Chg	-36.70%	-21.91%	1.18%	-23.81%	-25.69%	-29.61%
20 Day Average Volume	1,810,119	5,680,953	2,057,775	5,944,984	9,173,882	821,318
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	67.53%	12.35%	1.36%	12.35%	37.55%	18.94%
(F1) EPS Est 12 week change	56.76%	10.49%	1.57%	6.38%	37.26%	14.00%
(Q1) EPS Est Mthly Chg	57.92%	29.63%	0.54%	-1.49%	31.39%	23.41%

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	C
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.

Disclosures

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