

Comerica Incorporated (CMA)

\$35.20 (As of 04/28/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Shares of Comerica have underperformed the industry over the past six months. The company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate for earnings in two of the trailing four quarters. First-quarter results reflect lower interest income and deterioration of credit quality. The company's escalating costs due to rising salaries, and investment in technology might affect profitability. Also, exposure to challenging economies of California and Michigan is concerning. Though its prospects look promising as revenues and efficiency initiatives are expected to help boost financials, the lack of diversification in loans is a woe. Notably, it has temporarily suspended share buybacks through the second quarter of 2020, following the coronavirus pandemic. Also, it faces credit risk in case of any economic downturn.

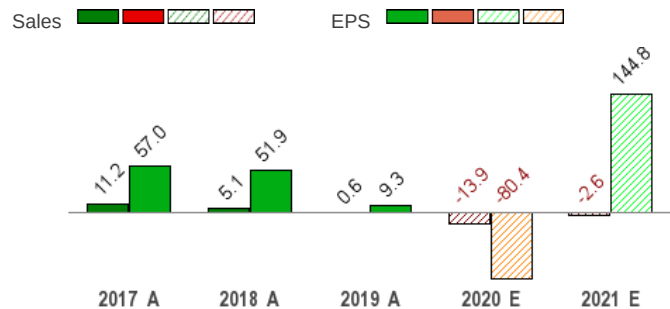
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.13 - \$24.28
20 Day Average Volume (sh)	3,215,435
Market Cap	\$4.9 B
YTD Price Change	-50.9%
Beta	1.88
Dividend / Div Yld	\$2.72 / 7.7%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 1% (250 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-159.7%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-71.4%
Expected Report Date	07/15/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	684 E	696 E	707 E	713 E	2,807 E
2020	750 A	701 E	697 E	699 E	2,883 E
2019	844 A	853 A	842 A	810 A	3,349 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.90 E	\$0.96 E	\$1.03 E	\$1.04 E	\$3.77 E
2020	-\$0.46 A	\$0.47 E	\$0.46 E	\$0.60 E	\$1.54 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	6.7
P/E F1	22.9
PEG F1	3.3
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/28/2020. The reports text is as of 04/29/2020.

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:

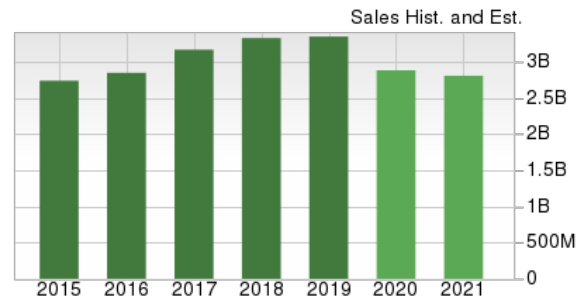
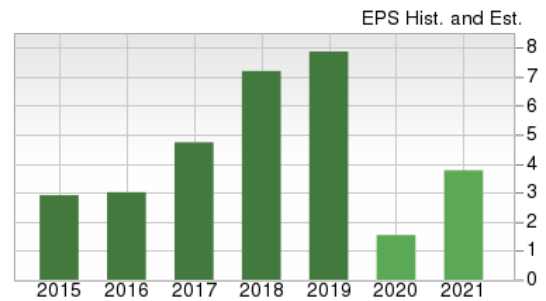
The **Business Bank** segment offers various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, foreign exchange management services and loan syndication services for small and middle market businesses, 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 Mar 31, 2020, Comerica had total assets of \$76.3 billion, total loans of \$53.5 billion, total deposits of \$57.4 billion and shareholders' equity of \$7.4 billion.



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 in 2019 and first-quarter 2020 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.
- ▼ As of Mar 31, 2020, the company held debt worth \$7.34 billion. Though, the debt level has witnessed a rise over the past few quarters, its debt-capital ratio, currently 0.5, has been witnessing a downtrend and is almost at par with the industry's average of 0.49. However, the company's time-interest-earned ratio has decreased in the past few quarters and is currently at 6.3. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe Comerica carries credit risk and 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 Mar 31, 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.
- ▼ 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 nearly 71% downward over the past 30 days. The stock seems overvalued when compared with the broader industry. Its current PEG and price-earnings (P/E) (F1) ratios are above the respective industry averages. 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.

Risks

- 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 first-quarter 2020 due to 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 first three 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 first-quarter 2020, NII declined due to lower interest income. 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 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 through the second quarter of 2020, following the "unprecedented challenge" from the coronavirus pandemic.
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Last Earnings Report

Comerica Posts Q1 Loss as Revenues Fall, Costs Rise

Comerica reported first-quarter 2020 loss per share of 46 cents due to a reserve build of \$900 million for the coronavirus-related crisis. The Zacks Consensus Estimate for earnings was pegged at 77 cents.

Results were affected by a decline in net interest income due to the contraction of margins. Also, the deterioration of credit quality was a headwind. However, lower expenses supported bottom-line expansion. Moreover, rise in deposits and loans were tailwinds.

The company reported net loss of \$65 million in the quarter against \$339 million in the year-ago quarter.

Furthermore, segment wise, on a year-over-year basis, net income decreased across all segments. Also, the Business Bank segment reported net loss against income recorded in the prior-year quarter.

Revenues Down, Expenses Decline

Comerica's first-quarter net revenues were \$750 million, down 11.1% year over year. Also, the figure missed the Zacks Consensus Estimate of \$752.3 million.

Net interest income slipped 15.3% on a year-over-year basis to \$513 million in the quarter. In addition, net interest margin contracted 73 basis points (bps) to 3.06%.

Total non-interest income was \$237 million, almost stable on a year-over-year basis. Higher fiduciary income and insurance income were offset by a decrease in card fees and service charges on deposit accounts.

In addition, non-interest expenses totaled \$425 million, down 1.8% year over year. The fall resulted mainly from lower salaries and benefits expenses and outside processing fee expenses.

Adjusted efficiency ratio was 56.57% compared with the prior-year quarter's 50.81%. A rise in ratio indicates a fall in profitability.

Balance Sheet Solid

As of Mar 31, 2020, total assets and common shareholders' equity were \$76.3 billion and \$7.4 billion, respectively, compared with \$70.7 billion and \$7.41 billion as of Mar 31, 2019.

Total loans were up 6.1% on a sequential basis to \$53.5 billion. Also, total deposits inched up slightly from the prior quarter to \$57.4 billion.

Credit Quality Deteriorates

Credit metrics were a mixed bag during the reported quarter. Total non-performing assets climbed 25.6% year over year to \$250 million. Also, allowance for loan losses was \$916 million, up 41.6% from the prior-year period. Additionally, the allowance for loan losses to total loans ratio was 1.71% as of Mar 31, 2020, up from 1.29% as of Mar 31, 2019.

In addition, the provision for credit losses was \$411 million compared with the release of \$13 million in the prior-year quarter. Also, net loan charge-offs surged significantly on a year-over-year basis to \$84 million.

Capital Position Strong

As of Mar 31, 2020, the company's tangible common equity ratio was 8.93%, down 73 bps year over year. Common equity Tier 1 capital ratio was 9.51%, down from the 10.78% reported in the year-ago quarter. Total risk-based capital ratio was 11.83%, down from the prior-year quarter's 12.8%.

Capital Deployment Update

Comerica's capital-deployment initiatives highlight its capital strength. Notably, during the reported quarter, the company repurchased 3.2 million shares for \$189 million under its existing equity-repurchase program. This combined with dividends resulted in a total payout of \$283 million to shareholders.

Outlook for 2020

Comerica guided for 2020, taking into consideration the current economic and rate environment.

The company expects average loans to grow, with increases in Mortgage Banker due to spring home sales and continued strong refinance volumes. Also, it expects elevated line usage to continue as the company seeks to support customers' liquidity needs, including loan advances under the government's Paycheck Protection Plan lending program.

Also, management expects average deposit growth in conjunction with customers conserving cash and receiving distributions under the stimulus program. This is expected to mostly be offset by business customers using funds to meet high operating needs.

The company expects lower net interest income (by \$55 million), impacted by reduced interest rates. This expectation includes the full quarter effect of the Fed's rate cuts in March combined with the actions taken by the company to lower deposit rates.

Non-interest income might benefit from an increase in card fees with higher transaction volume as customers receive the government stimulus

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	-0.30%
EPS Surprise	-159.74%
Quarterly EPS	-0.46
Annual EPS (TTM)	5.26

funds, partly offset by lower merchant and commercial card activity. Also, a reduction in economic activities and lower market-related fees are expected to have an impact on derivatives, investment banking, fiduciary and brokerage activity.

The company remains focused on controlling expenses and is closely managing discretionary spending. However, it expects rise in outside processing tied to growth in card fees. Also, it expects COVID-19-related expenses to rise, with increased compensation for employees who are not able to work remotely.

Recent News

Comerica Decreases Its Prime Lending Rate by 50 Bps - Mar 16, 2020

Pursuant to the Federal Reserve's interest rate cut by 100 bps, Comerica reduced its prime lending rate from 4.25% to 3.25%, effective Mar 17. Previously, in early March, the company had reduced rate by 50 bps to 4.25%.

Dividend Update

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

Valuation

Comerica's shares are down 50.9% in the year-to-date period and 53.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.5% and 24.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 26.4% and 20.6%, respectively.

The S&P 500 Index is down 11.3% in the year-to-date period and 3.5% in the past year.

The stock is currently trading at 14.95X forward 12 months earnings, which compares to 13.99X for the Zacks sub-industry, 14.94X for the Zacks sector and 20.2X 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 13.57X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$30 price target reflects 14.43X 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	16.98	13.99	14.94	20.2
	5-Year High	23.21	13.99	16.17	20.2
	5-Year Low	4.39	7.66	11.19	15.19
	5-Year Median	13.57	11.31	13.93	17.45
P/TB TTM	Current	0.67	1.51	2.49	10.78
	5-Year High	2.28	2.68	4	12.78
	5-Year Low	0.49	1.21	2	6.02
	5-Year Median	1.51	2.12	3.47	9.16
P/S F12M	Current	1.75	2.74	4.96	3.22
	5-Year High	5.23	4.59	6.69	3.44
	5-Year Low	1.29	2.39	4.96	2.54
	5-Year Median	3.29	3.59	6.05	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (250 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BankUnited, Inc. (BKU)	Neutral	4
First Republic Bank (FRC)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	4
Regions Financial Corporation (RF)	Neutral	3
East West Bancorp, Inc. (EWBC)	Underperform	4
Fifth Third Bancorp (FITB)	Underperform	5
Huntington Bancshares Incorporated (HBAN)	Underperform	3
M&T Bank Corporation (MTB)	Underperform	5

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	CMA	X Industry	S&P 500	FITB	HBAN	MTB
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	5	3	5
VGM Score	F	-	-	D	F	D
Market Cap	4.94 B	33.10 B	20.14 B	13.21 B	9.32 B	14.53 B
# of Analysts	12	8	14	7	12	8
Dividend Yield	7.73%	4.34%	2.13%	5.81%	6.56%	3.94%
Value Score	C	-	-	B	B	D
Cash/Price	1.11	1.11	0.06	0.82	0.23	0.84
EV/EBITDA	3.98	3.43	12.15	5.01	7.51	3.43
PEG Ratio	3.47	1.77	2.43	1.77	4.13	5.06
Price/Book (P/B)	0.67	0.86	2.68	0.66	0.88	1.00
Price/Cash Flow (P/CF)	3.89	6.51	10.78	5.11	5.25	6.61
P/E (F1)	24.24	15.20	19.06	14.56	20.31	14.21
Price/Sales (P/S)	1.33	1.70	2.12	1.40	1.66	2.12
Earnings Yield	4.38%	6.58%	5.11%	6.89%	4.92%	7.03%
Debt/Equity	1.00	1.06	0.72	0.81	0.93	0.43
Cash Flow (\$/share)	9.04	6.63	7.01	3.64	1.74	16.90
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	29.42%	13.28%	10.88%	13.28%	10.88%	17.81%
Proj. EPS Growth (F1/F0)	-80.40%	-46.59%	-6.33%	-53.95%	-64.57%	-42.80%
Curr. Cash Flow Growth	-4.61%	2.66%	5.92%	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	0.92	1.23	0.89	0.89	1.02
Debt/Capital	50.11%	49.85%	43.90%	42.67%	45.42%	28.56%
Net Margin	21.37%	21.60%	11.13%	18.85%	19.65%	24.99%
Return on Equity	10.77%	10.64%	16.47%	9.05%	10.40%	11.84%
Sales/Assets	0.05	0.05	0.55	0.05	0.05	0.06
Proj. Sales Growth (F1/F0)	-13.92%	-3.92%	-1.35%	-9.12%	-1.25%	-3.92%
Momentum Score	F	-	-	D	F	A
Daily Price Chg	2.00%	1.40%	1.10%	1.25%	2.58%	1.33%
1 Week Price Chg	7.10%	-1.85%	-1.74%	2.95%	1.24%	-0.40%
4 Week Price Chg	19.97%	11.05%	11.80%	25.12%	11.33%	8.08%
12 Week Price Chg	-44.04%	-32.41%	-17.28%	-36.97%	-34.10%	-34.45%
52 Week Price Chg	-55.21%	-31.26%	-10.69%	-35.53%	-34.34%	-34.27%
20 Day Average Volume	3,215,435	7,691,507	2,660,864	8,542,363	13,348,654	824,541
(F1) EPS Est 1 week change	-38.51%	0.00%	0.00%	-15.56%	-37.36%	1.81%
(F1) EPS Est 4 week change	-71.37%	-43.58%	-6.46%	-54.25%	-62.59%	-40.09%
(F1) EPS Est 12 week change	-77.18%	-47.03%	-12.81%	-56.17%	-64.92%	-43.84%
(Q1) EPS Est Mthly Chg	-62.09%	-48.32%	-10.84%	-54.59%	-77.09%	-43.40%

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	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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