

## Comerica Incorporated (CMA)

**\$71.40** (As of 12/30/19)

Price Target (6-12 Months): **\$75.00**

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: C

### 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. 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. In the current interest rate environment, margins are likely to expand on improving lending scenario. 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.

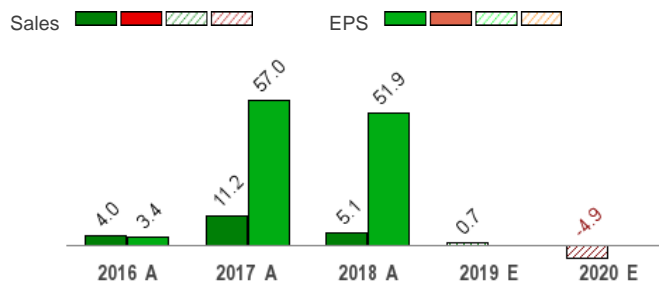
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$88.96 - \$58.54</b>
20 Day Average Volume (sh)	<b>1,460,679</b>
Market Cap	<b>\$10.3 B</b>
YTD Price Change	<b>4.0%</b>
Beta	<b>1.56</b>
Dividend / Div Yld	<b>\$2.68 / 3.8%</b>
Industry	<b><a href="#">Banks - Major Regional</a></b>
Zacks Industry Rank	<b>Top 13% (32 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>1.1%</b>
Last Sales Surprise	<b>1.3%</b>
EPS F1 Est- 4 week change	<b>-0.1%</b>
Expected Report Date	<b>01/21/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>9.1</b>
P/E F1	<b>9.2</b>
PEG F1	<b>1.3</b>
P/S TTM	<b>2.7</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	781 E	789 E	795 E	800 E	3,185 E
2019	844 A	853 A	842 A	808 E	3,350 E
2018	793 A	838 A	833 A	864 A	3,328 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.77 E	\$1.67 E	\$1.78 E	\$1.78 E	\$7.76 E
2019	\$2.08 A	\$1.94 A	\$1.93 A	\$1.91 E	
2018	\$1.59 A	\$1.87 A	\$1.86 A	\$1.88 A	\$7.20 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 12/30/2019. The reports text is as of 12/31/2019.

## 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:

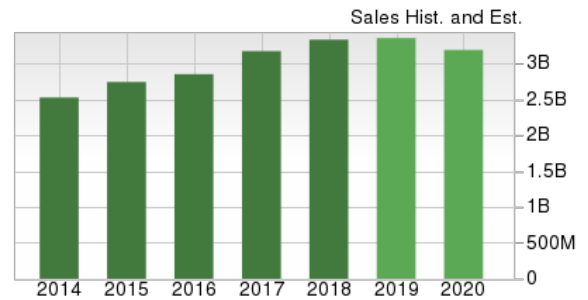
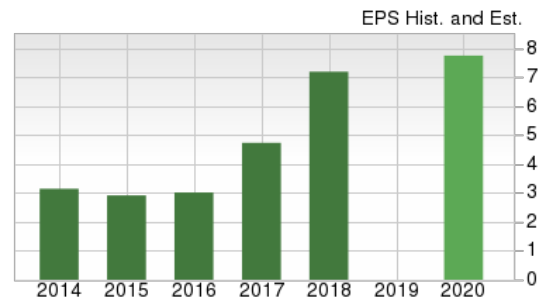
The **Business Bank** segment offers various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, foreign exchange management services and loan syndication services for small and middle market businesses, 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 Sep 30, 2019, Comerica had total assets of around \$71.7 billion, total loans of \$50.9 billion, total deposits of \$55.7 billion and shareholders' equity of approximately \$7.3 billion.



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## 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, along with an increase in short-term rates, resulted in an efficiency ratio of 53.6% in 2018, improving from 58.6% in 2017 and 67.5% in 2016. Further, return on equity improved to 15.8% in 2018 from 9.3% in 2017 and 6.2% in 2016. Also, these initiatives are anticipated to deliver additional benefits in pre-tax income of \$35 million in 2019 and beyond.
- ▲ 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. The increasing trend was witnessed in first three quarters of 2019 as well. Though the company decreased its prime lending rate to 4.75% post the Fed interest rate cut in October, NIM might escalate on improving lending scenario.
- ▲ We believe Comerica's improving loan portfolio supported margins to some extent. Total loan balances recorded a five-year (2014-2018) CAGR of around 1%, with the increasing trend continuing in the first three quarters of 2019. Further, though deposits declined 2.4% in 2018, it witnessed a five-year CAGR of nearly 2% in 2017, with the trend continuing in the first nine months of 2019. Therefore, these are likely to improve in the quarters ahead with support from the gradually improving economy.
- ▲ Comerica's capital-deployment activities are encouraging. In January 2019, the board of directors hiked the quarterly dividend by 12%. The company recently announced an additional share-buyback plan, with authorization to repurchase 7 million shares. Notably, the latest authorization adds to the remaining 3.2 million shares as of Sep 30, 2019, under the prior share-repurchase program. Moreover, the company's improving performance reflects the fact that such capital deployment activities are sustainable in the future.
- ▲ Comerica's non-interest income witnessed a CAGR of 3.3% over the last five years (ended 2018), with the trend continuing in first three quarters of 2019. Cross-sell opportunities, including wealth management products, such as fiduciary and brokerage services, are anticipated to continue benefit the company in the coming quarters. Further, we believe this uptrend will aid top-line growth in the future. Also, the company's GEAR Up initiatives is aimed at increasing total revenues by \$20 million in 2019.
- ▲ Comerica's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 16.82% compares favorably with 12.25% for the industry.
- ▲ The stock 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.

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## Reasons To Sell:

- ▼ Comerica's non-interest expenses flared up 13.0% in 2015 on a year-over-year basis due to rising salaries and benefits expense, and 5.6% in 2016 due to restructuring charges and changes in accounting presentation. Though expenses decreased 3.6% both in 2017 and 2018, and 4% in first nine months of 2019 due to the GEAR Up initiatives, continued investments in technology might escalate expenses, hindering bottom-line expansion.
- ▼ 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 Sep 30, 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 2019 have moved marginally downward over the past 30 days. Therefore, given the 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 Q3 Earnings Beat Estimates, Revenues Rise

Comerica reported third-quarter 2019 adjusted earnings per share of \$1.93 that surpassed the Zacks Consensus Estimate of \$1.91. Also, the bottom line was up from the prior-year quarter figure of \$1.86.

Higher revenues on the back of non-interest income growth, and lower expenses were recorded. Moreover, rise in deposits was another tailwind. However, lower loans and rise in provisions were undermining factors. Also, contraction of margins posed a headwind.

Net income for the quarter totaled \$292 million, down 8.2% year over year.

Furthermore, segment wise, on a year-over-year basis, net income decreased 6.1% at Business Bank. However, it increased 31% both for Retail Bank and Wealth Management unit. The Finance segment incurred net loss, similar to the prior-year quarter.

### Revenues Improve, Expenses Fall

Comerica's third-quarter net revenues were \$842 million, up 1.1% year over year. Also, the figure surpassed the Zacks Consensus Estimate of \$831.3 million.

Net interest income decreased 2.2% on a year-over-year basis to \$586 million. In addition, net interest margin contracted 8 basis points (bps) to 3.52%.

Total non-interest income came in at \$256 million, up 9.4% on a year-over-year basis. Higher card fees and commercial lending fees were mostly offset by decrease in mainly service charges on deposit accounts and other non-interest income.

Further, non-interest expenses totaled \$435 million, down 3.8%. The decline resulted from lower salaries and benefits expense, restructuring expenses, software expense and FDIC insurance expenses.

Efficiency ratio was 51.54% compared with 52.93% in the prior-year quarter. A fall in ratio indicates a rise in profitability.

### Solid Balance Sheet

As of Sep 30, 2019, total assets and common shareholders' equity were \$72.8 billion and \$7.2 billion, respectively, compared with \$72.5 billion and \$7.3 billion as of Jun 30, 2019.

Total loans were down slightly on a sequential basis to \$51.5 billion. However, total deposits increased 2.3% from the prior quarter to \$56.8 billion.

### Credit Quality: A Mixed Bag

Total non-performing assets fell 4.6% year over year to \$229 million. Also, allowance for credit losses was \$681 million, down 2.3%. Additionally, allowance for loan losses to total loans ratio was 1.27% as of Sep 30, 2019, down from 1.35% as of Sep 30, 2018.

However, net loan charge-offs came in at \$42 million, up significantly from the year-ago quarter. In addition, provision for credit losses was \$35 million against nil provisions in the prior-year quarter.

### Strong Capital Position

As of Sep 30, 2019, the company's tangible common equity ratio was 9.09% compared with 10.09% in prior-year quarter. Common equity Tier 1 capital ratio was 9.92%, down from 11.68%. Total risk-based capital ratio was 11.91%, down from 13.76%.

### Capital Deployment Update

Comerica's capital deployment initiatives highlight its capital strength. During the third quarter, the company repurchased 5.7 million shares for a total cost of \$370 million under its existing equity repurchase program. This, combined with dividends, resulted in a total payout of \$467 million to shareholders.

### Outlook

#### Fourth-Quarter 2019

Average loans are expected to remain stable, reflecting growth in several lines of business, including a seasonal increase in National Dealer Services, offset by a decrease in Mortgage Banker Finance due to seasonality and lower refinancing activity.

Average deposits are anticipated to remain stable with continued focus on attracting and retaining relationship-based deposits.

Decline in net interest income is expected due to the net impact of lower interest rates of approximately \$35 million (includes a 25 basis point anticipated reduction in the federal funds rate in December 2019), as well as lower interest recoveries and loan fees from elevated third-quarter levels.

Provision for credit losses is expected in the range of \$25 million to \$45 million, which includes some potential additional rate of migration in the Energy portfolio. Net charge-offs might remain low, with continued solid credit quality.

Quarter Ending **09/2019**

Report Date	Oct 16, 2019
Sales Surprise	1.29%
EPS Surprise	1.05%
Quarterly EPS	1.93
Annual EPS (TTM)	7.83

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Management expects non-interest income to remain relatively stable, excluding the impact of deferred compensation asset returns. Modest growth in a number of customer-driven categories is likely to be more than offset by reduction in syndication fees and fiduciary income from elevated third-quarter levels.

Non-interest expenses might increase modestly, reflecting higher outside processing expenses, technology expenditures as well as seasonal and inflationary pressures.

Income tax expense of nearly 23% of pre-tax income is expected.

Common equity Tier 1 capital ratio target is set at about 10%, with continued active capital management.

**Full-Year 2019**

Comerica has guided for full-year 2019, taking into consideration the current economic and rate environment.

It expects average loans to be up 4%. However, deposits are likely to decline 1-2%.

The company anticipates net interest income to remain stable or decline 1%.

The expectation includes a decline of 25 basis points (bps) in the federal funds rates in December 2019.

Non-interest income is estimated to be more than 2%.

Non-interest expenses are predicted to remain stable, excluding restructuring charges of \$53 million incurred in 2018.

Provision for credit losses is likely to be 15-20 bps of total loans.

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## 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 Nov 5, Comerica announced a quarterly cash dividend of 67 cents per share. The dividend will be paid on Jan 1, 2020 to shareholders on record as of Dec 13, 2019.

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## Valuation

Comerica's shares are up 4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 35.4% and 18.8% over the past year, respectively.

The S&P 500 Index is up 28% in the past year.

The stock is currently trading at 10.25X forward 12 months earnings, which compares to 12.16X for the Zacks sub-industry, 14.80X for the Zacks sector and 18.76X 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 13.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 10.77X 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	10.25	12.16	14.8	18.76
	5-Year High	23.21	13.85	16.21	19.34
	5-Year Low	7.42	9.04	12.01	15.17
	5-Year Median	13.92	11.43	13.98	17.44
P/TBV TTM	Current	1.47	2.4	3.28	12.36
	5-Year High	2.28	2.68	3.98	12.36
	5-Year Low	0.74	1.44	2.44	6.03
	5-Year Median	1.51	2.1	3.46	9.06
P/S F12M	Current	3.23	4.17	6.56	3.41
	5-Year High	5.23	4.59	6.61	3.41
	5-Year Low	1.85	2.61	5.2	2.54
	5-Year Median	3.3	3.55	6.03	3

As of 12/30/2019

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## Industry Analysis Zacks Industry Rank: Top 13% (32 out of 253)



## 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
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>F</b>	<b>C</b>
Market Cap	10.29 B	43.23 B	23.75 B	21.68 B	15.53 B	22.36 B
# of Analysts		6	13			
Dividend Yield	3.75%	2.63%	1.79%	3.14%	3.99%	2.60%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.42	0.67	0.04	0.31	0.12	0.67
EV/EBITDA	7.40	5.33	13.92	8.58	9.93	5.33
PEG Ratio	1.31	1.53	2.12	1.52	2.85	1.38
Price/Book (P/B)	1.43	1.35	3.32	1.14	1.45	1.56
Price/Cash Flow (P/CF)	8.45	10.77	13.73	9.12	8.47	11.24
P/E (F1)	9.17	12.62	19.56	10.88	11.62	12.39
Price/Sales (P/S)	2.68	2.68	2.67	2.37	2.75	3.22
Earnings Yield	10.87%	7.93%	5.10%	9.20%	8.58%	8.07%
Debt/Equity	1.02	0.95	0.72	0.74	0.92	0.48
Cash Flow (\$/share)	8.45	6.05	6.94	3.35	1.78	15.07
<b>Growth Score</b>	<b>D</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	28.80%	13.07%	10.53%	12.31%	12.14%	16.90%
Proj. EPS Growth (F1/F0)	7.75%	5.04%	6.30%	10.54%	7.83%	6.31%
Curr. Cash Flow Growth	40.97%	17.06%	14.83%	-9.51%	19.75%	24.17%
Hist. Cash Flow Growth (3-5 yrs)	14.77%	7.49%	9.00%	-1.28%	15.58%	8.94%
Current Ratio	1.03	0.88	1.23	0.88	0.91	1.06
Debt/Capital	50.38%	45.81%	42.99%	40.34%	45.33%	30.74%
Net Margin	32.11%	23.17%	11.08%	24.36%	25.24%	28.58%
Return on Equity	16.82%	12.25%	17.10%	11.40%	13.83%	13.82%
Sales/Assets	0.05	0.05	0.55	0.06	0.05	0.06
Proj. Sales Growth (F1/F0)	0.65%	1.32%	2.86%	14.94%	3.57%	4.06%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>B</b>	<b>F</b>	<b>A</b>
Daily Price Chg	0.22%	-0.30%	-0.43%	-1.13%	-0.53%	-0.08%
1 Week Price Chg	-0.79%	0.32%	0.13%	-0.80%	-0.20%	0.02%
4 Week Price Chg	1.85%	3.69%	2.78%	1.46%	1.42%	2.92%
12 Week Price Chg	11.51%	16.20%	8.67%	16.20%	8.67%	10.00%
52 Week Price Chg	3.95%	29.48%	27.07%	29.83%	26.17%	18.37%
20 Day Average Volume	1,460,679	4,010,092	1,731,328	4,010,092	8,775,354	501,277
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.07%	0.03%	0.00%	0.00%	-0.67%	0.17%
(F1) EPS Est 12 week change	-1.54%	0.66%	0.14%	-1.09%	-0.53%	-1.46%
(Q1) EPS Est Mthly Chg	-0.21%	-0.19%	0.00%	-0.19%	-2.26%	0.58%



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## 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.

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### 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	C
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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