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Dec 30, 2019

Fifth Third Bancorp (FITB)

$30.90 (As of 12/27/19)

Price Target (6-12 Months): **$32.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/25/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: F | Momentum: C	

Summary

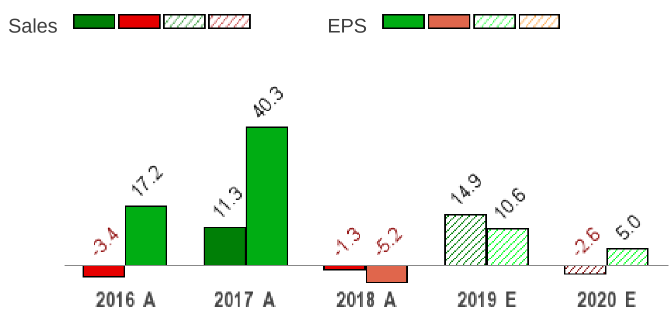
Shares of Fifth Third have underperformed the industry over the past six months. However, the company has an impressive earnings surprise history, having beaten the Zacks Consensus Estimate in each of the trailing four quarters. Fifth Third's strategic efforts, such as Project North Star and MB Financial's buyout are likely to boost its efficiency and revenues over the long run. Also, rising loans and deposits balance, along with improving net interest margin (NIM) keep the company well poised to undertake opportunistic expansion moves. Further, its involvement in steady capital-deployment activities and efforts to improve the credit quality are commendable. However, elevated expenses due to the company's branch-digitization initiative and legal issues are headwinds. Also, significant exposure to commercial loans remains a concern.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$31.64 - $23.10**
20 Day Average Volume (sh)	**4,044,393**
Market Cap	**$21.9 B**
YTD Price Change	**31.3%**
Beta	**1.40**
Dividend / Div Yld	**$0.96 / 3.1%**
Industry	**Banks - Major Regional**
Zacks Industry Rank	**Top 23% (57 out of 252)**
Last EPS Surprise	**2.7%**
Last Sales Surprise	**2.0%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**01/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**11.1**
P/E F1	**11.0**
PEG F1	**1.5**
P/S TTM	**2.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,897 E	1,921 E	1,954 E	1,989 E	7,758 E
2019	2,183 A	1,905 A	1,982 A	1,943 E	7,965 E
2018	1,905 A	1,763 A	1,606 A	1,656 A	6,930 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.68 E	$0.72 E	$0.77 E	$0.78 E	$2.95 E
2019	$0.63 A	$0.71 A	$0.75 A	$0.73 E	$2.81 E
2018	$0.57 A	$0.63 A	$0.64 A	$0.69 A	$2.54 A

*Quarterly figures may not add up to annual.

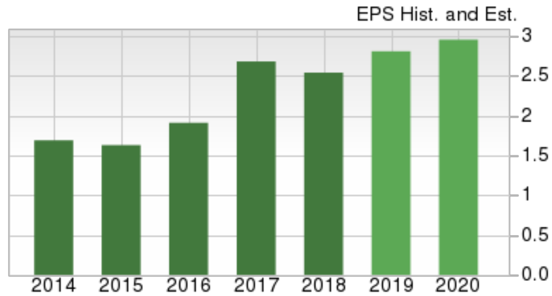
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/27/2019. The reports text is as of 12/30/2019.

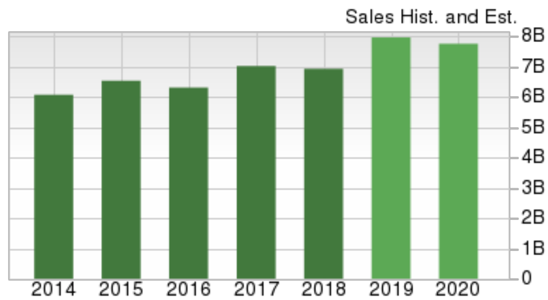
Overview

With assets of $171 billion, Cincinnati-based Fifth Third Bancorp has 1,143 full-service banking centers in 10 states throughout the Midwestern and Southeastern regions of the United States. In September 2019, Fifth Third received OCC's approval to convert from an Ohio state-chartered bank to a national bank. Fifth Third classifies its operations into mainly four reportable segments:

- **Branch Banking** provides deposit, loan and lease products, and credit cards to individuals and small businesses.
- **Consumer Lending** includes mortgage and home equity lending, as well as other indirect lending activities.
- **Commercial Banking** provides financial services and products to large and middle-market businesses, governments and professional customers.
- **Wealth and Asset Management** offers investment alternatives to individuals, companies and non-profit organizations. These consist of proprietary mutual funds, securities brokerage and asset management services.

Further, Other segment includes unallocated portion of investment securities portfolio, securities gains and losses, non-core deposit funding, unassigned equity, provision expense above net charge-offs or benefit from reduction of allowance for loan losses, representation and warranty expense above actual losses or benefit from reduction of representation and warranty reserves, payment of preferred stock dividends and additional activities.





In March 2019, Fifth Third completed the acquisition of MB Financial, for a total consideration of $3.6 billion. In February 2018, it acquired Coker Capital, a healthcare M&A advisory firm. In 2017, it acquired R.G. McGraw Insurance Agency.

Notably, Fifth Third has exited its entire stake in all publicly-traded companies. In March 2019, the company exchanged its remaining shares of Worldpay Holdings, LLC for shares of Worldpay, Inc., and subsequently sold its shares, recording a gain of $562 million. During March and April 2019, Fifth Third exchanged its Class B units of GreenSky Holdings, LLC for Class A common stock of GreenSky, Inc., and subsequently sold all of the stock.

Reasons To Buy:

Fifth Third's diversified revenue sources along with growing deposit and loan base keep it well poised to undertake inorganic growth strategies. Also, improving margins is a tailwind.

- With the gradual change in the rate environment, margin pressure for Fifth Third eased. In 2016, 2017, 2018 and first nine months of 2019, the company reported improving net interest margin (NIM) after witnessing a declining trend for years. Though the company reduced its prime lending rate by 25 basis points further post the Fed rate cut in October, net interest income (NII) is anticipated to benefit from loan growth and improved loan yields.

- Fifth Third's diverse revenue base will likely support its earnings growth. The company has expanded its non-interest income base, which now represents about 41% of total revenues so far in 2019. Further, management expects fee income to increase 17-18% (on an adjusted basis) for 2019. Additionally, the company remains focused on executing measures, including branch consolidation. Also, the company is focused on strategic investments through North Star initiatives and MB Financial's buyout, which are expected to result in revenue growth, expense savings and operational excellence.

- The company's deposit balances represent an important source of funding and revenue growth opportunity. Fifth Third continues to focus on core deposit growth in its retail and commercial franchises by improving customer satisfaction, building full relationships and offering competitive rates. Notably, Fifth Third's total deposits, and loans and leases recorded a CAGR of 2.5% and 1.2%, respectively, over the last five years ending 2018, with some annual volatility. The increasing trend continued into first nine months of 2019. We believe the company is well positioned to strengthen its organic growth as the U.S. economy is gaining traction.

- Fifth Third's capital-deployment activities are impressive. The company raised its quarterly common stock dividend by 9.1%, effective in second-quarter 2019. Also, the company announced a share buyback program of up to 100 million shares in June 2019, with no expiration date. Further, during third-quarter 2019, the company returned 96% of its earnings to shareholders in the form of common dividends and share repurchases. Fifth Third's capital-deployment activities seem sustainable due to its improving earnings performance over the past few quarters and strong balance-sheet position.

- Proactive steps have been taken by Fifth Third to improve its credit quality. In the last few years, the company took aggressive actions to reduce credit risk. Further, in line with its strategy to reduce volatility, particularly given the current environment, the company shrank exposures in certain segments such as commodity trading. Going forward, we expect the overall improvement in the credit metrics trend to continue in the upcoming quarters given the economic recovery.

- The stock seems undervalued compared with the industry. Its price-to-book (P/B) and price-to-earnings (P/E) (F1) ratios are below the respective industry averages. It also carries a Value Score of B.

Reasons To Sell:

Strategic investments in areas such as technology and involvement in legal issues keep non-interest expenses elevated. Also, significant exposure to commercial loans remains a concern for Fifth Third.

- Elevated non-interest expenses, despite efficiency initiatives remain a major concern for Fifth Third. Initiatives such as branch digitization keep the company's expense base under pressure in the short term. Given its ongoing strategic investments in several areas including technology, expenses might escalate in the near-term. Additionally, the company continues to encounter investigations and lawsuits from investors and regulators, which are expected to lead to higher legal expenses and provisions. Notably, expenses recorded a five-year CAGR of 2.3% in 2018. Also, costs continued to rise in the first nine months of 2019.

- Fifth Third's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 11.40% has gradually improved over the years, it compared unfavorably with 17.10% for S&P 500 average, underlining the fact that it is less efficient in using shareholder funds.

- The loan portfolio of Fifth Third comprises majorly of commercial loans (nearly 65% as of Sep 30 2019). Such high exposure can be risky for the company signifying concentration risk.

- Shares of Fifth Third have underperformed the industry over the past six months. Along with this unfavorable trend, the company's earnings estimates for the current year have moved 1.4% downward, over the past 60 days. Given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

Last Earnings Report

Fifth Third Q3 Earnings Beat Estimates on High Revenues

Quarter Ending	09/2019
Report Date	Oct 22, 2019
Sales Surprise	1.98%
EPS Surprise	2.74%
Quarterly EPS	0.75
Annual EPS (TTM)	2.78

Driven by higher mortgage banking revenues, Fifth Third delivered third-quarter 2019 positive earnings surprise of 2.7%. Adjusted earnings per share of 75 cents surpassed the Zacks Consensus Estimate of 73 cents. However, excluding certain one-time items, the bottom line came in at 71 cents, down 16.4% year over year.

Increase in revenues, aided by expansion of margin and fee income growth, was a key positive. Moreover, the company displays a strong capital position. However, escalating expenses and provisions along with fall in loans were the undermining factors.

Certain non-recurring items included in the results were the negative impact of $22-million merger-related items and $8 million related to the valuation of Visa total return swap (post-tax).

Net income available to common shareholders increased 25.9% year over year to $530 million.

Revenues Jump, Costs Up, Loans & Deposits Rise

Total revenues for the quarter came in at $1.99 billion, up 23.4% year over year, driven by higher net interest income (NII). Also, the top line surpassed the Zacks Consensus Estimate of $1.94 billion. Adjusted revenues were up 20.3%.

Fifth Third's NII (tax equivalent) came in at $1.25 billion, rising 19% year over year. This rise primarily reflects increase in interest earning assets. On an adjusted basis, NII rose 16%. Also, net interest margin expanded 9 basis points (bps) to 3.32%.

Non-interest income climbed 31% year over year to $740 million. Excluding certain items, non-interest income rose 27.3% to $746 million. The rise was mainly due to higher mortgage and corporate banking revenues.

Non-interest expenses flared up 19% from the prior-year quarter to $1.16 billion. The upsurge chiefly resulted from higher compensation and benefits, card and processing expenses, technology costs and other non-interest expenses. Adjusted expenses jumped 16%.

As of Sep 30, 2019, average loan and lease balances declined 1% sequentially to $109.5 billion. This fall mainly stemmed from lower commercial and consumer loans and leases. Average total deposits inched up 1% from the prior quarter to $125.2 billion.

Credit Quality Worsens

Provision for credit losses surged 60% year over year to $134 million. Total allowance for credit losses was $1.3 billion, up 6.3%. Total non-performing assets, including loans held for sale, were $519 million, up 15.8%.

Net charge-offs for the reported quarter were $99 million or 36 bps of average loans and leases on an annualized basis compared with $72 million or 30 bps a year ago.

Capital Position

Fifth Third remained well capitalized during the third quarter. Tier 1 risk-based capital ratio was 10.81% compared with 11.78% at the end of the prior-year quarter. CET1 capital ratio (fully phased-in) was 9.56% compared with 10.67% on Sep 30, 2018. Tier 1 leverage ratio was 9.36%, down from 10.10%.

Capital Deployment

During the third quarter of 2019, Fifth Third completed $350 million in buybacks. The remaining approximately $900 million of repurchases are expected over the remaining 3 quarters in the CCAR cycle in addition to raising the dividend by 3 cents, which is subject to board approval.

Outlook

Fourth-Quarter 2019

Interest-bearing core deposit costs are expected to decline approximately another 15 to 18 basis points sequentially in the fourth quarter, assuming a total Fed rate cut.

Based on above assumption, NII is expected to be down% sequentially. NIM is expected to contract 4-5 bps sequentially.

The company expects non-interest income to be down 4% from the adjusted third-quarter 2019 figure, reflecting seasonality in mortgage banking. Higher wealth management revenues are anticipated during the quarter.

The company expects non-interest expenses to be flat to down sequentially on an adjusted basis, including the impact of $3 raise in minimum wage from $15 to $18 effective at the end of October.

Commercial loans and leases are expected to be stable sequentially, while average consumer loans are likely to escalate 1-2%.

Management expects provisions reflective of loan growth.

Charge-offs is expected to be consistent with third-quarter 2019.

The effective tax rate is projected to be about 22% for fourth-quarter 2019.

Full-Year 2019

NIM is projected to be down 4 bps from 2018, excluding the purchase accounting benefit to NIM.

NII will likely be up around 14%, excluding purchase accounting accretion and including the impacts from lower rates.

Non-interest income is expected to increase 17-18% year over year.

Non-interest expenses are predicted to be up 13% on adjusted basis.

Full-year 2019 average total loans are likely to increase around 15%.

The average loan-to-core deposit ratio is likely to remain in the low 90s for the coming period.

Outlook 2020

Management expects core NIM in the first quarter of 2020 to expand a couple of basis points sequentially, given the benefit of $4 billion of previously executed forward-starting hedges that will begin in December and January. Full year 2020 core NIM is expected to be in the range of around 3.2% to 3.25%, depending on the size and timing of the Federal Reserve's actions. Deposit betas are assumed to be in the 40s. Precisely, NIM is likely to widen a few basis points for the full year 2020 relative to the expected Q4 level if there are no rate cuts and remain fairly stable if there are 2 more rate cuts.

Project North Star Initiatives

In September 2016, Fifth Third launched Project North Star, which laid down several long-term financial targets without expecting any improvement in the current economic conditions. The initiatives are expected to enhance revenue growth, lower expenses and optimize balance sheet position.

Management expects to generate an annualized return on average tangible common equity (non-GAAP) of 16.5%, a return on average assets to be around 1.35% and an efficiency ratio of less than 57% by the end of 2019. These targets include impact of MB Financial acquisition.

Remain on-track to achieve MB expense savings by first-quarter 2020 ($255 million pre-tax) and expect to achieve around 80% of run-rate savings by year-end. The company also continues to expect revenue synergies to generate around $60-$75 million in annual pretax income by 2022.

Recent News

Fifth Third Expects MB Financial Buyout to Boost Revenues – Nov 27, 2019

Fifth Third announced that it expects revenues to be driven by 45% synergies from its MB Financial buyout, completed in March this year. Particularly, the company anticipates an annual pretax income benefit of $60-$75 million by 2022. Also, the transaction is likely to reduce expenses by $255 million.

Per the terms of deal, MB Financial's 92 branches and $15 billion deposits were transferred to the acquiring company. With the increase in deposits post merger, Fifth Third became the fourth largest bank in Chicago in terms of deposits.

Moreover, post-closure, to avoid overlapping of operations, Fifth Third reduced its branch count by 44, and slashed nearly 500 jobs.

The company has already witnessed 60% of cost cuts, and expects to reach 80% by the end of the ongoing year. Further, by the end of first-quarter 2020, it is likely to attain full anticipated cost savings.

Earlier, Fifth Third's asset-based lending business catered only to midsized to large companies. Following the deal, the company's revenues are likely to benefit from MB Financial's smaller business clients as well. Also, it expects to cross-sell new products to the MB Financial's existing retail customers. Moreover, Fifth Third's focus on its wealth management department within its existing markets will be supported by the deal.

Further, revenues from leasing and commercial loan businesses are likely to witness improvement, with a major benefit coming from MB Financial's commercial lending department. Also, the deal will help Fifth Third expand its operations to new line of products like treasury management or capital markets services.

Tayfun Tuzun, CFO of Fifth Third, noted "We are fairly optimistic that the wallet share in Chicago of their existing clients will grow. That wallet share is going to be an important contributor to synergies."

Notably, Celtic and LaSalle, MB Financial's leasing businesses, have already started fueling revenue growth.

Fifth Third Reduces Its Prime Lending Rate by Another 25 Bps – Oct 30, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, Fifth Third reduced its prime lending rate from 5% to 4.75%, with immediate effect. Prior to this, in September 2019, the company reduced its prime lending rate from 5.25% to 5%.

Dividend Update

On Dec 17, 2019, Fifth Third announced a cash dividend of 24 cents per share. The dividend will be paid on Jan 15, 2020 to shareholders of record as of Dec 31, 2019.

Valuation

Fifth Third's shares are up 31.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 39.4% and 21.8% over the past year, respectively.

The S&P 500 Index is up 30.7% in the past year.

The stock is currently trading at 10.46X forward 12 months earnings, which compares to 12.16X for the Zacks sub-industry, 14.80X for the Zacks sector and 18.77X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.11X and as low as 8.20X, with a 5-year median of 11.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $32 price target reflects 10.83X forward earnings.

The table below shows summary valuation data for FITB

Valuation Multiples - FITB

		Stock	Sub-Industry	Sector	S&P 500
	Current	10.46	12.16	14.8	18.77
P/E F12M	5-Year High	17.11	13.85	16.21	19.34

P/E F12M	5-Year High	[illegible]	[illegible]	[illegible]	[illegible]
	5-Year Low	8.2	9.04	12.01	15.17
	5-Year Median	11.55	11.43	13.98	17.43
P/TBV TTM	Current	1.6	2.4	3.28	12.36
	5-Year High	2.13	2.68	3.98	12.36
	5-Year Low	0.98	1.44	2.44	6.03
	5-Year Median	1.54	2.1	3.46	9.06
P/S F12M	Current	2.83	4.17	6.56	3.41
	5-Year High	3.67	4.59	6.61	3.41
	5-Year Low	1.77	2.61	5.2	2.54
	5-Year Median	2.66	3.55	6.03	3

As of 12/27/2019

Industry Analysis **Zacks Industry Rank:** Top 23% (57 out of 252)

Top Peers

Citizens Financial Group, Inc. **(CFG)**	Neutral
Comerica Incorporated **(CMA)**	Neutral
East West Bancorp, Inc. **(EWBC)**	Neutral
Huntington Bancshares Incorporated **(HBAN)**	Neutral
KeyCorp **(KEY)**	Neutral
M&T Bank Corporation **(MTB)**	Neutral
Regions Financial Corporation **(RF)**	Neutral
Webster Financial Corporation **(WBS)**	Neutral

Industry Comparison Industry: Banks - Major Regional

Industry Peers

	FITB Neutral	X Industry	S&P 500	CMA Neutral	HBAN Neutral	KEY Neutral
VGM Score	D	-	-	C	F	B
Market Cap	21.93 B	43.46 B	23.80 B	10.27 B	15.62 B	19.97 B
# of Analysts	9	7	13	6	10	5
Dividend Yield	3.11%	2.63%	1.78%	3.76%	3.97%	3.65%
Value Score	B	-	-	A	C	B
Cash/Price	0.31	0.67	0.04	0.41	0.12	0.25
EV/EBITDA	8.69	5.35	13.88	7.43	9.99	10.37
PEG Ratio	1.52	1.55	2.13	0.56	2.86	3.03
Price/Book (P/B)	1.15	1.35	3.33	1.43	1.46	1.31
Price/Cash Flow (P/CF)	9.29	10.88	13.55	8.50	8.54	9.55
P/E (F1)	10.91	12.70	19.62	9.18	11.69	12.31
Price/Sales (P/S)	2.39	2.69	2.66	2.67	2.76	2.59
Earnings Yield	9.09%	7.88%	5.09%	10.89%	8.53%	8.14%
Debt/Equity	0.74	0.95	0.71	1.02	0.92	0.95
Cash Flow ($/share)	3.35	6.05	6.94	8.45	1.78	2.13
Growth Score	F	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	12.31%	13.07%	10.48%	28.80%	12.14%	13.90%
Proj. EPS Growth (F1/F0)	10.54%	5.04%	6.14%	7.75%	7.83%	-4.74%
Curr. Cash Flow Growth	-9.51%	17.06%	14.75%	40.97%	19.75%	17.06%
Hist. Cash Flow Growth (3-5 yrs)	-1.28%	7.49%	8.93%	14.77%	15.58%	15.62%
Current Ratio	0.88	0.88	1.24	1.03	0.91	0.91
Debt/Capital	40.34%	45.81%	42.92%	50.38%	45.33%	45.81%
Net Margin	24.36%	23.17%	11.06%	32.11%	25.24%	21.93%
Return on Equity	11.40%	12.25%	17.10%	16.82%	13.83%	12.71%
Sales/Assets	0.06	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	14.94%	1.32%	2.49%	0.65%	3.57%	-0.40%
Momentum Score	C	-	-	D	F	D
Daily Price Chg	0.52%	0.46%	0.21%	0.06%	0.20%	0.10%
1 Week Price Chg	0.58%	0.50%	1.46%	-0.17%	-1.30%	1.69%
4 Week Price Chg	2.74%	3.28%	1.98%	1.25%	1.74%	4.73%
12 Week Price Chg	19.33%	19.00%	9.78%	13.26%	10.16%	19.05%
52 Week Price Chg	32.20%	31.76%	28.47%	5.76%	28.53%	39.33%
20 Day Average Volume	4,044,393	4,044,393	1,778,443	1,444,393	8,679,930	7,742,170
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.46%	-0.06%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.07%	-0.67%	-0.24%
(F1) EPS Est 12 week change	-1.09%	0.66%	0.12%	-1.54%	-0.46%	-0.24%
(Q1) EPS Est Mthly Chg	-0.19%	-0.19%	0.00%	-0.21%	-2.26%	-0.37%

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	B
Growth Score	F
Momentum Score	C
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.

Disclosures

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