First Republic Bank (FRC)

$117.59 (As of 08/13/20)

Price Target (6-12 Months): **$123.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/13/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: D | Momentum: B	

Summary

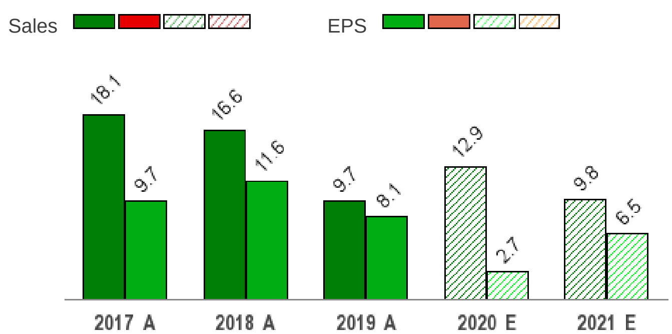
Shares of First Republic have outperformed the industry over the past three months. Also, the company displays an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Second-quarter results reflect higher revenues, which were partially offset by increase in costs. Improving loan and deposit balances might continue supporting First Republic's profitability. Also, increasing fee income on steady rise in investment management fees supports revenue growth. The company complies with all regulatory ratio requirements, reflecting a strong capital position. However, contraction of margin on account of lower interest rates and rising costs due to investments in digital initiatives impedes bottom-line growth. Also, unsustaintable capital deployment activities keep us apprehensive.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$125.12 - $70.06**
20 Day Average Volume (sh)	**567,001**
Market Cap	**$20.2 B**
YTD Price Change	**0.1%**
Beta	**1.18**
Dividend / Div Yld	**$0.80 / 0.7%**
Industry	**Banks - West**
Zacks Industry Rank	**Top 38% (96 out of 252)**
Last EPS Surprise	**16.7%**
Last Sales Surprise	**-0.2%**
EPS F1 Est- 4 week change	**3.6%**
Expected Report Date	**10/20/2020**
Earnings ESP	**0.0%**
P/E TTM	**22.2**
P/E F1	**22.0**
PEG F1	**2.0**
P/S TTM	**4.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	994 E	985 E	1,019 E	1,058 E	4,144 E
2020	916 A	919 A	955 E	984 E	3,773 E
2019	807 A	819 A	837 A	877 A	3,341 A

EPS Estimates

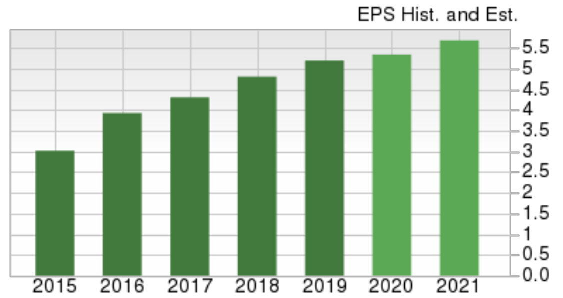
	Q1	Q2	Q3	Q4	Annual*
2021	$1.35 E	$1.35 E	$1.43 E	$1.46 E	$5.69 E
2020	$1.20 A	$1.40 A	$1.37 E	$1.44 E	$5.34 E
2019	$1.26 A	$1.24 A	$1.31 A	$1.39 A	$5.20 A

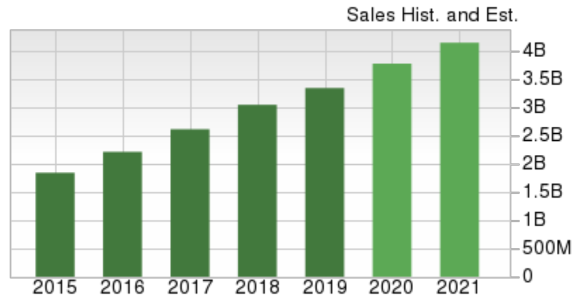
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/13/2020. The reports text is as of 08/14/2020.

Overview

Headquartered in San Francisco, CA, First Republic Bank is a commercial bank and trust company and a member of the Federal Deposit Insurance Corporation (FDIC). The company specializes in providing personalized, relationship-based preferred banking, preferred business banking, real-estate lending, trust and wealth management services to customers in metropolitan areas across the United States. Notably, the company has been included in the S&P 500 on Jan 2, 2019.





First Republic operates through offices including San Francisco, Palo Alto, Los Angeles and Santa Barbara. It provides wealth management as well as trust services through First Republic Investment Management, Inc. and First Republic Trust Company, respectively. First Republic operates two major business segments:

- The **Commercial Banking** segment (contributed 89% of net income in 2019) accepts funds from customers, originates loans (principally real estate secured mortgage loans) and invests in investment securities. The chief sources of revenues for this segment are – interest earned on loans and investment securities, gains on sales of loans, fees earned from loan and deposit services, and income earned on loans serviced for investors.

- The **Wealth Management** segment (11%) consists of First Republic Investment Management, the money market mutual fund activities through third-party providers and the brokerage activities of First Republic Securities Company, LLC as well as operations of First Republic Trust Company, along with foreign exchange activities.

In December 2016, First Republic Bank acquired Gradifi. Gradifi is a corporate provider of education related benefit plans. Through Gradifi, employers can make direct contributions to education debt repayment or savings plans for their employees.

Reasons To Buy:

First Republic's growth prospects look promising driven by consistent growth in loans and deposits. Further, the company continues to benefit from an improving NII and strong capital position.

- First Republic has demonstrated considerable top-line strength over the past few years. The bank's net interest income (NII), which is also its primary source of income from operations, has exhibited a five-year CAGR (2015-2019) of 16.2%. In the same time period, its non-interest income reflects growth of 15.4%, with support from steady rise in investment management fees (accounting for 62% of fee income as of Jun 30, 2020). Notably, both continued to show strength in the first six months of 2020 as well. Such steady growth in both NII and fee income suggests optimism about First Republic's top-line strength.

- First Republic's balance sheet growth story remains impressive. It recorded notable growth in loan balances, driven by increased loan origination volumes with a five-year CAGR (2015-2019) of 19.8%. Additionally, the company's total deposits have witnessed a CAGR of 17.1% in the same time span. Both metrics improved in first two quarters of 2020 as well. Therefore, a rising trend in loans and deposits is anticipated to continue with economic recovery.

- As of Jun 30, 2020, the company had total debt worth $17.2 billion, while its cash and cash equivalents and due from banks totaled $3.1 billion. Further, time-interest-earned ratio of 4.5 has remained steady over the past several quarters. Thus, given the favorable factors and record of earnings growth, First Republic has lesser likelihood of default in interest payment and debt repayment if the economic situation worsens.

- First Republic has complied with all regulatory ratio requirements since its inception. It has also been able to generate higher cash flow amid an increasingly difficult operating environment. As of Jun 30, 2020, the bank's Tier 1 leverage ratio was 8.15%. We believe a strong capital position will help it grow organically as well as through strategic acquisitions in the near future.

- Shares of First Republic have outperformed the industry over the past six months. With this favorable trend, the company's current-year earnings estimates have been revised 5.3% upward over the past 30 days. Therefore, given the progress on fundamentals and positive estimates revision, the stock has upside potential.

Reasons To Sell:

- Rising operating expenses have been a concern for First Republic. Costs witnessed a five-year CAGR (2015-2019) of 18.3%, with the trend continuing in the first six months of 2020. Notably, cost savings from completed build-out of systems and processes required for crossing $50 billion in total assets are being invested into digital initiatives including mobile banking applications and data analytics. As such, operating costs are likely to remain elevated in the near term which is likely to create pressure on bottom-line growth.

Contracting net interest margin due to low rates, unsustainable capital deployment activities along with stretched valuation are concerns. Further, mounting expenses limit bottom-line expansion.

- First Republic's net interest margin (NIM) is affected by the flattening of yield curve — a decline in longer-term yields relative to short-term yields. Since 2013, the company's NIM has been contracting and the trend continued in first half of 2020 as well. Notably, lower tax-equivalent yields on tax-advantaged investments and tax-exempt loans from the reduction of the federal tax rate for corporations led to the decline in margin in 2018. Further, the Federal Reserve recently decreased interest rates to near zero, might keep margins under pressure in the quarters ahead.

- First Republic's capital deployment activities do not seem impressive. Though the company increased its common stock dividend by 5.3% this April, it has no share buyback plans in place. Also, First Republic's debt/equity ratio does not compare favorably with the broader industry. Thus, such dividend payments might not be sustainable in the long term.

- First Republic seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are above the respective industry averages.

Last Earnings Report

First Republic Q2 Earnings Beat on Higher Revenues

Quarter Ending	06/2020
Report Date	**Jul 14, 2020**
Sales Surprise	**-0.18%**
EPS Surprise	**16.67%**
Quarterly EPS	**1.40**
Annual EPS (TTM)	**5.30**

First Republic delivered an earnings surprise of 16.7% in second-quarter 2020 aided by solid top-line strength. Earnings per share of $1.40 surpassed the Zacks Consensus Estimate of $1.20. Additionally, the bottom line climbed 12.9% from the year-ago quarter.

Results were supported by an increase in NII. Moreover, the company's balance-sheet position was strong during the quarter. However, higher expenses, decline in fee income and elevated provisions were offsetting factors.

Net income available to common shareholders jumped 15.3% year over year to $242 million.

Revenues Increase, Expenses Escalate

Total revenues were $919 million, up 12.2% year over year. The figure, however, missed the Zacks Consensus Estimate of $920.7 million.

NII jumped 16.8% year over year to $787.4 million, primarily supported by growth in average earning assets, partly mitigated by lower net interest margin, which declined to 2.70%, down from the year-ago quarter's 2.85%.

Non-interest income was $131.6 million, down 9.5% year over year. This fall mainly resulted from negative loan servicing fees and loss on sale of loans. Moreover, mostly components of income declined, partly offset by higher brokerage and investment fees, along with gain on investment securities.

Non-interest expenses for the reported quarter flared up 7.7% year over year to $569.5 million. Rise in salaries and benefits, occupancy, and information systems expenses from continued investments in the expansion of the franchises led to the uptick.

The efficiency ratio was 62% compared with the 64.5% recorded in the prior-year quarter. It should be noted that a fall in the efficiency ratio indicates higher profitability.

Healthy Balance Sheet

As of Jun 30, 2020, net loans climbed 5% sequentially to $99.4 billion, while total deposits were up 5.1% to $98.5 billion. Loan originations, including PPP loans, came in at $13.4 billion, up 30.1% sequentially.

First Republic's total wealth management assets were $155.8 billion as of Jun 30, 2020, marking a 13% sequential rise. This increase was primarily supported by market appreciation and net client inflow.

Notably, wealth management assets included investment management assets, brokerage assets, money market mutual funds, and trust and custody assets.

Credit Quality: A Mixed Bag

During the reported quarter, credit metrics were a mixed bag. On a year-over-year basis, total non-performing assets increased 14.5% to $166 million. Also, provision for loan losses was up 46.7% to $31.1 million.

Yet, non-performing assets to total assets ratio was 0.13%, down from the year-ago quarter's 0.14%. Also, net loan charge-offs were $1.1 million, down 8.3% year over year.

Capital Position

As of Jun 30, 2020, the company's Tier 1 leverage ratio was 8.15%, reflecting a contraction of 54 basis points from the prior-year quarter. Tier 1 capital to risk-weighted assets was 11.04%, down from 11.39%. Common equity Tier 1 capital to risk-weighted assets ratio was 9.80% compared with the prior year's 10.19%.

Tangible book value per share increased 12.2% to $53.46.

Outlook 2020

Loan growth is expected to be in the mid-teens.

The company anticipates net interest margin of 2.65-2.75% for 2020.

Management expects efficiency ratio between 62.5% and 64.5% for 2020.

Further, tax rate is anticipated to be between 20% and 21% in 2020.

Recent News

Dividend Update

On Jul 14, First Republic announced a quarterly cash dividend of 20 cents per share. The dividend was paid on Aug 13 to shareholders of record as of Jul 30.

Valuation

First Republic's shares are up 0.1% in the year-to-date period and 29.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.6% and 14.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 0.5% and 3.9%, respectively.

The S&P 500 Index is up 4.8% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 21.17X forward 12 months earnings, which compares to 14.12X for the Zacks sub-industry, 16.87X for the Zacks sector and 22.91X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.78X and as low as 14.33X, with a 5-year median of 18.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $123 price target reflects 22.33X forward earnings.

The table below shows summary valuation data for FRC

Valuation Multiples - FRC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.17	14.12	16.87	22.91
	5-Year High	23.78	18.23	16.87	22.91
	5-Year Low	14.33	10.28	11.59	15.25
	5-Year Median	18.69	14.28	14.26	17.58
P/TB TTM	Current	2.21	1.54	3.42	15.45
	5-Year High	2.88	2.65	4	15.45
	5-Year Low	1.52	1.09	2.01	5.96
	5-Year Median	2.31	1.96	3.48	9.57
P/S F12M	Current	5.06	3.45	6.22	3.7
	5-Year High	6.2	4.75	6.66	3.7
	5-Year Low	3.47	2.7	4.96	2.53
	5-Year Median	4.72	3.91	6.06	3.05

As of 08/13/2020

Industry Analysis **Zacks Industry Rank:** Top 38% (96 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Cathay General Bancorp **(CATY)**	Neutral	3
East West Bancorp, Inc. **(EWBC)**	Neutral	3
First Hawaiian, Inc. **(FHB)**	Neutral	3
PacWest Bancorp **(PACW)**	Neutral	3
SVB Financial Group **(SIVB)**	Neutral	3
Umpqua Holdings Corporation **(UMPQ)**	Neutral	3
Western Alliance Bancorporation **(WAL)**	Neutral	3
Zions Bancorporation, N.A. **(ZION)**	Neutral	3

Industry Comparison Industry: Banks - West

	FRC	X Industry	S&P 500	EWBC	SIVB	ZION
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	F	C
Market Cap	20.24 B	261.74 M	23.58 B	5.43 B	12.92 B	5.62 B
# of Analysts	9	4	14	5	11	7
Dividend Yield	0.68%	2.52%	1.68%	2.87%	0.00%	3.97%
Value Score	C	-	-	B	F	A
Cash/Price	0.16	0.68	0.07	1.23	1.17	0.46
EV/EBITDA	22.36	3.58	13.34	1.25	-0.14	3.55
PEG Ratio	1.95	2.21	2.99	1.04	2.21	4.33
Price/Book (P/B)	2.15	0.90	3.20	1.09	1.80	0.80
Price/Cash Flow (P/CF)	18.55	7.59	12.83	6.73	11.23	5.65
P/E (F1)	22.02	12.08	21.99	10.39	17.70	18.93
Price/Sales (P/S)	4.66	2.23	2.53	2.69	3.65	1.82
Earnings Yield	4.54%	8.33%	4.35%	9.62%	5.65%	5.28%
Debt/Equity	1.82	0.17	0.77	0.45	0.12	0.19
Cash Flow ($/share)	6.34	2.79	6.94	5.70	22.23	6.07
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	12.45%	12.82%	10.41%	15.83%	36.25%	24.41%
Proj. EPS Growth (F1/F0)	2.71%	-25.70%	-6.32%	-19.96%	-35.11%	-58.20%
Curr. Cash Flow Growth	10.31%	5.43%	5.20%	3.66%	19.94%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	17.90%	14.60%	8.55%	24.66%	34.83%	17.66%
Current Ratio	1.04	0.91	1.33	1.02	0.71	0.86
Debt/Capital	61.89%	14.84%	44.59%	30.97%	10.15%	15.15%
Net Margin	22.03%	22.78%	10.13%	29.90%	25.26%	15.70%
Return on Equity	10.68%	9.28%	14.51%	12.18%	13.61%	7.46%
Sales/Assets	0.04	0.05	0.51	0.04	0.05	0.04
Proj. Sales Growth (F1/F0)	12.92%	0.00%	-1.43%	-2.88%	-1.07%	-0.46%
Momentum Score	B	-	-	C	B	C
Daily Price Chg	-1.48%	-1.18%	-0.44%	-1.34%	-1.34%	-1.24%
1 Week Price Chg	3.24%	3.40%	2.30%	6.43%	5.83%	4.07%
4 Week Price Chg	4.58%	4.14%	4.38%	8.55%	13.36%	2.61%
12 Week Price Chg	19.32%	7.42%	13.59%	13.90%	30.78%	11.49%
52 Week Price Chg	29.83%	-20.32%	5.75%	-0.10%	34.24%	-12.60%
20 Day Average Volume	567,001	23,724	1,984,154	842,523	264,173	1,611,061
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	3.60%	2.96%	2.08%	2.96%	10.78%	7.22%
(F1) EPS Est 12 week change	9.30%	3.59%	2.66%	-0.27%	16.78%	15.23%
(Q1) EPS Est Mthly Chg	3.20%	-0.37%	0.94%	2.70%	4.42%	-9.80%

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	D
Momentum Score	B
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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