

First Republic Bank (FRC)

\$100.05 (As of 04/24/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: C

Summary

Shares of First Republic have outperformed the industry over the past six months. Also, it displays an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. First-quarter results reflect higher revenues, partially offset by rise in provisions. Improving loan and deposit balances might continue supporting First Republic's profitability. Also, rising net interest and fee income reflects top line strength. The company complies with all regulatory ratio requirements, reflecting a strong capital position. However, contraction of net interest margin due to lower interest rates is a headwind as it impedes top-line growth. Further, rising expenses due to investments in digital initiatives might affect bottom line expansion. Also, it faces credit risk in case of any economic downturn.

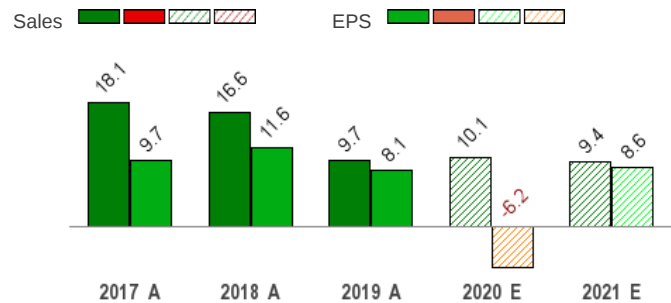
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$122.34 - \$70.06
20 Day Average Volume (sh)	1,421,021
Market Cap	\$16.9 B
YTD Price Change	-14.8%
Beta	1.02
Dividend / Div Yld	\$0.80 / 0.8%
Industry	Banks - West
Zacks Industry Rank	Bottom 6% (237 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	30.4%
Last Sales Surprise	5.1%
EPS F1 Est- 4 week change	-3.9%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	19.5
P/E F1	20.5
PEG F1	1.8
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	941 E	974 E	1,014 E	1,069 E	4,024 E
2020	916 A	914 E	936 E	946 E	3,679 E
2019	807 A	819 A	837 A	877 A	3,341 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.24 E	\$1.28 E	\$1.35 E	\$1.31 E	\$5.30 E
2020	\$1.20 A	\$1.21 E	\$1.25 E	\$1.26 E	\$4.88 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 04/24/2020. The reports text is as of 04/27/2020.

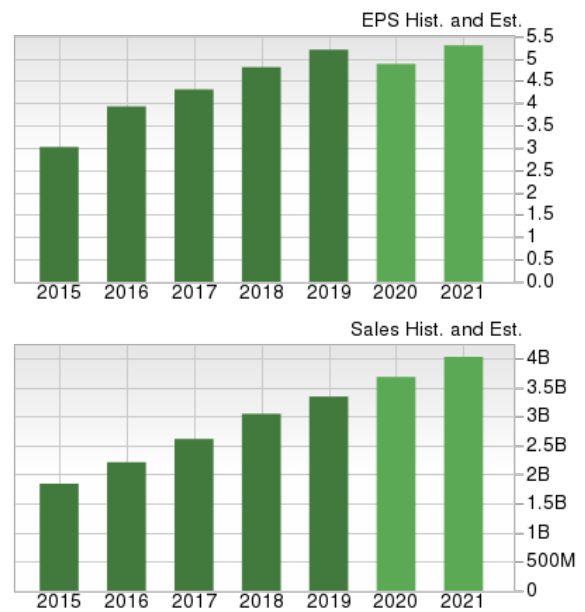
Overview

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 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%. Furthermore, with steady improvement in consumer loans, the company's NII is likely to benefit in the near term. 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 in 2019). Notably, both continued to show strength in the first three 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-quarter 2020 as well. Therefore, a rising trend in loans and deposits is anticipated to continue with economic recovery.
- ▲ 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 Mar 31, 2020, the bank's Tier 1 leverage ratio was 8.46%. We believe a strong capital position will help it grow organically as well as through strategic acquisitions in the near future.

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.

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 three 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.
- ▼ 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-quarter 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, which might keep margins under pressure in the quarters ahead.
- ▼ First Republic's capital deployment activities do not seem impressive. Though the company recently increased its common stock dividend by 5.3%, 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.
- ▼ Amid the coronavirus crisis and its impact on economy, the company is leveraged with debt level of \$16.2 billion and debt-capital ratio of 63.5% (compared with industry average of 12.7%), as of Mar 31, 2020. Further, with time-interest-earned ratio of 4.4% and record of volatile earnings, First Republic carries credit risk and increases the likelihood of default or bankruptcy if economic situation worsens.
- ▼ Shares of First Republic have outperformed the industry over the past six months. Despite this favorable trend, the company's current-year earnings estimates have been revised 3.4% downward over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (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.

Contracting net interest margin due to relatively lower interest rates along with stretched valuation remain near term headwinds. Further, mounting expenses limit bottom-line expansion of the company.

Last Earnings Report

First Republic Q1 Earnings Beat Estimates, Revenues Rise

Driven by top-line strength, First Republic delivered a positive earnings surprise of 30.4% in first-quarter 2020. Earnings per share of \$1.20 surpassed the Zacks Consensus Estimate of 92 cents. However, the bottom line was down 4.8% from the year-ago quarter.

Results were supported by an increase in net interest income (NII) and non-interest income. Moreover, the company's balance sheet position remained strong in the quarter. However, higher expenses and provisions for credit losses were an offsetting factor.

Net income available to common shareholders declined 3.8% year over year to \$205.7 million.

Quarter Ending 03/2020

Report Date	Apr 14, 2020
Sales Surprise	5.14%
EPS Surprise	30.43%
Quarterly EPS	1.20
Annual EPS (TTM)	5.14

Revenues Increase, Expenses Escalate

Total revenues were \$916.2 million, up 13.5% year over year. Also, the figure surpassed the Zacks Consensus Estimate of \$871.4 million.

NII jumped 11.4% year over year to \$752.1 million, primarily supported by growth in average earning assets. Net interest margin was 2.74%, down from 2.97%.

Non-interest income was \$164 million, up 24% year over year. The rise was backed by an increase in almost all fee components, except for loan servicing fees.

Non-interest expenses for the reported quarter were up 13.6% year over year to \$596.3 million. An increase in salaries and benefits, occupancy, and information systems expenses from continued investments in the expansion of the franchises led to the rise.

The efficiency ratio was 65.1% compared with 65% recorded in the prior-year quarter. It should be noted that rise in the efficiency ratio indicates lower profitability.

Healthy Balance Sheet

As of Mar 31, 2020, net loans climbed 4.9% sequentially to \$94.7 billion, while total deposits were up 3.9% to \$93.7 billion. Loan originations were \$10.3 billion, up 59.2% sequentially.

First Republic's total wealth management assets were \$137.9 billion as of Mar 31, 2020, indicating an 8.7% sequential decline. The decrease was primarily due to market decline on account of the Covid-19 outbreak, partially offset by net new assets from existing and new clients.

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

Credit Quality Deteriorates

On a year-over-year basis, total non-performing assets increased significantly to \$126.5 million. Non-performing assets to total assets ratio was 0.1%, up from 0.05% in the year-ago quarter.

Also, provision for loan losses increased considerably to \$48.1 million.

Capital Position

As of Mar 31, 2020, the company's Tier 1 leverage ratio was 8.46%, indicating a fall of 38 basis points from the prior-year quarter. Tier 1 capital to risk-weighted assets was 11.14%, down from 11.82%. Common equity Tier 1 capital to risk-weighted assets ratio was 9.87% compared with 10.54% a year ago.

Tangible book value per share increased 11.9% to \$52.40.

Outlook 2020

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

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

Management expects efficiency ratio between 63.5% and 64.5% in 2020.

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

Recent News

Dividend Update

On Apr 14, First Republic announced a quarterly cash dividend of 20 cents per share, up 5.2% from the previous payout. The dividend will be paid on May 14 to shareholders of record as of Apr 30.

Valuation

First Republic's shares are down 14.8% in the year-to-date period and 5.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32% and 27.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.4% and 23.7%, respectively.

The S&P 500 Index is down 12% in the year-to-date period and 4.2% in the past year.

The stock is currently trading at 18.23X forward 12 months earnings, which compares to 12.85X for the Zacks sub-industry, 13.83X for the Zacks sector and 19.83X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.7X and as low as 14.94X, with a 5-year median of 18.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$106 price target reflects 19.14X 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	18.23	12.85	13.83	19.83
	5-Year High	23.7	18.23	16.17	19.83
	5-Year Low	14.94	9.78	11.19	15.19
	5-Year Median	18.54	14.49	13.93	17.45
P/TB TTM	Current	1.92	1.45	2.39	10.7
	5-Year High	2.88	2.65	4	12.78
	5-Year Low	1.52	1.09	2	6.02
	5-Year Median	2.32	1.97	3.47	9.15
P/S F12M	Current	4.44	4.36	4.96	4.79
	5-Year High	6.2	4.75	6.69	4.79
	5-Year Low	3.64	2.71	4.96	2.54
	5-Year Median	4.68	3.98	6.05	3.01

As of 04/24/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (237 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
PacWest Bancorp (PACW)	Neutral	3
Umpqua Holdings Corporation (UMPQ)	Neutral	4
Cathay General Bancorp (CATY)	Underperform	4
East West Bancorp, Inc. (EWBC)	Underperform	4
First Hawaiian, Inc. (FHB)	Underperform	5
SVB Financial Group (SIVB)	Underperform	5
Western Alliance Bancorporation (WAL)	Underperform	3
Zions Bancorporation, N.A. (ZION)	Underperform	5

Industry Comparison Industry: Banks - West				Industry Peers		
	FRC	X Industry	S&P 500	EWBC	SIVB	ZION
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	5	5
VGM Score	F	-	-	D	D	D
Market Cap	16.85 B	232.87 M	19.57 B	4.31 B	9.48 B	4.83 B
# of Analysts	9	3	14	6	11	13
Dividend Yield	0.76%	2.93%	2.2%	3.62%	0.00%	4.62%
Value Score	F	-	-	A	D	B
Cash/Price	0.23	0.42	0.05	1.09	0.76	0.44
EV/EBITDA	20.23	4.28	11.66	0.79	2.05	3.63
PEG Ratio	1.86	1.55	2.27	0.93	1.78	2.06
Price/Book (P/B)	1.83	0.83	2.60	0.88	1.51	0.70
Price/Cash Flow (P/CF)	15.78	7.26	10.50	5.33	8.28	4.85
P/E (F1)	20.98	10.78	18.25	9.30	14.25	15.86
Price/Sales (P/S)	3.92	2.09	2.02	2.06	2.66	1.51
Earnings Yield	4.88%	9.28%	5.35%	10.77%	7.02%	6.31%
Debt/Equity	1.96	0.15	0.72	0.16	0.06	0.26
Cash Flow (\$/share)	6.34	2.79	7.01	5.70	22.23	6.07
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	12.89%	15.58%	10.92%	17.10%	38.74%	30.32%
Proj. EPS Growth (F1/F0)	-6.11%	-22.18%	-5.06%	-29.18%	-40.58%	-57.10%
Curr. Cash Flow Growth	10.31%	5.43%	5.92%	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	1.06	0.92	1.23	0.99	0.67	0.85
Debt/Capital	63.50%	12.72%	43.90%	14.01%	4.99%	19.37%
Net Margin	21.46%	26.13%	11.32%	31.34%	27.57%	19.32%
Return on Equity	10.64%	10.22%	16.60%	14.00%	16.36%	9.36%
Sales/Assets	0.04	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	10.11%	0.00%	-0.78%	-9.19%	-10.46%	-1.75%
Momentum Score	C	-	-	F	C	C
Daily Price Chg	0.98%	0.45%	1.38%	2.84%	7.60%	0.92%
1 Week Price Chg	0.52%	-6.43%	0.42%	-9.96%	-6.46%	-6.18%
4 Week Price Chg	22.93%	-1.93%	5.63%	-1.20%	7.27%	7.64%
12 Week Price Chg	-11.44%	-33.13%	-20.44%	-35.96%	-25.85%	-37.00%
52 Week Price Chg	-5.72%	-31.87%	-13.44%	-39.94%	-25.61%	-39.08%
20 Day Average Volume	1,421,021	28,162	2,802,273	1,700,992	508,465	3,425,597
(F1) EPS Est 1 week change	0.00%	0.00%	-0.10%	0.00%	-0.25%	-32.44%
(F1) EPS Est 4 week change	-3.86%	-9.82%	-6.64%	-21.13%	-19.72%	-58.07%
(F1) EPS Est 12 week change	-9.15%	-20.94%	-11.78%	-30.81%	-33.75%	-62.53%
(Q1) EPS Est Mthly Chg	-1.83%	-12.23%	-10.38%	-21.63%	-24.95%	-55.96%

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	F
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.

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