Huntington Bancshares (HBAN)

$7.37 (As of 04/02/20)

Price Target (6-12 Months): **$8.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/03/19) Prior Recommendation: Underperform	Neutral
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	3-Hold
	Zacks Style Scores:	VGM:D
	Value: A | Growth: F | Momentum: D	

Summary

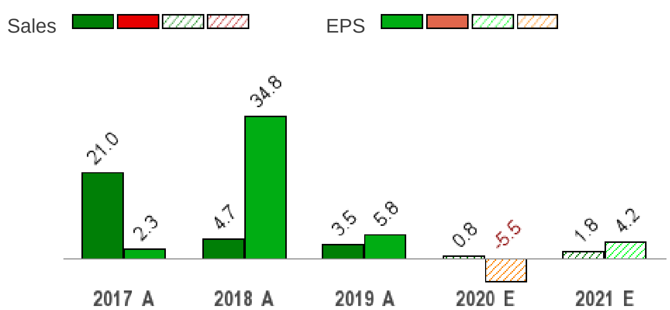
Shares of Huntington have underperformed the industry over the past six months. Yet, the company has decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters and posting in-line results in one quarter. The company's efforts to expand footprint through strategic initiatives on the back of robust liquidity seem impressive. Also, continued rise in loans and deposits are likely to aid revenue growth. Further, its net interest margin is likely to get support from rising interest earning assets. Improving credit quality remains a positive for the company. However, consistent rise in expenses due to investments in technology enhancements continues to deter bottom-line growth. Further, significant exposure to commercial loans and unsustainable capital deployment plans makes us apprehensive.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$15.63 - $6.85
20 Day Average Volume (sh)	17,581,374
Market Cap	$7.5 B
YTD Price Change	-51.1%
Beta	1.63
Dividend / Div Yld	$0.60 / 8.1%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 9% (231 out of 254)
Last EPS Surprise	-9.7%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-7.2%
Expected Report Date	04/23/2020
Earnings ESP	-9.4%
P/E TTM	5.8
P/E F1	6.1
PEG F1	0.7
P/S TTM	1.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,164 E	1,185 E	1,207 E	1,213 E	4,791 E
2020	1,153 E	1,177 E	1,189 E	1,191 E	4,704 E
2019	1,141 A	1,186 A	1,188 A	1,152 A	4,667 A

EPS Estimates

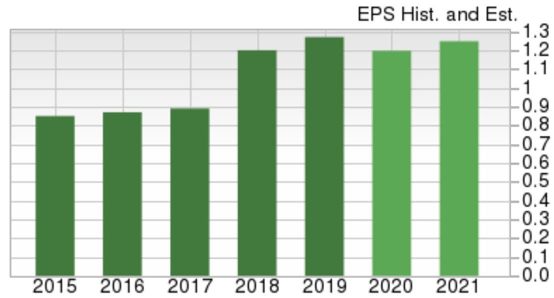
	Q1	Q2	Q3	Q4	Annual*
2021	$0.30 E	$0.30 E	$0.32 E	$0.32 E	$1.25 E
2020	$0.28 E	$0.28 E	$0.31 E	$0.31 E	$1.20 E
2019	$0.32 A	$0.33 A	$0.34 A	$0.28 A	$1.27 A

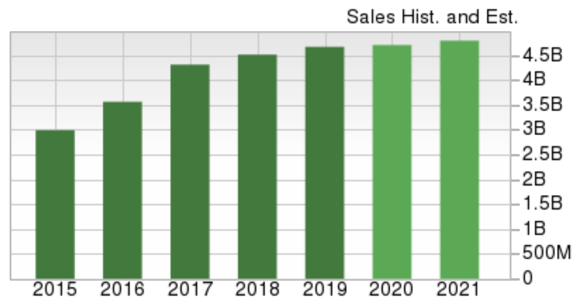
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/02/2020. The reports text is as of 04/03/2020.

Overview

Headquartered in Columbus, OH, Huntington Bancshares Incorporated is a multi-state diversified regional bank holding company. Through its subsidiaries, including its banking subsidiary Huntington National Bank, the company provides full-service commercial and consumer banking services, mortgage banking services, equipment leasing, investment management, trust and brokerage services, and other financial products and services. It operates through four major segments:





- **Consumer and Business Banking**, including Home Lending, provides a wide array of financial products and services to consumer and small business customers. Business Banking serves companies with revenues up to $20 million. Under Home Lending, it originates and services consumer loans and mortgages for customers mainly located in primary banking markets.
- **Commercial Banking** provides a variety of products and services to the middle market, large corporate client base, real estate and government public sector customers. The segment is divided into six business units: Middle Market, Specialty Banking, Asset Finance, Capital Markets/Institutional Corporate Banking, Commercial Real Estate and Treasury Management.
- **Vehicle Finance** provides lending and other banking products and services to customers for the purchase of vehicles and also to franchised dealerships for the acquisition of new and used inventory.
- **Regional Banking and The Huntington Private Client Group** (RBHPCG) core business is The Huntington Private Bank, which consists of Private Banking, Wealth & Investment Management, and Retirement plan services.

Additionally, the Treasury/Other Group includes revenues and expenses related to assets, liabilities, and equity not directly allocated to any segment. Assets include investment securities and bank-owned life insurance.

In August 2016, Huntington acquired FirstMerit Corporation. In 2018, the company acquired Hutchinson, Shockey, Erley & Co., a Chicago-based public finance investment bank and broker-dealer.

Reasons To Buy:

Huntington's strategic initiatives, including expansion moves should bolster revenue growth. Moreover, growth in loans and deposits balance is expected to drive long-term growth of the company.

- With the gradual change in the rate environment, margin pressure for Huntington eased. The company reported rise in net interest margin (NIM) in the last three years (ended 2018), after years of facing a declining trend. The increase reflected an improvement in the yield on earning assets. Though the margin contracted in 2019 on account of the Federal Reserve's accommodative monetary policy and lower yields, the bank's key metric is likely to get support from improving loans balance.

- Given its robust liquidity position, Huntington is well positioned to expand via acquisitions. Over the past few years, the company has expanded its footprint with a number of acquisitions. In 2018, Huntington completed its acquisition of Hutchinson, Shockey, Erley & Co., a leading public finance investment bank and broker-dealer, which resulted in a larger market presence. Therefore, we believe such efforts will help the company gain significant market share and thereby, enhance its profitability over the long run.

- We are impressed with the faster-than-expected improvement in the company's credit quality. Despite the macro pressure, Huntington's credit quality continues to normalize. Credit metrics have been gradually improving since the last quarter of 2009, except for the third quarter of 2012, as a result of the new regulatory guidance. We expect that with gradual recovery of the overall economy, the company should be able to deal with challenges related to credit issues.

- The company is focused on acquiring the industry's best deposit franchise. Huntington's total deposits recorded a three-year CAGR of 3.4% in 2019. Moreover, driven by strong performance in the commercial and consumer portfolio, total loan balance recorded a three-year CAGR of 5.1% in 2019. We believe that both loan and deposit balances are poised to grow in an improving economy.

- Huntington seems undervalued when compared with the broader industry. Its current price-to-cash flow and price-to-earnings (F1) ratios are below the respective industry averages. Also, it has a Value Score of B.

Reasons To Sell:

Huntington's bottom line growth remains affected due to consistently increasing costs on technology. Further, lack of diversification in loan portfolio remains a headwind for the company.

- We remain concerned about Huntington's consistently increasing cost base. Non-interest expenses saw a CAGR of 8.3% over the last five years (ended 2019). The company is making planned investments in digital, data and technology enhancements that will bolster its existing capabilities and infrastructure. Therefore, a persistent uptrend in expenses is expected, which is likely to limit profitability and operational efficiency of the company. Notably, management expects expenses to rise 1-3% in 2020.

- Majority of Huntington's loan portfolio – nearly 50% as of Dec 31, 2019 – comprises total commercial loans (commercial and business lending as well as commercial real estate lending). Such high exposure to commercial loans depicts lack of diversification which can be risky for the company amid challenging economy and competitive markets.

- Though Huntington's involvement in steady capital deployment activities is encouraging, its unfavorable liquidity position keeps us apprehensive. The company's 2019 Capital Plan included a 7% increase in common stock dividend, which was announced in July 2019. Also, repurchase of up to $513 million of common stock through June 2020 is included. However, the company's debt/equity ratio does not compare favorably with the broader industry. Thus, these capital deployment activities might not be sustainable in the long-term.

- Shares of Huntington have underperformed the industry over the past six months. With this unfavorable trend, the company's current-year earnings estimates have been revised 7% downward, over the past 30 days. Therefore, given above concerns and lack of positive estimates revision, the stock has limited upside potential.

Last Earnings Report

Huntington Q4 Earnings Miss Estimates on Lower NII

Quarter Ending	12/2019
Report Date	Jan 23, 2020
Sales Surprise	-0.69%
EPS Surprise	-9.68%
Quarterly EPS	0.28
Annual EPS (TTM)	1.27

Huntington reported a negative earnings surprise of 9.7% in fourth-quarter 2019. Earnings per share of 28 cents lagged the Zacks Consensus Estimate of 31 cents. The bottom line also was 3.4% lower than the prior-year quarter reported figure.

Results were adversely impacted by lower net interest income and higher provisions, along with pressure on margin. However, decline in operating expenses and fee income was tailwinds. Further, improvement in loans and deposits was the driving factor.

The company reported net income of $317 million for the quarter, down 5.1% year over year.

In full-year 2019, net income was $1.41 billion or $1.27 per share compared with the $1.39 billion or $1.20 per share reported in the prior year. The bottom line missed the Zacks Consensus Estimate of $1.29.

Revenues Decline, Expenses Fall, Loans & Deposits Escalate

Total revenues decreased marginally year over year to $1.15 billion in the fourth quarter. Further, the top-line figure missed the Zacks Consensus Estimate of $1.16 billion.

In full-year 2019, Huntington Bancshares reported revenues of $4.7 billion on a fully taxable-equivalent (FTE) basis, up 4.4% year over year. The figure came in line with the Zacks Consensus Estimate.

Net interest income (FTE basis) was $780 million, down 7% from the prior-year quarter. This downside resulted from lower net interest margin (NIM), partly offset by an increase in average earnings assets. Also, net interest margin (NIM) contracted 29 basis points to 3.12%.

Non-interest income climbed 13% year over year to $372 million. This upsurge mainly stemmed from increase in almost all components of income, partly muted by lower capital market fees and other non-interest income.

Non-interest expenses dipped 1% year over year to $701 million. This was chiefly due to lower equipment, marketing and net occupancy costs, mostly offset by elevated personnel costs, outside data processing and other service costs, along with other expenses.

Efficiency ratio was 58.4%, down from the prior-year quarter's 58.7%. A decline in ratio indicates rise in profitability.

As of Dec 31, 2019, average loans and leases at Huntington inched up on a sequential basis to $75.1 billion. Also, average core deposits increased marginally from the prior quarter to $79.7 billion.

Credit Quality Disappoints

Net charge-offs were $73 million or an annualized 0.39% of average total loans in the reported quarter, up from $50 million or an annualized 0.27% recorded in the prior year. Also, the quarter-end allowance for credit losses increased 2.2% to $887 million.

Provision for credit losses went up 32% on a year-over year basis to $79 million. In addition, total non-performing assets totaled $498 million as of Dec 31, 2019, up 28.7%.

Capital Ratios

Common equity tier 1 risk-based capital ratio and regulatory Tier 1 risk-based capital ratio were 9.88% and 11.26%, respectively, compared with the 9.65% and 11.06% reported in the year-ago quarter.

Tangible common equity to tangible assets ratio was 7.88%, up from 7.21% as of Dec 31, 2018.

Capital Deployment

During 2019, the company repurchased 31.4 million shares at an average cost of $14 per share for a total cost of $441 million. Notably, during the December-ended quarter, the company repurchased 13.1 million shares at an average cost of $14.96 for a total cost of $196 million.

Outlook for 2020

Total revenues will likely be up 1.5-3.5%, year over year, with growth in both NII and non-interest income. The company expects non-interest income on a GAAP basis to grow at a slightly higher pace than total revenues in 2020, driven by the continued focus on deepening customer relationships.

Non-interest expense is anticipated to be up 1-3%.

Average loans and leases are likely to escalate 3-4% on an annual basis. Continued growth in both consumer and commercial portfolios is expected, with consumer lending focused in home and auto finance to be on a modestly stronger side. The company anticipates a slightly more measured commercial loan growth, consistent with recent economic data.

Average total deposits are anticipated to increase 3-4%, on assumption that continued decline in CDs is more than offset by growth in checking and money markets. The company seeks to remain focused on acquiring or checking accounts and deepening customer relationships.

Net charge-offs are expected to be in the range of 35-45 basis points, with some moderate quarterly volatility.

The effective tax rate for 2020 is anticipated in the range of 15.5% to 16.5%.

Recent News

Dividend Update

On Jan 23, Huntington's board of directors announced a quarterly cash dividend of 15 cents per share. The dividend was paid on Apr 1 to its shareholders on record as of Mar 18.

Valuation

Huntington's shares are down`51.1% in the year-to-date period and 44.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 41.8% and 32.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 35.8% and 26.3%, respectively.

The S&P 500 Index is down 23.1% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 5.74X forward 12 months earnings, which compares to 8.5X for the Zacks sub-industry, 10.58X for the Zacks sector and 15.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.53X and as low as 5.74X, with a 5-year median of 11.81X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $8 price target reflects 6.03X forward earnings.

The table below shows summary valuation data for HBAN

Valuation Multiples - HBAN

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.74	8.5	10.58	15.37
	5-Year High	15.53	16.92	16.21	19.34
	5-Year Low	5.74	8.5	10.58	15.18
	5-Year Median	11.81	13.58	13.97	17.44
P/TB TTM	Current	0.95	1.77	2.18	9.34
	5-Year High	2.6	3.94	3.98	12.78
	5-Year Low	0.9	1.66	1.97	6.02
	5-Year Median	1.88	2.95	3.46	9.15
P/S F12M	Current	1.58	2.98	5.99	2.7
	5-Year High	4.17	6.05	6.64	3.43
	5-Year Low	1.58	2.98	5.38	2.54
	5-Year Median	3.09	4.83	6.04	3

As of 04/02/2020

Industry Analysis **Zacks Industry Rank:** Bottom 9% (231 out of 254)

Top Peers

Associated Banc-Corp **(ASB)**	Neutral
Commerce Bancshares, Inc. **(CBSH)**	Neutral
KeyCorp **(KEY)**	Neutral
M&T Bank Corporation **(MTB)**	Neutral
Regions Financial Corporation **(RF)**	Neutral
UMB Financial Corporation **(UMBF)**	Neutral
U.S. Bancorp **(USB)**	Neutral
Comerica Incorporated **(CMA)**	Underperform

Industry Comparison Industry: Banks - Midwest

Industry Peers

	HBAN Neutral	X Industry	S&P 500	CBSH Neutral	KEY Neutral	MTB Neutral
VGM Score	D	-	-	F	B	D
Market Cap	7.51 B	285.74 M	17.16 B	5.79 B	9.19 B	12.44 B
# of Analysts	11	3.5	13	8	10	8
Dividend Yield	8.14%	3.20%	2.5%	2.09%	7.81%	4.60%
Value Score	A	-	-	D	B	B
Cash/Price	0.16	0.26	0.06	0.32	0.28	0.65
EV/EBITDA	7.02	6.01	10.80	6.62	7.49	3.72
PEG Ratio	0.66	1.97	1.74	5.59	0.95	2.60
Price/Book (P/B)	0.72	0.79	2.33	1.94	0.62	0.87
Price/Cash Flow (P/CF)	4.24	6.36	9.11	11.86	4.37	5.66
P/E (F1)	5.98	8.68	14.73	16.77	5.40	7.31
Price/Sales (P/S)	1.33	1.85	1.81	4.00	1.20	1.79
Earnings Yield	16.28%	11.52%	6.71%	5.97%	18.57%	13.68%
Debt/Equity	0.93	0.39	0.70	0.00	0.82	0.48
Cash Flow ($/share)	1.74	2.79	7.01	4.35	2.17	16.90
Growth Score	F	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	12.41%	14.88%	10.92%	15.65%	14.67%	17.92%
Proj. EPS Growth (F1/F0)	-5.72%	-13.20%	1.02%	-14.07%	9.07%	-4.73%
Curr. Cash Flow Growth	-4.72%	13.30%	5.93%	-1.69%	-3.09%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	12.14%	16.06%	8.55%	8.41%	12.28%	11.65%
Current Ratio	0.90	0.91	1.24	0.73	0.90	1.08
Debt/Capital	45.51%	28.17%	42.33%	0.08%	42.22%	30.77%
Net Margin	24.95%	23.35%	11.67%	29.06%	22.06%	27.79%
Return on Equity	13.44%	10.88%	16.70%	14.18%	12.54%	13.37%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.06
Proj. Sales Growth (F1/F0)	0.47%	0.00%	1.54%	-2.38%	1.00%	-4.33%
Momentum Score	D	-	-	F	D	B
Daily Price Chg	-1.07%	1.15%	1.45%	4.12%	0.32%	-0.13%
1 Week Price Chg	8.92%	3.62%	12.29%	-5.35%	21.87%	8.64%
4 Week Price Chg	-37.44%	-25.07%	-21.33%	-13.44%	-40.68%	-27.24%
12 Week Price Chg	-49.38%	-36.74%	-28.56%	-23.74%	-51.85%	-42.76%
52 Week Price Chg	-44.67%	-30.60%	-22.55%	-9.61%	-42.48%	-41.37%
20 Day Average Volume	17,581,374	77,849	4,257,668	943,753	18,752,020	1,387,491
(F1) EPS Est 1 week change	-0.45%	0.00%	-0.04%	-3.90%	-0.62%	-0.22%
(F1) EPS Est 4 week change	-7.19%	-12.62%	-4.30%	-10.44%	-6.94%	-6.25%
(F1) EPS Est 12 week change	-8.91%	-12.16%	-5.47%	-8.96%	-6.45%	-2.91%
(Q1) EPS Est Mthly Chg	-7.95%	-10.35%	-5.91%	-10.17%	-8.77%	-8.05%

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	F
Momentum Score	D
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.

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