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Aug 12, 2020

Huntington Bancshares (HBAN)

$10.09 (As of 08/11/20)

Price Target (6-12 Months): **$11.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/11/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: F | Momentum: B	

Summary

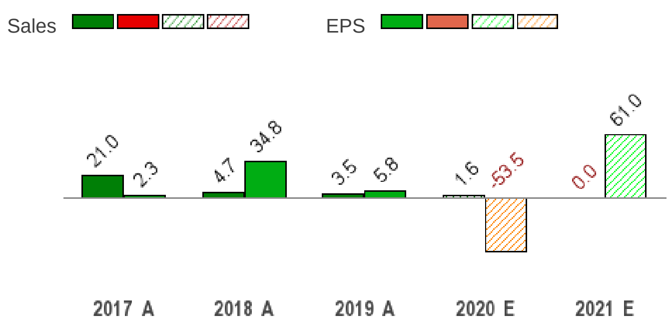
Shares of Huntington have outperformed the industry over the past three months. The company has a decent earnings surprise history, as it surpassed the Zacks Consensus Estimate in two of the trailing four quarters and missed in the others. Second-quarter results reflect lower expenses and rise in fee income, partly muted by a substantial rise in provisions. Huntington's efforts to expand footprint through strategic initiatives, and continued rise in loans and deposits are likely to aid revenues. Improving credit quality is a tailwind. Also, its cost-controlling efforts are impressive. However, significant exposure to commercial loans amid uncertain markets is concerning. Also, net interest margin might remain under pressure due to prevailing low interest rates. Further, the company is exposed to credit risk in case of any economic downturn.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$15.63 - $6.82
20 Day Average Volume (sh)	8,380,131
Market Cap	$10.3 B
YTD Price Change	-33.1%
Beta	1.51
Dividend / Div Yld	$0.60 / 5.9%
Industry	Banks - Midwest
Zacks Industry Rank	Top 49% (124 out of 253)
Last EPS Surprise	116.7%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	20.5%
Expected Report Date	10/22/2020
Earnings ESP	-2.8%
P/E TTM	12.9
P/E F1	17.1
PEG F1	1.9
P/S TTM	1.9

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,167 E	1,195 E	1,207 E	1,204 E	4,745 E
2020	1,157 A	1,188 A	1,211 E	1,217 E	4,744 E
2019	1,141 A	1,186 A	1,188 A	1,152 A	4,667 A

EPS Estimates

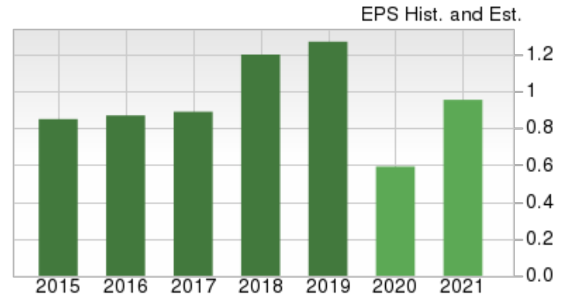
	Q1	Q2	Q3	Q4	Annual*
2021	$0.24 E	$0.21 E	$0.23 E	$0.25 E	$0.95 E
2020	$0.03 A	$0.13 A	$0.20 E	$0.23 E	$0.59 E
2019	$0.32 A	$0.33 A	$0.34 A	$0.28 A	$1.27 A

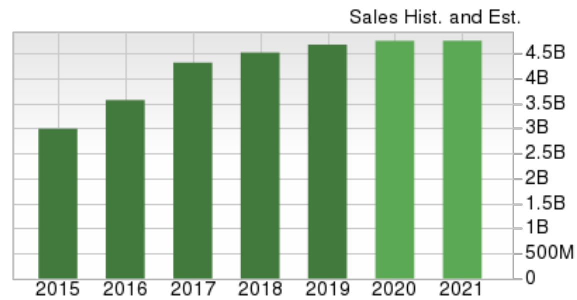
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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.

- 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. In the first half of 2020, credit quality deteriorated due to the impacts of the coronavirus mayhem. Nevertheless, Huntington's credit quality is likely to witness improvement in the quarters ahead on the back of economic recovery.

- 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. Both metrics continued to improve in the first six months of 2020. We believe that both loan and deposit balances are poised to grow in an improving economy.

- Huntington's focus on managing its cost base encourages us. Though non-interest expenses saw a CAGR of 8.3% over the last five years (ended 2019), the same declined in the first six months of 2020. Further, the company has undertaken an expense-management program, through which it expects to generate about $75 million of annual savings in 2020 and 2021. Notably, it seeks to use the savings by making investments in digital, data and technology enhancements, product differentiation and other initiatives, which will likely bolster its existing capabilities and infrastructure. Therefore, a controlled expense base, with focus on improving overall performance, bodes well for long-term growth of the company.

- Shares of Huntington have outperformed the industry over the past three months. Also, the company's current-year earnings estimates have been revised 20.4% upward over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current price-to-cash flow and PEG ratios are below the respective industry averages. Also, the stock has a Value Score of B. Therefore, given the strong fundamentals and positive estimates revisions, the stock has decent upside potential.

Reasons To Sell:

Huntington’s bottom line growth remains affected due to thepressure on margins from lower interest rates. Further, lack of diversification in loan portfolio remains a headwind for the company.

- With support from higher interest rates, margin pressure for Huntington eased in the three years (ended 2018), after witnessing a declining trend for years. However, NIM declined in 2019 and first two quarters of 2020 on account of a decline in interest rates. Given, the Federal Reserve’s accommodative monetary policy stance and lower yields, we expect the bank’s key metric to remain under pressure in the quarters ahead.

- As of Jun 30, 2020, the company holds debt worth $9.9 billion. The debt level has witnessed a fall from the past few quarters and its debt-to-capital ratio, currently 0.44, has been relatively stable. Also, cash and cash equivalents, as of same date, were $1.3 billion, which remained much below the debt level. Further, the company’s earnings before interest and tax were 4.1 times the interest expenses and have declined in the past few quarters. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe that Huntington carries credit risk and higher likelihood of default of interest and debt repayments if the economic situation worsens.

- Majority of Huntington’s loan portfolio – nearly 52% as of Jun 30, 2020 – 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 had increased its quarterly dividend by 7% in July 2019. Also, it had a share repurchase program in place, that was suspended mid-March following the coronavirus crisis. Notably, following the 2020 stress test, the company maintained the dividend level as before and keep share repurchases suspended in the third quarter of 2020 as well. 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.

Last Earnings Report

Huntington Q2 Earnings Top Estimates, Provisions Up

Quarter Ending	06/2020
Report Date	**Jul 23, 2020**
Sales Surprise	**3.55%**
EPS Surprise	**116.67%**
Quarterly EPS	**0.13**
Annual EPS (TTM)	**0.78**

Huntington second-quarter 2020 earnings per share of 13 cents outpaced the Zacks Consensus Estimate of 6 cents. The bottom-line figure, however, comes in 61% lower than the prior-year quarter reported tally.

Decline in operating expenses and a higher fee income were tailwinds. Notably, a rise in mortgage banking revenues acted as a driving factor. Further, improvement in loans and deposits was another positive.

However, results were adversely impacted by higher credit provisioning due to the bleak economic conditions. Also, a lower net interest income, along with pressure on margin, due to low rates, was a major drag.

The company reported net income of $150 million for the quarter, which slumped 59% year over year.

Revenues Down, Expenses Fall, Loans & Deposits Escalate

Total revenues edged down nearly 1% year over year to $1.19 billion in the second quarter. Yet, the top-line figure surpassed the Zacks Consensus Estimate of $1.15 billion.

Net interest income (FTE basis) was $797 million, down 3% from the prior-year quarter. This downside resulted from a lower NIM, partly offset by an increase in average earnings assets. Also, NIM contracted 37 basis points (bps) to 2.94%.

Non-interest income climbed 5% year over year to $391 million. This upswing mainly stemmed from an increase in almost all components of income, partly muted by lower gain on sale of loans and leases, capital market fees, service charges on deposit account and other non-interest income. Notably, mortgage banking income more than doubled.

Non-interest expenses slid 4% on a year-over-year basis to $675 million. This was chiefly due to lower personnel costs, professional services, amortization of intangibles, marketing, and other costs, partly negated by elevated outside data processing and other service costs, net occupancy and equipment expenses.

Efficiency ratio was 55.9%, down from the prior-year quarter's 57.6%. A decline in ratio indicates a rise in profitability.

As of Jun 30, 2020, average loans and leases at Huntington increased 5.9% on a sequential basis to $80.2 billion. Moreover, average total deposits increased 13% from the prior quarter to $93.2 billion.

Credit Quality Disappoints

Net charge-offs were $107 million or an annualized 0.54% of average total loans in the reported quarter, up from the $48 million or an annualized 0.25% recorded in the prior year. Furthermore, the quarter-end allowance for credit losses more than doubled to $1.82 billion.

Provision for credit losses went up significantly on a year-over year basis to $327 million on the coronavirus crisis. In addition, total non-performing assets totaled $713 million as of Jun 30, 2020, up 55%.

Capital Ratios

Common equity tier 1 risk-based capital ratio and regulatory Tier 1 risk-based capital ratio were 9.84% and 11.79%, respectively, compared with the 9.88% and 11.28% reported in the year-ago quarter.

Tangible common equity to tangible assets ratio was 7.28%, down from 7.80% as of Jun 30, 2019. Return on average assets and average common equity was 0.51% and 5%, respectively, compared with the 1.36% and 13.5% recorded in the prior-year quarter.

Outlook for Q3

Total revenues are anticipated to increase about 2%, on a sequential basis, with net interest income increasing 2-4%. GAAP NIM is expected to expand 7-10 bps versus the second quarter NIM of 2.94% as a result of the hedging strategy and the elimination of notable items, which negatively impacted the second quarter. NIM expectation does not include material benefit from the acceleration of PPP fees from the repayment of forgiveness of those loans in the third quarter.

Fee income is expected to be flat as mortgage banking activity remains robust and pandemic impacted revenue lines rebound. Based on the debit card trends, the company expects a slight pickup in card related fees in the third quarter. Increasing Deposit account activity volumes might also aid.

Management expects average loans to remain flat on a linked quarter basis. Consumer loans are expected to increase 2%, driven by continued growth in the residential mortgage and RV and marine lending. Commercial loans are expected to decrease nearly 1% as the full quarter impact of PPP is more than offset by continued reductions in dealer floor plan and commercial loan utilization rates. The company assumes that the majority of PPP balances will remain on the balance sheet through the end of 2020.

Average total deposits are expected to decrease nearly 1% sequentially. Commercial deposits are expected to decrease 3%, assuming gradual usage of deposit inflows from the government stimulus.

The company expects non-interest expenses to increase 5% on a linked quarter basis. About 2% of this growth is driven by the $15 million restructuring costs associated with the expense management actions. The remaining 3% is driven by investments in technology and marketing, as well as the return of customer and sales activity closer to pre pandemic levels.

Net charge-offs are expected to be near 65 bps. This is reflective of the potential charge offs in the oil and gas portfolio, as well as broader economic considerations.

Recent News

Dividend Update

On Jul 23, Huntington's board of directors announced a quarterly cash dividend of 15 cents per share. The dividend will be paid on Oct 1 to its shareholders of record as of Sep 17.

Valuation

Huntington's shares are down 38.9% in the year-to-date period and 34.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.7% and 18.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.3% and 14.3%, respectively.

The S&P 500 index is up 1.3% and 9% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 12.38X forward 12 months earnings, which compares to 13.69X for the Zacks sub-industry, 16.83X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.87X and as low as 5.6X, with a 5-year median of 11.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $11 price target reflects 13X 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	12.38	13.69	16.83	22.8
	5-Year High	17.87	16.92	16.83	22.8
	5-Year Low	5.6	9.51	11.59	15.25
	5-Year Median	11.7	13.58	14.26	17.58
P/TB TTM	Current	1.26	2.17	3.4	15.23
	5-Year High	2.6	3.94	4	15.36
	5-Year Low	0.87	1.66	2.01	5.96
	5-Year Median	1.88	2.95	3.48	9.56
P/S F12M	Current	2.16	3.75	6.22	3.67
	5-Year High	4.17	6.05	6.66	3.67
	5-Year Low	1.48	3.15	4.96	2.53
	5-Year Median	3.06	4.81	6.06	3.05

As of 08/11/2020

Industry Analysis **Zacks Industry Rank:** Top 49% (124 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Associated BancCorp **(ASB)**	Neutral	4
Commerce Bancshares, Inc. **(CBSH)**	Neutral	3
Comerica Incorporated **(CMA)**	Neutral	3
KeyCorp **(KEY)**	Neutral	4
MT Bank Corporation **(MTB)**	Neutral	3
Regions Financial Corporation **(RF)**	Neutral	4
UMB Financial Corporation **(UMBF)**	Neutral	3
U.S. Bancorp **(USB)**	Neutral	3

Industry Comparison Industry: Banks - Midwest

Industry Peers

	HBAN	X Industry	S&P 500	CBSH	KEY	MTB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	D	C	D
Market Cap	10.26 B	339.44 M	23.61 B	6.81 B	12.77 B	14.28 B
# of Analysts	11	3	14	8	10	7
Dividend Yield	5.95%	3.01%	1.69%	1.77%	5.66%	3.95%
Value Score	B	-	-	C	B	D
Cash/Price	0.65	0.47	0.07	0.40	1.29	1.71
EV/EBITDA	6.25	6.02	13.32	6.78	4.63	-0.54
PEG Ratio	1.88	2.36	2.95	NA	2.42	4.42
Price/Book (P/B)	0.97	0.89	3.22	2.12	0.82	0.97
Price/Cash Flow (P/CF)	5.80	7.43	12.79	14.04	6.02	6.59
P/E (F1)	16.93	11.27	22.02	26.56	13.81	12.43
Price/Sales (P/S)	1.88	1.97	2.57	4.83	1.70	2.15
Earnings Yield	5.85%	8.86%	4.29%	3.77%	7.26%	8.05%
Debt/Equity	0.92	0.38	0.77	0.00	0.88	0.43
Cash Flow ($/share)	1.74	2.79	6.94	4.35	2.17	16.90
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	8.14%	12.81%	10.41%	13.21%	11.74%	16.43%
Proj. EPS Growth (F1/F0)	-53.33%	-19.17%	-6.51%	-35.79%	-41.18%	-34.83%
Curr. Cash Flow Growth	-4.72%	14.44%	5.22%	-1.69%	-3.09%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	12.14%	15.97%	8.55%	8.41%	12.28%	11.65%
Current Ratio	0.92	0.92	1.34	0.72	0.92	1.07
Debt/Capital	44.20%	27.49%	44.59%	0.04%	43.91%	28.39%
Net Margin	16.27%	21.59%	10.13%	21.82%	15.85%	22.36%
Return on Equity	8.35%	9.16%	14.59%	10.03%	8.52%	10.22%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	1.65%	1.73%	-1.45%	-2.92%	1.94%	-4.89%
Momentum Score	B	-	-	D	A	C
Daily Price Chg	2.23%	1.25%	-0.17%	1.73%	2.91%	2.09%
1 Week Price Chg	4.21%	5.60%	2.30%	4.68%	4.33%	1.57%
4 Week Price Chg	16.92%	9.81%	6.41%	10.08%	14.84%	13.24%
12 Week Price Chg	28.05%	14.53%	15.42%	6.60%	28.11%	21.64%
52 Week Price Chg	-21.78%	-16.87%	2.88%	11.73%	-20.49%	-26.41%
20 Day Average Volume	8,380,131	40,973	2,007,486	525,102	9,373,828	786,712
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	20.52%	11.08%	1.84%	-6.13%	21.58%	5.01%
(F1) EPS Est 12 week change	37.26%	12.10%	2.40%	-5.23%	38.25%	14.00%
(Q1) EPS Est Mthly Chg	8.11%	-0.36%	0.72%	-0.47%	24.88%	1.42%

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	B
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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