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May 13, 2020

Huntington Bancshares (HBAN)

$7.86 (As of 05/12/20)

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

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: C | Momentum: F	

Summary

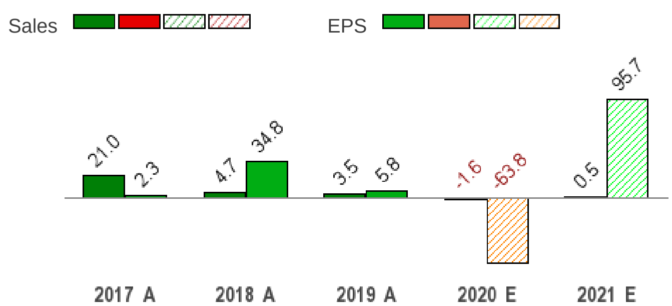
Shares of Huntington have underperformed the industry over the past six months. The company has decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters and missed in others. First-quarter results were affected by higher provisions and lower net interest income. Consistent rise in expenses due to investments in technology enhancements continues to deter Huntington's bottom-line growth. Also, significant exposure to commercial loans amid uncertain markets remains a major concern. Margin is likely to remain under pressure due to low rates. However, the company's efforts to expand footprint through strategic initiatives, and continued rise in loans and deposits are likely to aid revenue growth. Notably, it temporarily suspended buybacks for remaining 2020, due to the coronavirus outbreak.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$15.63 - $6.82**
20 Day Average Volume (sh)	**11,982,869**
Market Cap	**$8.0 B**
YTD Price Change	**-47.9%**
Beta	**1.55**
Dividend / Div Yld	**$0.60 / 7.6%**
Industry	**Banks - Midwest**
Zacks Industry Rank	**Bottom 8% (232 out of 253)**
Last EPS Surprise	**-75.0%**
Last Sales Surprise	**0.8%**
EPS F1 Est- 4 week change	**-36.0%**
Expected Report Date	**07/23/2020**
Earnings ESP	**7.2%**
P/E TTM	**8.0**
P/E F1	**17.1**
PEG F1	**1.9**
P/S TTM	**1.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,138 E	1,155 E	1,172 E	1,181 E	4,615 E
2020	1,157 A	1,131 E	1,166 E	1,135 E	4,591 E
2019	1,141 A	1,186 A	1,188 A	1,152 A	4,667 A

EPS Estimates

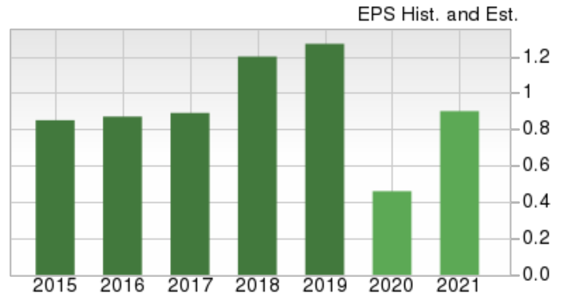
	Q1	Q2	Q3	Q4	Annual*
2021	$0.25 E	$0.24 E	$0.28 E	$0.28 E	$0.90 E
2020	$0.03 A	$0.09 E	$0.16 E	$0.15 E	$0.46 E
2019	$0.32 A	$0.33 A	$0.34 A	$0.28 A	$1.27 A

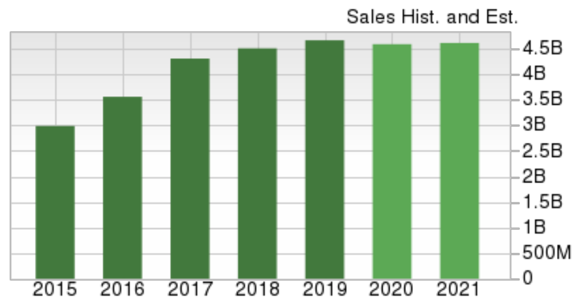
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

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 first-quarter 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 three months of 2020. 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-book ratios are below the respective industry averages. Also, the stock 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). Though expenses declined slightly in the first three months of 2020, the company's planned investments in digital, data and technology enhancements, which will likely bolster its existing capabilities and infrastructure, might keep costs elevated. Therefore, a persistent uptrend in expenses is likely to limit profitability and operational efficiency of the company. Notably, management expects expenses to rise 1-3% in 2020.

- 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-quarter 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 Mar 31, 2020, the company holds debt worth $12.6 billion. The debt level has witnessed a rise over the past few quarters and its debt-to-capital ratio, currently 0.42, has been relatively stable. Also, cash and cash equivalents, as of same date, was $1.9 billion, which remained much below the debt level. Further, the company's earnings before interest and tax was 13.5 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 51% as of Mar 31, 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'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. Notably, Huntington currently suspended buybacks for remaining 2020, having assessed the implications of the coronavirus outbreak.

- 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 36.1% 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 Q1 Earnings Miss Estimates, Provisions Up

Quarter Ending	03/2020
Report Date	Apr 23, 2020
Sales Surprise	0.80%
EPS Surprise	-75.00%
Quarterly EPS	0.03
Annual EPS (TTM)	0.98

Huntington reported first-quarter 2020 earnings per share of 3 cents that lagged the Zacks Consensus Estimate of 12 cents. The bottom-line figure also comes in 91% lower than the prior-year quarter reported number.

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

However, declines 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.

The company reported net income of $48 million for the quarter, which slumped 87% year over year.

Revenues Up, Expenses Fall, Loans & Deposits Escalate

Total revenues inched up 1% year over year to $1.16 billion in the first quarter. Further, the top-line figure surpassed the Zacks Consensus Estimate of $1.15 billion.

Net interest income (FTE basis) was $796 million, down 4% from the prior-year quarter. This downside resulted from a lower NIM, partly offset by an increase in average earnings assets. Also, NIM contracted 25 basis points to 3.14%.

Non-interest income climbed 13% year over year to $361 million. This upsurge mainly stemmed from an increase in almost all components of income, partly muted by lower gain on sale of loans and leases and other non-interest income. Notably, mortgage banking income increased significantly.

Non-interest expenses edged down on a year-over-year basis to $652 million. This was chiefly due to lower professional, amortization of intangibles, net occupancy and other costs, mostly offset by elevated personnel costs, outside data processing and other service costs, marketing and equipment expenses.

Efficiency ratio was 55.4%, down from the prior-year quarter’s 55.8%. A decline in ratio indicates a rise in profitability.

As of Mar 31, 2020, average loans and leases at Huntington inched up 1% on a sequential basis to $75.7 billion. Also, average total deposits increased marginally from the prior quarter to $82.7 billion.

Credit Quality Disappoints

Net charge-offs were $117 million or an annualized 0.62% of average total loans in the reported quarter, up from the $71 million or an annualized 0.38% recorded in the prior year. Also, the quarter-end allowance for credit losses surged 85.5% to $1.6 billion.

Provision for credit losses went up significantly on a year-over year basis to $441 million on the coronavirus crisis. In addition, total non-performing assets totaled $586 million as of Mar 31, 2020, up 27.1%.

Capital Ratios

Common equity tier 1 risk-based capital ratio and regulatory Tier 1 risk-based capital ratio were 9.47% and 10.81%, respectively, compared with the 9.84% and 11.25% reported in the year-ago quarter.

Tangible common equity to tangible assets ratio was 7.52%, down from 7.57% as of Mar 31, 2019.

Capital Deployment

During the March-end quarter, the company repurchased 7.1 million shares at an average cost of $12.38 for a total cost of $88 million.

Outlook for Second-Quarter 2020

Total revenues are anticipated to decline 4-5% sequentially, as the larger average balance sheet is more than offset by moderate pressure on the organic NIM and the COVID-19 related declines in fee income. Customer activity based fee income lines, items, including deposit service charges, card and payment processing, are all expected to be pressured. Mortgage banking is expected to remain robust, but historically wide secondary marketing spreads are expected to gradually reduce. All combined, the company currently expects fee income to be down about 10% sequentially.

Average commercial loan growth of 4???5% is expected on a sequential basis, reflecting full quarter impact of recent $3.2 billion commercial line draws but excluding $6 billion paycheck protection program (PPP) lending. Also, average consumer loans might remain flat or decline modestly as continued growth in residential mortgage is partially offset by home equity and indirect auto runoff.

Non-interest expenses are expected to increase between 5% and 6% on a sequential basis, driven primarily by the CECL increase in compensation-related expense related to the annual ramp of long-term incentives and annual merit increases, partially offset by expense-reduction actions. On a year-over-year basis, expenses are expected to be lower by 2%.

Net charge-offs are expected to be 35-55 basis points. This is reflective of the ongoing pressure in the oil and gas portfolio as well as broader economic considerations.

Recent News

Dividend Update

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

Valuation

Huntington's shares are down 47.9% in the year-to-date period and 40.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 39.8% and 28.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.5% and 21.5%, respectively.

The S&P 500 Index is down 10.9% in the year-to-date period but up 1.1% in the past year.

The stock is currently trading at 12.66X forward 12 months earnings, which compares to 12.59X for the Zacks sub-industry, 14.78X for the Zacks sector and 20.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.53X and as low as 5.6X, with a 5-year median of 11.74X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $8 price target reflects 12.89X 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	12.66	12.59	14.78	20.76
	5-Year High	15.53	16.92	16.18	20.79
	5-Year Low	5.6	9.51	11.58	15.19
	5-Year Median	11.74	13.58	13.94	17.45
P/TB TTM	Current	1	1.79	2.37	11.31
	5-Year High	2.6	3.94	4	12.78
	5-Year Low	0.87	1.66	1.99	6.02
	5-Year Median	1.88	2.95	3.47	9.23
P/S F12M	Current	1.73	3.17	5.81	3.24
	5-Year High	4.17	6.05	6.7	3.44
	5-Year Low	1.48	3.17	4.99	2.54
	5-Year Median	3.08	4.81	6.05	3.02

As of 05/12/2020

Industry Analysis **Zacks Industry Rank:** Bottom 8% (232 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
KeyCorp **(KEY)**	Neutral	3
Regions Financial Corporation **(RF)**	Neutral	3
Associated BancCorp **(ASB)**	Underperform	5
Commerce Bancshares Inc **(CBSH)**	Underperform	3
Comerica Incorporated **(CMA)**	Underperform	5
MT Bank Corporation **(MTB)**	Underperform	5
UMB Financial Corporation **(UMBF)**	Underperform	4
US Bancorp **(USB)**	Underperform	5

Industry Comparison Industry: Banks - Midwest

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	HBAN	**X Industry**	**S&P 500**	**CBSH**	**KEY**	**MTB**
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	D	D	F
Market Cap	7.97 B	269.62 M	19.25 B	6.18 B	9.92 B	12.23 B
# of Analysts	12	4	14	9	10	8
Dividend Yield	7.64%	3.41%	2.21%	1.95%	7.28%	4.62%
Value Score	B	-	-	D	C	F
Cash/Price	0.22	0.31	0.06	0.26	0.52	0.85
EV/EBITDA	6.95	6.01	11.70	8.45	7.24	2.69
PEG Ratio	1.78	3.86	2.61	7.59	2.60	4.31
Price/Book (P/B)	0.75	0.80	2.61	2.00	0.64	0.85
Price/Cash Flow (P/CF)	4.51	6.16	10.36	12.74	4.68	5.64
P/E (F1)	16.02	11.25	19.13	22.78	14.85	12.12
Price/Sales (P/S)	1.42	1.72	1.96	4.28	1.31	1.78
Earnings Yield	5.85%	8.88%	5.00%	4.39%	6.78%	8.25%
Debt/Equity	0.93	0.39	0.75	0.24	0.89	0.43
Cash Flow ($/share)	1.74	2.79	7.01	4.35	2.17	16.90
Growth Score	C	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	10.88%	13.80%	10.82%	15.11%	13.97%	17.81%
Proj. EPS Growth (F1/F0)	-63.78%	-31.59%	-10.31%	-32.06%	-57.45%	-42.80%
Curr. Cash Flow Growth	-4.72%	14.44%	5.83%	-1.69%	-3.09%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	12.14%	15.97%	8.52%	8.41%	12.28%	11.65%
Current Ratio	0.89	0.91	1.27	0.75	0.93	1.07
Debt/Capital	45.42%	28.17%	44.25%	18.87%	44.09%	28.56%
Net Margin	19.65%	21.25%	10.59%	26.01%	18.85%	24.99%
Return on Equity	10.40%	10.14%	16.33%	12.44%	10.43%	11.84%
Sales/Assets	0.05	0.05	0.55	0.06	0.05	0.06
Proj. Sales Growth (F1/F0)	-1.62%	0.00%	-2.53%	-3.32%	-0.11%	-3.92%
Momentum Score	F	-	-	B	B	A
Daily Price Chg	-4.50%	-3.95%	-2.55%	-4.04%	-4.95%	-4.06%
1 Week Price Chg	0.93%	-0.77%	3.23%	1.08%	1.90%	-2.17%
4 Week Price Chg	-6.49%	-6.50%	-0.84%	-1.23%	-8.71%	-12.86%
12 Week Price Chg	-43.53%	-34.75%	-21.82%	-20.39%	-48.01%	-42.86%
52 Week Price Chg	-40.76%	-27.64%	-10.27%	-2.41%	-39.89%	-41.42%
20 Day Average Volume	11,982,869	51,664	2,520,117	498,972	12,683,677	770,551
(F1) EPS Est 1 week change	-1.43%	0.00%	0.00%	0.00%	3.32%	0.00%
(F1) EPS Est 4 week change	-35.96%	-9.89%	-6.29%	-3.95%	-19.32%	-0.46%
(F1) EPS Est 12 week change	-64.39%	-31.86%	-16.21%	-29.19%	-63.78%	-43.84%
(Q1) EPS Est Mthly Chg	-21.84%	-16.96%	-12.28%	2.74%	95.31%	13.34%

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	C
Momentum Score	F
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.

Disclosures

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