

Huntington Bancshares (HBAN)

\$15.12 (As of 12/27/19)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Shares of Huntington have outperformed the industry over the past six months. Further, the company possesses a 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. Its efforts to expand footprint through strategic initiatives on the back of robust liquidity seem impressive. Further, continued rise in loans and deposits are likely to aid revenue growth. Also, margin is likely to be supported by decent lending scenario. Moreover, 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, the company's significant exposure to commercial loans and unsustainable capital deployment plans makes us apprehensive.

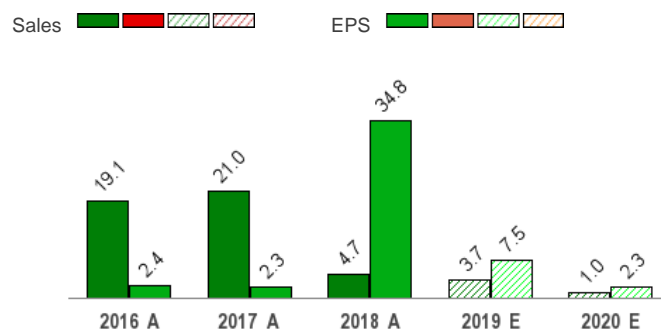
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.63 - \$11.72
20 Day Average Volume (sh)	8,679,930
Market Cap	\$15.6 B
YTD Price Change	26.9%
Beta	1.45
Dividend / Div Yld	\$0.60 / 4.0%
Industry	Banks - Midwest
Zacks Industry Rank	Top 41% (103 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	01/23/2020
Earnings ESP	-5.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,162 E	1,185 E	1,208 E	1,225 E	4,727 E
2019	1,141 A	1,186 A	1,188 A	1,176 E	4,679 E
2018	1,084 A	1,120 A	1,152 A	1,162 A	4,510 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.32 E	\$0.32 E	\$0.34 E	\$0.35 E	\$1.32 E
2019	\$0.32 A	\$0.33 A	\$0.34 A	\$0.32 E	\$1.29 E
2018	\$0.28 A	\$0.30 A	\$0.33 A	\$0.29 A	\$1.20 A

*Quarterly figures may not add up to annual.

P/E TTM	11.8
P/E F1	11.7
PEG F1	1.3
P/S TTM	2.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/27/2019. The reports text is as of 12/30/2019.

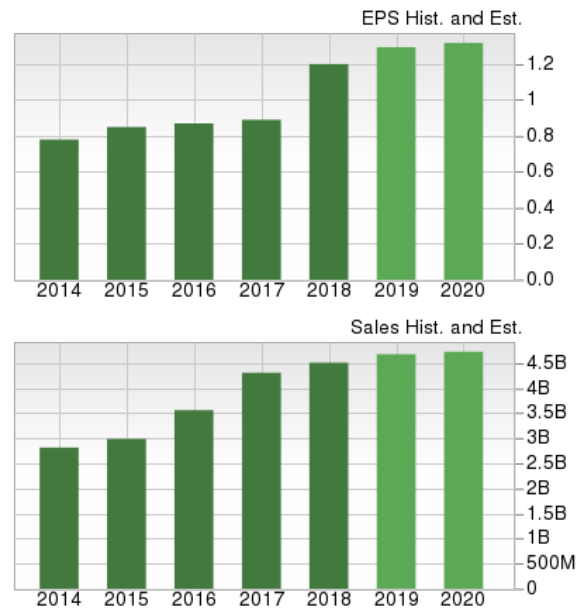
Overview

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** (33% of net income in 2018), 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** (40%) 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** (12%) 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) (8%) core business is The Huntington Private Bank, which consists of Private Banking, Wealth & Investment Management, and Retirement plan services.

Additionally, the Treasury/Other Group (7%) 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:

- ▲ 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 slightly in the first three quarters of 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 5.9% in 2018. Moreover, driven by strong performance in the commercial and consumer portfolio, total loan balance recorded a three-year CAGR of 5.8% in 2018. Both the metrics improved in the first three quarters of 2019. We believe that both loan and deposit balances are poised to grow in an improving economy.
- ▲ Shares of Huntington have outperformed the industry over the past six months. With this favorable trend, the company's current-year earnings estimates have remained stable over the past 30 days. Also, the stock 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. Therefore, given the progress on fundamentals, the stock has upside potential.

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.

Reasons To Sell:

- ▼ We remain concerned about Huntington's consistently increasing cost base. Non-interest expenses saw a CAGR of 8.9% over the last five years (ended 2018), with the trend continuing in the first nine months of 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 2-2.5% in 2019.
- ▼ Majority of Huntington's loan portfolio – nearly 50% as of Sep 30, 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.

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.

Last Earnings Report

Huntington Q3 Earnings Beat Estimates, Revenues Up

Huntington delivered third-quarter 2019 positive earnings surprise of 3%. Earnings per share of 34 cents surpassed the Zacks Consensus Estimate by a penny. The bottom line also came in 10% higher than the prior-year quarter's reported figure.

Results were supported by higher revenues on the back of rise in fee income. Improvement in loans was also a driving factor. However, results were adversely impacted by rise in operating expenses and higher provisions for credit losses. Also, contraction of margin posed a headwind.

The company reported net income of \$372 million for the quarter, down 1.6% year over year.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	1.32%
EPS Surprise	3.03%
Quarterly EPS	0.34
Annual EPS (TTM)	1.28

Revenues & Loans Improve, Expenses Rise

Total revenues increased 4% year over year to \$1.19 billion. Further, the top line outpaced the Zacks Consensus Estimate of \$1.17 billion.

Net interest income (FTE basis) was \$805 million, down 1% from the prior-year quarter. Also, net interest margin contracted 12 basis points to 3.20%.

Non-interest income climbed 14% year over year to \$389 million. This upsurge mainly stemmed from increase in almost all components of income, partly muted by lower bank-owned life insurance income and gain on sale of loans and leases.

Non-interest expenses jumped 2% to \$667 million. This was chiefly due to higher personnel costs, net occupancy and equipment costs, outside data processing and other service costs along with other expenses.

Efficiency ratio was 54.7%, down from the prior-year quarter's 55.3%. A fall in ratio indicates rise in profitability.

As of Sep 30, 2019, average loans and leases at Huntington inched up slightly on a sequential basis to \$75.1 billion. Also, average core deposits increased marginally from the prior quarter to \$79.3 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 the \$29 million or an annualized 0.16% recorded a year ago. Also, quarter-end allowance for credit losses increased 3% to \$884 million.

Provision for credit losses went up 54.7% on a year-over year basis to \$82 million. In addition, total non-performing assets totaled \$482 million as of Sep 30, 2019, up 19.6%.

Capital Ratios

Common equity tier 1 risk-based capital ratio and regulatory Tier 1 risk-based capital ratio were 10.02% and 11.41%, respectively, compared with 9.89% and 11.33% reported in the year-ago quarter. Tangible common equity to tangible assets ratio was 8%, up from 7.25% as of Sep 30, 2018.

Capital Deployment

During the September quarter, the company repurchased 5.2 million shares at an average cost of \$13.02 for a total cost of \$68 million.

Outlook for 2019

Net interest income on a fully taxable equivalent basis is expected to grow about 1%. NIM is anticipated to be in the 3.25% to 3.30% range, including the impact from purchase accounting and the cost of hedging strategy.

Management expects non-interest income to grow 9-12% on a GAAP basis. Non-interest expenses are likely to be up around 2% to 2.5%. This expectation includes impact of net \$15 million to \$20 million of unusual expenses resulting from the previously mentioned expense actions that the company is taking in the fourth-quarter 2019.

Average loans and leases are likely to escalate about 4% on an annual basis, with continued growth in consumer business, including home lending and auto finance. Commercial loan portfolio is expected to grow slightly given recent economic data. Average total deposits are anticipated to increase around 3%. The company remains particularly focused on growing core deposits through acquiring core checking accounts and deepening customer relationships.

Asset quality metrics are likely to improve, with some moderate quarterly volatility. Net charge-offs are likely to remain below average through-the-cycle target range of 35-55 basis points.

The effective tax rate for fourth-quarter 2019 is anticipated in the range of 15.5% to 16.5%.

Recent News

Huntington Decreases its Prime Lending Rate by 25 Bps - Oct 30, 2019

Pursuant to the U.S. Federal Reserve's interest rate cut by 25 bps, Huntington reduced its prime lending rate from 5% to 4.75%, effective Oct 31.

Dividend Update

On Oct 24, Huntington's board of directors announced a quarterly cash dividend of 15 cents per share. The dividend will be paid out on Jan 2, 2020 to its shareholders on record as of Dec 18, 2019.

Valuation

Huntington's shares are up 26.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 20.4% and 18.8% over the past year, respectively.

The S&P 500 index is up 28% in the past year.

The stock is currently trading at 11.47X forward 12 months earnings, which compares to 12.9X for the Zacks sub-industry, 14.8X for the Zacks sector and 18.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.53X and as low as 8.24X, with a 5-year median of 12.01X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$16 price target reflects 12.12X 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	11.47	12.9	14.8	18.77
	5-Year High	15.53	16.92	16.21	19.34
	5-Year Low	8.24	10.38	12.01	15.17
	5-Year Median	12.01	13.66	13.98	17.43
P/TB TTM	Current	1.92	3	3.28	12.36
	5-Year High	2.6	3.94	3.98	12.36
	5-Year Low	1.18	2.08	2.44	6.03
	5-Year Median	1.87	2.93	3.46	9.06
P/S F12M	Current	3.3	5.14	6.56	3.41
	5-Year High	4.17	6.05	6.61	3.41
	5-Year Low	1.69	3.31	5.2	2.54
	5-Year Median	3.07	4.81	6.03	3

As of 12/27/2019

Industry Analysis Zacks Industry Rank: Top 41% (103 out of 252)



Top Peers

Commerce Bancshares, Inc. (CBSH)	Neutral
Comerica Incorporated (CMA)	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
Associated Banc-Corp (ASB)	Underperform

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	HBAN Neutral	X Industry	S&P 500	CBSH Neutral	KEY Neutral	MTB Neutral
VGM Score	F	-	-	F	B	C
Market Cap	15.62 B	451.27 M	23.80 B	7.68 B	19.97 B	22.37 B
# of Analysts	10	3	13	7	5	7
Dividend Yield	3.97%	2.22%	1.78%	1.52%	3.65%	2.60%
Value Score	C	-	-	C	B	B
Cash/Price	0.12	0.21	0.04	0.23	0.25	0.67
EV/EBITDA	9.99	10.06	13.88	10.13	10.37	5.35
PEG Ratio	1.30	2.76	2.13	6.40	3.03	1.38
Price/Book (P/B)	1.46	1.30	3.33	2.60	1.31	1.56
Price/Cash Flow (P/CF)	8.54	11.79	13.55	16.08	9.55	11.27
P/E (F1)	11.72	12.30	19.62	19.21	12.31	12.40
Price/Sales (P/S)	2.76	3.07	2.66	5.32	2.59	3.23
Earnings Yield	8.53%	8.13%	5.09%	5.21%	8.14%	8.06%
Debt/Equity	0.92	0.42	0.71	0.09	0.95	0.48
Cash Flow (\$/share)	1.78	2.50	6.94	4.26	2.13	15.07
Growth Score	F	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	12.14%	13.88%	10.48%	15.00%	13.90%	16.90%
Proj. EPS Growth (F1/F0)	7.83%	10.22%	6.14%	-1.40%	-4.74%	6.31%
Curr. Cash Flow Growth	19.75%	27.59%	14.75%	30.57%	17.06%	24.17%
Hist. Cash Flow Growth (3-5 yrs)	15.58%	12.16%	8.93%	8.38%	15.62%	8.94%
Current Ratio	0.91	0.93	1.24	0.73	0.91	1.06
Debt/Capital	45.33%	29.77%	42.92%	7.65%	45.81%	30.74%
Net Margin	25.24%	22.99%	11.06%	29.34%	21.93%	28.58%
Return on Equity	13.83%	10.97%	17.10%	14.52%	12.71%	13.82%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.06
Proj. Sales Growth (F1/F0)	3.57%	5.06%	2.49%	1.21%	-0.40%	4.06%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	0.20%	0.00%	0.21%	0.68%	0.10%	0.30%
1 Week Price Chg	-1.30%	1.73%	1.46%	3.16%	1.69%	-0.35%
4 Week Price Chg	1.74%	1.93%	1.98%	6.29%	4.73%	1.83%
12 Week Price Chg	10.16%	11.21%	9.78%	22.89%	19.05%	12.43%
52 Week Price Chg	28.53%	22.23%	28.47%	29.39%	39.33%	20.75%
20 Day Average Volume	8,679,930	30,870	1,778,443	481,744	7,742,170	518,747
(F1) EPS Est 1 week change	-0.46%	0.00%	0.00%	-0.01%	-0.06%	0.09%
(F1) EPS Est 4 week change	-0.67%	0.00%	0.00%	0.15%	-0.24%	0.17%
(F1) EPS Est 12 week change	-0.46%	1.59%	0.12%	1.59%	-0.24%	-1.46%
(Q1) EPS Est Mthly Chg	-2.26%	0.00%	0.00%	0.50%	-0.37%	0.58%

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	F
Momentum Score	F
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.

Disclosures

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