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Aug 03, 2020

Hilltop Holdings Inc. (HTH)

$19.47 (As of 07/31/20)

Price Target (6-12 Months): **$23.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/03/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:F
	Value: C | Growth: F | Momentum: D	

Summary

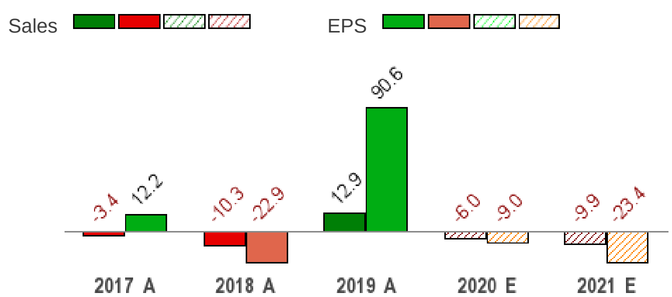
Shares of Hilltop Holdings have outperformed the industry in the past year. The company's earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The company's second-quarter 2020 results reflect a rise in fee income and higher provisions. Although pressure on margins owing to the low interest rate environment, mounting operating expenses mainly due to persistent investments in franchise and coronavirus-induced economic slowdown are expected to hamper Hilltop Holdings' profitability in the near-term, decent loan demand, deposit mix and increased focus on improving fee income are likely to support the company's revenues in the quarters ahead. Also, given the strong balance sheet position, the company's capital-deployments seem sustainable and will continue to enhance shareholder value.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$26.28 - $11.05**
20 Day Average Volume (sh)	**411,817**
Market Cap	**$1.8 B**
YTD Price Change	**-21.9%**
Beta	**1.26**
Dividend / Div Yld	**$0.36 / 1.8%**
Industry	**Banks - Southeast**
Zacks Industry Rank	**Top 36% (91 out of 253)**
Last EPS Surprise	**140.0%**
Last Sales Surprise	**41.3%**
EPS F1 Est- 4 week change	**3.1%**
Expected Report Date	**NA**
Earnings ESP	**-1.6%**
P/E TTM	**6.5**
P/E F1	**8.8**
PEG F1	**NA**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2021	299 E	362 E	361 E	343 E	1,395 E
2020	382 A	573 A	402 E	359 E	1,549 E
2019	361 A	421 A	455 A	411 A	1,647 A

EPS Estimates

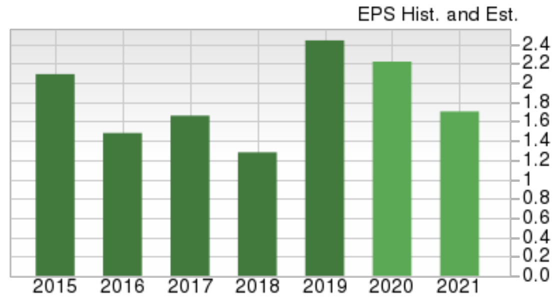
	Q1	Q2	Q3	Q4	Annual*
2021	$0.25 E	$0.52 E	$0.54 E	$0.50 E	$1.70 E
2020	$0.51 A	$1.08 A	$0.63 E	$0.51 E	$2.22 E
2019	$0.41 A	$0.62 A	$0.86 A	$0.54 A	$2.44 A

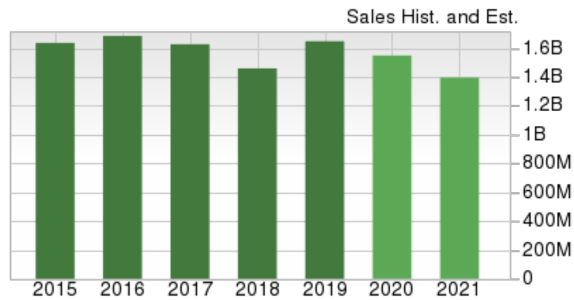
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/31/2020. The reports text is as of 08/03/2020.

Overview

Founded in 1998 and headquartered in Dallas, TX, Hilltop Holdings Inc., is a financial holding company. It provides consumer and business banking services through PlainsCapital Bank. It offers a wide range of financial products and services through broker-dealer (Hilltop Securities Inc. and Hilltop Securities Independent Network Inc.) along with mortgage origination (PrimeLending).





Hilltop Holdings operates through the following segments:

Banking (constituting 3.4% of total non-interest income in 2019) comprises three lines of operations: Business Banking (offers equipment loans and leases, agricultural loans, CRE loans and other loan products), Personal Banking (provides a broad range of personal banking products and services) and Wealth and Investment Management (offers trust and asset management services).

Broker-Dealer (33.5%) conducts operations through Hilltop Securities, HTS Independent Network and FSC. The segment has six primary lines of business: public finance, capital markets, retail, structured finance, clearing services, and securities lending.

Mortgage Origination (52%) operates through PrimeLending, which is a residential mortgage banker licensed to originate and close loans. It handles loan processing, underwriting and closings in-house.

Insurance (11%) comprises operations of NLC, which specializes in providing fire and limited homeowners insurance through its subsidiaries. NLC operates its business through two product lines, namely personal lines and commercial lines. The segment is now part of discontinued operations.

Corporate (0.1%) includes activities like holding company financing and investing activities, and management and administrative services to support the overall operations of the company.

Hilltop Holdings acquired PlainsCapital Corporation in 2012, First National Bank in 2013 and SWS Group Inc in 2015. Further, in 2018, it acquired The Bank of River Oaks. In July 2020, the bank divested National Lloyds Corporation.

As of Jun 30, 2020, the company had total assets of $16.9 billion, net loans held for investment of $7.7 billion, total deposits of $11.6 billion and shareholders' equity of $2.3 billion.

Reasons To Buy:

- Hilltop Holdings is focused on its growth strategy. Net interest income (NII) registered a CAGR of 4.1% in the past six years (2014-2019), partly driven by acquisitions completed during this period. NII was relatively stable in the first half of 2020. Loan and deposit growth are expected to support NII in the quarters ahead. In addition, a consistent change in the deposit mix backed by rising non-interest-bearing deposits (non-interest-bearing deposits, as a percentage of total deposits, were 29.8% as of Jun 30, 2020) has been impressive.

Hilltop Holdings is well poised for organic growth, aided by a rise in loan balances. Its strong balance sheet position and efforts to expand through acquisitions are likely to further aid financials.

- As of Jun 30, 2020, Hilltop Holdings had a total debt of $1.3 billion, and cash and cash equivalents worth $1.7 billion. The company paid off short-term borrowings during the second quarter, which declined 45.8% sequentially. Thus, this along with its earnings strength indicates that it will likely be able to meet debt obligations in case the economic situation worsens.

- Hilltop Holdings has grown significantly through acquisitions. Since the buyout of PlainsCapital in 2012, the company's business has expanded tremendously with the consolidation of its position in Texas, Oklahoma, Georgia, Tennessee and Arizona. These deals are not only accretive to earnings but have also helped the company to diversify its operations from core P&C insurance to a profitable banking operation.

- Given a strong balance sheet, Hilltop Holdings announced a dividend for the first time in October 2016. Since then, the company has been increasing dividends on a regular basis, with the latest one announced in January 2020. Also, it authorized a new share repurchase program through January 2021, under which it may repurchase, in aggregate, up to $75.0 million of outstanding shares. Nonetheless, the company suspended the share-buyback plan on account of uncertainties due to the coronavirus pandemic. The company's lower debt/equity ratio compared with the industry, and strong capital positions are likely to further boost shareholders' value through sustainable capital deployment activities.

- Hilltop Holdings' trailing 12-month return on equity (ROE) is indicative of growth potential. The company's ROE of 12.84% compares favorably with 8.19% for the industry, reflecting the fact that it is more efficient than peers in using shareholder funds.

- Shares of Hilltop Holdings have outperformed the industry so far this year. Moreover, the company's earnings estimates for the current year have been revised 4.2% higher over the past month. Further, the stock seems undervalued than the broader industry. Its current price-to-sales and price-to-earnings (F1) ratios are lower than the respective industry averages. Thus, given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

Risks

- Hilltop Holdings' net interest margin (NIM) continues to remain under pressure for the past few years. Over the last several years, NIM has been witnessing a declining trend – 3.48% in 2019, 3.55% in 2018, 3.63% in 2017, 3.76% in 2016, 3.81% in 2015 and 4.74% in 2014. The trend continued in first-half 2020 as well. A similar trend will likely continue amid near-zero interest rates. The Fed signalled no change in rates anytime soon.

- Hilltop Holdings' non-interest expenses have been elevated for the past few years. Though expenses fell in 2017 and 2018, the same witnessed a six-year (2014-2019) CAGR of 6.8%, mainly due to higher compensation and benefits costs. This trend persisted in the first six months of 2020 too. Because of continued investments in franchise and inorganic growth plans, overall expenses are expected to remain elevated.

- The Mortgage Origination segment's performance remains a matter of concern. Mortgage volumes started to decline since the fourth quarter of 2016, mainly due to higher interest rates. Although mortgage origination volumes increased in 2019 and first-half 2020 (driven by relatively lower interest rate environment), the same decreased 6.5% in 2017 and 5.3% in 2018. Any hike in interest rates in the future will lead to lower origination volumes, in turn, further straining the segment's performance.

Last Earnings Report

Hilltop Holdings Q2 Earnings Beat Estimates, Provisions Surge

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	41.26%
EPS Surprise	140.00%
Quarterly EPS	1.08
Annual EPS (TTM)	2.99

Hilltop Holdings' second-quarter 2020 earnings continuing operations of $1.08 per share beat the Zacks Consensus Estimate of 45 cents. Also, the bottom line compares favorably with the prior-year quarter's earnings of 64 cents.

Results reflect an improvement in revenues aided by growth in non-interest income and a strong balance-sheet position. However, declining net interest income and higher provisions were major headwinds.

Net income applicable to common stockholders was $128.5 million or $1.42 per share, up from $57.8 million or 62 cents per share in the prior-year quarter.

Revenues Improve, Costs Flare Up

Net revenues came in at $572.7 million, increasing 49% year over year.

Net interest income was $104.6 million, down 2.5% from the prior-year quarter. Net interest margin (taxable equivalent basis) came in at 2.81%, contracting 68 basis points (bps) from the prior-year quarter.

Non-interest income jumped 69.1% from the year-ago quarter to $468.1 million. This was largely driven by a rise in all fee income components, except securities commissions and fees.

Non-interest expenses flared up 21.7% from the year-ago quarter to $370.2 million. This upswing mainly resulted from rise in employees' compensation and benefits costs.

Credit Quality Worsens

Provision for loan losses was $66 million compared with the reversal of credit losses of $672,000 in the prior-year quarter. The company built a significant reserve amid the pandemic-related economic uncertainty.

Non-performing assets as a percentage of total assets were 0.56%, up 19 bps. Also, non-performing loans were $68.3 million as of Jun 30, 2020, up significantly from the $32 million recorded in the comparable period of 2019.

Strong Balance Sheet

As of Jun 30, 2020, Hilltop Holdings' cash and due from banks was $1.7 billion, up significantly from the prior quarter. Total shareholders' equity was $2.3 billion, up 6% sequentially. As of Jun 30, 2020, net loans held for investment increased 6.3% sequentially to $7.7 billion. Moreover, total deposits were $11.6 billion, up 17.2% from the prior quarter.

Profitability & Capital Ratio Improve

Return on average assets at the end of the reported quarter was 3.30%, up from the prior-year quarter's 1.74%. Also, return on average equity was 23.32%, up from the year-earlier quarter's 11.63%. Common equity tier 1 capital ratio was 18.46% as of Jun 30, 2020, up from 16.32% in the corresponding period of 2019. Moreover, total capital ratio was 21.82%, reflecting a fall from the prior-year quarter's 17.14%.

2020 Outlook

Management expects average loans held for investment (HFI) to grow, mainly driven by Payment Protection Program (PPP) loans and the commercial loan portfolio.

Customer deposit inflows are likely to continue, though at a slower pace than second-quarter 2020. Further, brokered deposits are expected to decline $700-$800 million by year-end.

Purchase account accretion (PAA) is expected to decline 25-35% on a year-over-year basis. Further, NII is expected to decline due to fall in interest rates and a relatively flat yield curve.

Mortgage volumes are anticipated to stabilize gradually in the third and fourth quarters of 2020.

In terms of non-interest expenses, non-variable expenses are expected to be stable, while variable expenses will depend on the revenues generated from fee businesses.

The company expects a further increase in credit reserves given the changes in the economic backdrop.

Effective tax rate (GAAP basis) is anticipated to be 22-24%.

Recent News

Hilltop Holdings Divests National Lloyds to Align Financial – Jul 1, 2020

Hilltop Holdings has divested its wholly-owned subsidiary, National Lloyds Corporation, to Align Financial Holdings, LLC. The all-cash deal was announced this January.

Subject to post-closing adjustments, gross proceeds from the transaction were $154.1 million.

With active licenses in 40 states, National Lloyds is a specialty property underwriter that caters to the needs of owners of lower-value homes and mobile homes. It writes premiums through two subsidiaries, National Lloyds Insurance Company and American Summit Insurance Company (which are collectively called “Carriers”). Also, it has wholly-owned agency and services businesses, including Nalico General Agency (the “Agencies”).

Notably, per the terms of the deal, concurrent with the buyout of National Lloyds, Align Financial sold the Carriers to ReAlign Insurance Holdings, LLC, in an all-cash transaction.

Also, as previously decided, the Agencies retained by Align have entered various agreements with the Carriers to provide services, including acting as a program underwriting manager and claims administrator for the Carriers.

Jeremy B. Ford, president and CEO of Hilltop Holdings, stated, “We are so proud of what National Lloyds has accomplished during the past 13 years as a part of the Hilltop family. I believe that Align’s established platform and keen focus on the insurance industry will help take National Lloyds to the next level.”

Align’s CEO, Kieran Sweeney, said, “This strategic transaction will serve to further diversify and scale Align’s business; putting us on track to write close to $500 million of specialty premiums this year. We look forward to working together to deliver new and enhanced product solutions to their valued customers.”

Dividend Update

On Jul 23, Hilltop Holdings announced a quarterly cash dividend of 9 cents per share. The dividend will be paid out on Aug 31 to shareholders of record as of Aug 14.

Valuation

Hilltop Holdings’ shares are down 21.9% in the year-to-date period and 12.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 37.7% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 29.3% and 9.1%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 10.16X forward 12 months earnings, which compares to 11.80X for the Zacks sub-industry, 16.27X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.28X and as low as 6.38X, with a 5-year median of 12.21X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $23 price target reflects 11.98X forward earnings.

The table below shows summary valuation data for HTH

Valuation Multiples - HTH

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.16	11.8	16.27	22.64
	5-Year High	18.28	18.13	16.27	22.64
	5-Year Low	6.38	8.32	11.59	15.25
	5-Year Median	12.21	13.63	14.21	17.55
P/TB TTM	Current	0.94	1.42	3.33	12.9
	5-Year High	1.92	3.26	4	12.94
	5-Year Low	0.59	1.17	2.01	5.96
	5-Year Median	1.34	2.41	3.48	9.54
P/S F12M	Current	1.2	2.46	6.04	3.59
	5-Year High	1.76	4.96	6.66	3.59
	5-Year Low	0.73	2.29	4.96	2.53
	5-Year Median	1.36	3.89	6.06	3.04

As of 07/31/2020

Industry Analysis **Zacks Industry Rank:** Top 36% (91 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Bank of Hawaii Corporation **(BOH)**	Neutral	3
BancorpSouth Bank **(BXS)**	Neutral	3
First Horizon National Corporation **(FHN)**	Neutral	3
F.N.B. Corporation **(FNB)**	Neutral	3
Hancock Whitney Corporation **(HWC)**	Neutral	4
Pinnacle Financial Partners, Inc. **(PNFP)**	Neutral	3
Synovus Financial Corp. **(SNV)**	Neutral	3
Independent Bank Corp. **(INDB)**	Underperform	5

Industry Comparison Industry: Banks - Southeast

Industry Peers

	HTH	X Industry	S&P 500	BXS	FHN	FNB
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	F	-	-	A	F	D
Market Cap	1.76 B	199.84 M	22.59 B	2.15 B	2.89 B	2.39 B
# of Analysts	2	2	14	7	6	6
Dividend Yield	1.85%	2.58%	1.83%	3.54%	6.47%	6.48%
Value Score	C	-	-	B	F	C
Cash/Price	0.56	0.61	0.07	0.25	1.75	0.38
EV/EBITDA	2.19	4.44	12.94	5.65	-0.14	5.09
PEG Ratio	NA	2.48	3.04	NA	NA	NA
Price/Book (P/B)	0.81	0.75	3.17	0.84	0.58	0.50
Price/Cash Flow (P/CF)	7.79	7.02	12.51	7.34	4.85	5.48
P/E (F1)	8.77	11.71	21.87	12.12	11.66	8.39
Price/Sales (P/S)	0.89	1.78	2.44	1.92	1.27	1.59
Earnings Yield	11.40%	8.39%	4.31%	8.27%	8.63%	11.88%
Debt/Equity	0.03	0.25	0.75	0.12	0.41	0.34
Cash Flow ($/share)	2.50	2.51	6.94	2.85	1.91	1.35
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	2.99%	13.96%	10.85%	14.05%	13.45%	6.97%
Proj. EPS Growth (F1/F0)	-9.02%	-26.67%	-7.75%	-24.91%	-52.11%	-25.14%
Curr. Cash Flow Growth	90.14%	10.94%	5.39%	14.72%	14.37%	-9.47%
Hist. Cash Flow Growth (3-5 yrs)	51.49%	13.66%	8.55%	13.04%	16.55%	19.00%
Current Ratio	0.97	0.95	1.31	0.82	0.95	0.87
Debt/Capital	3.00%	20.61%	44.32%	9.94%	28.07%	24.97%
Net Margin	15.53%	16.78%	10.44%	19.19%	13.06%	21.82%
Return on Equity	12.84%	8.19%	14.73%	9.33%	7.45%	7.19%
Sales/Assets	0.13	0.05	0.52	0.05	0.05	0.04
Proj. Sales Growth (F1/F0)	-6.00%	0.00%	-1.95%	9.14%	37.00%	2.55%
Momentum Score	D	-	-	A	B	B
Daily Price Chg	2.27%	-0.30%	-0.92%	-2.86%	-3.21%	-2.98%
1 Week Price Chg	2.84%	1.19%	0.37%	3.23%	4.44%	2.54%
4 Week Price Chg	11.00%	-0.77%	3.81%	-3.64%	0.22%	5.11%
12 Week Price Chg	21.01%	2.35%	11.93%	6.62%	11.02%	2.07%
52 Week Price Chg	-12.73%	-29.94%	-1.92%	-27.07%	-41.59%	-35.90%
20 Day Average Volume	411,817	13,102	1,887,986	483,916	6,847,320	2,446,826
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	3.50%	0.00%	2.71%
(F1) EPS Est 4 week change	3.08%	2.69%	0.38%	44.10%	2.30%	10.22%
(F1) EPS Est 12 week change	-8.51%	3.87%	-0.07%	38.15%	14.04%	7.91%
(Q1) EPS Est Mthly Chg	13.51%	2.49%	0.16%	33.33%	-58.65%	4.10%

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	D
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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