

Hilltop Holdings Inc. (HTH)

\$20.01 (As of 03/09/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: B

Summary

Shares of Hilltop Holdings have outperformed the industry in the past year. The company has a decent earnings surprise history. Its earnings have surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Pressure on margins due to relatively lower interest rates might hurt the top line to some extent in the near term. Moreover, steadily mounting expenses mainly because of continued investments in franchise are expected to hamper the company's bottom line to an extent. While continued loan growth, increased focus on fee income and efforts to expand through acquisitions are expected to support the company's profitability, the planned divestiture of National Lloyds Corporation to Align Financial will likely be dilutive to earnings. Uncertainty about the performance of the Mortgage Origination segment makes us apprehensive.

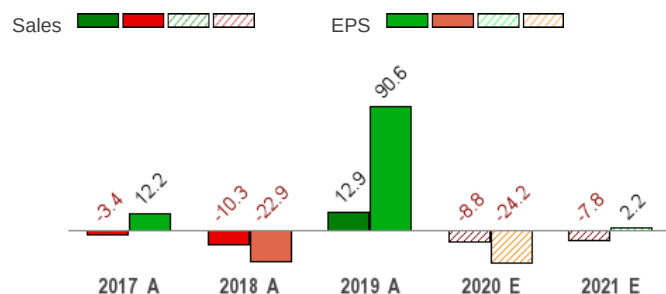
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.28 - \$16.71
20 Day Average Volume (sh)	599,526
Market Cap	\$1.8 B
YTD Price Change	-19.7%
Beta	0.85
Dividend / Div Yld	\$0.36 / 1.8%
Industry	Banks - Southeast
Zacks Industry Rank	Bottom 36% (163 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.6%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/23/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	301 E	364 E	356 E	338 E	1,385 E
2020	380 E	421 E	367 E	335 E	1,502 E
2019	361 A	421 A	455 A	411 A	1,647 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.31 E	\$0.57 E	\$0.55 E	\$0.53 E	\$1.89 E
2020	\$0.50 E	\$0.48 E	\$0.48 E	\$0.35 E	\$1.85 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.

P/E TTM	8.2
P/E F1	10.8
PEG F1	NA
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

Overview

Founded in 1998 and headquartered in Dallas, TX, Hilltop Holdings Inc., is a financial holding company registered under the Bank Holding Company Act of 1956. 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.), mortgage origination (PrimeLending) and insurance (National Lloyds Corporation) divisions.

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.

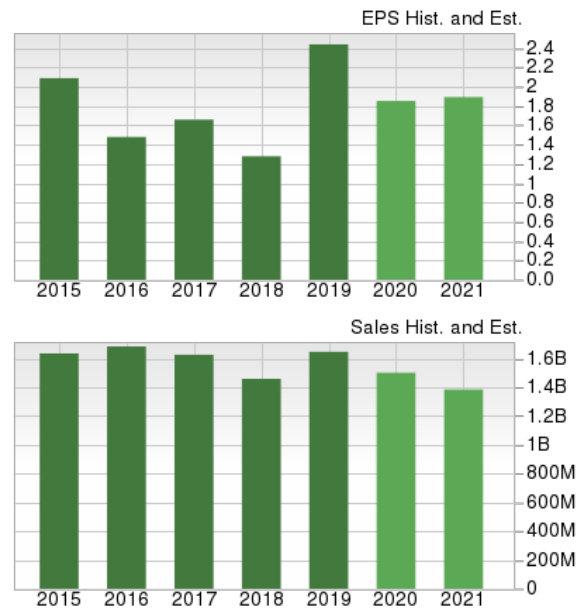
Mortgage Origination (52%) operates through PrimeLending, which is a residential mortgage banker licensed to originate and close loans. It handles loan processing, underwriting and closings in-house.

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.

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.

As of Dec 31, 2019, the company had total assets of \$15.2 billion, net loans held for investment of \$7.4 billion, deposits of \$9 billion and shareholders' equity of \$2.1 billion.



Reasons To Sell:

- ▼ Hilltop Holdings' non-interest expenses have remained elevated over the past few years. Though expenses fell in 2017 and 2018, it recorded a six-year (2014-2019) CAGR of 6.8%, mainly due to higher compensation and benefits costs. Because of continued investments in franchise and inorganic growth plans, overall expenses are expected to remain elevated.
- ▼ Hilltop Holdings' net interest margin (NIM) continues to remain under pressure over 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. In fact, management expects a similar trend to continue in the near term given the Fed's accommodative policy stance.
- ▼ Mortgage Origination segment's performance remains a matter of concern. The segment had been performing decently in the past. However, mortgage volumes started to decline since the fourth quarter of 2016, mainly due to higher interest rates. While mortgage origination volumes increased in 2019 (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, putting further strain on the segment's performance.
- ▼ Shares of Hilltop Holdings have outperformed the industry in the past year. However, the company's current-year earnings estimates moved down 8% in the past 60 days. Thus, given the concerns and negative estimate revisions, the upbeat price performance is not expected to continue in the near term.

Elevated expenses, stemming from continued investments in franchise, will likely hurt Hilltop Holdings' profits. Persistent decline in margins might hamper top-line growth in the near term.

Risks

- Hilltop Holdings is focused on its organic 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. Also, loan and deposit growth are expected to support NII in the quarters ahead. In addition, consistent change in deposit mix, backed by rising non-interest-bearing deposits (non-interest-bearing deposits, as a percentage of total deposits, were 30.7% as of Dec 31, 2019) has been impressive.
 - Hilltop Holdings has grown significantly through acquisitions. Since the buyout of PlainsCapital in 2012, the company's business has expanded tremendously as it consolidated 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 the aggregate, up to \$75.0 million of its outstanding shares. The company's lower debt/equity ratio compared with the industry, and strong capital and liquidity positions are likely to further boost shareholders' value through sustainable capital deployment activities.
 - Further, Hilltop Holdings seems undervalued compared with the broader industry. Its current price-to-book (P/B) and price-to-sales (P/S) ratios are lower than the respective industry averages. Also, the stock has a Value Score of A.
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Last Earnings Report

Hilltop Holdings Q4 Earnings Miss Estimates, Revenues Up Y/Y

Hilltop Holdings' fourth-quarter 2019 earnings per share of 54 cents lagged the Zacks Consensus Estimate of 56 cents. However, the bottom line increased from the prior-year quarter's earnings of 30 cents.

Fall in NII, due to lower interest rates, along with higher operating expenses hampered quarterly results. However, increase in non-interest income and slight decline in provision for loan losses acted as tailwinds.

Net income applicable to common stockholders was \$49.3 million, up 75.4% from the prior-year quarter.

In 2019, earnings per share of \$2.44 missed the consensus estimate by a penny. However, the figure was well above the prior-year figure of \$1.28. Net income applicable to common stockholders was \$225.3 million, surging 85.5%.

Revenues Improve, Costs Rise

Net revenues in the quarter were \$410.6 million, increasing 15.3% year over year. The top line beat the Zacks Consensus Estimate of \$400.6 million.

In 2019, net revenues increased 13.3% to \$1.65 billion. It surpassed the Zacks Consensus Estimate of \$1.64 billion.

NII was \$111.3 million, down 5.5%. NIM (taxable equivalent basis) was 3.31%, down 45 basis points (bps) from the prior-year quarter.

Non-interest income jumped 25.5% from the year-ago quarter to \$299.3 million. This rise was largely driven by higher mortgage loan origination fees, investment and securities advisory fees and commissions, net gains from sale of loans and other mortgage production income, and other income.

Non-interest expenses increased 8.4% to \$336.9 million. The increase was due to rise in employees' compensation and benefits costs.

Credit Quality: Mixed Bag

Provision for loan losses was \$6.9 million, down nearly 1% year over year. Furthermore, non-performing assets as a percentage of total assets was 0.36%, down 9 bps.

However, non-performing loans were \$36.1 million as of Dec 31, 2019, up 6.4%.

Strong Balance Sheet

As of Dec 31, 2019, Hilltop Holdings' cash and due from banks was \$485 million, up 48.7% from the prior quarter. Total shareholders' equity was \$2.1 billion, up 2.2% sequentially.

As of Dec 31, 2019, net loans held for investment increased almost 1% to \$7.4 billion. Further, total deposits were \$9 billion, up 3.5% from the prior quarter.

Profitability & Capital Ratios Improve

Return on average assets at the end of the reported quarter was 1.40%, up from 0.86% in the prior-year quarter. Also, return on average equity was 9.43%, up from 5.76% in the year-earlier quarter.

Common equity tier 1 capital ratio was 16.69% as of Dec 31, 2019, up from 16.58% as of Dec 31, 2018. Moreover, total capital ratio was 17.55%, reflecting a rise from 17.47% in the prior-year quarter.

Share Repurchase Update

During 2019, Hilltop Holdings repurchased 3.4 million shares at an average price of \$21.64 per share.

2020 Outlook

Management expects both average loans held for investment (HFI) and average deposits to grow 4-6%.

Purchase account accretion (PAA) is expected to decline 20-30% on a year-over-year basis.

Management is of the opinion that the mortgage markets will stabilize in 2020 and hence expect a lower level of mortgage related activity as compared with 2019. Thus, total non-interest revenue is expected to decline 6-8%.

Non-interest expenses are expected to decline 1-3% year over year.

Net charge-offs to average HFI loans are expected to increase on a year-over-year basis to 15-25 bps.

Owing to CECL, allowance for credit losses, plus the reserve for unfunded commitments is expected to be in the range of \$80-\$100 million.

In the Broker-Dealer segment, the company expects pre-tax margin of low-to-mid teens.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	2.50%
EPS Surprise	-3.57%
Quarterly EPS	0.54
Annual EPS (TTM)	2.43

Cost Saving Program

Hilltop Holdings has started an initiative to enhance platform and streamline operations with the goal of lowering operating costs and building a foundation for future organic and acquisitive growth. The company plans to reach its goal through a combination of expense reduction efforts, including strategic sourcing program and revenue focused initiatives, including the core system implementation and prime lending and the rollout of a digital payment network at PlainsCapital Bank.

Management targets to achieve positive operating leverage of 6% and pre-tax pre-provision income of \$250 million in 2021. This equals to an annual earnings growth of 10-15%.

Recent News

Hilltop Holdings to Divest Property Underwriting Unit – Jan 31, 2020

Hilltop Holdings inked a deal to divest its wholly owned subsidiary, National Lloyds Corporation, to Align Financial Holdings, LLC. The all-cash deal has been valued at \$150 million and is expected to close in second-quarter 2020.

The transaction is subject to regulatory approval and customary closing conditions.

Further, management expects the transaction to be accretive to tangible book value per share by 4% but dilutive to earnings by 6%.

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 ("Carriers"), and also has wholly owned agency and services businesses, including Nalico General Agency ("Agencies").

Along with the buyout of National Lloyds, Align signed a deal to sell Carriers to ReAlign Insurance Holdings, LLC, in an all-cash transaction. As a part of deal, the Agencies retained by Align will enter into various agreements with Carriers to provide services, including acting as a program underwriting manager and claims administrator for the Carriers post-transaction.

President and CEO at Hilltop Holdings, Jeremy B. Ford, said "We believe the sale of National Lloyds allows Hilltop to better focus our resources on growing our core operating companies of PlainsCapital Bank, PrimeLending, and HilltopSecurities."

Align CEO Kieran Sweeney said, "We believe Align's unrelenting focus on superior underwriting, delivering quality specialty insurance products and using advanced technologies to enhance the customer experience, coupled with our relationship-based culture, will be a perfect fit for National Lloyds' employees, clients and independent agents."

Dividend Update

On Jan 30, Hilltop Holdings announced a quarterly cash dividend of 9 cents per share, representing a hike of 12.5% from the prior payout. The dividend was paid out on Feb 28 to shareholders of record as of Feb 14.

Valuation

Hilltop Holdings' shares are up 13% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 17.2% and 5.1%, respectively over the past year.

The S&P 500 index is up 5.6% in the past year.

The stock is currently trading at 10.75X forward 12 months earnings, which compares to 9.34X for the Zacks sub-industry, 12.97X for the Zacks sector and 17.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.28X and as low as 8.18X, with a 5-year median of 12.20X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 price target reflects 8.06X 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	10.75	9.34	12.97	17.01
	5-Year High	18.28	18.08	16.21	19.34
	5-Year Low	8.18	9.34	12.01	15.18
	5-Year Median	12.2	13.76	13.97	17.42
P/TB TTM	Current	1	1.85	2.96	11.27
	5-Year High	1.92	3.33	3.98	12.86
	5-Year Low	0.96	1.76	2.44	6.02
	5-Year Median	1.4	2.47	3.46	9.13
P/S F12M	Current	1.25	3.08	5.99	3.14
	5-Year High	1.76	5.08	6.64	3.44
	5-Year Low	0.91	3.08	5.39	2.54
	5-Year Median	1.37	4	6.04	3.01

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (163 out of 253)



Top Peers

BancorpSouth Bank (BXS)	Neutral
Flagstar Bancorp, Inc. (FBC)	Neutral
First Horizon National Corporation (FHN)	Neutral
F.N.B. Corporation (FNB)	Neutral
Hancock Whitney Corporation (HWC)	Neutral
IBERIABANK Corporation (IBKC)	Neutral
Pinnacle Financial Partners, Inc. (PNFP)	Neutral
Synovus Financial Corp. (SNV)	Neutral

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	HTH Underperform	X Industry	S&P 500	FBC Neutral	FNB Neutral	IBKC Neutral
VGM Score	B	-	-	D	D	A
Market Cap	1.82 B	247.76 M	19.13 B	1.70 B	2.66 B	2.12 B
# of Analysts	3	3	13	5	7	3
Dividend Yield	1.80%	2.51%	2.26%	0.67%	5.88%	4.45%
Value Score	A	-	-	D	A	B
Cash/Price	0.62	0.38	0.05	0.23	0.19	0.30
EV/EBITDA	1.61	5.81	11.99	15.30	5.57	4.92
PEG Ratio	NA	0.79	1.68	NA	0.81	0.76
Price/Book (P/B)	0.85	0.91	2.64	0.95	0.56	0.51
Price/Cash Flow (P/CF)	8.01	8.16	10.70	6.30	6.04	5.26
P/E (F1)	10.82	8.86	15.44	7.89	7.26	6.09
Price/Sales (P/S)	1.00	2.10	2.05	1.21	1.72	1.38
Earnings Yield	9.25%	11.29%	6.47%	12.66%	13.83%	16.43%
Debt/Equity	0.03	0.22	0.70	2.97	0.28	0.33
Cash Flow (\$/share)	2.50	2.52	7.01	4.75	1.35	7.68
Growth Score	C	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	-0.82%	15.32%	10.85%	20.38%	8.09%	14.78%
Proj. EPS Growth (F1/F0)	-24.05%	-1.05%	6.25%	9.65%	-4.60%	-5.33%
Curr. Cash Flow Growth	90.14%	15.74%	6.09%	15.75%	-9.47%	9.54%
Hist. Cash Flow Growth (3-5 yrs)	51.49%	14.28%	8.52%	104.76%	19.00%	20.80%
Current Ratio	1.00	0.96	1.24	1.22	0.85	0.98
Debt/Capital	3.05%	17.77%	42.57%	74.81%	21.53%	23.66%
Net Margin	12.37%	21.30%	11.69%	15.53%	25.13%	24.83%
Return on Equity	10.89%	9.75%	16.74%	11.79%	8.43%	9.60%
Sales/Assets	0.13	0.05	0.54	0.07	0.05	0.05
Proj. Sales Growth (F1/F0)	-8.80%	0.00%	3.76%	3.75%	1.98%	-2.10%
Momentum Score	B	-	-	A	F	A
Daily Price Chg	-9.09%	-9.85%	-7.65%	-8.94%	-15.07%	-28.78%
1 Week Price Chg	5.66%	-4.51%	-0.67%	3.11%	-4.66%	-5.73%
4 Week Price Chg	-10.63%	-22.38%	-19.26%	-16.63%	-31.58%	-45.79%
12 Week Price Chg	-21.56%	-25.94%	-17.26%	-21.18%	-35.06%	-45.89%
52 Week Price Chg	12.92%	-20.60%	-6.83%	-8.19%	-30.23%	-46.37%
20 Day Average Volume	599,526	14,725	2,684,709	244,068	2,307,916	518,738
(F1) EPS Est 1 week change	0.00%	-0.89%	0.00%	0.00%	-1.87%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.94%	-0.06%	0.37%	-1.87%	-0.85%
(F1) EPS Est 12 week change	-11.11%	-2.54%	-0.46%	0.26%	-2.11%	-2.42%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.40%	4.45%	-0.63%	-1.94%

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	C
Momentum Score	B
VGM Score	B

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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