

Hilltop Holdings Inc. (HTH)

\$23.88 (As of 01/27/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/01/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: D

Summary

Shares of Hilltop Holdings have outperformed the industry over the past year. The company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Also, the earnings estimates have been going up ahead of its fourth quarter 2019 results. Steady rise in loan demand and increased focus on fee income is likely to drive the bank's top-line growth. Moreover, its efforts to expand through acquisitions are likely to support profitability. Although mortgage origination volumes are improving, any interest rate hike would reverse the trend and will hamper financials. While pressure on margins due to relatively lower interest rates and steadily mounting expenses act as headwinds, the company's continued efficient capital deployment activities reflect a solid balance sheet position.

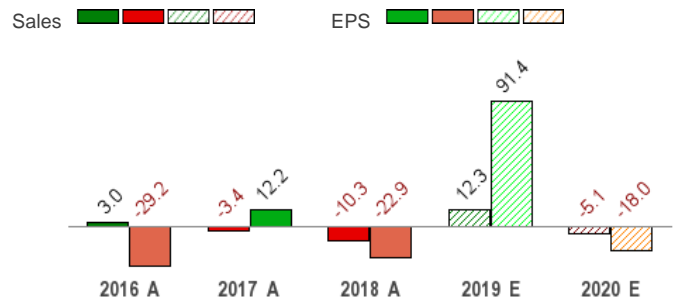
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.28 - \$16.71
20 Day Average Volume (sh)	301,903
Market Cap	\$2.2 B
YTD Price Change	-4.2%
Beta	0.85
Dividend / Div Yld	\$0.32 / 1.3%
Industry	Banks - Southeast
Zacks Industry Rank	Bottom 37% (161 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	62.3%
Last Sales Surprise	11.9%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	10.9
P/E F1	11.9
PEG F1	NA
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	372 E	410 E	400 E	372 E	1,555 E
2019	361 A	421 A	455 A	401 E	1,638 E
2018	339 A	384 A	380 A	356 A	1,459 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.51 E	\$0.52 E	\$0.53 E	\$0.48 E	\$2.01 E
2019	\$0.41 A	\$0.62 A	\$0.86 A	\$0.56 E	\$2.45 E
2018	\$0.25 A	\$0.35 A	\$0.38 A	\$0.30 A	\$1.28 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 01/27/2020. The reports text is as of 01/28/2020.

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 4.2% of total noninterest income in 2018) 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).

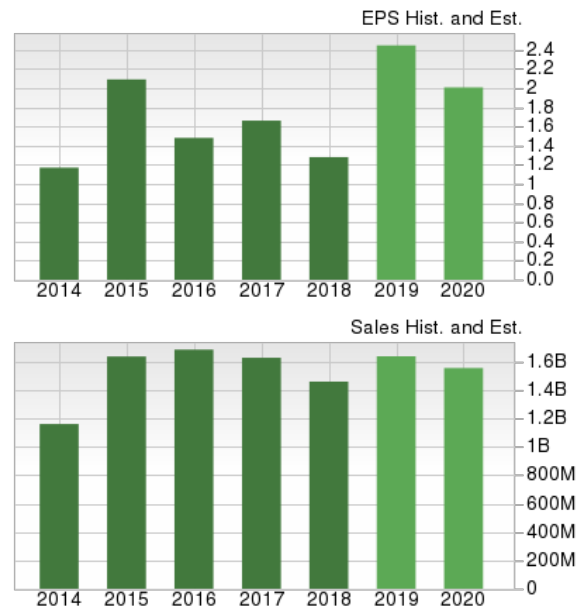
Broker-Dealer (29%) conducts operations through Hilltop Securities, HTS Independent Network and FSC. The segment has six primary lines of business: public finance, capital markets, retail, structured finance, clearing services, and securities lending.

Mortgage Origination (54%) 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 (12.7%) 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.



Reasons To Buy:

- ▲ Hilltop Holdings is focused on its organic growth strategy. Net interest income (NII) registered a CAGR of 4.8% over the last five years (2014-2018), partly driven by acquisitions completed during this period. The uptrend continued in the first nine months of 2019. 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 nearly 31% as of Sep 30, 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. Further, in 2018, the company acquired The Bank of River Oaks, which will likely be accretive to its earnings. These deals helped it to diversify its operations from core P&C insurance to a profitable banking operation, thereby substantially adding stability and visibility to operating leverage in the future.
- ▲ Given its strong balance sheet, Hilltop Holdings announced a dividend for the first time in October 2016. Moreover, in January 2019, the company hiked its quarterly dividend by 14.3%. Further, the company announced share repurchase authorization of up to \$50 million, which was fully utilized before its expiration in January 2020. 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.
- ▲ Shares of Hilltop Holdings have outperformed the industry over the past year. Moreover, the company's 2019 earnings estimates have moved 8.4% upward over the past 60 days. Further, the stock 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. Thus, given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

Hilltop Holdings remains well poised for organic growth, aided by the rise in loan balances. Its efforts to expand via acquisitions are likely to further aid financials through earnings synergies.

Risks

- Hilltop Holdings' non-interest expenses have remained elevated over the past few years. Though expenses decreased in 2018, it recorded a five-year (2014-2018) CAGR of 7.6%, mainly due to higher compensation and benefits costs. The trend continued in the first nine months of 2019. Because of continued investments in franchise and inorganic growth plans, overall expenses are expected to remain elevated.
 - Mortgage Origination segment's disappointing performance remains a matter of concern. While the segment had been performing decently for the past few years, mortgage volumes have been declining since the fourth quarter of 2016, mainly due to higher interest rates. Although mortgage origination volumes decreased 6.5% in 2017 and 5.3% in 2018, the same rose in the first nine months of 2019. This increase was mainly driven by significant improvement witnessed in the third quarter amid a low interest rate environment. Nonetheless, any hike in the interest rate in the future would result in lower origination volume, in turn, putting further strain on the segment's performance.
 - Despite higher interest rates, Hilltop Holdings' net interest margin (NIM) continued to remain under pressure over the past few years. Over the last several years, NIM has been witnessing a declining trend – 3.55% in 2018, 3.63% in 2017, 3.76% in 2016, 3.81% in 2015 and 4.74% in 2014. Though NIM improved in the first nine months of 2019, management expects the same to continue declining in the near term.
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Last Earnings Report

Hilltop Holdings Q3 Earnings & Revenues Beat, Costs Up

Hilltop Holdings' third-quarter 2019 earnings per share of 86 cents easily outpaced the Zacks Consensus Estimate of 53 cents. Also, the figure compared favorably with the prior-year quarter's earnings of 38 cents.

Results were primarily driven by an increase in revenues, and improvement in loan and deposit balances. However, higher expenses and provision for loan losses were the undermining factors.

Net income applicable to common stockholders was \$79.4 million, up significantly from \$35.8 million in the prior-year quarter.

Revenues Improve, Costs Rise

Net revenues were \$454.6 million, increasing 19.6% year over year. The top line also beat the Zacks Consensus Estimate of \$406.3 million.

Net interest income was \$113.2 million, reflecting 2.6% rise. Net interest margin (taxable equivalent basis) was 3.45%, down 3 basis points (bps) from the prior-year quarter.

Non-interest income jumped 26.6% from the year-ago quarter to \$341.4 million. The 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 4.3% to \$350.1 million. The increase was due to rise in employees' compensation and benefits costs.

Credit Quality Improves

Provision for loan losses was nearly \$0.1 million against recovery for loan losses of \$0.4 million in the prior-year quarter.

Moreover, non-performing assets as a percentage of total assets was 0.37%, down 18 bps from the year-ago quarter. Furthermore, non-performing loans were \$35.5 million as of Sep 30, 2019, down 16.5%.

Strong Balance Sheet

As of Sep 30, 2019, Hilltop Holdings' cash and due from banks was \$326.1 million, down 4.6% from the prior quarter. Total shareholders' equity was \$2.1 billion, up 1.5% sequentially.

As of Sep 30, 2019, net loans held for investment increased 1.7% to \$7.3 billion. Further, total deposits were \$8.7 billion, up 3.2% from the prior quarter.

Profitability Ratios Improve, Capital Ratios Deteriorate

Return on average assets at the end of the reported quarter was 2.26%, up from 1.07% in the prior-year quarter. Also, return on average equity was 15.55%, up from 7.41% in the year-earlier quarter.

Common equity tier 1 capital ratio was 16.15% as of Sep 30, 2019, down from 16.95% as of Sep 30, 2018. Moreover, total capital ratio was 16.95%, reflecting a decline from 17.87% in the prior-year quarter.

Share Repurchase Update

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

Outlook

Management expects average held for investments (HFI) loans to grow 6-8% for 2019 compared with the previous estimated growth rate of 4-6%. Average deposits are projected to rise 4-6% for 2019.

NII is projected to either decline 3% or grow 1% for 2019 compared with the prior expectation of 3% contraction or remain stable.

Further, pre-PAA NIM (tax-equivalent basis) for 2019 is expected to be 3.22-3.28%. Additionally, lower yields on loans held for sale (HFS) and lower deposit beta rates are expected to contract NIM in fourth-quarter 2019 and in 2020.

For 2019, non-interest income is expected to increase 15-18%, mainly driven by growth in Mortgage and TBA businesses. This is up from the previous guidance of 6-9% growth.

Given the expectation of mortgage rates remaining relatively unchanged, refinancing volumes relative to total loan origination volume are projected to be higher in the fourth quarter on a year-over-year basis.

Non-interest expenses are expected to remain stable or increase 3%, largely owing to higher variable compensation in 2019. Also, the company continues to target positive operating leverage and improvement in efficiency.

Provisions expenses are anticipated to be 5-15 bps of total average HFI loans on the assumptions of loan growth and normalization of credit costs.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	11.89%
EPS Surprise	62.26%
Quarterly EPS	0.86
Annual EPS (TTM)	2.19

Owing to CECL, allowance for credit losses, plus the reserve for unfunded commitments for 2020 is expected to be in the range of \$80-\$110 million. This is based on the company's current assessment of the credit risk in the portfolio, and expectations of prepayments and base economic outlook scenario.

The company expects GAAP effective tax rate to be nearly 22-24%.

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

Dividend Update

On Oct 31, 2019, Hilltop Holdings announced a quarterly cash dividend of 8 cents per share. The dividend was paid on Dec 3 to shareholders on record as of Nov 15.

Valuation

Hilltop Holdings' shares are up 28.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 6.1% and 10%, respectively over the past year.

The S&P 500 index is up 24.1% in the past year.

The stock is currently trading at 11.89X forward 12 months earnings, which compares to 11.75X for the Zacks sub-industry, 14.52X for the Zacks sector and 18.93X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$28 price target reflects 13.93X 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	11.89	11.75	14.52	18.93
	5-Year High	18.28	18.08	16.21	19.34
	5-Year Low	8.18	10.01	12.01	15.18
	5-Year Median	12.2	13.77	13.98	17.45
P/TBV TTM	Current	1.25	2.37	3.27	12.62
	5-Year High	1.92	3.33	3.98	12.75
	5-Year Low	0.96	1.76	2.44	6.03
	5-Year Median	1.42	2.47	3.46	9.09
P/S F12M	Current	1.39	4.04	6.53	3.52
	5-Year High	1.76	5.08	6.61	3.52
	5-Year Low	0.91	3.09	5.2	2.54
	5-Year Median	1.37	4.03	6.04	3

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (161 out of 255)



Top Peers

BankUnited, Inc. (BKU)	Neutral
Bank of Hawaii Corporation (BOH)	Neutral
Commerce Bancshares, Inc. (CBSH)	Neutral
Flagstar Bancorp, Inc. (FBC)	Neutral
Independent Bank Corp. (INDB)	Neutral
Texas Capital Bancshares, Inc. (TCBI)	Neutral
Umpqua Holdings Corporation (UMPQ)	Neutral
Webster Financial Corporation (WBS)	Neutral

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	HTH Outperform	X Industry	S&P 500	BKU Neutral	FBC Neutral	TCBI Neutral
VGM Score	C	-	-	A	F	F
Market Cap	2.16 B	334.28 M	23.86 B	3.20 B	2.09 B	2.66 B
# of Analysts	2	2	13	8	3	8
Dividend Yield	1.34%	1.85%	1.81%	2.49%	0.43%	0.00%
Value Score	A	-	-	B	D	C
Cash/Price	0.50	0.34	0.04	0.07	0.17	1.95
EV/EBITDA	4.49	8.47	13.94	15.43	13.73	1.09
PEG Ratio	NA	1.25	2.00	1.26	NA	1.19
Price/Book (P/B)	1.06	1.16	3.25	1.10	1.21	1.02
Price/Cash Flow (P/CF)	18.97	11.47	13.46	14.78	9.22	7.98
P/E (F1)	11.88	11.84	18.67	11.17	9.66	9.52
Price/Sales (P/S)	1.23	2.78	2.62	2.24	1.60	1.83
Earnings Yield	8.42%	8.45%	5.35%	8.95%	10.36%	10.50%
Debt/Equity	0.03	0.24	0.72	1.69	2.00	1.11
Cash Flow (\$/share)	1.26	2.38	6.92	2.28	4.02	6.63
Growth Score	D	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	-1.29%	14.78%	10.68%	14.47%	20.78%	22.72%
Proj. EPS Growth (F1/F0)	-17.93%	0.24%	7.51%	-3.51%	11.51%	-10.69%
Curr. Cash Flow Growth	-19.03%	26.90%	13.40%	-15.96%	26.78%	37.24%
Hist. Cash Flow Growth (3-5 yrs)	10.73%	14.92%	8.78%	29.62%	21.56%	20.22%
Current Ratio	1.00	0.96	1.22	0.94	1.12	1.20
Debt/Capital	3.12%	19.45%	42.92%	62.89%	66.71%	51.22%
Net Margin	11.56%	21.30%	11.39%	21.91%	16.36%	22.15%
Return on Equity	10.05%	9.88%	17.19%	10.80%	11.20%	12.87%
Sales/Assets	0.13	0.05	0.54	0.04	0.07	0.05
Proj. Sales Growth (F1/F0)	-5.07%	2.10%	4.09%	-0.42%	1.66%	-2.32%
Momentum Score	D	-	-	A	D	D
Daily Price Chg	-0.75%	-0.77%	-1.40%	-0.85%	-0.03%	-0.38%
1 Week Price Chg	-1.15%	-1.17%	-1.09%	-3.24%	-1.36%	-2.44%
4 Week Price Chg	-4.56%	-3.44%	-0.25%	-7.41%	-3.42%	-6.50%
12 Week Price Chg	-5.24%	-0.97%	3.64%	-4.34%	1.56%	-9.58%
52 Week Price Chg	28.18%	6.04%	18.08%	-2.06%	22.52%	-13.30%
20 Day Average Volume	301,903	13,529	1,615,215	601,857	223,148	615,573
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.09%	0.00%	-1.50%
(F1) EPS Est 4 week change	0.84%	-0.09%	0.00%	-0.09%	0.22%	-0.87%
(F1) EPS Est 12 week change	2.91%	-0.80%	-0.17%	-1.75%	0.68%	-1.84%
(Q1) EPS Est Mthly Chg	3.06%	0.00%	0.00%	0.93%	6.39%	0.63%

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	A
Growth Score	D
Momentum Score	D
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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