

## M&T Bank Corporation (MTB)

**\$104.84** (As of 03/19/20)

Price Target (6-12 Months): **\$110.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: F

### Summary

Shares of M&T Bank have outperformed the industry over the past three months. Also, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. The company's product and balance-sheet diversification efforts, with support from strong capital position, seem impressive. Revival of mortgage banking revenues on account of lower rates is likely to aid bottom-line growth. Further, rise in loans and deposits balance supports revenue growth. The company remains well poised to enhance shareholders' value through steady capital deployment activities. However, persistently rising expenses, on account of upgrades in infrastructure and technology, is a key concern. Further, the company's significant exposure to commercial real estate loans keeps us apprehensive.

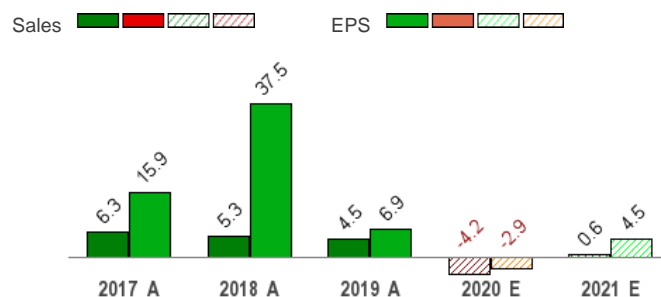
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$174.93 - \$94.61</b>
20 Day Average Volume (sh)	<b>1,448,777</b>
Market Cap	<b>\$13.6 B</b>
YTD Price Change	<b>-38.2%</b>
Beta	<b>1.15</b>
Dividend / Div Yld	<b>\$4.40 / 4.2%</b>
Industry	<a href="#">Banks - Major Regional</a>
Zacks Industry Rank	<b>Bottom 30% (179 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>3.8%</b>
Last Sales Surprise	<b>0.7%</b>
EPS F1 Est- 4 week change	<b>-4.7%</b>
Expected Report Date	<b>04/20/2020</b>
Earnings ESP	<b>1.2%</b>
P/E TTM	<b>7.6</b>
P/E F1	<b>7.9</b>
PEG F1	<b>1.1</b>
P/S TTM	<b>2.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,417 E	1,431 E	1,437 E	1,452 E	5,970 E
2020	1,489 E	1,476 E	1,478 E	1,488 E	5,933 E
2019	1,551 A	1,554 A	1,558 A	1,530 A	6,192 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.06 E	\$3.50 E	\$3.53 E	\$3.64 E	\$13.95 E
2020	\$3.03 E	\$3.39 E	\$3.40 E	\$3.48 E	\$13.35 E
2019	\$3.38 A	\$3.34 A	\$3.47 A	\$3.60 A	\$13.75 A

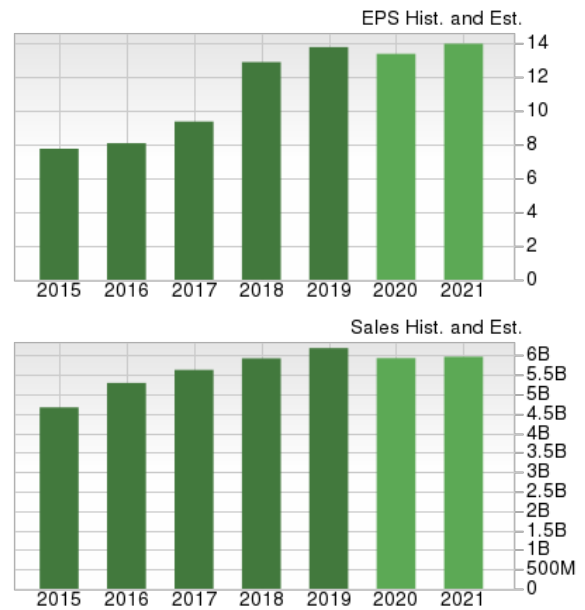
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

## Overview

Headquartered in Buffalo, N.Y. and founded in 1969, M&T Bank Corporation is the holding company for M&T Bank and Wilmington Trust, National Association. The company operates in New York, Maryland, Pennsylvania, Delaware, New Jersey, Virginia, West Virginia and the D.C. through following segments:

- The *Business Banking* segment provides various products and services including business loans and leases, credit cards, deposit products and financial services to small businesses and professionals.
- The *Commercial Banking* segment provides commercial lending and leasing, letters of credit, deposit products and cash management services to middle-market and large commercial customers.
- The *Commercial Real Estate* segment provides credit and deposit services to its customers.
- The *Discretionary Portfolio* segment includes investment and trading securities, residential mortgage loans and other assets; short-term and long-term borrowed funds; foreign exchange services; brokered certificates of deposit and interest rate swap agreements related thereto; and Cayman Islands office deposits.
- The *Residential Mortgage Banking* segment originates and services residential mortgage loans and sells substantially all of those loans in the secondary market to investors or to the Discretionary Portfolio segment.
- The *Retail Banking* segment offers various services to consumers through several delivery channels and certain deposit products through the delivery channels of Wilmington Trust, N.A. Credit services offered by the segment include consumer installment loans, automobile loans, home equity loans and lines of credit and credit cards.



The 'All Other' category reflects other activities of the company that are not directly attributable to the reported segments.

In November 2015, M&T Bank closed its merger with Hudson City Bancorp. The cash-and-stock deal was valued at \$5.3 billion.



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## Reasons To Buy:

- ▲ M&T Bank managed to register solid quarterly results even during the financial crisis. Since 2008, the company has recorded a consistent rise in its net interest income. Over the last five years (ended 2019), it witnessed a compound annual growth rate (CAGR) of nearly 9.8%. M&T Bank operates as a solid and sustainable regional bank franchise with a footprint that spans seven Mid-Atlantic States as well as D.C. This should allow the company to continue generating a decent level of interest income in the upcoming quarters. Notably, net interest margin will continue to get support from decent lending scenario and improving economic backdrop.
- ▲ M&T Bank's non-interest income remained stable over the last few years, as growth in service charges on deposit accounts and trust income were negated by decline in mortgage banking revenues and brokerage services income, along with lower trading account and foreign exchange gains. Notably, the company witnessed 11% year-over-year growth in 2019 with revival in mortgage market and improved trading environment. Therefore, continuation of such trend will likely aid top-line expansion in the quarters ahead.
- ▲ Given its robust liquidity position, M&T Bank is well positioned to grow via acquisitions. The growth has been reflected in the company's accomplishment of several major acquisitions in and out of the U.S in the last several years. Further, product and balance-sheet diversification, stemming from these acquisitions, will likely support the company's top line.
- ▲ M&T Bank is focused on acquiring the industry's best deposit franchise. Deposits recorded a five-year CAGR of 1% (2015-2019), with some annual volatility. Further, the company has witnessed decent loan growth in the past few years, witnessing a five-year CAGR of 1% in 2019, with some annual volatility, mainly supported by rise in consumer loans. We expect loan and deposit growth in the upcoming quarters with support from improving economy.
- ▲ M&T Bank's capital deployment activities remain impressive. The company's 2019 capital plan includes net capital distributions of up to \$1.9 billion over the four-quarter period, effective July 2019. Further, in November 2019, the company increased its quarterly common stock dividend by 10%. Moreover, M&T Bank's favorable debt/equity ratio when compared to the broader industry along with consistent performance indicates that these dividend hikes are sustainable. We believe steady capital deployment activities will continue to inspire investors' confidence in the stock.

Organic growth aided by rising loans and deposits along with inorganic growth strategies will bolster M&T Bank's revenue. Also, rising net interest and non-interest income are positive factors.

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## Reasons To Sell:

- ▼ With continuously rising non-interest operating expenses, M&T Bank is exposed to operational risks. It witnessed a CAGR of 5.3% over the last five years (2015-2019). Further, given the ongoing investments in several areas including operational infrastructure and technology, we expect the company's expense base to remain under pressure. Escalating costs limit operational efficiency and remain a hindrance for the bottom line.
- ▼ Deteriorating credit metrics remain a headwind for the company. Provision for credit losses recorded a five-year CAGR of 1% in 2019, with some annual volatility. Further, non-performing assets also disappointed with a five-year CAGR of 1.3% in 2019. Therefore, continuation of such trend will likely to continue to impact bottom-line expansion in the coming period.
- ▼ M&T Bank has a significant concentration in commercial real estate loans in its loan portfolio, especially loans secured by properties in New York, in general, and in the New York City metropolitan area, in particular. We also remain concerned about the significant amount of commercial and industrial loans provided to businesses in areas of New York State, outside the New York City metropolitan area, and in central Pennsylvania that have historically experienced less economic growth and vitality than the vast majority of other regions of the country. Moreover, the Hudson City acquisition resulted in substantial increase in residential mortgage exposure.
- ▼ Shares of M&T Bank have outperformed the industry over the past three months. Despite this favorable trend, the company's earnings estimates for 2020 have been revised 4.6% downward, over the past 30 days. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

Consistently rising cost base due to investment in infrastructure and technology is a concern. Additionally, exposure to commercial real estate loans and deteriorating credit metrics are headwinds.

## Last Earnings Report

### M&T Bank Q4 Earnings Beat, Revenue Falls

M&T Bank pulled off fourth-quarter 2019 positive earnings surprise of 3.75% on higher mortgage banking revenues. Earnings per share of \$3.60 surpassed the Zacks Consensus Estimate of \$3.47. However, the bottom line compares unfavorably with \$3.76 reported in year-ago quarter.

The company's results were supported by higher fee income and improved loans balance. Further, strong capital position was a tailwind. However, rise in expenses and deteriorating credit metrics were key concerns.

Net income for the quarter was \$493 million, down 10% from the \$546 million recorded a year ago.

On an operating basis, M&T Bank reported fourth-quarter net income of \$496 million or \$3.62 per share compared with \$550 million or \$3.79 in the prior-year quarter.

For full-year 2019, M&T Bank reported net income of \$1.93 billion or \$13.75 per share compared with \$1.92 billion or \$12.74 in the previous year.

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	0.74%
EPS Surprise	3.75%
Quarterly EPS	3.60
Annual EPS (TTM)	13.79

### Revenues Decline, Loans Climb, Expenses Escalate

M&T Bank's revenues came in at \$1.53 billion, marginally down from the year-ago quarter. Also, it surpassed the consensus estimate of \$1.52 billion.

For 2019, the company reported revenues of \$6.19 billion, up 4.4% year over year. Further, it topped the consensus estimate of \$6.17 billion.

Taxable-equivalent net interest income declined 5% year over year to \$1.01 billion in the quarter. The fall stemmed from lower net interest margin, partially offset by higher average earning assets. Net interest margin contracted 14 basis points (bps) to 3.64%.

The company's non-interest income came in at \$521 million, up 8% year over year. Higher mortgage banking revenues, trust income, trading account and foreign exchange gains, along with service charges on deposit accounts, primarily led to this upsurge.

Non-interest expenses totaled \$824 million, up 3% from the prior-year quarter. Excluding certain non-operating items, non-interest operating expenses were \$819 million, up 2.8%. This upside mainly stemmed from rise in almost all components of expenses, partly mitigated by lower amortization of core deposit and other intangible assets.

Efficiency ratio came in at 53.1%, up from the 51.7% recorded in the prior-year quarter. A higher ratio indicates fall in profitability.

Loans and leases, net of unearned discount, came in at \$90.9 billion at the end of the reported quarter, up 1.2% from the prior quarter. However, total deposits declined marginally to \$94.8 billion.

M&T Bank's net operating income indicated an annualized rate of return on average tangible assets and average tangible common shareholder equity of 1.67% and 19.08%, respectively, compared with 1.93% and 22.16% recorded in the prior-year quarter.

### Deteriorating Credit Quality

For M&T Bank, credit metrics deteriorated during the October-December quarter. Provision for credit losses rose 42% on a year-over-year basis to \$54 million. Also, net charge-offs of loans were \$41 million, up 9%.

The ratio of non-accrual loans to total net loans was 1.06%, up 5 bps year over year. Non-performing assets increased 8% to \$1.05 billion.

### Capital Position

M&T Bank's estimated Common Equity Tier 1 to risk-weighted assets under regulatory capital rules were 9.72%. Tangible equity per share came in at \$75.44, up 8.9% year over year from \$69.28.

### Share Repurchase

During the December-end quarter, M&T Bank repurchased a total of 1.72 million shares of its common stock for a total cost of \$282 million, at an average price of \$163.69 per share.

In 2019, the company repurchased 8.26 million shares for a total cost of \$1.35 billion.

### Outlook for 2020

Management expects growth in average total loans in 2020 to be at a low single-digit pace, in line with or better than 2019.

Combined with some improvement in the margin from fourth quarter and a flat interest rate scenario, management expects low single-digit decline in net interest income on a year-over-year basis.

Fee businesses are likely to grow in the low single-digit range, with the exception of trust revenues, which have been growing at a solid mid-single-digit pace.

Management expects usual seasonal increase in salaries and benefits costs in the first quarter of 2020, which primarily reflects annual equity incentive compensation as well as some other items. Notably, neutral to slightly positive operating leverage for the year is anticipated.

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Effective Jan 1, 2020, M&T Bank adopted the new loan loss accounting standard known as CECL. Based on forecasted economic conditions and portfolio balances as of Dec 31, 2019, management expects the adoption to result in an overall increase of around \$140 million or 13% to reserves. With total commercial reserves being down slightly, reflecting shorter contractual maturities and residential mortgage and consumer reserves increasing substantially due to their long-dated maturities.

For 2020, effective tax rate is expected to be 25%.

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## Recent News

### M&T Bank Decreases Prime Rate to 3.25% - Mar 15, 2020

Pursuant to the Fed rate cut, M&T Bank announced plans to decrease its prime lending rate from 4.25% to 3.25%. Prior to this, the company had decreased the rate from 4.75% to 4.25%.

### Dividend Update

On Feb 19, M&T Bank declared a quarterly cash dividend of \$1.10 per share on its common stock. The dividend will be paid on Mar 31, to shareholders of record at the close of business on Mar 2.

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## Valuation

M&T Bank's shares are down 38.2% in the year-to-date period and 34.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 43% and 34.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 30.3% and 29%, respectively.

The S&P 500 Index is up 24.9% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 7.6X forward 12 months earnings, which compares to 6.97X for the Zacks sub-industry, 10.05X for the Zacks sector and 14.3X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.86X and as low as 7.22X, with a 5-year median of 13.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$110 price target reflects 7.98X forward earnings.

The table below shows summary valuation data for MTB

Valuation Multiples - MTB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.6	6.97	10.05	14.3
	5-Year High	19.86	13.85	16.21	19.34
	5-Year Low	7.22	6.97	10.05	14.3
	5-Year Median	13.72	11.31	13.97	17.42
P/TB TTM	Current	1.4	1.35	2.21	9.15
	5-Year High	2.86	2.68	3.98	12.81
	5-Year Low	1.33	1.31	2.18	6.02
	5-Year Median	2.27	2.12	3.46	9.14
P/S F12M	Current	2.27	2.29	5.99	2.6
	5-Year High	5.04	4.59	6.64	3.43
	5-Year Low	2.15	2.29	5.39	2.54
	5-Year Median	3.67	3.59	6.04	3

As of 03/19/2020

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## Industry Analysis Zacks Industry Rank: Bottom 30% (179 out of 254)



## Top Peers

Commerce Bancshares, Inc. (CBSH)	Neutral
Fifth Third Bancorp (FITB)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
KeyCorp (KEY)	Neutral
Regions Financial Corporation (RF)	Neutral
SVB Financial Group (SIVB)	Neutral
U.S. Bancorp (USB)	Neutral
Comerica Incorporated (CMA)	Underperform

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	MTB Neutral	X Industry	S&P 500	CMA Underperform	FITB Neutral	HBAN Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Market Cap	13.62 B	26.55 B	16.45 B	4.06 B	9.29 B	7.83 B
# of Analysts	8	8	13	12	11	10
Dividend Yield	4.20%	4.98%	2.67%	9.40%	7.35%	7.81%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>A</b>	<b>B</b>
Cash/Price	0.62	1.09	0.06	1.09	0.44	0.14
EV/EBITDA	4.10	2.89	10.36	2.89	4.84	7.15
PEG Ratio	1.03	0.89	1.49	0.32	0.55	1.26
Price/Book (P/B)	0.96	0.73	2.16	0.57	0.48	0.75
Price/Cash Flow (P/CF)	6.20	5.25	8.92	3.20	3.59	4.41
P/E (F1)	7.70	7.26	13.12	4.85	4.58	6.20
Price/Sales (P/S)	1.96	1.28	1.72	1.06	0.95	1.38
Earnings Yield	12.73%	13.77%	7.54%	20.62%	21.88%	16.15%
Debt/Equity	0.48	0.86	0.70	0.99	0.77	0.93
Cash Flow (\$/share)	16.90	6.63	7.01	9.04	3.64	1.74
<b>Growth Score</b>	<b>F</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	17.92%	13.58%	10.85%	30.93%	13.58%	12.41%
Proj. EPS Growth (F1/F0)	-2.91%	1.53%	4.90%	-24.12%	3.12%	-2.52%
Curr. Cash Flow Growth	5.45%	2.66%	6.03%	-4.61%	17.50%	-4.72%
Hist. Cash Flow Growth (3-5 yrs)	11.65%	9.49%	8.55%	12.59%	6.10%	12.14%
Current Ratio	1.08	0.90	1.23	1.03	0.88	0.90
Debt/Capital	30.77%	43.35%	42.57%	49.80%	41.38%	45.51%
Net Margin	27.79%	22.06%	11.57%	31.33%	25.65%	24.95%
Return on Equity	13.37%	11.95%	16.74%	16.20%	10.96%	13.44%
Sales/Assets	0.06	0.05	0.54	0.05	0.06	0.05
Proj. Sales Growth (F1/F0)	-4.18%	-0.68%	3.13%	-11.47%	-7.68%	0.50%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Daily Price Chg	-2.70%	4.31%	1.03%	5.58%	12.00%	-0.52%
1 Week Price Chg	-9.89%	-10.35%	-11.01%	-13.70%	-20.59%	-14.57%
4 Week Price Chg	-38.16%	-40.17%	-33.45%	-54.36%	-56.19%	-45.69%
12 Week Price Chg	-38.27%	-44.79%	-30.67%	-59.70%	-58.00%	-49.41%
52 Week Price Chg	-34.61%	-36.42%	-23.69%	-61.58%	-48.71%	-39.14%
20 Day Average Volume	1,448,777	10,288,381	3,981,936	3,751,780	10,288,381	19,068,798
(F1) EPS Est 1 week change	-2.16%	-1.13%	-0.01%	-3.92%	-1.29%	-2.80%
(F1) EPS Est 4 week change	-4.67%	-3.38%	-0.85%	-11.65%	-3.20%	-4.17%
(F1) EPS Est 12 week change	-0.33%	-2.81%	-1.70%	-14.31%	-3.32%	-6.13%
(Q1) EPS Est Mthly Chg	-2.06%	-1.36%	-0.88%	-2.77%	-3.29%	-3.10%



## 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>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</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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