

M&T Bank Corporation (MTB)

\$104.63 (As of 04/21/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

Shares of M&T Bank have underperformed the industry over the past six months. Also, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. First-quarter results reflect higher fee income and improved loans balance, with a rise in provisions on the downside. Persistently rising expenses on account of upgrades in infrastructure and technology might deter bottom-line expansion. Also, significant exposure to commercial real estate loans is a headwind. Yet, the company's product and balance-sheet diversification efforts, with support from strong capital position, seem impressive. Further, revival of mortgage banking revenues on account of lower rates is likely to aid bottom-line growth. Nevertheless, deterioration of M&T Bank's credit quality concerns.

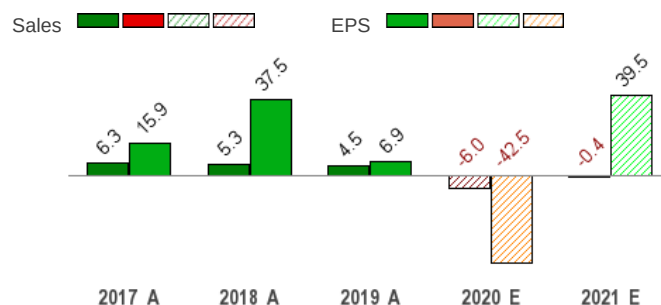
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$174.93 - \$87.64
20 Day Average Volume (sh)	942,166
Market Cap	\$13.6 B
YTD Price Change	-38.4%
Beta	1.34
Dividend / Div Yld	\$4.40 / 4.2%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 1% (250 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.8%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-40.8%
Expected Report Date	07/16/2020
Earnings ESP	-11.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,412 E	1,424 E	1,434 E	1,443 E	5,798 E
2020	1,506 A	1,433 E	1,451 E	1,456 E	5,821 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	\$2.63 E	\$2.90 E	\$3.05 E	\$3.07 E	\$11.02 E
2020	\$1.95 A	\$1.64 E	\$2.17 E	\$2.76 E	\$7.90 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.

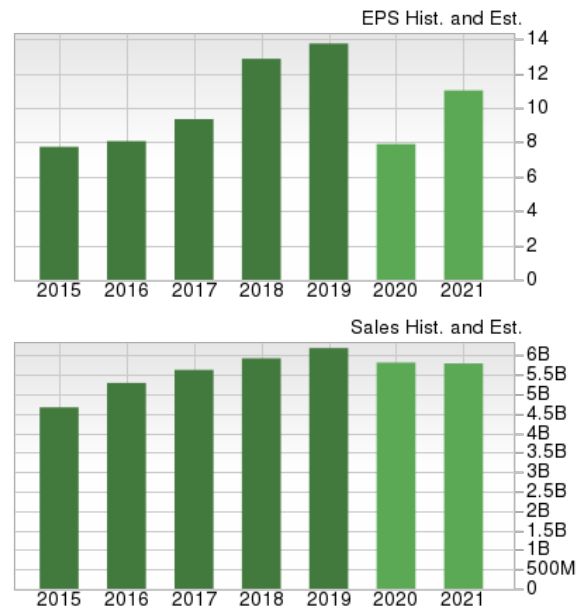
P/E TTM	8.5
P/E F1	13.4
PEG F1	1.8
P/S TTM	2.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/21/2020. The reports text is as of 04/22/2020.

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.



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), with the trend continuing in the first three months of 2020. 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. In first-quarter 2020, provisions rose significantly due to the adoption of a new accounting method and the coronavirus-related crisis. Further, non-performing assets also disappointed with a five-year CAGR of 1.3% in 2019, with the rising trend continuing in first-quarter 2020. Therefore, continuation of such trend will likely to continue to impact bottom-line expansion in the coming period.
- ▼ M&T Bank has substantial exposure to commercial and real estate construction loans. As of Mar 31, 2020, the company's exposure to the loan portfolio was approximately 67% of the total loans. Such high exposure to commercial loans depicts lack of diversification which can be risky for the company amid challenging economy and competitive markets.
- ▼ Shares of M&T Bank have underperformed the industry over the past six months. With this unfavorable trend, the company's earnings estimates for 2020 have been revised 40% downward over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-sales ratios are above the respective industry averages. Therefore, given the above concerns and the lack of positive estimate revisions, 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.

Risks

- 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. Though NII declined in the first quarter of 2020 due to lower interest rates, 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. Therefore, this should allow the company to continue generating a decent level of interest income in the upcoming quarters.
 - 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% and 6% year-over-year growth in 2019 and first-quarter 2020, respectively, with the revival in the 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. Both metrics continued to increase in first-quarter 2020. We expect loan and deposit growth in the upcoming quarters catering customers' liquidity needs amid coronavirus woes.
 - 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. Notably, the company has temporarily suspended share buybacks through the second quarter of 2020, following the "unprecedented challenge" from the coronavirus pandemic.
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Last Earnings Report

M&T Bank Q1 Earnings Beat Estimates, Provisions Rise

M&T Bank pulled off first-quarter 2020 positive earnings surprise of 26% on higher mortgage banking revenues. Net operating earnings per share of \$1.95 surpassed the Zacks Consensus Estimate of \$1.55. However, the bottom line compares unfavorably with \$3.35 per share reported in the year-ago quarter.

The company's results were supported by higher fee income and improved loan balance. Further, strong capital position was a tailwind. However, results were affected by a substantial rise in provisions related to the adoption of the accounting method of Current Expected Credit Losses and the coronavirus-related crisis.

Net income (on GAAP basis) for the quarter was \$269 million, down 44% from the \$483 million recorded a year ago.

Revenues Decline, Loans Rise, Expenses Escalate

M&T Bank's revenues were \$1.51 billion, down 2.9% from the year-ago quarter. However, it surpassed the consensus estimate of \$1.48 billion.

Taxable-equivalent net interest income declined 7% year over year to \$981.9 million in the quarter. The fall stemmed from lower net interest margin, partially offset by higher average earning assets. Net interest margin contracted 39 basis points (bps) to 3.65%.

The company's non-interest income was \$529 million, up 6% 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 the upsurge.

Non-interest expenses totaled \$906 million, up 1.3% from the prior-year quarter. Excluding certain non-operating items, non-interest operating expenses were \$903 million, up 1.6% year over year. The upside mainly stemmed from a rise in almost all components of expenses, partly mitigated by lower amortization of core deposit and other intangible assets.

Efficiency ratio was 58.9%, up from 57.6% recorded in the prior-year quarter. A higher ratio indicates a fall in profitability.

Loans and leases, net of unearned discount, were \$94.1 billion at the end of the reported quarter, up 3.5% from the prior quarter. However, total deposits rose 5.7% 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 0.94% and 10.39%, respectively, compared with 1.76% and 19.56% recorded in the prior-year quarter.

Deteriorating Credit Quality

For M&T Bank, credit metrics deteriorated during the first quarter. Provision for credit losses rose significantly on a year-over-year basis to \$250 million. Also, net charge-offs of loans were \$49 million, up 22.7%.

The ratio of non-accrual loans to total net loans was 1.06%, up 7 bps year over year. Non-performing assets increased 19% to \$1.15 billion.

Capital Position

M&T Bank's estimated Common Equity Tier 1 to risk-weighted assets under regulatory capital rules were 9.2%. Tangible equity per share was \$75.44, up 8.9% year over year from \$71.19 as of Mar 31, 2019.

Share Repurchase

During the March-end quarter, the company repurchased 2.58 million shares of its common stock for \$374 million.

Outlook for 2020

Trust income is expected to be affected by the state of the equity markets. Also, resumption of waivers of money market mutual fund management fees is expected. The zero-rate environment and the potential for an extended slowdown might affect debt capital markets' activity.

The company expects lower payment activities in the second quarter, while social distancing lockdown restrictions remain in effect.

Quarter Ending 03/2020

Report Date	Apr 20, 2020
Sales Surprise	1.98%
EPS Surprise	25.81%
Quarterly EPS	1.95
Annual EPS (TTM)	12.36

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%, in early March.

Dividend Update

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

Valuation

M&T Bank's shares are down 37.8% in the year-to-date period and 36.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 38.8% and 26.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.6% and 21.4%, respectively.

The S&P 500 Index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 7.62X forward 12 months earnings, which compares to 13.76X for the Zacks sub-industry, 13.95X for the Zacks sector and 19.52X 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 13.68X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$90 price target reflects 6.48X 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	7.62	13.76	13.95	19.52
	5-Year High	19.86	13.85	16.16	19.52
	5-Year Low	7.22	7.66	11.2	15.19
	5-Year Median	13.68	11.31	13.92	17.45
P/TB TTM	Current	1.41	1.49	2.47	10.83
	5-Year High	2.86	2.68	4	12.78
	5-Year Low	1.18	1.21	2	6.02
	5-Year Median	2.27	2.12	3.47	9.15
P/S F12M	Current	2.28	2.66	4.93	3.2
	5-Year High	5.04	4.59	6.64	3.44
	5-Year Low	2.15	2.39	4.93	2.54
	5-Year Median	3.69	3.59	6.01	3.01

As of 04/20/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (250 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Regions Financial Corporation (RF)	Neutral	3
Commerce Bancshares, Inc. (CBSH)	Underperform	4
Comerica Incorporated (CMA)	Underperform	5
Fifth Third Bancorp (FITB)	Underperform	5
Huntington Bancshares Incorporated (HBAN)	Underperform	3
KeyCorp (KEY)	Underperform	3
SVB Financial Group (SIVB)	Underperform	5
U.S. Bancorp (USB)	Underperform	5

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	MTB	X Industry	S&P 500	CMA	FITB	HBAN
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	5	5	3
VGM Score	F	-	-	F	D	D
Market Cap	13.60 B	32.22 B	19.37 B	4.13 B	11.56 B	7.95 B
# of Analysts	8	8	14	12	12	11
Dividend Yield	4.21%	4.64%	2.23%	9.24%	6.64%	7.69%
Value Score	D	-	-	B	B	B
Cash/Price	0.66	1.42	0.05	1.42	0.47	0.17
EV/EBITDA	4.13	2.94	11.66	2.94	5.44	7.34
PEG Ratio	1.78	1.45	2.20	0.65	1.12	2.22
Price/Book (P/B)	0.93	0.81	2.61	0.56	0.58	0.76
Price/Cash Flow (P/CF)	6.25	6.13	10.30	3.28	4.59	4.68
P/E (F1)	13.35	14.04	17.85	9.93	9.20	10.93
Price/Sales (P/S)	1.98	1.57	2.04	1.11	1.22	1.41
Earnings Yield	7.49%	7.11%	5.48%	10.06%	10.89%	9.10%
Debt/Equity	0.48	0.99	0.71	0.99	0.77	0.93
Cash Flow (\$/share)	16.90	6.63	7.01	9.04	3.64	1.74
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	17.92%	13.58%	10.92%	30.93%	13.58%	12.41%
Proj. EPS Growth (F1/F0)	-42.97%	-43.18%	-3.67%	-62.35%	-36.22%	-43.81%
Curr. Cash Flow Growth	5.45%	2.66%	5.93%	-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	1.02	0.92	1.24	1.02	0.89	0.90
Debt/Capital	28.56%	49.21%	42.83%	50.11%	42.67%	45.51%
Net Margin	24.99%	21.64%	11.64%	31.33%	25.65%	24.95%
Return on Equity	11.84%	10.72%	16.74%	10.77%	9.05%	13.44%
Sales/Assets	0.06	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-6.00%	-5.03%	-0.39%	-16.58%	-9.07%	-0.01%
Momentum Score	D	-	-	C	D	F
Daily Price Chg	0.11%	-0.84%	-2.18%	-1.27%	0.30%	0.99%
1 Week Price Chg	-8.08%	-7.38%	0.42%	-13.67%	-6.68%	-10.69%
4 Week Price Chg	19.86%	24.45%	26.24%	8.34%	37.17%	16.29%
12 Week Price Chg	-37.15%	-37.15%	-20.02%	-52.77%	-41.47%	-39.66%
52 Week Price Chg	-36.57%	-33.11%	-12.49%	-62.18%	-39.48%	-40.32%
20 Day Average Volume	966,724	8,607,957	3,036,163	2,987,072	9,392,522	14,107,114
(F1) EPS Est 1 week change	0.00%	-4.80%	-0.14%	0.00%	-4.80%	0.00%
(F1) EPS Est 4 week change	-40.82%	-43.28%	-6.66%	-48.69%	-38.15%	-42.36%
(F1) EPS Est 12 week change	-42.23%	-45.45%	-10.02%	-56.67%	-40.10%	-45.73%
(Q1) EPS Est Mthly Chg	-51.66%	-50.79%	-9.67%	-58.33%	-59.69%	-58.97%

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	D
Growth Score	F
Momentum Score	C
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.

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