

M&T Bank Corporation (MTB)

\$169.42 (As of 12/30/19)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

Summary

Shares of M&T Bank have underperformed the industry over the past six months. However, 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. Also, the company's involvement in steady capital-deployment activities is commendable. Further, rise in loans and deposits balance is likely to aid revenue growth of the company. However, persistently rising expenses, on account of upgrades in infrastructure and technology, is a key concern. Further, significant exposure to commercial real estate loans keeps us apprehensive. Also, declining mortgage banking revenues have resulted in disappointing fee income growth in the past few years.

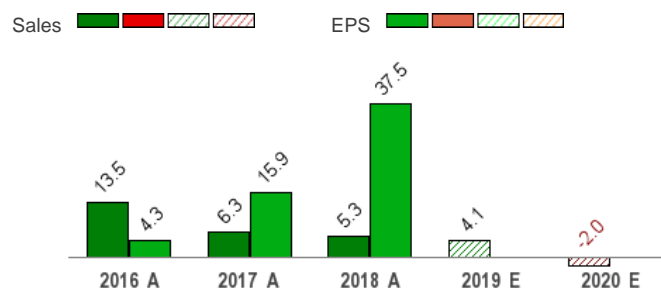
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$176.11 - \$141.11
20 Day Average Volume (sh)	501,277
Market Cap	\$22.4 B
YTD Price Change	18.4%
Beta	1.11
Dividend / Div Yld	\$4.40 / 2.6%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 13% (32 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.9%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	01/23/2020
Earnings ESP	0.0%
P/E TTM	12.1
P/E F1	12.4
PEG F1	1.7
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,488 E	1,492 E	1,504 E	1,514 E	6,046 E
2019	1,551 A	1,554 A	1,558 A	1,520 E	6,169 E
2018	1,434 A	1,466 A	1,488 A	1,540 A	5,928 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.48 E	\$3.11 E	\$3.47 E	\$3.53 E	\$13.67 E
2019	\$3.38 A	\$3.34 A	\$3.47 A	\$3.62 E	
2018	\$2.94 A	\$3.29 A	\$3.56 A	\$3.79 A	\$12.86 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 12/30/2019. The reports text is as of 12/31/2019.

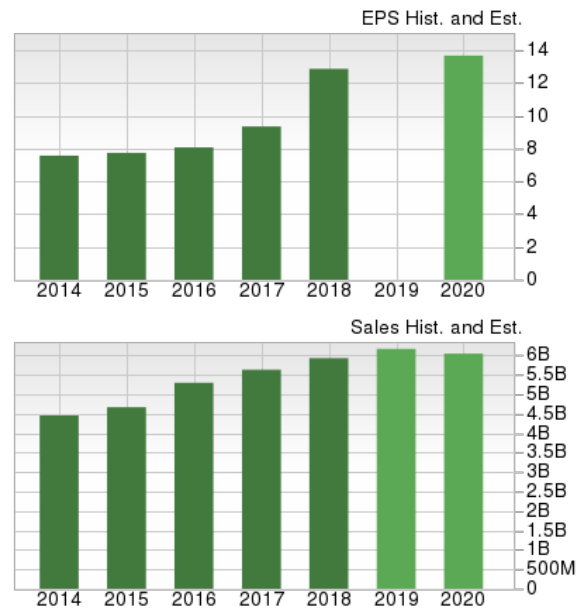
Overview

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 (contributes 9% to 2018 net revenues) 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 (19%) 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 (14%) provides credit and deposit services to its customers.
- The *Discretionary Portfolio* segment (5%) 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 (5%) 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 (28%) 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 (20%) 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 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 2018), it witnessed a compound annual growth rate (CAGR) of nearly 11%, with the trend continuing in the first nine months of 2019. 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.
- ▲ 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 9.4% (2014-2018), aided by rising savings and non-interest-bearing deposits. Further, the company has witnessed decent loan growth in the past few years, recording a five-year CAGR of 6.9% in 2018. Notably, both the metrics continued to increase in the first nine months of 2019. We expect loan 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.
- ▲ Shares of M&T Bank have underperformed the industry over the past six months. Despite this unfavorable trend, the company's earnings estimates for 2019 have been revised marginally upward, over the past 30 days. Also, the stock seems undervalued compared with the broader industry. Its current price-to-earnings (P/E) (F1) and PEG ratios are below the respective industry averages. Moreover, it has a Value Score of B. Therefore, given the strong fundamentals and positive estimates revision, the stock has upside potential.

Organic growth aided by rising loans and deposits along with inorganic growth strategies will bolster M&T Bank's top-line growth. Also, rising net interest income acts as a favorable factor.

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 (2014-2018), with the uptrend persisting in the first nine months of 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.
- ▼ M&T Bank's non-interest income growth fails to impress as it witnessed a CAGR of only 1% over the last five years (ended 2018). Though the increasing trend continued in the first nine months of 2019 as well, marginal growth in service charges on deposit accounts and lower brokerage services income due to high volatility in the markets were primarily responsible for such negligible growth in fee income.
- ▼ 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.

Consistently rising cost base due to investment in infrastructure and technology is a concern. Additionally, exposure to commercial real estate loans and negligible rise in fee income remain headwinds.

Last Earnings Report

M&T Bank Q3 Earnings Lag Estimates on High Costs & Provisions

M&T Bank reported a negative earnings surprise of 3.9% in third-quarter 2019, on account of higher expenses and provisions. Net earnings of \$3.47 per share lagged the Zacks Consensus Estimate of \$3.61. The bottom line also declined 2% year over year.

The company's results were affected by rise in expenses and deteriorating credit metrics. However, rise in net interest income and fee income was a driving factor. Further, strong capital position remains a tailwind.

Net income came in at \$480 million, down 9% from the \$526 million recorded a year ago.

On an operating basis, M&T Bank reported third-quarter net income of \$484 million or \$3.50 per share compared with \$531 million or \$3.56 in the prior-year quarter.

Revenues Increase, Deposits Climb, Expenses Escalate

M&T Bank's revenues came in at \$1.54 billion, marginally up from the year-ago quarter. Also, it surpassed the consensus estimate of \$1.53 billion.

Taxable-equivalent net interest income slightly increased year over year to \$1.04 billion in the quarter, driven by higher average earning assets, mostly offset by lower net interest margin and. However, net interest margin contracted 10 basis points (bps) to 3.78%.

The company's non-interest income came in at \$528 million, up 15% 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 came in at \$878 million, flaring up 13% from the prior-year quarter. Excluding certain non-operating items, non-interest operating expenses came in at \$873 million, up 13.4%. This upside mainly stemmed from rise in almost all components of expenses, partly mitigated by lower FDIC assessments charges and amortization of core deposit and other intangible assets.

Efficiency ratio came in at 55.9%, up from the 51.4% recorded in the prior-year quarter. A higher ratio indicates fall in profitability.

Loans and leases, net of unearned discount came in at \$89.8 billion at the end of the reported quarter, almost in line with the prior quarter. Also, total deposits were up 3.7% to \$95.1 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 1.66% and 18.85%, respectively, compared with 1.89% and 21% recorded in the prior-year quarter.

Deteriorating Credit Quality

For M&T Bank, credit metrics deteriorated during the July-September period. Provision for credit losses more than doubled on a year-over-year basis to \$45 million. Also, net charge-offs of loans came in at \$36 million, significantly up from the prior-year quarter.

The ratio of non-accrual loans to total net loans was 1.12%, up 12 bps year over year. Non-performing assets increased 13% year over year to \$1.09 billion.

Capital Position

M&T Bank's estimated Common Equity Tier 1 to risk-weighted assets under regulatory capital rules were around 9.81%. Tangible equity per share came in at \$74.93, up 10.8% year over year from \$67.64.

Share Repurchase

During the September-end quarter, M&T Bank repurchased a total of 1.93 million shares of its common stock for a total cost of \$300 million, at an average price of \$155.18 per share.

Outlook for 2019

Management expects growth in total loans in 2019 to be at a low single-digit pace, with continued run-off in residential mortgages more than offset by aggregate growth in other loan categories.

The reductions in short term rates as expected will continue to pressure both net interest income and the net interest margin. However, management still expects modest year-over-year growth in net interest income for 2019. Assuming all else being equal and keeping aside volatility in escrow deposit balances and associated cash balances placed at the Fed, expected reduction of 25 bps in the Fed funds target is likely to result in four to nine bps of margin pressure over the next 12 months.

Fee income is expected to rise in a low single-digit range.

Management continues to expect some offsets to the year-to-date additions to IT staff through lower contractor and consulting expenses starting in the fourth quarter. Fourth-quarter expenses are expected to be lower than the third quarter.

Regarding the new loan loss accounting standard, known as CECL, M&T Bank completed the second parallel run. Based on the current

Quarter Ending **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	1.63%
EPS Surprise	-3.88%
Quarterly EPS	3.47
Annual EPS (TTM)	13.98

economic forecasts, management would expect the allowance for losses on loans and leases to increase by approximately 5-15% upon adoption of the accounting standard and result in an impact to capital ratios of less than 10 bps.

Recent News

M&T Bank Decreases Prime Rate to 4.75% - Oct 30, 2019

Pursuant to the Fed rate cut by 25 basis points, M&T Bank announced plans to decrease its prime lending rate from 5% to 4.75%. Prior to this, the company had decreased the rate from 5.25% to 5%.

Dividend Update

On Nov 19, M&T Bank declared an increased quarterly cash dividend of \$1.10 per share on its common stock, up 10%. The dividend will be paid on Dec 31, to shareholders of record at the close of business on Dec 2, 2019.

Valuation

M&T Bank's shares are up 18.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 35.4% and 18.8% over the past year, respectively.

The S&P 500 Index is up 28% in the past year.

The stock is currently trading at 12.61X forward 12 months earnings, which compares to 12.16X for the Zacks sub-industry, 14.80X for the Zacks sector and 18.76X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.86X and as low as 9.64X, with a 5-year median of 13.90X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$178 price target reflects 13.25X 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	12.61	12.16	14.8	18.76
	5-Year High	19.86	13.85	16.21	19.34
	5-Year Low	9.64	9.04	12.01	15.17
	5-Year Median	13.9	11.43	13.98	17.44
P/TBV TTM	Current	2.28	2.4	3.28	12.36
	5-Year High	2.86	2.68	3.98	12.36
	5-Year Low	1.49	1.44	2.44	6.03
	5-Year Median	2.25	2.1	3.46	9.06
P/S F12M	Current	3.7	4.17	6.56	3.41
	5-Year High	5.04	4.59	6.61	3.41
	5-Year Low	2.49	2.61	5.2	2.54
	5-Year Median	3.66	3.55	6.03	3

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 253)



Top Peers

Commerce Bancshares, Inc. (CBSH)	Neutral
Comerica Incorporated (CMA)	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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	MTB Neutral	X Industry	S&P 500	CMA Neutral	FITB Neutral	HBAN Neutral
VGM Score	C	-	-	C	C	F
Market Cap	22.36 B	43.23 B	23.75 B	10.29 B	21.68 B	15.53 B
# of Analysts		6	13			
Dividend Yield	2.60%	2.63%	1.79%	3.75%	3.14%	3.99%
Value Score	B	-	-	A	B	B
Cash/Price	0.67	0.67	0.04	0.42	0.31	0.12
EV/EBITDA	5.33	5.33	13.92	7.40	8.58	9.93
PEG Ratio	1.65	1.53	2.12	0.56	1.52	2.85
Price/Book (P/B)	1.56	1.35	3.32	1.43	1.14	1.45
Price/Cash Flow (P/CF)	11.24	10.77	13.73	8.45	9.12	8.47
P/E (F1)	12.38	12.62	19.56	9.20	10.88	11.62
Price/Sales (P/S)	3.22	2.68	2.67	2.68	2.37	2.75
Earnings Yield	8.07%	7.93%	5.10%	10.87%	9.20%	8.58%
Debt/Equity	0.48	0.95	0.72	1.02	0.74	0.92
Cash Flow (\$/share)	15.07	6.05	6.94	8.45	3.35	1.78
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	16.90%	13.07%	10.53%	28.80%	12.31%	12.14%
Proj. EPS Growth (F1/F0)	6.31%	5.04%	6.30%	7.75%	10.54%	7.83%
Curr. Cash Flow Growth	24.17%	17.06%	14.83%	40.97%	-9.51%	19.75%
Hist. Cash Flow Growth (3-5 yrs)	8.94%	7.49%	9.00%	14.77%	-1.28%	15.58%
Current Ratio	1.06	0.88	1.23	1.03	0.88	0.91
Debt/Capital	30.74%	45.81%	42.99%	50.38%	40.34%	45.33%
Net Margin	28.58%	23.17%	11.08%	32.11%	24.36%	25.24%
Return on Equity	13.82%	12.25%	17.10%	16.82%	11.40%	13.83%
Sales/Assets	0.06	0.05	0.55	0.05	0.06	0.05
Proj. Sales Growth (F1/F0)	4.06%	1.32%	2.86%	0.65%	14.94%	3.57%
Momentum Score	A	-	-	C	B	F
Daily Price Chg	-0.08%	-0.30%	-0.43%	0.22%	-1.13%	-0.53%
1 Week Price Chg	0.02%	0.32%	0.13%	-0.79%	-0.80%	-0.20%
4 Week Price Chg	2.92%	3.69%	2.78%	1.85%	1.46%	1.42%
12 Week Price Chg	10.00%	16.20%	8.67%	11.51%	16.20%	8.67%
52 Week Price Chg	18.37%	29.48%	27.07%	3.95%	29.83%	26.17%
20 Day Average Volume	501,277	4,010,092	1,731,328	1,460,679	4,010,092	8,775,354
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.17%	0.03%	0.00%	-0.07%	0.00%	-0.67%
(F1) EPS Est 12 week change	-1.46%	0.66%	0.14%	-1.54%	-1.09%	-0.53%
(Q1) EPS Est Mthly Chg	0.58%	-0.19%	0.00%	-0.21%	-0.19%	-2.26%

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	B
Growth Score	F
Momentum Score	A
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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