

Navient Corporation (NAVI)

\$7.86 (As of 06/02/20)

Price Target (6-12 Months): **\$7.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/03/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

Summary

Shares of Navient have underperformed the industry over the past three months. Yet, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The company remains focused on leveraging asset recovery & processing businesses in order to boost the top line. Also, it continues to deploy technology platform and digital marketing tools to attract originations that bode well for its financials. However, it continues to struggle with regulatory claims and litigation burden due to practices in handling a large number of student loans. Increase in Navient's financing costs subject to substantial volatility in capital markets concerns. Further, capital deployment activities seem unsustainable. Also, rising expenses might impact bottom-line expansion to some extent.

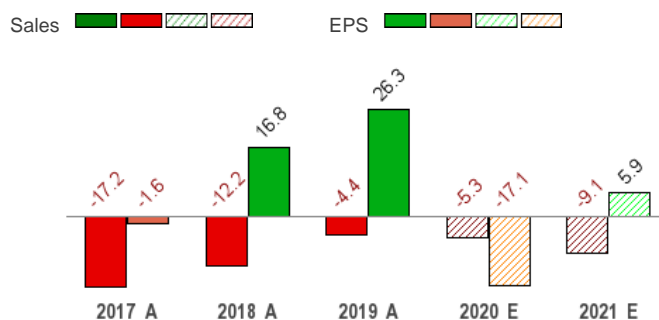
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.67 - \$4.07
20 Day Average Volume (sh)	2,130,810
Market Cap	\$1.5 B
YTD Price Change	-42.5%
Beta	1.88
Dividend / Div Yld	\$0.64 / 8.1%
Industry	Financial - Consumer Loans
Zacks Industry Rank	Bottom 6% (238 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-29.2%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	-12.1%
Expected Report Date	07/28/2020
Earnings ESP	2.1%
P/E TTM	3.1
P/E F1	3.6
PEG F1	1.2
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	297 E	300 E	298 E	305 E	1,020 E
2020	297 A	285 E	274 E	266 E	1,122 E
2019	285 A	293 A	312 A	294 A	1,185 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.42 E	\$0.42 E	\$0.68 E	\$0.59 E	\$2.32 E
2020	\$0.51 A	\$0.48 E	\$0.52 E	\$0.49 E	\$2.19 E
2019	\$0.55 A	\$0.74 A	\$0.62 A	\$0.67 A	\$2.64 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 06/02/2020. The reports text is as of 06/03/2020.

Overview

Headquartered in Wilmington, DE, Navient is a leading provider of education loan management and business processing solutions for education, healthcare, and government clients at the federal, state and local levels. Navient is one of the four large servicers to the U.S. Department of Education ("ED") under its Direct Student Loan Program (DSLP).

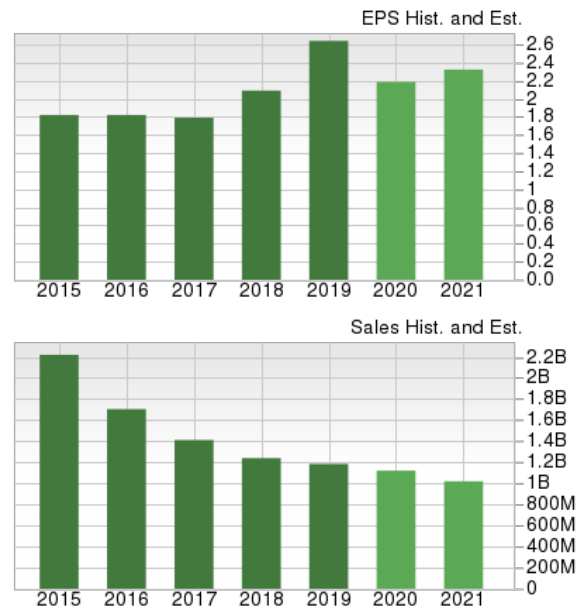
In fourth-quarter 2017, Navient entered the Private Education Refinance Loan origination market, following which, the company reports through the following business segments:

- **Federal Education Loans:** In this segment, the company holds and acquires the Federal Family Education Loan Program (FFELP) loans and performs servicing and asset recovery services on its own loan portfolio, federal education loans owned by the U.S. Department of Education and other institutions.
- **Consumer Lending:** Under this segment, the company holds, originates and acquires consumer loans and performs servicing activities in its own loan portfolio. Originations and acquisitions leverage its servicing scale and generate incremental earnings and cash flow.
- **Business Processing:** In this segment, Navient performs business processing services for non-education related government and health care clients. The company provides services to more than 600 clients in the health care and public sectors.
- **Other Segment:** This segment mainly comprises activities such as corporate liquidity portfolio and the repurchase of debt, unallocated overhead (corporate overhead and certain information technology costs), restructuring/other reorganization expenses, regulatory-related costs, etc.

In November 2017, Navient acquired Earnest, a financial technology company in an all cash deal. On completion, it took over education refinancing loans of more than \$500 million.

In August 2017, Navient acquired Duncan Solutions in order to expand presence in the municipal and toll services market.

As of Mar 31, 2020, Navient had total assets of \$93.2 billion, FFELP loans of \$62.5 billion and private education loan of \$22.3 billion.



Reasons To Sell:

- ▼ We remain cautious owing to limited growth opportunities for Navient. Following the 2010 reform law, DSLP of the ED originates all federal student loans. As a result of this legislation, Navient's interest income on its FFELP loan portfolio and fee-based revenue from servicing that portfolio and third-party FFELP loans will gradually decrease as existing FFELP loans are paid down, refinanced or repaid after default by guarantors. If Navient fails to acquire new loans or expand or develop alternative sources of revenue to replace or enhance its declining revenue from FFELP loan portfolio, its top line will be under pressure.
- ▼ Higher expenses remain another concern for Navient. Though operating expenses (on a core basis) declined in the first three months of 2020, it witnessed a CAGR of 1% over the last three years (ended 2019). Substantial volatility in the capital markets could increase Navient's financing costs. Further, as per the Separation and Distribution Agreement, Navient Corporation stands liable for payment of all regulatory orders, except the penalty charges that are directly imposed on Sallie Mae Bank. Additionally, Navient is struggling with several litigation issues amid the heightened regulatory scrutiny over alleged anti-consumer practices in the U.S. student loan industry.
- ▼ As of Mar 31, 2020, the company held debt worth \$89.7 billion and cash and cash equivalents worth \$1.1 billion. Though debt level has witnessed a fall when compared with the past few quarters, its debt-capital ratio, currently 0.98, compares unfavorably with the industry's average of 0.68. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe that Navient carries credit risk and higher likelihood of default of interest, and debt repayments if the economic situation worsens.
- ▼ Navient's capital deployment activities keep us apprehensive. The company last declared a 7% hike in its quarterly dividend in January 2015. Also, in October 2019, the company approved an additional share buyback program of up to \$1 billion with immediate effect in addition to the \$77-million unused buyback authorization that was approved in September 2018. However, Navient's debt/equity ratio seems unfavorable compared with its industry average. Hence, we believe that the company's capital deployment activities might not be sustainable in the long term.
- ▼ Interest earned on FFELP loans and private education loans is primarily indexed to 1-month LIBOR rates and either 1-month LIBOR rates or the 1-month Prime rate, respectively, whereas the cost of funds is primarily indexed to 3-month LIBOR rates. This leads to re-pricing risks related to these assets. In a gradually rising interest rate environment, this difference in timing may create pressure on net interest margin for FFELP and private education loans. On the other hand, relatively higher interest rates will lower Navient's floor income.
- ▼ Shares of Navient have underperformed the industry over the past six months. With the unfavorable trend, the company's current-year earnings estimates have been revised 12% downward over the past 30 days. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

Navient's top-line faces potential threat from lack of access to new loans and alternative sources of revenue. Ongoing litigation issues are an added concern. Also, rising costs are a headwind.

Risks

- Following its separation from SLM Corporation in 2014, Navient continues to be the biggest portfolio holder of Private Education Loans and education loans insured or guaranteed under the FFELP. Further, Navient is a leading servicer of education loans. Also, the company remains focused on introducing new products leveraged with technology. The economic recovery and declining unemployment rate should further enhance its business prospects. Particularly, the specialized focus post split will be advantageous to Navient.
 - Navient seems on track with initiatives that lays the foundation for independent growth. Strengthening its asset recovery and business process outsourcing capabilities, the company has entered into a number of acquisitions since 2015. In November 2017, it acquired Earnest, a financial technology and education-finance company serving consumers unable to get finance from traditional banks. We remain encouraged as the company is focused on growth opportunities to boost overall business.
 - Navient seems undervalued as its price-to-book (P/B) and price-to-earnings (P/E) (F1) ratios are below the respective industry averages. Also, it has a Value Score of B.
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Last Earnings Report

Navient Q1 Earnings Lag Estimates as Revenues Fall

Navient reported first-quarter 2020 adjusted core earnings per share of 51 cents that missed the Zacks Consensus Estimate of 72 cents. Also, the bottom line was lower than the year-ago quarter figure of 58 cents.

Core earnings excluded the impacts of certain other one-time items, including restructuring and regulatory-related expenses.

First-quarter results of Navient were affected by lower net interest income and fee income. Also, rise in provisions was a headwind. However, private education loans rose. Moreover, year-over-year stable expenses provided some support.

GAAP net loss for the quarter was \$106 million or 53 cents per share against net income of \$128 million or 52 cents per share in the year-ago quarter.

NII and Fee Income Fall, Provisions Rise (on core earnings basis)

Net interest income (NII) dipped 1% year over year to \$297 million.

Non-interest income declined 16.7% to \$175 million. The fall was mainly attributed to lower asset recovery and business processing along with servicing revenues.

Provision for loan losses climbed nearly 25% to \$95 million.

Total expenses remained almost stable at \$256 million compared with the year-ago quarter. Lower operating expenses were offset by rise in restructuring costs.

Segment Performance

Federal Education Loans: The segment generated core earnings of \$119 million, down 6.3% year over year. Lower revenues, partly muted by a fall in expenses, posed as a headwind.

As of Mar 31, 2020, the company's FFELP loans were \$62.5 billion, down 3.2% sequentially.

Consumer Lending: The segment reported core earnings of \$54 million, down 16.9% year over year. Higher provisions and lower revenues were the negatives. Net interest margin was 3.31%, down 9 basis points.

Private education loan delinquencies of 30 days or more of \$769 million were down \$372 million from the prior-year quarter.

As of Mar 31, 2020, the company's private education loans totaled \$22.3 billion, up marginally from the prior quarter.

Business Processing: The segment reported core earnings of \$2 million compared with \$10 million in the year-ago quarter. Lower expenses were partially offset by a fall in revenues.

Source of Funding and Liquidity

In order to meet liquidity needs, Navient expects to utilize various sources, including cash and investment portfolio, issuance of additional unsecured debt, repayment of principal on unencumbered student-loan assets, and distributions from securitization trusts (including servicing fees). It might also issue term asset-backed securities ("ABS").

During the reported quarter, Navient issued \$1.9 billion in term ABS and \$700 million in unsecured debt.

Capital Deployment Activities

In the first quarter, the company repurchased 23 million common shares.

2020 Outlook (core earnings basis i.e., excluding expenses associated with regulatory costs and restructuring expenses)

Management expects defaults in both private and FFELP portfolios to be significantly lower in 2020 than that expected at the start of the year.

The company expects charge-offs during the remaining months of 2020 to be lower than 2019, given the increased use of payment relief options.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	3.48%
EPS Surprise	-29.17%
Quarterly EPS	0.51
Annual EPS (TTM)	2.54

Recent News

Dividend Update

On May 21, Navient declared second-quarter 2020 common stock dividend of 16 cents per share. The dividend will be paid on Jun 19 to shareholders on record as of Jun 5.

Valuation

Navient's shares are down 41.6% in the year-to-date period and 40.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 30.6% and 20.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 26.1% and 12.5%, respectively.

The S&P 500 Index is down 4.4% in the year-to-date period but up 10% in the past year.

The stock is currently trading at 3.5X forward 12 months earnings, which compares to 14.4X for the Zacks sub-industry, 16.33X for the Zacks sector and 22.11X for the S&P 500 Index.

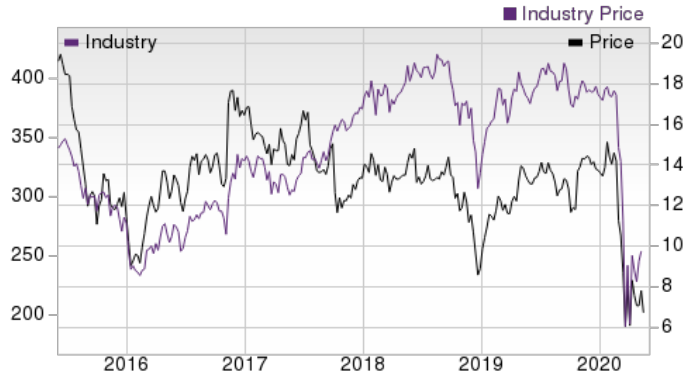
Over the past five years, the stock has traded as high as 9.17X and as low as 1.6X, with a 5-year median of 6.71X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$7 price target reflects 2.98X forward earnings.

The table below shows summary valuation data for NAVI

Valuation Multiples - NAVI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.5	14.4	16.33	22.11
	5-Year High	9.17	14.4	16.33	22.11
	5-Year Low	1.6	4.39	11.57	15.23
	5-Year Median	6.71	8.73	13.96	17.49
P/TB TTM	Current	1.21	0.79	3.21	12.03
	5-Year High	2.24	1.57	4	12.77
	5-Year Low	0.43	0.47	2	5.97
	5-Year Median	1.29	1.2	3.47	9.27
P/S F12M	Current	1.41	1	5.8	3.44
	5-Year High	3.94	2	6.69	3.44
	5-Year Low	0.88	0.72	4.98	2.53
	5-Year Median	2.78	1.5	6.06	3.02

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (238 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ally Financial Inc. (ALLY)	Neutral	4
Citizens Financial Group, Inc. (CFG)	Neutral	3
MR. COOPER GROUP INC (COOP)	Neutral	4
First Cash, Inc. (FCFS)	Neutral	4
PROVIDENT FIN (FPLPY)	Neutral	3
Santander Consumer USA Holdings Inc. (SC)	Neutral	3
SLM Corporation (SLM)	Neutral	5
Discover Financial Services (DFS)	Underperform	4

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	NAVI	X Industry	S&P 500	ALLY	DFS	SC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	3
VGM Score	B	-	-	D	D	C
Market Cap	1.52 B	522.10 M	22.11 B	6.99 B	16.05 B	5.72 B
# of Analysts	3	2	14	3	9	6
Dividend Yield	8.14%	0.00%	1.93%	4.06%	3.36%	4.94%
Value Score	B	-	-	B	B	A
Cash/Price	2.61	0.77	0.06	0.95	0.77	0.47
EV/EBITDA	99.69	6.10	12.69	6.10	6.57	9.44
PEG Ratio	1.23	0.46	2.98	NA	5.40	NA
Price/Book (P/B)	0.74	0.86	3.07	0.52	1.76	1.11
Price/Cash Flow (P/CF)	2.73	3.23	11.86	2.35	5.53	2.08
P/E (F1)	3.70	9.89	21.79	37.69	27.49	NA
Price/Sales (P/S)	0.30	0.83	2.29	1.13	1.14	0.72
Earnings Yield	27.86%	6.28%	4.39%	2.67%	3.65%	-0.73%
Debt/Equity	39.70	2.30	0.76	2.30	2.87	7.82
Cash Flow (\$/share)	2.88	4.49	7.01	7.96	9.48	8.57
Growth Score	C	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	6.79%	10.98%	10.87%	15.39%	12.65%	1.28%
Proj. EPS Growth (F1/F0)	-17.17%	-38.76%	-10.74%	-86.65%	-79.01%	-104.37%
Curr. Cash Flow Growth	12.54%	17.70%	5.48%	-1.59%	7.14%	20.07%
Hist. Cash Flow Growth (3-5 yrs)	-5.09%	9.07%	8.55%	-4.75%	4.70%	25.86%
Current Ratio	10.48	3.42	1.29	0.99	1.26	63.41
Debt/Capital	97.54%	68.95%	44.75%	69.68%	72.97%	88.66%
Net Margin	7.24%	8.29%	10.59%	16.46%	15.39%	9.32%
Return on Equity	18.83%	13.91%	16.29%	6.92%	20.38%	10.95%
Sales/Assets	0.05	0.24	0.55	0.03	0.13	0.17
Proj. Sales Growth (F1/F0)	-5.28%	0.00%	-2.67%	-6.62%	-5.21%	0.12%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	2.48%	0.69%	0.99%	1.57%	5.12%	-0.61%
1 Week Price Chg	6.74%	2.77%	4.60%	9.75%	17.40%	6.85%
4 Week Price Chg	9.32%	10.39%	9.15%	25.30%	27.47%	17.96%
12 Week Price Chg	-21.32%	-15.59%	4.65%	-16.47%	-9.19%	-16.28%
52 Week Price Chg	-41.17%	-29.22%	-0.30%	-37.27%	-32.16%	-23.21%
20 Day Average Volume	2,130,810	302,085	2,486,038	5,862,365	5,041,031	992,295
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-4.88%	0.00%
(F1) EPS Est 4 week change	-12.06%	-1.75%	-0.33%	24.17%	-3.54%	-259.57%
(F1) EPS Est 12 week change	-29.33%	-37.21%	-16.13%	-88.33%	-78.66%	-104.52%
(Q1) EPS Est Mthly Chg	-8.57%	-7.69%	-0.55%	12.65%	-20.35%	-54.55%

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	C
Momentum Score	D
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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