Jan 23, 2020

Navient Corporation (NAVI)

$15.18 (As of 01/22/20)

Price Target (6-12 Months): **$16.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/04/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: D | Momentum: A	**2-Buy** VGM:B

Summary

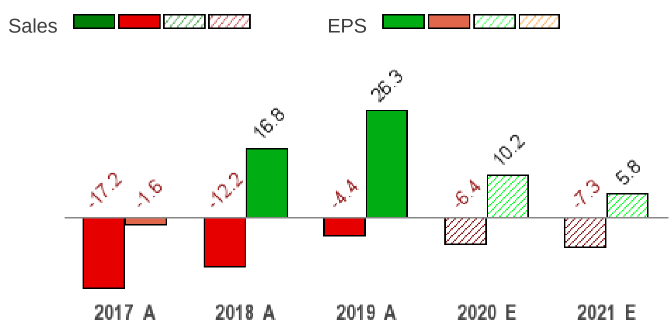
Shares of Navient have outperformed the industry, over the past six months. Also, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Fourth-quarter results benefited from lower costs and provisions, partially offset by fall in interest income. It remains focused on leveraging asset recovery & processing businesses in order to boost the top line. It continues to deploy technology platform and digital marketing tools to attract originations that bode well for financials. Also, improving economy and declining unemployment rate are expected to provide support. However, it continues to struggle with regulatory claims and litigation burden due to practices in handling large number of student loans. Further, its capital deployment activities seem unsustainable.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$15.67 - $10.80**
20 Day Average Volume (sh)	**1,492,521**
Market Cap	**$3.4 B**
YTD Price Change	**11.0%**
Beta	**2.13**
Dividend / Div Yld	**$0.64 / 4.2%**
Industry	**Financial - Consumer Loans**
Zacks Industry Rank	**Top 44% (112 out of 255)**
Last EPS Surprise	**17.5%**
Last Sales Surprise	**-1.5%**
EPS F1 Est- 4 week change	**0.7%**
Expected Report Date	**04/28/2020**
Earnings ESP	**-12.6%**
P/E TTM	**5.9**
P/E F1	**5.2**
PEG F1	**1.7**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					1,028 E
2020	274 E	252 E	275 E	287 E	1,109 E
2019	285 A	293 A	312 A	294 A	1,185 A

EPS Estimates

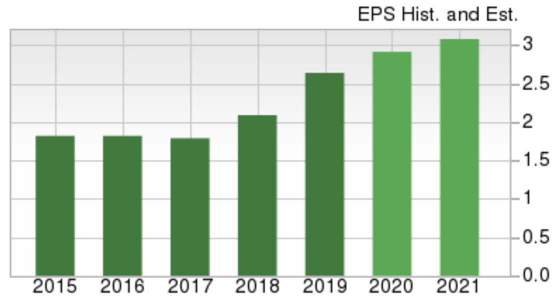
	Q1	Q2	Q3	Q4	Annual*
2021					$3.08 E
2020	$0.68 E	$0.65 E	$0.78 E	$0.85 E	$2.91 E
2019	$0.55 A	$0.74 A	$0.62 A	$0.67 A	$2.64 A

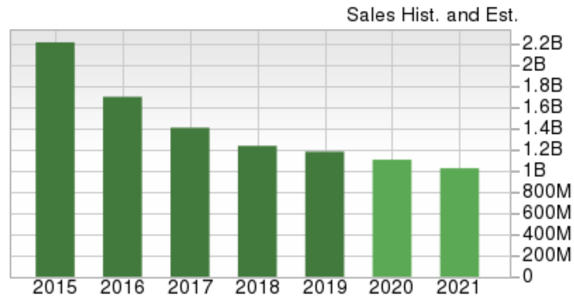
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

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 Dec 31, 2019, Navient had $94.9 billion in total assets, FFELP loans of $64.6 billion and private education loan of $22.2 billion.

Reasons To Buy:

Navient's focus on tapping growth opportunities will likely boosts overall business performance. Further, improving economy and declining unemployment rate should provide support to the company.

- 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.

- Shares of Navient have outperformed the industry over the past six months. With this favorable trend, the company's current-year earnings estimates have been revised slightly upward over the past 30 days. Furthermore, the stock 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 A. Therefore, given the progress on fundamentals and positive estimates revision, the stock has upside potential.

Reasons To Sell:

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.

- 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. Operating expenses (on a core basis) 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.

- 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.

Last Earnings Report

Navient Q4 Earnings Top Estimates as Expenses Decline

Quarter Ending	12/2019
Report Date	Jan 21, 2020
Sales Surprise	-1.45%
EPS Surprise	17.54%
Quarterly EPS	0.67
Annual EPS (TTM)	2.58

Navient pulled off a positive earnings surprise of 17.5% in fourth-quarter 2019. Adjusted core earnings per share of 67 cents surpassed the Zacks Consensus Estimate of 57 cents. Also, the bottom line came in higher than the year-ago quarter figure of 58 cents.

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

Fourth-quarter results of Navient benefited from a fall in expenses and provisions. Further, private education loans jumped. However, lower net interest income was a key headwind. Moreover, year-over-year decline in other income was a drag.

GAAP net income for the quarter was $171 million or 78 cents per share compared with $72 million or 28 cents per share in the year-ago quarter.

For full-year 2019, the company reported GAAP net income of $597 million or $2.56 per share compared with $395 million or $1.49 a year ago.

NII and Fee Income Fall, Expenses Decline (on core earnings basis)

Net interest income (NII) dipped nearly 1% year over year to $310 million.

Non-interest income declined 12.9% to $176 million. The fall was chiefly attributed to lower servicing revenues.

Provision for loan losses plunged nearly 42% to $50 million.

Total expenses declined 7.4% to $237 million from the year-ago quarter. Lower operating expenses supported this decline.

Segment Performance

Federal Education Loans: The segment generated core earnings of $136 million, down 7.5% year over year. Lower revenues, partly muted by stable expenses, posed as a headwind.

During the reported quarter, Navient acquired FFELP loans of $280 million. As of Dec 31 2019, the company's FFELP loans were $64.6 billion, down 2.3% sequentially.

Consumer Lending: The segment reported core earnings of $89 million, up 34.8% year over year. Lower provisions and higher revenues were the positives. Net interest margin was 3.32%, up 3 basis points.

Private education loan delinquencies of 30 days or more of $1 billion were down $290 million from the prior-year quarter.

As of Dec 31, 2019, the company's private education loans totaled $22.2 billion, up 1.8% from prior quarter.

Business Processing: The segment reported core earnings of $8 million compared with $7 million in the year-ago quarter. Lower expenses were partially offset by 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 $1.7 billion in term ABS.

Capital Deployment Activities

In the fourth quarter, Navient repurchased 5.8 million common shares. In full-year 2019, the company repurchased 34.5 million shares.

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

Management plans to achieve net interest margin in federal education loan segment to be low to mid 80's basis points. Also, charge-off rate in the segment is expected to be 0.06-0.08%.

Net interest margin in consumer lending segment is expected to be 3-3.10%. Also, charge-off rate in the segment is estimated to be 1.5-1.7%.

EPS is expected to be in the range of $3-$3.10. Also, return on equity is likely to be in high teens or low 20s.

In Business Processing segment EBITDA margins in the high teens is expected.

Efficiency ratio is likely to be around 50%.

Recent News

Dividend Update

On Nov 14, Navient declared fourth-quarter 2019 common stock dividend of 16 cents per share. The dividend was paid on Dec 20 to shareholders on record as of Dec 6.

Valuation

Navient Corporation's shares are up 36.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 26.4% and 12.1% over the past year, respectively.

The S&P 500 index is up 25% in the past year.

The stock is currently trading at 5.4X forward 12 months earnings, which compares to 8.36X for the Zacks sub-industry, 14.68X for the Zacks sector and 19.14X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.12X and as low as 4.19X, with a 5-year median of 6.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $16 price target reflects 5.69X 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	5.4	8.36	14.68	19.14
	5-Year High	10.12	10.85	16.21	19.34
	5-Year Low	4.19	6.33	12.01	15.17
	5-Year Median	6.93	8.89	13.98	17.44
P/TB TTM	Current	1.39	1.17	3.3	12.72
	5-Year High	2.36	1.55	3.98	12.75
	5-Year Low	0.75	0.96	2.44	6.03
	5-Year Median	1.33	1.22	3.46	9.09
P/S F12M	Current	3.04	1.48	6.53	3.56
	5-Year High	4.56	2.05	6.61	3.56
	5-Year Low	1.68	1.1	5.2	2.54
	5-Year Median	2.84	1.52	6.04	3

As of 01/22/2020

Industry Analysis **Zacks Industry Rank:** Top 44% (112 out of 255)

Top Peers

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

Industry Comparison Industry: Financial - Consumer Loans

Industry Peers

	NAVI Neutral	X Industry	S&P 500	ALLY Neutral	DFS Neutral	SC Underperform
VGM Score	B	-	-	B	A	B
Market Cap	3.36 B	996.04 M	24.65 B	12.28 B	26.75 B	8.07 B
# of Analysts	5	2	13	7	8	7
Dividend Yield	4.22%	0.00%	1.77%	2.10%	2.06%	3.71%
Value Score	A	-	-	A	A	A
Cash/Price	1.39	0.29	0.04	0.31	0.23	0.29
EV/EBITDA	140.54	8.58	13.98	8.58	10.08	1.52
PEG Ratio	1.74	0.65	2.05	0.61	1.21	1.67
Price/Book (P/B)	1.00	1.10	3.38	0.87	2.40	1.10
Price/Cash Flow (P/CF)	5.27	6.13	13.60	4.34	10.10	3.52
P/E (F1)	5.22	7.35	19.07	7.62	9.00	8.37
Price/Sales (P/S)	0.61	1.40	2.69	1.92	1.93	1.04
Earnings Yield	19.17%	13.12%	5.24%	13.12%	11.11%	11.97%
Debt/Equity	24.40	1.65	0.72	2.47	2.19	0.00
Cash Flow ($/share)	2.88	2.94	6.94	7.45	8.45	6.75
Growth Score	D	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	2.90%	10.75%	10.60%	17.19%	12.36%	-0.53%
Proj. EPS Growth (F1/F0)	10.38%	8.39%	7.53%	14.02%	4.68%	0.05%
Curr. Cash Flow Growth	12.54%	26.38%	13.90%	4.27%	20.79%	35.94%
Hist. Cash Flow Growth (3-5 yrs)	-15.64%	5.02%	9.00%	5.70%	3.97%	36.75%
Current Ratio	10.38	2.25	1.22	1.05	1.28	0.79
Debt/Capital	96.06%	61.80%	42.99%	71.20%	67.61%	0.00%
Net Margin	10.80%	12.28%	11.21%	26.82%	20.97%	12.33%
Return on Equity	18.15%	13.80%	17.16%	10.40%	26.79%	13.20%
Sales/Assets	0.06	0.24	0.55	0.04	0.13	0.17
Proj. Sales Growth (F1/F0)	-6.33%	4.98%	4.08%	5.16%	4.81%	6.86%
Momentum Score	A	-	-	B	A	D
Daily Price Chg	9.52%	0.58%	-0.04%	6.77%	1.98%	2.68%
1 Week Price Chg	3.28%	1.84%	2.29%	1.67%	2.13%	1.23%
4 Week Price Chg	8.97%	0.34%	2.05%	5.28%	0.07%	0.42%
12 Week Price Chg	9.05%	4.66%	6.92%	3.52%	5.16%	-8.41%
52 Week Price Chg	36.63%	4.67%	21.50%	26.81%	28.99%	27.72%
20 Day Average Volume	1,492,521	169,675	1,518,423	3,404,492	1,367,059	698,286
(F1) EPS Est 1 week change	3.55%	0.00%	0.00%	0.47%	0.00%	0.25%
(F1) EPS Est 4 week change	0.74%	0.00%	0.00%	0.47%	0.08%	-2.07%
(F1) EPS Est 12 week change	7.73%	-0.24%	-0.23%	-0.24%	-0.50%	-5.95%
(Q1) EPS Est Mthly Chg	2.27%	0.00%	0.00%	0.00%	0.22%	-8.91%

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	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.