

Navient Corporation (NAVI)

\$8.03 (As of 03/27/20)

Price Target (6-12 Months): **\$9.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: F

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. 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 financials. 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. Also, consistently rising expenses might impact bottom line expansion to some extent. Nevertheless, improving economy and declining unemployment rate are expected to provide support.

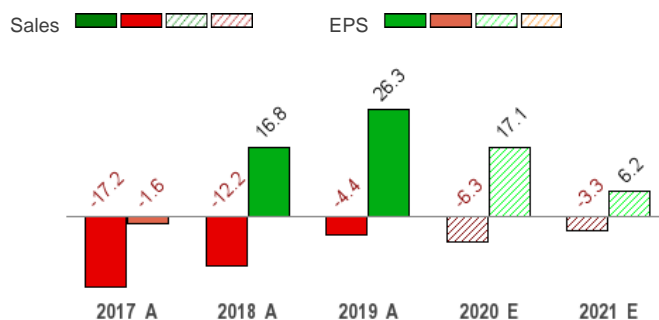
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$15.67 - \$4.07
20 Day Average Volume (sh)	4,453,934
Market Cap	\$1.6 B
YTD Price Change	-41.3%
Beta	2.16
Dividend / Div Yld	\$0.64 / 8.0%
Industry	Financial - Consumer Loans
Zacks Industry Rank	Top 5% (12 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.5%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/28/2020
Earnings ESP	0.0%
P/E TTM	3.1
P/E F1	2.6
PEG F1	0.9
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	314 E	253 E	259 E	260 E	1,073 E
2020	284 E	270 E	281 E	275 E	1,110 E
2019	285 A	293 A	312 A	294 A	1,185 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.71 E	\$0.67 E	\$0.78 E	\$0.70 E	\$3.28 E
2020	\$0.71 E	\$0.73 E	\$0.80 E	\$0.75 E	\$3.09 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 03/27/2020. The reports text is as of 03/30/2020.

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).

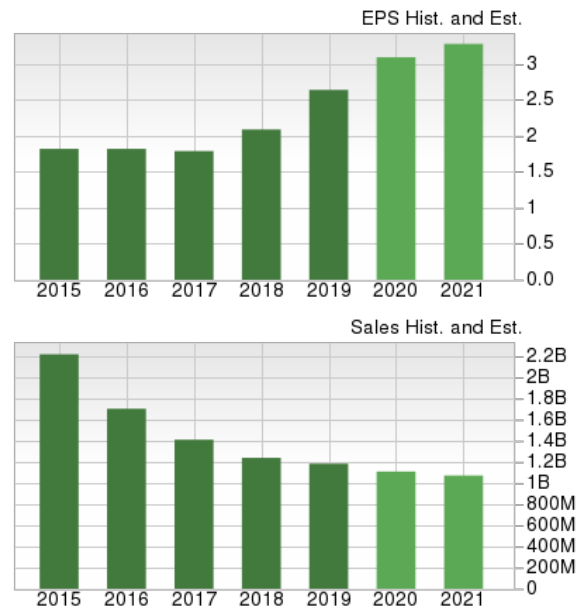
In fourth-quarter 2017, Navient entered the Private Education Refinance Loan origination market, following which, the company reports through the following business segments:

- **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:

- ▲ 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 3.7% upward over the past 60 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 B. Therefore, given the progress on fundamentals and positive estimates revision, the stock has upside potential.

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.

Risks

- 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.
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Last Earnings Report

Navient Q4 Earnings Top Estimates as Expenses Decline

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%.

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

Recent News

Dividend Update

On Feb 18, Navient declared first-quarter 2020 common stock dividend of 16 cents per share. The dividend was paid on Mar 20 to shareholders on record as of Mar 6.

Valuation

Navient's shares are down 41.3% in the year-to-date period and 33.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 44.4% and 29.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is down 37.3% and 22.7%, respectively.

The S&P 500 Index is down 21.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 2.56X forward 12 months earnings, which compares to 4.67X for the Zacks sub-industry, 11.05X for the Zacks sector and 15.48X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 9.2X and as low as 1.6X, with a 5-year median of 6.84X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$9 price target reflects 2.94X 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	2.56	4.67	11.05	15.48
	5-Year High	9.2	10.82	16.21	19.34
	5-Year Low	1.6	4.67	11.05	15.18
	5-Year Median	6.84	8.77	13.97	17.42
P/TB TTM	Current	0.68	0.63	2.31	9.59
	5-Year High	2.36	1.57	3.98	12.78
	5-Year Low	0.43	0.49	1.97	6.02
	5-Year Median	1.31	1.21	3.46	9.14
P/S F12M	Current	1.41	0.8	5.99	2.76
	5-Year High	4.22	2.07	6.64	3.43
	5-Year Low	0.88	0.8	5.38	2.54
	5-Year Median	2.82	1.51	6.04	3

As of 03/27/2020

Industry Analysis Zacks Industry Rank: Top 5% (12 out of 254)



Top Peers

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

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	NAVI Outperform	X Industry	S&P 500	ALLY Neutral	DFS Neutral	SC Neutral
VGM Score	D	-	-	C	B	A
Market Cap	1.55 B	607.38 M	17.63 B	5.90 B	11.84 B	5.04 B
# of Analysts	5	2.5	13	4	9	7
Dividend Yield	7.97%	0.00%	2.41%	4.82%	4.58%	5.92%
Value Score	B	-	-	A	A	A
Cash/Price	3.26	0.65	0.07	0.81	0.89	0.55
EV/EBITDA	100.24	6.42	10.81	6.96	6.50	9.14
PEG Ratio	0.87	0.36	1.69	0.23	0.72	2.81
Price/Book (P/B)	0.53	0.70	2.35	0.42	1.07	0.69
Price/Cash Flow (P/CF)	2.79	2.83	9.47	1.98	4.05	1.74
P/E (F1)	2.60	4.40	14.74	3.71	4.38	5.63
Price/Sales (P/S)	0.28	0.75	1.89	0.92	0.85	0.64
Earnings Yield	38.48%	22.76%	6.73%	26.95%	22.83%	17.75%
Debt/Equity	24.40	1.87	0.70	2.36	2.28	5.36
Cash Flow (\$/share)	2.88	4.49	7.01	7.96	9.48	8.57
Growth Score	F	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	4.72%	12.44%	10.85%	17.52%	13.70%	0.79%
Proj. EPS Growth (F1/F0)	17.20%	9.24%	2.89%	14.18%	-3.37%	-7.64%
Curr. Cash Flow Growth	12.54%	18.19%	5.93%	-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	10.68	3.20	1.23	1.03	1.30	62.53
Debt/Capital	96.06%	65.09%	42.57%	70.24%	68.43%	84.26%
Net Margin	10.80%	12.62%	11.64%	26.82%	20.94%	12.66%
Return on Equity	18.15%	16.68%	16.74%	10.35%	26.59%	13.64%
Sales/Assets	0.06	0.24	0.54	0.04	0.13	0.17
Proj. Sales Growth (F1/F0)	-6.25%	3.85%	2.37%	5.17%	4.30%	8.49%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	-0.50%	-3.94%	-3.35%	-8.15%	-7.91%	-7.58%
1 Week Price Chg	-30.80%	-26.68%	-16.96%	-43.12%	-51.22%	-42.03%
4 Week Price Chg	-28.84%	-32.74%	-18.79%	-37.89%	-41.96%	-41.91%
12 Week Price Chg	-41.19%	-39.69%	-25.68%	-48.67%	-54.97%	-36.62%
52 Week Price Chg	-31.54%	-34.92%	-17.12%	-42.19%	-45.69%	-29.02%
20 Day Average Volume	4,453,934	412,601	4,286,768	8,347,704	5,845,665	2,281,536
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.03%	-2.28%	0.32%	-1.07%	-0.93%
(F1) EPS Est 12 week change	6.97%	-0.23%	-3.22%	0.62%	-6.56%	-5.28%
(Q1) EPS Est Mthly Chg	0.00%	-0.12%	-1.60%	-1.49%	-0.12%	-0.25%

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	F
VGM Score	D

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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