

Northern Trust Corp (NTRS)

\$79.28 (As of 08/04/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Shares of Northern Trust have outperformed the industry in the past three months. Also, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Second-quarter results reflect fee income strength and higher assets, partly muted by a surge in provisions and expenses. The company continues to gain from strong wealth-management operations and diversified products along with the implementation of the Target2-Securities strategy. Also, strong capital position and efforts to improve productivity keep Northern Trust well-poised for growth. Further, improving credit quality is a tailwind. However, increasing expenses on account of investments in technology and personnel costs keep hurting financials. Also, a decline in loan balances puts the top line under pressure.

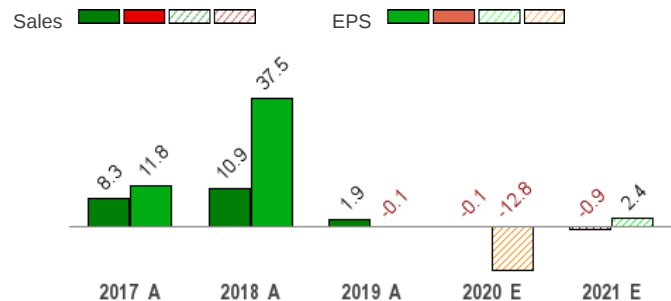
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$110.46 - \$60.67
20 Day Average Volume (sh)	1,317,872
Market Cap	\$16.5 B
YTD Price Change	-25.4%
Beta	1.06
Dividend / Div Yld	\$2.80 / 3.5%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 13% (220 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.6%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	6.8%
Expected Report Date	10/28/2020
Earnings ESP	0.0%
P/E TTM	12.4
P/E F1	13.7
PEG F1	1.4
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,476 E	1,502 E	1,514 E	1,535 E	6,008 E
2020	1,588 A	1,506 A	1,473 E	1,476 E	6,065 E
2019	1,481 A	1,507 A	1,538 A	1,548 A	6,073 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.34 E	\$1.61 E	\$1.55 E	\$1.65 E	\$5.92 E
2020	\$1.55 A	\$1.46 A	\$1.38 E	\$1.47 E	\$5.78 E
2019	\$1.48 A	\$1.75 A	\$1.69 A	\$1.70 A	\$6.63 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 08/04/2020. The reports text is as of 08/05/2020.

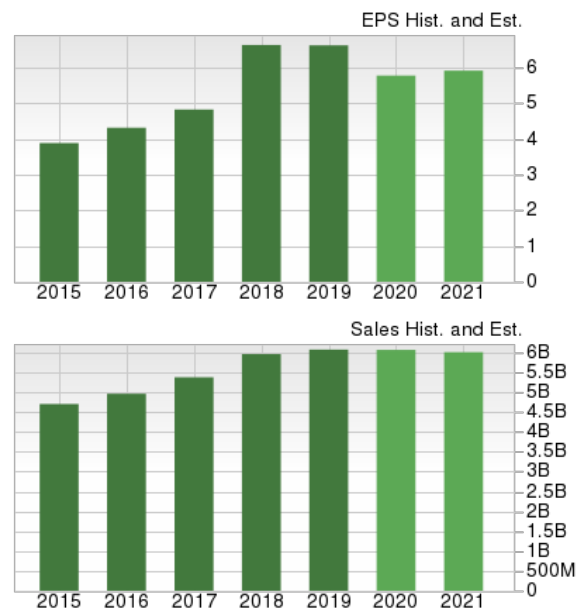
Overview

Northern Trust Corporation is the holding company for its main subsidiary, Northern Trust Company, as well as a number of other banking and non-banking financial service subsidiaries. The company's main sources of revenue include two of its primary business units: Corporate and Institutional Services (C&IS) and Wealth Management (WM). Asset management and related services to WM and C&IS clients are provided primarily by Asset Management business.

- The C&IS unit (accounted for 57% of 2019 total fees) provides asset servicing, asset management and related services to clients including corporate and public retirement funds, foundations and government funds; commercial banking services to large and mid-sized corporations and financial institutions; and foreign exchange services. As of Jun 30, 2020, total C&IS assets under custody (AUC) were \$8.5 trillion and assets under management (AUM) were \$954 billion.
- The WM division (43%) delivers customized investment management and trust services to high net worth individuals and families across 18 states of North America and Washington, D.C., as well as offices in London and Guernsey. As of Jun 30, 2020, total AUC was \$747.9 billion and total AUM was \$303.8 billion.
- Treasury and Other includes income and expense related to the wholesale funding activities and the investment portfolios of the Corporation and the Bank and nonrecurring items not allocated to C&IS and WM.

In November 2018, Northern Trust acquired Chicago-based BEX LLC — a foreign exchange software solutions provider — for \$37.6 million to strengthen its Global Foreign Exchange business. In June 2018, Northern Trust completed the acquisition of Citadel's Omnium Technology Platform. In October 2017, Northern Trust acquired UBS Asset Management's fund administration servicing units in Luxembourg and Switzerland.

As of Jun 30, 2020, the company had total assets worth \$151.4 billion, AUM of \$1.26 trillion and AUC of \$9.29 trillion.



Reasons To Buy:

- ▲ Against the backdrop of macroeconomic headwinds, Northern Trust, with heightened aggression was focused on initiating new business over the last few years. Additionally, Northern Trust's innovative technology-driven hedge fund administration capabilities brought to the marketplace via Northern Trust Hedge Fund Services clearly provides an attractive proposition to the clients. Further, implementation of the Target2-Securities (T2S) strategy to provide better services to its clients is commendable.
- ▲ Northern Trust's capital deployment activities seem impressive. The company had increased its quarterly dividend by 17% in July 2019. Also, it had a share repurchase program in place, that was suspended mid-March following the coronavirus crisis. Notably, following the announcement of 2020 stress test results, the company will be maintaining the dividend level as before and keep share repurchases suspended in the third quarter of 2020 as well. Notably, the company's debt/equity ratio compares favorably with that of the broader industry, highlighting the fact that such dividend hikes are sustainable in the future.
- ▲ Organic growth remains a key strength at Northern Trust, as reflected by its revenue growth story. Revenues witnessed a CAGR of 6.6% over the last five years (2015-2019) on rising non-interest income, with the trend continuing in the first half of 2020. We believe the company is well positioned to maintain this trend in the days to come.
- ▲ Northern Trust benefited from the rise in interest rates in the past few years. In 2016, 2017, 2018 and 2019, the net interest margin improved on a year-over-year basis, despite three rate cuts in 2019. Also, a continued rise in yields on earning assets provided support. Though margin declined in the first two quarters of 2020 on low rates, the same is likely to expand in the quarters ahead, given a decent lending scenario.
- ▲ As of Jun 30, 2020, the company holds a debt level of \$13.4 billion and cash and due from banks of \$2.4 billion. Also, debt-capital ratio of 0.31 has been increasing over the past few quarters. Nevertheless, with a gradually rising times-interest-earned ratio, currently 8.5, which indicates the company's ability to meet its debt obligations based on current income, we believe Northern Trust carries lower credit risk, and a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ For supporting the new investment activities, management is taking steps to tackle expense growth and reinstate operating leverage over the upcoming quarters. Northern Trust continues to pursue meaningful additional efforts to improve productivity and deliver financial benefits beyond original targets. In 2014, the company established internal productivity targets on both the revenue and expense side. The ultimate measure of the success of these efforts was the company's ability to consistently achieve its financial target of a return on equity between 10% and 15%. Notably, the company recorded ROE of 15% as of Jun 30, 2020.
- ▲ Though there was a sequential uptick in the third quarter of 2012, credit quality improved and continued to move toward a normalized level in 2013 and thereafter. Notably, provision for credit losses remained low in 2014, driven by an improvement in commercial and institutional along with commercial and residential real estate loans. Though provisions escalated in the first two quarters of 2020 on coronavirus concerns, it recorded a benefit in the last five years (ended 2019). We believe, with the continuation of such a favorable trend in the future, the company will be able to strengthen its earnings.
- ▲ Shares of Northern Trust have outperformed the industry in the past six months. With this favorable trend, the company's current-year earnings estimates have been revised 6.6% upward over the past 30 days. Also, the stock seems undervalued when compared with the broader industry. Its current PEG ratio is below the industry average. Also, it has a Value Score of B. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

Northern Trust remains focused on initiating new business to tackle macroeconomic headwinds. Rising revenues bolster organic growth, while no provisions boosts the company's bottom line growth.

Reasons To Sell:

- ▼ Despite successful implementation of expense reduction initiatives, costs escalated on ongoing investments in technology driving compensation and equipment and software expenses. Notably, non-interest expenses witnessed a CAGR of 6% over the last five years (2015–2019), with the increasing trend continued in the first six months of 2020. We believe an increasing trend in expenses will remain a hindrance for bottom-line growth. Notably, management exceeded the goal of realizing \$250 million in expense run-rate savings in the first quarter.
- ▼ Northern Trust's loan balances have been witnessing a declining trend, which keeps its interest income under pressure. Though loans and leases escalated in the first six months of 2020 on rising commercial and institutional, private client, and commercial real estate loans, in the last four years (ended 2019), it witnessed a negative CAGR of 2.4%. The company has recorded declines, majorly in the commercial and industrial, along with commercial and residential real estate loans, due to lack of confidence and uncertainties related to trade war and global economic slowdown prevailing in the markets. Therefore, further decline in loans might impact its top-line expansion.
- ▼ Northern Trust runs a global business. Changing conditions of the global financial markets and general economic conditions could adversely affect the company's businesses. Weak economic conditions had affected wealth creation, investment preferences, trading activities, and savings patterns, which in turn impacted demand for trust and investment products and services. Amid volatile equity markets and in the absence of a sustained recovery, reduction in transaction volumes might affect earnings in the coming quarters.

Despite cost-saving initiatives, rising expenses on account of investments in technology is likely to deter bottom-line growth. Also, declining loan balance remains a key headwind for Northern Trust.

Last Earnings Report

Northern Trust Q2 Earnings Beat Estimates, Provisions Rise

Northern Trust delivered second-quarter 2020 earnings per share of \$1.46, surpassing the Zacks Consensus Estimate of \$1.37, on higher fee income. However, the reported figure declined 16.6% year over year.

Rise in non-interest income, assets under custody and assets under management were driving factors. However, decline in net interest margin was on the downside. Moreover, escalating operating expenses and provisions were major drags.

Net income came in at \$313.3 million, down 19.5% year over year.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	1.18%
EPS Surprise	6.57%
Quarterly EPS	1.46
Annual EPS (TTM)	6.40

Revenues Stable, Costs Escalate

Total revenues of \$1.51 billion remained almost flat, year on year. The revenue figure, however, beat the Zacks Consensus Estimate of \$1.49 billion.

On a fully-taxable equivalent basis, net interest income of \$379.8 million declined 11%, year on year, mainly on lower net interest margin, partially negated by rise in average earning assets.

Net interest margin (NIM) came in at 1.22%, shrinking 39 basis points from the prior-year quarter. This decline chiefly reflects the impact of lower short-term interest rates and a balance-sheet mix shift.

Consolidated Trust, Investment and Other Servicing Fees summed \$961.5 million, up 1% year over year.

Non-interest income climbed 4% from the year-ago quarter to \$1.13 billion. Rise in trust, investment and other servicing fees, foreign-exchange trading income, treasury management fees, along with security commissions and trading income and other operating income, led to this upsurge.

Non-interest expenses flared up 3% year over year to \$1.04 billion during the April-June period. This upswing mainly resulted from an elevation in compensation, employee benefits, occupancy, equipment and software along with other expenses. These were partly muted by lower outside service expenses.

Assets Under Management and Custody

As of Jun 30, 2020, Northern Trust's total assets under custody climbed 9% year over year to \$9.3 trillion, while total assets under management increased 7% to \$1.3 trillion.

Credit Quality: A Mixed bag

Total allowance for credit losses came in at \$267 million, up 99% year over year. Net recoveries were \$2.6 million compared with the net recoveries of \$1.2 million reported in the year-ago quarter.

Provision for credit losses was \$66 million in the quarter compared with the benefit of \$6.5 million reported in the prior-year quarter. Notably, provisions flared up on the coronavirus crisis. However, non-accrual assets decreased 16.4% year over year to \$99.4 million as of Jun 30, 2020.

Strong Capital Position

Under the Advanced Approach, as of Jun 30, 2020, Tier 1 capital ratio, total capital ratio and Tier 1 leverage ratio came in at 15.2%, 16.8% and 7.6%, compared with the 14.8%, 16.5% and 8.6%, respectively, witnessed in the prior-year quarter. All ratios exceeded the regulatory requirements.

Return on average common equity was 12.2% compared with the year-earlier quarter's 15.9%. Return on average assets was 0.91% compared with the 1.34% witnessed in the year-ago quarter.

Outlook

Based on the current view of the company's balance sheet volume and LIBOR levels continuing at the current levels, third-quarter net interest income is expected to be down 13-16% on a sequential basis.

Recent News

Dividend Update

On Jul 21, Northern Trust announced a quarterly common stock dividend of 70 cents per share on its common stock. The dividend will be paid on Oct 1 to shareholders of record as of Sep 11, 2020.

Valuation

Northern Trust's shares are down 25.4% in the year-to-date period and 12% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.8% and 17.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 22.4% and 8.5%, respectively.

The S&P 500 Index is up 2.3% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 13.43X forward 12 months earnings, which compares to 13X for the Zacks sub-industry, 16.34X for the Zacks sector and 22.58X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.62X and as low as 9.14X, with a 5-year median of 15.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 14.1X forward earnings.

The table below shows summary valuation data for NTRS

Valuation Multiples - NTRS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.43	13	16.34	22.58
	5-Year High	21.62	14.2	16.34	22.58
	5-Year Low	9.14	8.01	11.59	15.25
	5-Year Median	15.66	11.3	14.21	17.55
P/TB TTM	Current	1.69	1.48	3.35	14.91
	5-Year High	2.89	2.68	4	14.91
	5-Year Low	1.45	1.21	2.01	5.96
	5-Year Median	2.29	2.11	3.48	9.55
P/S F12M	Current	2.74	2.71	6.05	3.6
	5-Year High	4.29	4.59	6.66	3.6
	5-Year Low	2.06	2.39	4.97	2.53
	5-Year Median	3.43	3.59	6.06	3.04

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank (FRC)	Outperform	3
State Street Corporation (STT)	Outperform	3
The Bank of New York Mellon Corporation (BK)	Neutral	3
Citigroup Inc. (C)	Neutral	4
HSBC Holdings plc (HSBC)	Neutral	4
JPMorgan ChaseCo. (JPM)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
U.S. Bancorp (USB)	Neutral	3

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	NTRS	X Industry	S&P 500	BK	MTB	STT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	F	F	D
Market Cap	16.50 B	31.73 B	22.75 B	31.73 B	13.35 B	22.87 B
# of Analysts	6	9	14	7	7	8
Dividend Yield	3.53%	4.37%	1.76%	3.46%	4.23%	3.20%
Value Score	B	-	-	C	F	B
Cash/Price	3.13	2.51	0.07	5.87	1.73	4.39
EV/EBITDA	-10.18	-0.84	13.09	-12.50	-0.84	-12.15
PEG Ratio	1.41	2.24	2.95	1.15	4.13	1.11
Price/Book (P/B)	1.57	0.81	3.16	0.81	0.91	1.02
Price/Cash Flow (P/CF)	8.33	6.16	12.32	6.25	6.16	6.09
P/E (F1)	13.84	13.71	21.81	9.17	11.61	10.07
Price/Sales (P/S)	2.46	1.77	2.46	1.61	2.01	1.77
Earnings Yield	7.29%	7.29%	4.40%	10.91%	8.61%	9.94%
Debt/Equity	0.49	0.88	0.76	0.74	0.43	0.70
Cash Flow (\$/share)	9.51	6.63	6.94	5.74	16.90	10.66
Growth Score	C	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	15.52%	10.96%	10.46%	9.83%	16.43%	8.29%
Proj. EPS Growth (F1/F0)	-12.79%	-45.08%	-7.16%	-2.77%	-34.83%	4.48%
Curr. Cash Flow Growth	-5.52%	2.66%	5.47%	-5.62%	5.45%	-5.72%
Hist. Cash Flow Growth (3-5 yrs)	10.90%	9.49%	8.55%	5.07%	11.65%	5.53%
Current Ratio	0.67	0.90	1.32	0.68	1.02	0.54
Debt/Capital	31.13%	44.79%	44.36%	40.12%	28.39%	38.52%
Net Margin	21.36%	18.16%	10.25%	22.31%	22.36%	20.27%
Return on Equity	14.21%	8.52%	14.67%	10.34%	10.22%	12.74%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-0.13%	-1.23%	-1.71%	-3.68%	-4.89%	-1.17%
Momentum Score	F	-	-	C	B	F
Daily Price Chg	0.00%	-0.53%	0.42%	-0.53%	-0.92%	0.92%
1 Week Price Chg	3.05%	-0.16%	0.14%	-1.05%	0.78%	2.31%
4 Week Price Chg	1.84%	5.33%	4.97%	-5.11%	5.60%	2.75%
12 Week Price Chg	8.83%	14.36%	15.30%	8.64%	9.18%	15.23%
52 Week Price Chg	-12.00%	-24.32%	2.34%	-21.14%	-32.76%	21.33%
20 Day Average Volume	1,317,872	5,921,010	2,082,836	5,921,010	814,042	2,093,238
(F1) EPS Est 1 week change	-0.37%	0.00%	0.00%	0.00%	0.00%	-0.02%
(F1) EPS Est 4 week change	6.75%	12.13%	0.93%	5.35%	18.07%	6.57%
(F1) EPS Est 12 week change	9.75%	10.49%	0.78%	6.13%	14.00%	12.70%
(Q1) EPS Est Mthly Chg	2.59%	28.00%	0.17%	-0.64%	21.83%	-4.21%

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	F
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.

Disclosures

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