

PNC Financial Services (PNC)

\$148.53 (As of 01/27/20)

Price Target (6-12 Months): **\$156.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/01/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

Shares of PNC Financial have underperformed the industry over the past six months. However, it has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in all the trailing four quarters. The fourth-quarter earnings reflect high revenues, rise in costs and provisions. The company's commitment to expand middle-market lending franchise, and expand its digital products and services offerings bode well. Moreover, execution of inorganic strategies in order to diversify revenue sources is likely to keep bolstering fee income. Also, rising loans balance keep PNC Financial well poised for growth and is likely to support NIM expansion. However, with growing business and investment in technology, the company's expense base is expected to keep escalating. Also, lack of diversification in loan portfolio is a headwind.

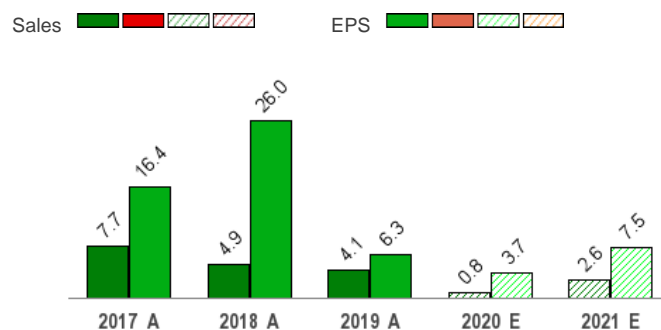
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$161.79 - \$118.70
20 Day Average Volume (sh)	2,113,070
Market Cap	\$66.1 B
YTD Price Change	-7.0%
Beta	1.15
Dividend / Div Yld	\$4.60 / 3.1%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 8% (21 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	04/10/2020
Earnings ESP	0.0%
P/E TTM	13.0
P/E F1	12.6
PEG F1	1.7
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,535 E	4,630 E	4,687 E	4,729 E	18,428 E
2020	4,394 E	4,480 E	4,541 E	4,587 E	17,962 E
2019	4,286 A	4,439 A	4,493 A	4,609 A	17,827 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.99 E	\$3.22 E	\$3.29 E	\$3.33 E	\$12.70 E
2020	\$2.72 E	\$2.95 E	\$3.04 E	\$3.11 E	\$11.81 E
2019	\$2.61 A	\$2.88 A	\$2.94 A	\$2.97 A	\$11.39 A

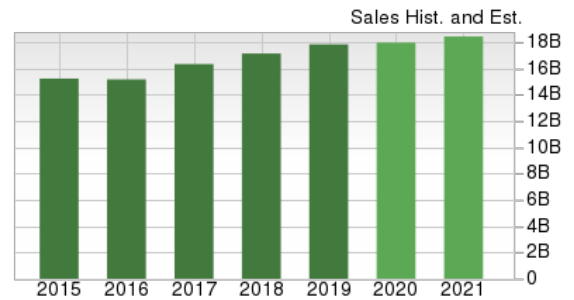
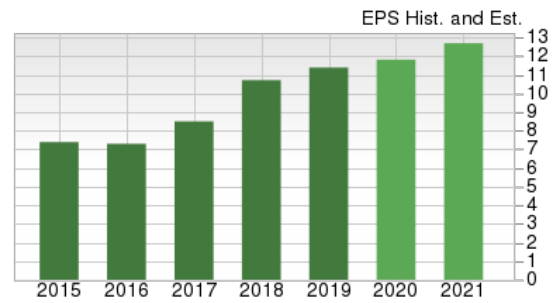
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/27/2020. The reports text is as of 01/28/2020.

Overview

Headquartered in Pittsburgh and incepted in 1983, PNC Financial Services Group Inc. provides consumer and business banking services. The group's principal subsidiary is PNC Bank. Effective from first-quarter 2017, PNC Financial reports through 4 business segments:

- **Retail Banking** (contributes 46% to total revenue in 2019) provides deposit, lending, brokerage, investment management, and cash management services to consumer and small business customers branch network, ATM's, call centers and online & mobile banking channels.
- **Corporate and Institutional Banking** (35%) provides lending, treasury management, and capital markets-related products and services to mid-sized and large corporations, government entities and not-for-profit organizations.
- **Asset Management Group** (7%) provides a wide range of wealth management products and services to individuals and their families, multi-generational family planning services to ultra-high net worth clients. Institutional Investments serves as an investment manager and trustee for companies, non-profit organizations and retirement plans across the country.
- **BlackRock** (12%) is a leading publicly traded investment management firm providing a broad range of investment and risk management services to institutional and retail clients worldwide. As of Dec 31, 2019, PNC Financial's equity investment in BlackRock was 22%.



In April 2017, PNC Financial acquired U.S.-based commercial and vendor finance business of ECN Capital Corp in an all-cash transaction valued at \$1.1 billion. Further, in December 2017, it acquired The Trout Group, LLC, an investor relations and strategic advisory firm. PNC Financial also acquired Fortis Advisors with a view to expand advisory business.



Reasons To Buy:

- ▲ PNC Financial remains committed toward developing its business through strategic initiatives. In 2017, it expanded middle-market franchise to Dallas, Kansas City and Minneapolis and has plans to target more cities in future. Also, the company continues to build its technology platform in order to serve clients better. Moreover, in 2017, PNC Financial acquired two companies, which helped strengthen its advisory services. Notably, it plans to extend the reach of middle market corporate banking franchise into new markets, and expand its retail banking brand nationally. Thus, the company's bottom line is likely to get further support, if it continues to make planned investments.
- ▲ PNC Financial's net interest margin (NIM) has benefited from the higher interest rate environment, increased yields and growth in loan balances in the past few quarters. In 2017 and 2018, the company reported a rise in NIM and net interest income (NII), after facing a volatile trend since 2009. While NII continued to rise in 2019, NIM shrunk due to three Fed interest-rate cuts in 2019. However, the growth momentum in margin is expected to continue in the quarters ahead given a decent lending scenario. Also, the company expects NII to rise 1% in 2020.
- ▲ With one of the most attractive business mixes in the banking industry, PNC Financial continues to make steady progress toward improving its non-interest income. The company's fee income has seen a four-year CAGR (2016–2019) of 5.1%. The positive trend continued mainly on increasing other non-interest revenues, along with higher fees from consumer and corporate services. Moreover, asset-management fees escalated with some annual volatility. Management believes execution of strategic initiatives will continue to drive higher fee income in the days ahead.
- ▲ PNC Financial stands solid from the balance sheet perspective. Notably, loans and deposits have witnessed a five-year CAGR (2015-2019) of 3.8% and 3.7%, respectively. Management remains particularly focused on improving its consumer deposits, as these are Liquidity Coverage Ratio-friendly and more elastic to fluctuations in price. Going forward, with improving economy and relaxed regulations, the company is likely to continue witnessing rising loans and deposits.
- ▲ Shares of PNC Financial have underperformed the industry over the past six months. Despite this unfavorable trend, the company's current-year earnings estimates have been revised slightly upward over the past 30 days. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

PNC Financial's continues to undertake strategic initiatives with support from strong balance sheet. Moreover, rising fee income and steady loan growth are expected to further benefit the company.

Reasons To Sell:

- ▼ After witnessing stable trend in the three-year period ended 2016, PNC Financial's expenses climbed at four-year CAGR (2016–2019) of 3.7%, with slight decrease in 2018. Higher levels of business activity, along with investments in technology and business infrastructure contributed to this upside. Though the company aims to fund part of its investments through continued improvement-savings program goals (\$300 million for 2020) that target cost containment, a rising expenses base is likely to continue impacting the bottom line in the near term.
- ▼ Following the approval of its 2019 capital plan, PNC Financial raised its quarterly dividend by 21% in third-quarter 2019. The approved plan also includes share repurchase program of up to \$4.3 billion for the four-quarter period beginning third-quarter 2019. In addition, recently, the company announced \$1 billion increase to share-repurchase authorization through the end of second-quarter 2020. Though PNC Financial boasts an impressive capital deployment plan, its debt/equity ratio and dividend payout ratio are unfavorable compared with the broader industry. Hence, its capital deployment activities might not be sustainable.
- ▼ Majority of PNC Financial's loan portfolio — nearly 67% as of Dec 31, 2019 — comprises total commercial loans. Such high exposure to commercial loans depicts lack of diversification, which can be risky for the company amid uncertain economy and competitive markets.

Rising cost base due to investments in technology deter PNC Financial's bottom-line expansion. Also, unsustainable capital deployment activities and lack of loan diversification remain concerns.

Last Earnings Report

PNC Financial Q4 Earnings Top Estimates on Higher Revenues

Riding on high revenues, PNC Financial reported a positive earnings surprise of 1.7% in fourth-quarter 2019. Earnings per share of \$2.97 surpassed the Zacks Consensus Estimate of \$2.92. Further, the bottom line reflects an 8% jump from the prior-year quarter's reported figure.

Higher revenues, driven by higher net interest income and escalating fee income, aided the company's results. However, rise in costs and provisions were headwinds. Moreover, lower net interest margin was another concern.

The company's net income for the quarter came in at \$1.38 billion compared with the prior-year quarter's \$1.35 billion.

For full-year 2019, earnings per share came in at \$11.39 per share, surpassing the Zacks Consensus Estimate of \$11.34. Also, earnings compared favorably with the prior-year figure of \$10.71 per share.

Segment wise, quarterly net income in Corporate & Institutional Banking and Retail banking decreased 0.3% and 11.5%, year on year, respectively. However, the Other, including the BlackRock segment, reported 5.5% rise in net income, while in Asset Management Group segment, net income more than doubled.

High Revenues Recorded, Partly Muted by Elevated Costs

For full-year 2019, the company reported revenues of \$17.8 billion, up 4.1% on a year-over-year basis. The revenue figure, however, lagged the Zacks Consensus Estimate of \$17.9 billion.

Total revenues for the reported quarter came in at \$4.6 billion, climbing 6% year over year. Additionally, the top-line figure surpassed the Zacks Consensus Estimate of \$4.5 billion.

Net interest income jumped slightly from the year-ago quarter to \$2.5 billion. Increased loan and securities balances and lower borrowing costs were mostly mitigated by reduced loan and securities yields, along with growth in deposit and borrowing balances. Yet, net interest margin contracted 18 basis points to 2.78% due to lower yields on earning assets, partially muted by lower borrowing costs.

Non-interest income was up 14% year over year to \$2.1 billion, owing to higher consumer and corporate services income, asset management income, residential mortgage and other income. This was partially muted by lower income from service charges on deposits.

PNC Financial's non-interest expenses totaled \$2.8 billion, flaring up 7% from the year-ago figure. This upsurge primarily stemmed from rise in almost all components of expenses, partly negated by lower marketing costs.

As of Dec 31, 2019, total loans were up 1% sequentially to \$239.8 billion. Also, total deposits improved 1% to \$288.5 billion.

Credit Quality: A Mixed Bag

Credit metrics were mixed in the fourth quarter. Non-performing assets were down 3% to \$1.75 billion, year over year. Net charge-offs surged 95% to \$209 million.

Provision for credit losses escalated 49% from the prior-year quarter to \$221 million. In addition, allowance for loan and lease losses was up 4% to \$2.7 billion.

Steady Capital Position

As of Dec 31, 2019, the Basel III common equity Tier 1 capital ratio, effective Jan 1, 2018, was 9.5% compared with 9.6% as of Dec 31, 2018.

Share Repurchase

For 2019, PNC Financial repurchased 25.9 million common shares for \$3.5 billion and paid \$1.9 billion as dividends. Notably, during the October-December quarter, the company repurchased 6.5 million common shares for \$1 billion. Furthermore, dividends of \$0.5 billion were distributed.

Outlook

PNC Financial has adopted CECL, the new accounting standard for credit losses, effective Jan 1, 2020. Based on management's expectation of forecasted economic conditions and portfolio balances as of Dec 31, 2019, the adoption will result in an overall increase of about \$650 million or 21% to allowance for credit losses as of Dec 31, 2019. The increase is driven by the consumer loan portfolio as longer-duration assets require more reserves under the CECL methodology. The company's consumer reserve will increase about \$900 million or 95%, while commercial reserve will decrease around \$250 million or 12%. These metrics include reserves for unfunded commitments.

First-Quarter 2020

The company expects average loans to rise about 1% on a sequential basis.

Management expects NII to decline 1% sequentially, reflecting one less day in the quarter. Fee income is expected to decline 3%. Other non-interest income is anticipated in the range of \$300-\$350 million, excluding net securities and Visa activity.

Non-interest expenses are expected to decrease in mid-single digits.

Quarter Ending **12/2019**

Report Date	Jan 15, 2020
Sales Surprise	2.90%
EPS Surprise	1.71%
Quarterly EPS	2.97
Annual EPS (TTM)	11.40

Provisions for loan loss are estimated in the range of \$225-\$300 million.

Full-Year 2020 Compared With Full-Year 2019

The company assumes continued steady growth in GDP, along with relatively stable interest rates.

Average loans are anticipated to be up 4-5%.

Management anticipates revenues to increase at the low-end of low-single digits, with NII to rise 1%.

Further, non-interest expenses are predicted to remain stable. The company expects to deliver positive operating leverage of around 1% for full-year 2020.

The effective tax rate is projected to be approximately 17.5%.

Recent News

Federated Closes Purchase of Mutual Funds Worth \$14 Billion From PNC - Nov 19, 2019

Federated Investors completed the acquisition of certain components of PNC Capital Advisors LLC's (PCA) investment-management business for \$56 million on Tuesday. Notably, Federated had signed the deal with PNC Financial to acquire the funds earlier this May.

Per the agreement, liquidity, equity and fixed-income mutual funds of PNC Financial were reorganized into respective Federated mutual funds. Further, a portion of PNC Financial's separate account and separately-managed account business was transitioned into Federated, along with a five-person Cleveland-based international equity portfolio management team. Increased assets under management furnished Federated with various new fund offerings that would benefit its clients.

Terms of the Deal

Per the deal, Federated, one of the largest investment managers, reorganized 18 PNC equity, fixed-income and liquidity mutual funds into 16 respective Federated mutual funds.

Assets worth \$14 billion were reorganized on approval by PNC fund shareholders, included \$11.3 billion in liquidity assets, \$2.3 billion in equity assets and \$450 million in fixed-income assets. Remarkably, the acquired assets to be merged into Federated's existing funds possess similar investment objectives.

For quite some time, Federated has been working with different banks to provide investment products catering to client needs. Therefore, the company's experience, along with its proficiency in providing customer service, will be opportunistic for PNC Financial funds' shareholders. Moreover, the deal's completion will enable the shareholders to access a wider array of investment products. Federated is looking forward to many such opportunities, in order to provide the best services to its clients.

"This transaction builds upon Federated's long-term relationship with PNC and provides the shareholders of the funds and other PNC customers access to Federated's diverse range of investment strategies, proven performance and extensive customer service capabilities. Federated continues to seek alliance and acquisition opportunities in the U.S. and throughout the world," said J. Christopher Donahue, president and chief executive officer of Federated Investors. "We also are pleased to offer the strong historical performance of the international funds to our customers as complements to our existing range of international equity options," Donahue further added.

PNC Financial Decreases Its Prime Lending Rate by 25 Bps - Oct 30, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, PNC Financial reduced its prime lending rate from 5% to 4.75%, with effect from Oct 31.

Dividend Update

On Jan 2, 2020, PNC Financial's board of directors announced quarterly common stock dividend of \$1.15. The dividend will be paid on Feb 5 to shareholders on record as of Jan 17.

Valuation

PNC Financial's shares are up 19.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 12.1% and 10%, over the past year, respectively.

The S&P 500 index is up 24.1% in the past year.

The stock is currently trading at 12.5X forward 12 months earnings, which compares to 11.14X for the Zacks sub-industry, 14.52X for the Zacks sector and 18.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.14X and as low as 9.58X, with a 5-year median of 12.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$156 price target reflects 13.13X forward earnings.

The table below shows summary valuation data for PNC

Valuation Multiples - PNC				
	Stock	Sub-Industry	Sector	S&P 500
Current	12.5	11.14	14.52	18.93

P/E F12M	5-Year High	17.14	13.85	16.21	19.34
	5-Year Low	9.58	9.04	12.01	15.18
	5-Year Median	12.64	11.42	13.98	17.45
	Current	1.69	2.21	3.27	12.62
P/TB TTM	5-Year High	2.13	2.68	3.98	12.75
	5-Year Low	1.15	1.44	2.44	6.03
	5-Year Median	1.64	2.11	3.46	9.09
	Current	3.68	3.82	6.53	3.52
P/S F12M	5-Year High	4.42	4.59	6.61	3.52
	5-Year Low	2.48	2.61	5.2	2.54
	5-Year Median	3.41	3.59	6.04	3
	Current				

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 8% (21 out of 255)



Top Peers

Citigroup Inc. (C)	Neutral
Fifth Third Bancorp (FITB)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
KeyCorp (KEY)	Neutral
M&T Bank Corporation (MTB)	Neutral
Regions Financial Corporation (RF)	Neutral
U.S. Bancorp (USB)	Neutral
Wells Fargo & Company (WFC)	Neutral

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	PNC Neutral	X Industry	S&P 500	FITB Neutral	MTB Neutral	USB Neutral
VGM Score	C	-	-	D	D	D
Market Cap	66.13 B	41.55 B	23.86 B	20.23 B	22.17 B	83.62 B
# of Analysts	11	8	13	11	8	12
Dividend Yield	3.10%	2.84%	1.81%	3.37%	2.62%	3.14%
Value Score	B	-	-	B	B	B
Cash/Price	0.35	0.64	0.04	0.27	0.40	0.27
EV/EBITDA	11.21	5.73	13.94	8.66	7.25	10.20
PEG Ratio	1.66	1.34	2.00	1.34	2.06	2.04
Price/Book (P/B)	1.34	1.23	3.25	1.04	1.53	1.80
Price/Cash Flow (P/CF)	10.66	10.15	13.46	8.51	11.38	11.35
P/E (F1)	12.58	11.17	18.67	9.62	12.14	12.24
Price/Sales (P/S)	3.06	2.41	2.62	2.07	3.19	3.06
Earnings Yield	7.95%	8.95%	5.35%	10.39%	8.24%	8.16%
Debt/Equity	1.22	0.87	0.72	0.77	0.48	0.86
Cash Flow (\$/share)	13.94	4.98	6.92	3.35	14.77	4.72
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	12.04%	13.58%	10.68%	13.58%	17.92%	8.14%
Proj. EPS Growth (F1/F0)	3.71%	4.17%	7.51%	6.99%	0.68%	0.79%
Curr. Cash Flow Growth	15.98%	-1.79%	13.40%	-9.51%	-7.87%	-1.79%
Hist. Cash Flow Growth (3-5 yrs)	4.83%	7.08%	8.78%	-1.28%	8.67%	3.07%
Current Ratio	0.91	0.90	1.22	0.88	1.02	0.83
Debt/Capital	55.00%	44.13%	42.92%	41.38%	30.77%	43.35%
Net Margin	24.83%	23.17%	11.39%	25.65%	27.79%	25.30%
Return on Equity	10.92%	12.11%	17.19%	10.96%	13.37%	15.23%
Sales/Assets	0.05	0.05	0.54	0.06	0.06	0.06
Proj. Sales Growth (F1/F0)	0.76%	0.74%	4.09%	-6.43%	-1.73%	1.06%
Momentum Score	B	-	-	C	D	D
Daily Price Chg	-1.23%	-1.96%	-1.40%	-1.18%	-2.02%	-0.56%
1 Week Price Chg	-1.94%	-3.24%	-1.09%	-2.07%	5.19%	-2.73%
4 Week Price Chg	-7.18%	-6.82%	-0.25%	-6.71%	-0.82%	-9.52%
12 Week Price Chg	-0.99%	-0.99%	3.64%	-5.25%	2.43%	-7.91%
52 Week Price Chg	18.95%	5.48%	18.08%	2.96%	0.21%	4.43%
20 Day Average Volume	2,113,070	4,640,633	1,615,215	4,299,075	621,239	6,141,296
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.49%	1.22%	0.00%
(F1) EPS Est 4 week change	0.36%	0.36%	0.00%	0.31%	2.99%	-1.32%
(F1) EPS Est 12 week change	0.52%	0.38%	-0.17%	-0.08%	3.35%	-1.48%
(Q1) EPS Est Mthly Chg	-0.76%	-0.76%	0.00%	-4.72%	-3.92%	-1.03%

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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