

PNC Financial Services (PNC)

\$105.99 (As of 04/28/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Shares of PNC Financial have outperformed the industry over the past three months. The company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in all the trailing four quarters. First-quarter 2020 results reflected higher revenues, lower expenses and the rise in provisions on coronavirus concerns. With the growing business and investment in technology, the company's cost base is expected to keep escalating. Also, a lack of diversification in the loan portfolio is a headwind. Notably, the company has temporarily suspended share buybacks, to enhance liquidity amid virus concern. Though PNC Financial's commitment to expand the middle-market lending franchise, and expand its digital products and services offerings bode well along with the rise in margins and loans, stretched valuation is a concern.

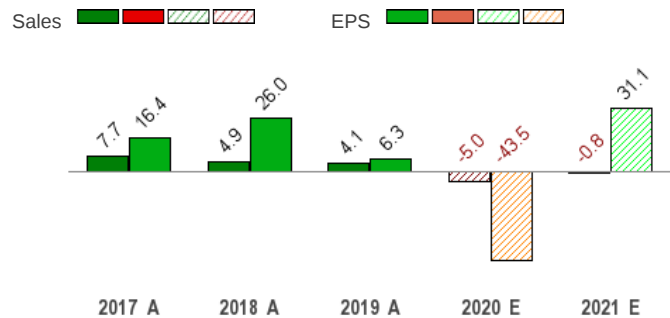
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$161.79 - \$79.41
20 Day Average Volume (sh)	3,010,416
Market Cap	\$45.4 B
YTD Price Change	-33.6%
Beta	1.34
Dividend / Div Yld	\$4.60 / 4.3%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 1% (250 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	41.3%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-41.7%
Expected Report Date	07/15/2020
Earnings ESP	0.0%
P/E TTM	9.9
P/E F1	16.5
PEG F1	2.2
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,021 E	4,081 E	4,128 E	4,159 E	16,797 E
2020	4,517 A	4,129 E	4,129 E	4,137 E	16,930 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	\$1.80 E	\$2.00 E	\$2.25 E	\$2.42 E	\$8.44 E
2020	\$1.95 A	\$1.39 E	\$1.33 E	\$1.41 E	\$6.44 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.

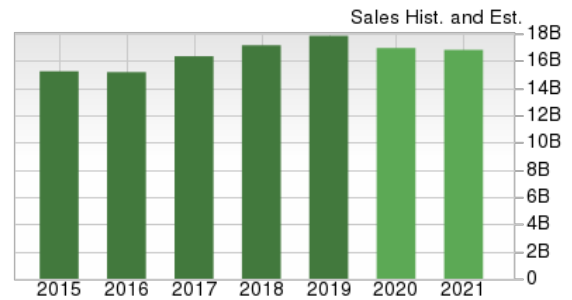
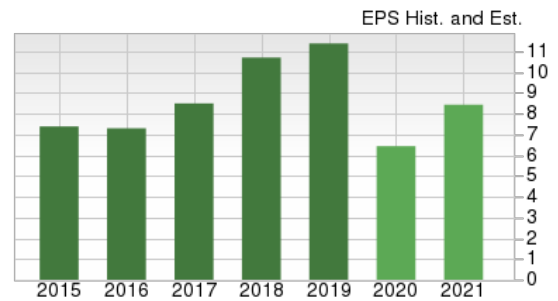
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/28/2020. The reports text is as of 04/29/2020.

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.

PNC Financial reports through four 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 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. Notably, expenses declined slightly in the first quarter.
- ▼ 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, this January, the company announced \$1 billion increase to share-repurchase authorization through the end of second-quarter 2020. Nonetheless, the bank has suspended its buyback plan to enhance liquidity amid coronavirus concerns. 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 70% as of Mar 31, 2020 — 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.
- ▼ Shares of PNC Financial have underperformed the industry over the past six months. With this unfavorable trend, the company's current-year earnings estimates have been revised 35.2% lower over the past 30 days. Also, the stock seems overvalued as its price-to-book and price-to-sales ratios are above the respective industry averages. Therefore, given the concerns and downward estimate revisions, the stock has limited upside potential.

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.

Risks

- 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.
 - As of Mar 31, 2020, the company held debt worth \$73.4 billion. Though the debt level has increased in comparison to the past few quarters and its debt-capital ratio of 0.6 compares unfavorably with the industry's average of 0.5, the company's time-interest-earned ratio has remained largely stable. Since, the ratio is an indication of the company's ability to honor debt obligations and with a record of consistent earnings, we find PNC Financial carries less credit risk and lower likelihood of default or bankruptcy if economic situation worsens.
 - 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. In 2017 and 2018, the company had 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 the three Fed interest-rate cuts in the year. Nevertheless, growth momentum in margin and NII was recorded in first-quarter 2020 on a sequential basis owing to lower borrowing and deposit costs along with higher securities yields, partly offset by reduced loan yields. Moreover, the trend is expected to continue in the quarters ahead given a decent lending scenario. Notably, the company expects NII to remain stable in second-quarter 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. Notably, growth momentum continued in first-quarter 2020. Amid coronavirus crisis, management expects some softening in fee income particularly service charges on deposits and waiving of fees for the customers.
 - 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, with the trend continuing in first-quarter 2020 on liquidity needs due to crisis. Management remains particularly focused on improving its balances and expect growth in average loans to be in the high single-digit range in the second quarter. Notably, additional expected funding needs of commercial and consumer customers amid crisis is likely to escalate loans and deposits balance.
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Last Earnings Report

PNC Financial Q1 Earnings Beat on High Revenues, Provisions Up

PNC Financial reported first-quarter 2020 earnings per share of \$1.95, surpassing the Zacks Consensus Estimate of \$1.38 amid coronavirus concerns. The bottom line, however, reflected a 25.3% decline 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. Further, expenses declined. However, the rise in provisions was a headwind. Moreover, a lower net interest margin was another concern.

Notably, provisions were calculated under the Current Expected Credit Loss (CECL) accounting standard effective Jan 1, 2020, and increased \$693 million sequentially to give effect to the economic impact of coronavirus and loan growth.

The company's net income for the reported quarter came in at \$915 million compared with the year-ago quarter's \$1.27 billion.

Segment-wise, quarterly net income in Corporate & Institutional Banking and Retail banking plunged 33% and 23.9%, year on year, respectively. Further, the Other, including the BlackRock segment, reported a 29.3% fall in net income, while the Asset Management Group segment registered a 20% increase.

Revenues Climb, Costs Decline

Total revenues for the reported quarter came in at \$4.5 billion, climbing 5% year over year. Additionally, the top-line figure surpassed the Zacks Consensus Estimate of \$4.4 billion.

Net interest income inched up 1% from the year-ago quarter to \$2.5 billion. Increased loan and securities balances and lower rates on borrowing and deposits were mostly mitigated by reduced loan, other earnings assets and securities yields, along with one additional day in the quarter. However, the net interest margin contracted 14 basis points to 2.84% due to lower yields on earning assets, partially muted by lower funding costs.

Non-interest income was up 11% year over year to \$2 billion, owing to higher consumer and corporate services income, residential mortgage and other income. This was partially muted by lower asset management income.

PNC Financial's non-interest expenses totaled \$2.5 billion, down 1% from the year-ago figure. This decline primarily resulted from the fall in personnel, marketing and occupancy costs, partly negated by higher equipment and other costs.

As of Mar 31, 2020, total loans were up 10% sequentially to \$264.6 billion. Also, total deposits improved 6% to \$305.2 billion.

Credit Quality: A Mixed Bag

Credit metrics were mixed in the first quarter. Non-performing assets were down 2% to \$1.76 billion, year over year. Net charge-offs surged 56% to \$212 million.

Allowance for credit losses was up 47% to \$3.9 billion. Provision for credit losses escalated significantly from the year-earlier quarter to \$914 million.

Steady Capital Position

As of Mar 31, 2020, the Basel III common equity Tier 1 capital ratio was 9.4% compared with 9.8% as of Mar 31, 2019.

Share Repurchase

During the January-March period, the company repurchased 10.1 million common shares for \$1.4 billion. Furthermore, dividends of \$0.5 billion were distributed. Notably, the company has temporarily suspended share buybacks through the second quarter of 2020, following the "unprecedented challenge" from the coronavirus pandemic.

Outlook

For the remainder of 2020, management expects a challenging environment due to the coronavirus pandemic. It anticipates significant contraction in GDP, and the Fed funds rate to remain in its current range of 0-25 basis points throughout 2020. Notably, the economic conditions depend on the duration of the crisis, and the efficacy of the massive U.S. government support and stimulus programs.

Second-Quarter 2020

The company expects sequential growth in average loans to be in the high single-digit range owing to the increased spot level at quarter end as well as additional anticipated funding needs of commercial and consumer customers.

Management expects NII to remain stable sequentially. Fee income is expected to decline 15-20% sequentially, mainly reflecting the elevated MSRs and security gains generated in the volatile first quarter. Further, amid coronavirus crisis, some softening in fee income is expected, particularly service charges on deposits and waiving of fees for the customers.

Non-interest expenses are expected to be flat to down.

Quarter Ending **03/2020**

Report Date	Apr 15, 2020
Sales Surprise	3.68%
EPS Surprise	41.30%
Quarterly EPS	1.95
Annual EPS (TTM)	10.74

Net loan charge-offs are estimated in the range of \$250-\$350 million.

Full-Year 2020 Compared With Full-Year 2019

Management anticipates revenues to decrease 5-10%.

Further, non-interest expenses are predicted to be down 5-10%.

Recent News

PNC Financial Decreases Its Prime Lending Rate by 100 Bps - Mar 16, 2020

Pursuant to the U.S. Federal Reserve interest rate cut by 100 bps, PNC Financial reduced its prime lending rate from 4.25% to 3.25%, with effect from Mar 17. Prior to this, the company reduced the rate to 4.25%, in early March.

Dividend Update

On Apr 2, PNC Financial's board of directors announced quarterly common stock dividend of \$1.15. The dividend will be paid on May 5 to shareholders on record as of Apr 16.

Valuation

PNC Financial's shares are down 33.6% in the year-to-date period and 22.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.5% and 24.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 26.4% and 20.6%, respectively.

The S&P 500 Index is down 11.3% in the year-to-date period and 3.5% in the past year.

The stock is currently trading at 14.95X forward 12 months earnings, which compares to 13.99X for the Zacks sub-industry, 14.94X for the Zacks sector and 20.2X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.14X and as low as 6.95X, with a 5-year median of 12.66X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$90 price target reflects 12.71X forward earnings.

The table below shows summary valuation data for PNC

Valuation Multiples - PNC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.95	13.99	14.94	20.2
	5-Year High	17.14	13.99	16.17	20.2
	5-Year Low	6.95	7.66	11.19	15.19
	5-Year Median	12.66	11.31	13.93	17.45
P/TB TTM	Current	1.53	1.51	2.49	10.78
	5-Year High	2.13	2.68	4	12.78
	5-Year Low	0.92	1.21	2	6.02
	5-Year Median	1.64	2.12	3.47	9.16
P/S F12M	Current	2.69	2.74	4.96	3.22
	5-Year High	4.42	4.59	6.69	3.44
	5-Year Low	1.95	2.39	4.96	2.54
	5-Year Median	3.45	3.59	6.05	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (250 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Regions Financial Corporation (RF)	Neutral	3
Citigroup Inc. (C)	Underperform	3
Fifth Third Bancorp (FITB)	Underperform	5
Huntington Bancshares Incorporated (HBAN)	Underperform	3
KeyCorp (KEY)	Underperform	3
M&T Bank Corporation (MTB)	Underperform	5
U.S. Bancorp (USB)	Underperform	5
Wells Fargo & Company (WFC)	Underperform	5

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	PNC	X Industry	S&P 500	FITB	MTB	USB
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	5	5	5
VGM Score	D	-	-	D	D	F
Market Cap	45.44 B	33.10 B	20.14 B	13.21 B	14.53 B	55.75 B
# of Analysts	11	8	14	7	8	12
Dividend Yield	4.34%	4.34%	2.13%	5.81%	3.94%	4.58%
Value Score	D	-	-	B	D	D
Cash/Price	0.46	1.11	0.06	0.82	0.84	0.90
EV/EBITDA	10.29	3.43	12.15	5.01	3.43	6.29
PEG Ratio	2.30	1.77	2.43	1.77	5.06	2.64
Price/Book (P/B)	0.92	0.86	2.68	0.66	1.00	1.21
Price/Cash Flow (P/CF)	7.06	6.51	10.78	5.11	6.61	7.43
P/E (F1)	17.39	15.20	19.06	14.56	14.21	15.83
Price/Sales (P/S)	2.10	1.70	2.12	1.40	2.12	2.04
Earnings Yield	6.08%	6.58%	5.11%	6.89%	7.03%	6.33%
Debt/Equity	1.49	1.06	0.72	0.81	0.43	1.13
Cash Flow (\$/share)	15.01	6.63	7.01	3.64	16.90	4.93
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	12.24%	13.28%	10.88%	13.28%	17.81%	8.09%
Proj. EPS Growth (F1/F0)	-43.47%	-46.59%	-6.33%	-53.95%	-42.80%	-46.66%
Curr. Cash Flow Growth	3.95%	2.66%	5.92%	17.50%	5.45%	2.66%
Hist. Cash Flow Growth (3-5 yrs)	5.26%	9.49%	8.55%	6.10%	11.65%	3.99%
Current Ratio	0.93	0.92	1.23	0.89	1.02	0.86
Debt/Capital	59.84%	49.85%	43.90%	42.67%	28.56%	50.06%
Net Margin	23.23%	21.60%	11.13%	18.85%	24.99%	23.37%
Return on Equity	10.16%	10.64%	16.47%	9.05%	11.84%	14.15%
Sales/Assets	0.05	0.05	0.55	0.05	0.06	0.05
Proj. Sales Growth (F1/F0)	-5.03%	-3.92%	-1.35%	-9.12%	-3.92%	-3.06%
Momentum Score	B	-	-	D	A	C
Daily Price Chg	0.47%	1.40%	1.10%	1.25%	1.33%	2.15%
1 Week Price Chg	-0.76%	-1.85%	-1.74%	2.95%	-0.40%	-3.02%
4 Week Price Chg	10.73%	11.05%	11.80%	25.12%	8.08%	6.39%
12 Week Price Chg	-29.65%	-32.41%	-17.28%	-36.97%	-34.45%	-32.41%
52 Week Price Chg	-22.60%	-31.26%	-10.69%	-35.53%	-34.27%	-31.26%
20 Day Average Volume	3,010,416	7,691,507	2,660,864	8,542,363	824,541	8,472,558
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-15.56%	1.81%	0.00%
(F1) EPS Est 4 week change	-41.74%	-43.58%	-6.46%	-54.25%	-40.09%	-43.58%
(F1) EPS Est 12 week change	-45.49%	-47.03%	-12.81%	-56.17%	-43.84%	-47.03%
(Q1) EPS Est Mthly Chg	-49.32%	-48.32%	-10.84%	-54.59%	-43.40%	-49.80%

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	D
Growth Score	D
Momentum Score	B
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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