Raymond James (RJF)

$96.27 (As of 01/17/20)

Price Target (6-12 Months): **$102.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/25/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:C
	Value: A | Growth: D | Momentum: F	

Summary

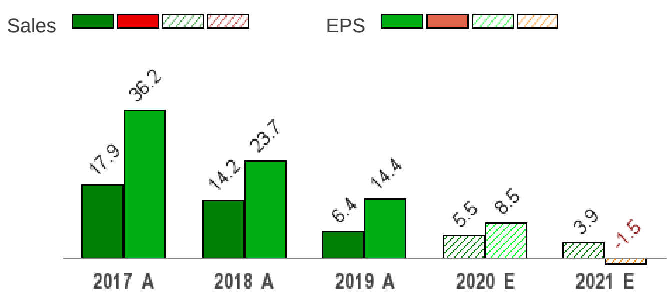
Shares of Raymond James have outperformed the industry over the past year. The company has an impressive earnings surprise history, having outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Earnings estimates have remained unchanged ahead of its first quarter fiscal 2020 results. Efforts to expand through acquisitions and continued growth in loans are expected to keep supporting its the top line. Further, given a solid liquidity position, the company is expected to continue enhancing shareholder value through efficient capital deployment activities. However, muted growth in equity and debt issuances will likely hurt its underwriting revenues, and hence have an adverse impact on overall revenue growth. Moreover, continuously mounting expenses due to rise in compensation costs will likely hurt the bottom line to an extent.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$96.50 - $72.94**
20 Day Average Volume (sh)	**606,801**
Market Cap	**$13.4 B**
YTD Price Change	**7.6%**
Beta	**1.53**
Dividend / Div Yld	**$1.48 / 1.5%**
Industry	**Financial - Investment Bank**
Zacks Industry Rank	**Bottom 37% (159 out of 254)**
Last EPS Surprise	**0.5%**
Last Sales Surprise	**1.6%**
EPS F1 Est- 4 week change	**-0.9%**
Expected Report Date	**01/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**13.0**
P/E F1	**12.0**
PEG F1	**NA**
P/S TTM	**1.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					8,485 E
2020	2,001 E	2,029 E	2,035 E	2,085 E	8,167 E
2019	1,931 A	1,859 A	1,927 A	2,023 A	7,740 A

EPS Estimates

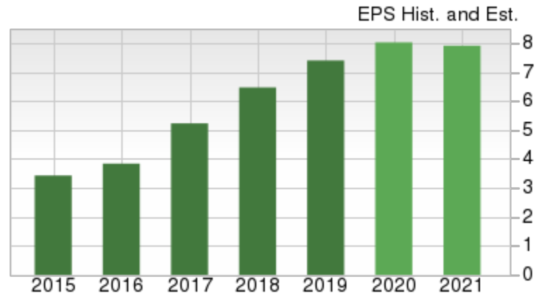
	Q1	Q2	Q3	Q4	Annual*
2021	$1.89 E	$1.96 E	$1.98 E	$2.08 E	$7.91 E
2020	$1.90 E	$1.98 E	$1.95 E	$2.02 E	$8.03 E
2019	$1.79 A	$1.81 A	$1.80 A	$2.00 A	$7.40 A

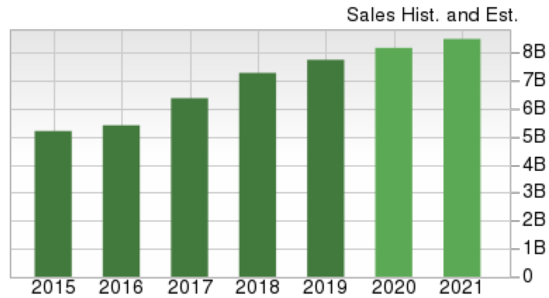
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/21/2020.

Overview

Established in 1962, Raymond James Financial Inc. is a diversified company based in St. Petersburg, FL. The company along with its subsidiaries – Raymond James & Associates Inc. (RJ&A), Raymond James Financial Services Inc. (RJFS), Raymond James Financial Services Advisors Inc. (RJFSA), Raymond James Ltd. (RJ Ltd.), Eagle Asset Management Inc. (Eagle) and Raymond James Bank N.A. (RJ Bank) – it provides financial services mainly in the U.S. and Canada.





Raymond James operates its businesses through the following segments:

- **The Private Client Group** (PCG) segment (constitutes 69% of net revenues for fiscal 2019) offers a broad range of investments and services through the branch office systems of RJ&A, RJFS, RJFSA, RJ Ltd. and Raymond James Investment Services Limited (RJIS), a UK-based joint venture (JV).

- **The Capital Markets** segment (13%) mainly offers equity and fixed income products and services, with institutional sales commissions accounting for a large portion of its revenues.

- **The Asset Management** segment (8%) includes the operations of Eagle, the Eagle Family of Funds (Eagle Funds), and asset management operations of RJ&A (AMS), Raymond James Trust along with other fee-based programs and provides services to individual investment portfolios and mutual funds.

- **The RJ Bank** (10%) provides corporate, residential and consumer loans as well as FDIC insured deposit accounts to Raymond James' broker-dealer subsidiaries and the general public.

The Other segment consists of principal capital and private equity activities as well as various corporate overhead costs, which include interest expense on senior debt, acquisition and integration related expenses as well as losses associated with the securities repurchased.

The company's fiscal year ends on Sep 30.

Reasons To Buy:

Inorganic growth efforts, strong balance sheet and loan growth will support Raymond James' revenues in the quarters ahead. The company's enhanced capital deployment plans are impressive.

- In an intensely competitive environment, most of Raymond James' businesses are performing relatively well. The PCG segment remains one of the best performers. Total revenues for the segment have been witnessing a CAGR of 14% over the last four fiscal years (2016-2019). The acquisition of U.S. Private Client Services unit of Deutsche Asset & Wealth Management in 2016 added a significant amount of client assets to the segment's balance sheet, thereby further supporting its performance.

- Given a strong liquidity position, Raymond James has accomplished several strategic deals over the past few years. In April 2019, the company acquired Silver Line Advisors and 100% stake in ClariVest Asset Management. Also, the company has expanded into Europe and Canada with the help of opportunistic acquisitions. These deals poise Raymond James well for future growth. Management looks forward to growing inorganically with an aim to further strengthen PCG and Asset Management segments.

- We remain encouraged by Raymond James' steady capital deployment activities. The company has a track record of regularly raising dividends over the last decade. The last dividend hike of 9% was announced in November 2019. The company also has a share repurchase authorization in place. As of Oct 22, 2019, $750 million worth of shares were left to be repurchased under the authorization announced in August 2019. Given its robust capital position and lower dividend payout ratio compared to peers, the company is expected to sustain its capital deployment activities, thereby continuing to enhance shareholder value.

- Further, Raymond James' trailing 12-month return on equity (ROE) shows its growth potential. The company's ROE of 16.51% compares favorably with the industry average of 12.26%.

Reasons To Sell:

- A large part of Raymond James' revenues comes from underwriting fees, which is dependent on the overall performance of the capital markets. Though the underwriting business performed well in the past, several near-term concerns including uncertainty related to the trade war and other geopolitical matters have slowed down debt and equity issuances. In fact, with less chances of a reversal in these macro-economic conditions, the company's investment banking business is expected to continue to be adversely impacted in the near term.

Disappointing equity and debt underwriting performance is expected to hurt Raymond James' revenues to some extent. Also, rising operating expenses remain a near-term concern for the company.

- Rising operating expenses remain a major challenge for Raymond James. Non-interest expenses have witnessed a CAGR of 11.5% over the last four fiscal years (2016-2019). Persistently rising compensation costs and higher bank loan loss provision are the primary reasons behind the mounting expenses. Also, regulatory changes and a highly competitive environment will likely lead to a further rise in expenses.

- Shares of Raymond James have outperformed the industry so far this year. However, the company's fiscal 2020 earnings estimates have moved nearly 1% lower over the past 30 days. Therefore, given the concerns and downward estimate revisions, the stock has limited upside potential.

Last Earnings Report

Raymond James Q4 Earnings & Revenues Beat Estimates, Costs Up

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	1.56%
EPS Surprise	0.50%
Quarterly EPS	2.00
Annual EPS (TTM)	7.40

Raymond James reported fourth-quarter fiscal 2019 (ended Sep 30) adjusted earnings of $2.00 per share, which beat the Zacks Consensus Estimate by a penny. Also, on a year-over-year basis, it increased 19%.

Results benefited from increase in revenues and decent assets growth. However, higher operating expenses acted as an undermining factor.

Net income (GAAP basis) was $265 million or $1.86 per share, up from $263 million or $1.76 per share in the prior-year quarter.

For fiscal 2019, adjusted earnings of $7.40 per share increased 14% and also surpassed the consensus estimate by a penny. Net income (GAAP basis) totaled $1.03 billion or $7.17 per share, up from $857 million or $5.75 per share in fiscal 2018.

Revenues & Costs Rise

Net revenues amounted to $2.02 billion, growing 7% year over year. The rise was largely driven by increase in all components except total brokerage revenues. Also, the top line beat the Zacks Consensus Estimate of $1.99 billion.

For fiscal 2019, net revenues increased 6% to $7.74 billion. The top line also outpaced the consensus estimate of $7.71 billion.

Segment wise, *RJ Bank* registered an increase of 11% in net revenues in the reported quarter. *Capital Markets* witnessed rise of 10% in the top line, and *Private Client Group* recorded 6% growth. Further, *Asset Management* witnessed 3% rise, and *Others* recorded significant top-line growth.

Non-interest expenses were up 8% year over year to $1.67 billion. The increase was mainly due to rise in almost all cost components except professional fees.

As of Sep 30, 2019, client assets under administration grew 6% from the prior-year quarter to $838.3 billion. Further, financial assets under management were $143.1 billion, on par with the prior-year quarter level.

Strong Balance Sheet & Capital Ratios

As of Sep 30, 2019, Raymond James reported total assets of $38.8 billion, up slightly sequentially. Total equity increased 1% from the prior quarter to $6.6 billion.

Book value per share was $47.76, up from $43.73 as of Sep 30, 2018.

As of Sep 30, 2019, total capital ratio was 25.7%, increasing from 25.3% on Sep 30, 2018. Also, Tier 1 capital ratio was 24.8% compared with 24.3% as of September 2018 end.

Return on equity (annualized basis) was 16.2% at the end of the reported quarter compared with 16.8% in the prior-year quarter.

Share Repurchase Update

During the fiscal fourth quarter, Raymond James repurchased 2.13 million shares for $161.2 million.

Outlook

Compensation ratio is anticipated to be less than 66.5% in the near term.

The company expects any further rate cut to negatively impact net interest margin by 8-10 basis points (bps).

Recent News

Dividend Update

On Nov 22, 2019, Raymond James declared a quarterly cash dividend of 37 cents per share, a hike of 8.8% from the prior payout. The dividend was paid on Jan 16, 2020 to shareholders of record as of Jan 2.

Valuation

Raymond James' shares are up 20.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 13% and 11.7% over the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 12.05X forward 12 months earnings, which compares to 12.30X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.28X and as low as 9.08X, with a 5-year median of 13.45X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $102 price target reflects 12.77X forward earnings.

The table below shows summary valuation data for RJF

Valuation Multiples - RJF

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.05	12.3	14.73	19.2
	5-Year High	17.28	15.3	16.21	19.34
	5-Year Low	9.08	6.05	12.01	15.17
	5-Year Median	13.45	11.42	13.98	17.44
P/B TTM	Current	2.01	2.35	2.86	4.55
	5-Year High	2.47	3	2.89	4.55
	5-Year Low	1.18	1.47	1.83	2.85
	5-Year Median	1.85	2.2	2.51	3.61
P/S F12M	Current	1.62	3.63	6.53	3.57
	5-Year High	1.96	4.53	6.61	3.57
	5-Year Low	0.99	2.8	5.2	2.54
	5-Year Median	1.51	3.63	6.04	3

As of 01/20/2020

Industry Analysis **Zacks Industry Rank:** Bottom 37% (159 out of 254)

Top Peers

TD Ameritrade Holding Corporation **(AMTD)**	Outperform
LPL Financial Holdings Inc. **(LPLA)**	Outperform
E*TRADE Financial Corporation **(ETFC)**	Neutral
Nomura Holdings Inc ADR **(NMR)**	Neutral
Raymond James Financial, Inc. **(RJF)**	Neutral
The Charles Schwab Corporation **(SCHW)**	Neutral
Virtu Financial, Inc. **(VIRT)**	Neutral
GAIN Capital Holdings, Inc. **(GCAP)**	Underperform

Industry Comparison Industry: Financial - Investment Bank

Industry Peers

	RJF Neutral	X Industry	S&P 500	AMTD Outperform	LPLA Outperform	NMR Neutral
VGM Score	C	-	-	C	A	D
Market Cap	13.40 B	544.43 M	24.65 B	27.37 B	7.93 B	17.22 B
# of Analysts	2	3	13	7	4	1
Dividend Yield	1.54%	0.70%	1.73%	2.45%	1.02%	4.49%
Value Score	A	-	-	D	A	D
Cash/Price	0.51	0.38	0.04	0.49	0.19	11.45
EV/EBITDA	5.45	5.31	14.11	5.31	10.38	-4.31
PEG Ratio	NA	1.58	2.08	1.50	0.88	NA
Price/Book (P/B)	2.01	1.89	3.39	3.19	7.78	0.66
Price/Cash Flow (P/CF)	11.42	9.22	13.81	10.77	13.40	NA
P/E (F1)	12.00	11.73	19.19	16.80	13.19	8.78
Price/Sales (P/S)	1.67	1.59	2.69	4.55	1.44	1.03
Earnings Yield	8.33%	8.53%	5.21%	5.96%	7.58%	11.39%
Debt/Equity	0.42	0.41	0.72	0.41	2.56	5.98
Cash Flow ($/share)	8.43	2.72	6.94	4.69	7.32	-0.12
Growth Score	D	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	21.66%	12.15%	10.56%	28.24%	28.91%	-3.30%
Proj. EPS Growth (F1/F0)	8.45%	11.73%	7.57%	-27.15%	4.13%	318.52%
Curr. Cash Flow Growth	13.40%	31.63%	14.73%	17.86%	57.32%	-114.42%
Hist. Cash Flow Growth (3-5 yrs)	17.54%	14.18%	9.00%	21.50%	13.61%	NA
Current Ratio	1.11	1.31	1.24	1.17	1.33	0.98
Debt/Capital	29.33%	27.30%	42.99%	29.23%	71.92%	85.68%
Net Margin	12.89%	5.73%	11.14%	36.72%	10.07%	5.73%
Return on Equity	16.51%	12.26%	17.16%	27.18%	59.56%	3.89%
Sales/Assets	0.21	0.23	0.55	0.15	1.00	0.04
Proj. Sales Growth (F1/F0)	5.52%	5.28%	4.16%	-12.15%	7.76%	0.00%
Momentum Score	F	-	-	A	A	C
Daily Price Chg	0.93%	0.00%	0.27%	-1.33%	-0.73%	0.39%
1 Week Price Chg	4.10%	0.78%	0.39%	1.55%	5.11%	2.52%
4 Week Price Chg	5.73%	0.34%	2.95%	0.90%	5.15%	0.39%
12 Week Price Chg	14.70%	10.58%	7.76%	31.18%	25.16%	11.64%
52 Week Price Chg	20.56%	0.00%	22.29%	-7.05%	40.86%	23.92%
20 Day Average Volume	606,801	88,293	1,536,375	3,429,327	400,385	144,772
(F1) EPS Est 1 week change	-0.93%	0.00%	0.00%	0.33%	3.48%	0.00%
(F1) EPS Est 4 week change	-0.93%	0.00%	0.00%	0.11%	3.48%	0.00%
(F1) EPS Est 12 week change	-0.93%	0.00%	-0.40%	4.39%	2.55%	73.53%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	-0.55%	2.87%	NA

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	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.

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