

Signature Bank (SBNY)

\$135.11 (As of 01/06/20)

Price Target (6-12 Months): **\$142.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

Summary

Shares of Signature Bank have outperformed the industry in the past six months. Also, the company has an impressive earnings surprise history, having beaten the Zacks Consensus Estimate in three of the trailing four quarters. The company's efforts to expand operations by making strategic hires and opening new divisions and platforms bode well for its future growth. Also, rising deposits and loans reflect healthy balance-sheet position. Continual growth in net interest income (NII) is likely to further support top-line expansion. However, declining fee income keeps the company's top line under pressure. While its balance sheet is a liability sensitive one, low interest rates failed to benefit the margins. Rising expenses due to salaries and technology costs are a concern. Also, unsustainable capital-deployment activities are headwind.

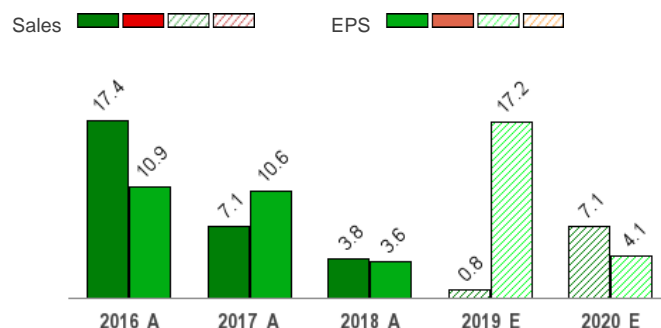
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$137.94 - \$106.47
20 Day Average Volume (sh)	315,767
Market Cap	\$7.3 B
YTD Price Change	-1.1%
Beta	1.38
Dividend / Div Yld	\$2.24 / 1.7%
Industry	Banks - Northeast
Zacks Industry Rank	Top 41% (103 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/16/2020
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	341 E	351 E	363 E	373 E	1,428 E
2019	325 A	335 A	334 A	337 E	1,333 E
2018	325 A	327 A	329 A	341 A	1,322 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.66 E	\$2.73 E	\$2.87 E	\$2.98 E	\$11.26 E
2019	\$2.64 A	\$2.72 A	\$2.75 A	\$2.69 E	\$10.82 E
2018	\$2.69 A	\$2.82 A	\$2.84 A	\$2.94 A	\$9.23 A

*Quarterly figures may not add up to annual.

P/E TTM	12.2
P/E F1	12.0
PEG F1	1.1
P/S TTM	3.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2020. The reports text is as of 01/07/2020.

Overview

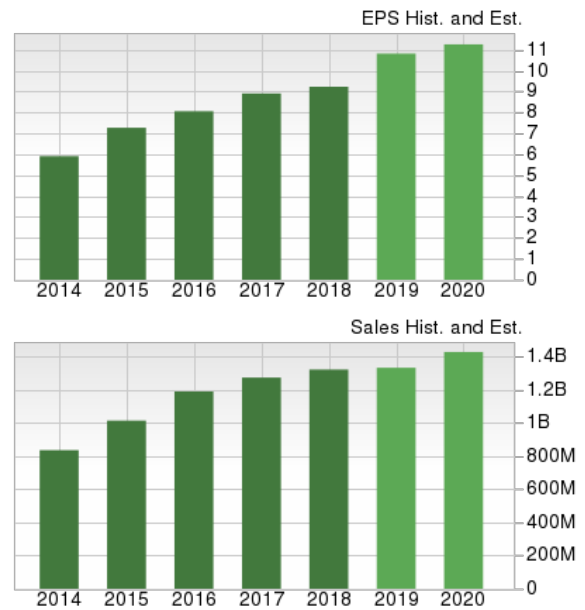
Signature Bank is a New York-based full-service commercial bank with 30 private client offices located in the New York metropolitan area. These offices consist of 99 private client banking teams that cater to privately-owned business clients, their owners and senior managers. Founded in 2001, the company provides financing and leasing products through its subsidiary — Signature Financial LLC.

The company's Signature Securities Group Corporation subsidiary provides brokerage, asset management, as well as insurance products and services, while Signature Public Funding subsidiary offers municipal finance, and tax-exempt lending and leasing products to government entities.

Additionally, the company purchases, securitizes and sells guaranteed portions of U.S. Small Business Administration (SBA) loans.

It reports through the following two segments:

- **Commercial Banking:** This segment comprises commercial real estate lending, commercial and industrial lending, and commercial deposit gathering activities in the New York Metropolitan area.
- **Specialty Finance:** This segment consists of financing and leasing products, including equipment, transportation, taxi medallion, commercial marine, municipal and national franchise financing and/or leasing.



Reasons To Buy:

- ▲ Organic growth remains a key strength at Signature Bank, as reflected by its NII growth story. NII witnessed a compound annual growth rate (CAGR) of 12.8% over the last five years (2014-2018), with the increasing trend continuing in the first nine months of 2019. The uptrend resulted owing to rise in average interest-earning assets, which is expected to continue, going forward.
- ▲ Signature Bank has a healthy balance-sheet position. Deposits recorded a five-year (2014-2018) CAGR of 12.7%, backed by rising non-interest-bearing, as well as interest bearing deposits. In addition, the company witnessed impressive loan growth — a CAGR of 19.3% — during the same time span. The rising trend continued in the first nine months of 2019 as well. Notably, in the past few years, an increase in mortgage loans relating to commercial real estate and multi-family properties was recorded, while 2018 witnessed significant rise in commercial and industrial loans. Therefore, deposit and loan balances are poised to grow further in an improving economy.
- ▲ Signature Bank's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 13.09% compares favorably with the industry's 10.18%.
- ▲ The company's capital ratios remain well above the well-capitalized levels. As of Sep 30, 2019, the tier 1 risk-based capital ratio was 11.91%. Furthermore, the company's involvement in opportunistic expansions in different geographies reflects its strong capital position and improved growth prospects.
- ▲ Shares of Signature Bank have outperformed the industry, in the past six months. With this favorable trend, the company's earnings estimate for 2019 have remained stable, over the past 30 days. Also, the stock seems undervalued compared with its broader industry. Its current price-to-cash flow (P/CF) and price-to-earnings (P/E) (F1) ratios are lower than the respective industry averages. It has a Value Score of B. Therefore, given the progress on fundamentals, the stock has upside potential.

Improving net interest income, along with robust growth in deposits and loans, is anticipated to benefit Signature Bank. Further, strong capital ratios are a tailwind for the company.

Reasons To Sell:

- ▼ Cost escalation is the key downside for Signature Bank. Non-interest expenses witnessed a CAGR of 13.5% over the last five years (2014-2018), with the increasing trend continuing in the first nine months of 2019. The rise was primarily due to increased salaries and information technology expenses. Additionally, the company's initiative to add new private client banking teams escalated expenses in 2017. Therefore, continuation of such trend will hinder bottom-line expansion.
- ▼ Despite a rising interest-rate environment in the past quarters, net interest margin remains under pressure as Signature Bank has a liability-sensitive balance sheet. Notably, the net interest margin declined from 3.36% in 2013 to 2.92% in 2018. Though fall in interest rates was expected to benefit margins, it declined to 2.71% in the first nine months of 2019. The contraction resulted from rise in average cost of funds.
- ▼ Decline in non-interest income is a concern for Signature Bank. Though non-interest income increased in the first nine months of 2019 mainly due to higher commissions, it witnessed a negative CAGR of 26.2%, over the last three years (2016-2018). This was primarily on account of amortization of lower income housing tax credit investments. Therefore, declining fee income may hamper top-line expansion in the quarters ahead.
- ▼ Signature Bank's capital deployment activities keep us apprehensive. The company had announced its inaugural common stock dividend of 56 cents in July 2018. Moreover, a share repurchase plan of up to \$500 million of common stock was approved by shareholders in October 2018, under which as of Sep 30, 2019, the bank has repurchased \$189.7 million of common stock. However, the company's debt/equity ratio does not compare favorably with the broader industry. Thus, these capital-deployment activities might not be sustainable over the long term.

Escalating expenses due to investments in technology remain a key concern for Signature Bank. Also, pressure on margin along with declining fee income limits top-line expansion of the company.

Last Earnings Report

Signature Bank's Q3 Earnings Beat Estimates on High Revenues

Signature Bank's third-quarter 2019 earnings of \$2.75 per share outpaced the Zacks Consensus Estimate of \$2.70. However, the bottom-line figure decreased 3.2% from the prior-year quarter's reported tally.

Results reflect growth in revenues, loan and deposit balances, supported by a significant decline in provisions. However, fall in NIM and escalating expenses were major drags.

Net income for the third quarter came in at \$148.7 million, down 4.3% compared with the previous-year quarter.

Quarter Ending **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	-1.52%
EPS Surprise	1.85%
Quarterly EPS	2.75
Annual EPS (TTM)	11.05

Revenues Rise, Loans & Deposits Increase, Expenses Escalate

Signature Bank's total revenues inched up 1.4% from the prior-year quarter to \$334 million. However, the top line missed the Zacks Consensus Estimate of \$339.1 million.

Net interest income increased 1% year over year to \$328 million, backed by rise in average interest earning assets. However, NIM contracted 20 basis points to 2.68%.

Non-interest income was \$6 million, up nearly 33.3% year over year. This upside primarily stemmed from an increase in fees and services charges, along with rise in all the other components.

Non-interest expenses of \$134.3 million flared up 14.6% from the prior-year quarter. This upsurge chiefly stemmed from rise in all components of expenses, partially offset by lower FDIC assessment fees.

Efficiency ratio was 40.2% as of Sep 30, 2019 compared with 35.6% reported as of Sep 30, 2018. Higher ratio indicates fall in profitability.

The company's loans and leases, as of Sep 30, 2019, were \$37.9 billion, rising marginally on a sequential basis. Further, total deposits rose 8.2% sequentially to \$39.1 billion.

Credit Quality: Mixed Bag

The company recorded net charge offs of \$2.9 million in the third quarter compared with the prior-year quarter's \$0.011million. In addition, provision for loan and lease losses plummeted 84.2% year over year to \$1.2 million.

The ratio of non-accrual loans to total loans was 0.09%, down from the 0.38% recorded in the prior-year quarter.

Capital Ratios

As of Sep 30, 2019, Tier 1 risk-based capital ratio was 11.91% compared with 12.16% on Sep 30, 2018. In addition, total risk-based capital ratio was 13.16% compared with the prior-year quarter's 13.47%. Tangible common equity ratio was 9.51% as of Sep 30, 2019, up from the 9.15% recorded at the end of September 2018.

Return on average assets was 1.19% in the reported quarter compared with the year-earlier quarter's 1.36%. As of Sep 30, 2019, return on average common stockholders' equity was 12.55%, down from 14.71% recorded at the end of September 2018.

Capital Deployment

During the September-end quarter, the company repurchased 629,503 shares of common stock, at a total cost of \$75 million.

Outlook

Management expects 12-16% expense rise in 2019. Further, NIM is expected to be stable in the fourth quarter.

Management anticipates deposits to be up near the higher end of the range \$3-\$5 billion in 2019.

Recent News

Dividend Update

On Oct 17, Signature Bank's board of directors announced a quarterly common stock dividend of 56 cents. The dividend was paid on Nov 15 to shareholders of record at the close of business on Nov 1, 2019.

Valuation

Signature Bank shares are up 21.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 15% and 16.6%, over the past year, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 11.98X forward 12 months earnings, which compares to 11.65X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.46X and as low as 8.86X, with a 5-year median of 14.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$142 price target reflects 12.58X earnings per share.

The table below shows summary valuation data for SBNY

Valuation Multiples - SBNY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.98	11.65	14.79	18.17
	5-Year High	20.46	16.7	16.21	19.34
	5-Year Low	8.86	9.49	12.01	15.17
	5-Year Median	14.12	13.37	13.98	17.44
P/TB TTM	Current	1.53	2.1	3.29	12.36
	5-Year High	2.92	2.88	3.98	12.45
	5-Year Low	1.27	1.82	2.44	6.03
	5-Year Median	1.91	2.29	3.46	9.06
P/S F12M	Current	5.13	3.69	6.53	3.47
	5-Year High	7.08	4.74	6.61	3.47
	5-Year Low	3.46	3.46	5.2	2.54
	5-Year Median	4.02	4.02	6.04	3

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Top 41% (103 out of 254)



Top Peers

BOK Financial Corporation (BOKF)	Neutral
Commerce Bancshares, Inc. (CBSH)	Neutral
East West Bancorp, Inc. (EWBC)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
Synovus Financial Corp. (SNV)	Neutral
Webster Financial Corporation (WBS)	Neutral
Zions Bancorporation, N.A. (ZION)	Neutral

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	SBNY Neutral	X Industry	S&P 500	EWBC Neutral	WBS Neutral	ZION Neutral
VGM Score	C	-	-	C	D	D
Market Cap	7.33 B	233.46 M	23.72 B	7.00 B	4.84 B	8.71 B
# of Analysts	15	2	13	2	7	11
Dividend Yield	1.66%	1.73%	1.79%	2.29%	3.04%	2.66%
Value Score	B	-	-	A	B	B
Cash/Price	0.12	0.26	0.04	0.57	0.06	0.31
EV/EBITDA	12.34	9.99	13.90	3.96	11.23	5.36
PEG Ratio	1.12	1.66	2.00	1.03	1.71	1.65
Price/Book (P/B)	1.55	1.23	3.34	1.43	1.61	1.25
Price/Cash Flow (P/CF)	9.92	12.16	13.67	8.70	10.92	9.11
P/E (F1)	12.00	12.57	18.72	10.27	13.70	11.59
Price/Sales (P/S)	3.82	2.90	2.66	3.40	3.36	2.69
Earnings Yield	8.33%	7.95%	5.31%	9.74%	7.29%	8.64%
Debt/Equity	1.05	0.40	0.72	0.18	0.65	0.18
Cash Flow (\$/share)	13.61	2.17	6.94	5.52	4.81	5.60
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	14.63%	12.16%	10.56%	16.88%	17.25%	29.02%
Proj. EPS Growth (F1/F0)	4.08%	3.93%	7.42%	0.80%	-6.19%	2.52%
Curr. Cash Flow Growth	22.33%	24.38%	14.83%	23.88%	34.35%	30.46%
Hist. Cash Flow Growth (3-5 yrs)	16.23%	13.64%	9.00%	44.01%	9.39%	12.61%
Current Ratio	0.98	0.98	1.23	1.01	0.81	0.84
Debt/Capital	51.19%	28.66%	42.92%	15.53%	38.12%	14.19%
Net Margin	31.37%	21.64%	11.08%	31.98%	27.14%	26.50%
Return on Equity	13.09%	10.18%	17.16%	14.90%	13.49%	12.27%
Sales/Assets	0.04	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	7.14%	3.16%	4.15%	1.73%	1.03%	-1.18%
Momentum Score	A	-	-	A	C	F
Daily Price Chg	-0.58%	-0.11%	0.10%	-1.86%	-1.15%	-1.22%
1 Week Price Chg	-0.46%	-0.54%	-0.30%	0.41%	0.55%	0.39%
4 Week Price Chg	7.11%	1.50%	2.33%	4.05%	5.56%	2.84%
12 Week Price Chg	14.87%	8.11%	7.02%	12.87%	16.21%	15.67%
52 Week Price Chg	23.61%	12.69%	24.61%	4.30%	4.70%	19.35%
20 Day Average Volume	315,767	11,955	1,589,897	780,707	357,076	1,565,490
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.19%	0.00%	-0.09%
(F1) EPS Est 4 week change	0.37%	0.00%	0.00%	0.63%	0.04%	-0.30%
(F1) EPS Est 12 week change	-2.88%	-2.19%	-0.56%	-3.69%	-2.33%	1.17%
(Q1) EPS Est Mthly Chg	0.32%	0.00%	0.00%	0.66%	0.00%	0.14%

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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