

Signature Bank (SBNY)

\$96.01 (As of 05/12/20)

Price Target (6-12 Months): **\$101.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: B

Summary

Shares of Signature Bank have outperformed the industry in the past six months. The company has an impressive earnings surprise history, having beaten the Zacks Consensus Estimate in three of the trailing four quarters. The first-quarter 2020 results reflected escalating expenses, higher provisions and elevated revenues. The company's efforts to expand operations by making strategic hires, and opening new divisions and platforms bode well for growth. Further, continued growth in net interest income is likely to support the company's top-line growth. While its balance sheet is a liability-sensitive one, low interest rates can aid margins. However, a declining fee income keeps the top line under pressure. Also, elevated expenses due to the persistently rising salaries and information-technology costs are likely to hinder bottom-line growth.

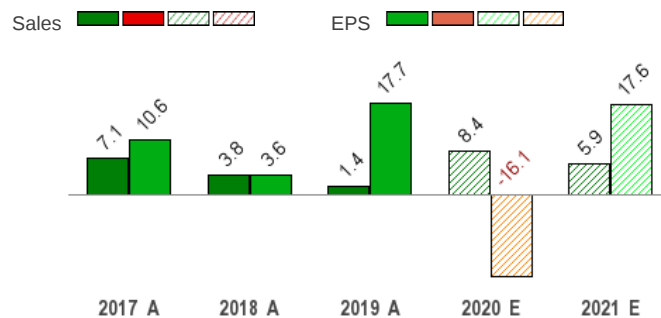
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.64 - \$68.98
20 Day Average Volume (sh)	540,844
Market Cap	\$5.1 B
YTD Price Change	-29.7%
Beta	1.80
Dividend / Div Yld	\$2.24 / 2.3%
Industry	Banks - Northeast
Zacks Industry Rank	Bottom 11% (224 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.2%
Last Sales Surprise	5.4%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	07/16/2020
Earnings ESP	-7.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	364 E	375 E	388 E	397 E	1,537 E
2020	362 A	357 E	365 E	370 E	1,452 E
2019	325 A	335 A	334 A	346 A	1,340 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.63 E	\$2.67 E	\$2.81 E	\$2.91 E	\$10.71 E
2020	\$1.88 A	\$2.37 E	\$2.55 E	\$2.50 E	\$9.11 E
2019	\$2.64 A	\$2.72 A	\$2.75 A	\$2.78 A	\$10.86 A

*Quarterly figures may not add up to annual.

P/E TTM	9.5
P/E F1	10.5
PEG F1	1.0
P/S TTM	2.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

Overview

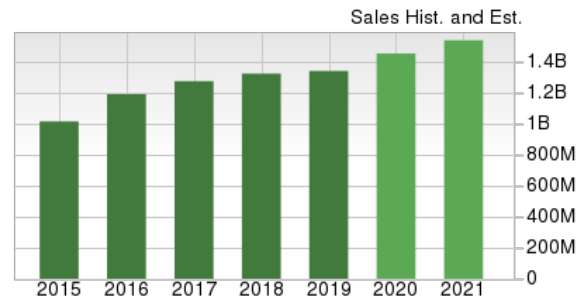
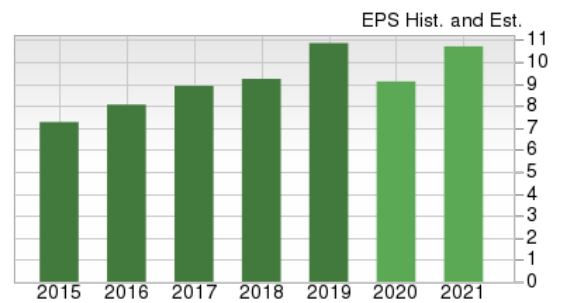
Signature Bank is a New York-based full-service commercial bank with 30 private client offices located in the New York metropolitan area. These offices consist of 99 private client banking teams that cater to privately-owned business clients, their owners and senior managers. Founded in 2001, the company 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 7.6% over the last five years (2015-2019), with the trend continuing in first-quarter 2020. 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 witnessed a five-year (2015-2019) CAGR of 10.8%, backed by rising non-interest-bearing, as well as interest bearing deposits. In addition, the company witnessed impressive loan growth — a CAGR of 13.3% — during the same time span. Notably, in the past few years, an increase in mortgage loans relating to commercial real estate and multi-family properties was recorded, while 2018 and 2019 witnessed significant rise in commercial and industrial loans. Therefore, deposit and loan balances are poised to grow further in an improving economy. Notably, the uptrend continued in the first quarter as well.
- ▲ As of Mar 31, 2020, the company holds a debt level of \$4.9 billion and debt-capital of 51.75%. The company's earnings before interest and tax was 6 times the interest expenses and has remained almost stable over the past few quarters. With a record of consistent earnings, Signature Bank has a lower credit risk, and a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ Signature Bank's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 11.50% compares favorably with the industry's 8.76%.
- ▲ The company's capital ratios remain well above the well-capitalized levels. As of Mar 31, 2020, the tier 1 risk-based capital ratio was 11.05%. Furthermore, the company's involvement in opportunistic expansions in different geographies reflects its strong capital position and improved growth prospects.

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 11.6% over the last five years (2015-2019). 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. Notably, the uptrend continued in first-quarter 2020 as well.
- ▼ Despite a rising interest-rate environment in the past years, net interest margin continued to remain under pressure as Signature Bank has a liability-sensitive balance sheet. Though fall in interest rates was expected to benefit margins, it declined from 3.36% in 2013 to 2.72% in 2019. The contraction resulted from rise in average cost of funds which is likely to continue. Notably, net interest margin expanded in first-quarter 2020.
- ▼ Decline in non-interest income is a concern for Signature Bank. Though income increased in the first quarter of 2020, it witnessed a negative CAGR of 6.9%, over the last four years (2016-2019), with some annual volatility. 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 Dec 31, 2019, the bank has repurchased \$279.1 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. Notably, the bank has temporarily suspended share buybacks, following the "unprecedented challenge" from the coronavirus pandemic.
- ▼ Shares of Signature Bank have outperformed the industry, in the past six months. Despite this favorable trend, the company's earnings estimates for 2020 have been revised 2.8% downward, over the past 30 days. Also, the stock seems overvalued compared with its broader industry. Its current price-to-book and price-to-earnings (F1) ratios are higher than the respective industry averages. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

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 Q1 Earnings Miss, Provisions Up

Signature Bank reported first-quarter 2020 earnings per share of \$1.88, missing the Zacks Consensus Estimate of \$2.19. Also, the bottom line decreased 28.5% from the prior-year quarter's reported tally.

Results were adversely impacted by escalating expenses and higher provisions. However, growth in revenues, aided by increases in net interest and non-interest income, was a positive. Moreover, a rise in net interest margin acted as a tailwind. Also, higher loan and deposit balances display a strong capital position.

Net income for the first quarter was \$99.6 million compared with the previous-year quarter's \$143.5 million. Pre-tax pre-provision earnings came in at \$218.5 million, up 5.1% year over year.

Quarter Ending 03/2020

Report Date	Apr 23, 2020
Sales Surprise	5.38%
EPS Surprise	-14.16%
Quarterly EPS	1.88
Annual EPS (TTM)	10.13

Revenues Rise, Loans & Deposits Increase, Expenses Escalate

Signature Bank's total revenues increased 8.9% from the prior-year quarter to \$362.4 million. Also, the top line outpaced the Zacks Consensus Estimate of \$344 million.

Net interest income climbed 9.2% year over year to \$348.3 million, backed by a rise in average interest earning assets. Further, net interest margin expanded 4 basis points to 2.79%.

Non-interest income was \$14.2 million, up 2.26% year over year. This upside primarily resulted from an increase in all components of income.

Non-interest expenses of \$144 million flared up 15.1% from the prior-year quarter. This upsurge chiefly stemmed from rise in almost all components of expenses, partially offset by lower FDIC assessment fees, along with reductions in occupancy and equipment costs.

Efficiency ratio was 39.7% compared with the 37.6% reported as of Mar 31, 2019. A higher ratio indicates a fall in profitability.

The company's loans and leases, as of Mar 30, 2020, were \$40.6 billion, up 4.4% sequentially. Further, total deposits rose 4.5% sequentially to \$42.2 billion.

Credit Quality: A Mixed Bag

The company recorded net charge-offs of \$1.7 million in the March-end quarter compared with net charge offs of \$0.88 million witnessed in the prior-year quarter. In addition, provision for loan and lease losses significantly increased year over year to \$66.8 million on coronavirus concerns.

The ratio of non-accrual loans to total loans was 0.14%, significantly down from the 0.25% recorded in the prior-year quarter. Allowance for credit losses for loans and leases came in at \$356.3 million, up 54.4% year over year.

Capital Ratios

As of Mar 31, 2020, Tier 1 risk-based capital ratio was 11.05% compared with 11.91% on Mar 31, 2019. Furthermore, total risk-based capital ratio was 12.77% compared with the prior-year quarter's 13.19%. Tangible common equity ratio was 8.90%, down from 9.25%.

Return on average assets was 0.78% in the reported quarter compared with the year-earlier quarter's 1.22%. As of Mar 31, 2020, return on average common stockholders' equity was 8.42%, down from 13.05%.

Capital Deployment

During the January-March quarter, the company repurchased 392,959 shares of common stock, at a total cost of \$50 million.

Outlook

Management expects a 10-12% expense range in 2020, with the declining trend, while 14-15% in the second quarter.

Management anticipates deposits to be more than \$2 billion in second-quarter 2020.

Recent News

Dividend Update

On Apr 23, Signature Bank's board of directors announced a quarterly common stock dividend of 56 cents. The dividend will be paid on May 15, to shareholders of record at the close of business on May 4, 2020.

Valuation

Signature Bank's shares are down 29.7% in the year-to-date period and 22.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 42.4% and 28.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is down 37.9% and 21%, respectively.

The S&P 500 Index is down 10.9% in the year-to-date period but up 1.8% in the past year.

The stock is currently trading at 9.9X forward 12 months earnings, which compares to 10.07X for the Zacks sub-industry, 14.78X for the Zacks sector and 20.76X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 13.03X and as low as 6.27X, with a 5-year median of 10.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$101 price target reflects 13.32X 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	9.9	10.07	14.78	20.76
	5-Year High	13.03	11.74	16.18	20.79
	5-Year Low	6.27	8.8	11.58	15.19
	5-Year Median	10.62	10.64	13.94	17.45
P/TB TTM	Current	1.06	1.27	2.37	11.31
	5-Year High	1.65	2.14	4	12.78
	5-Year Low	0.8	1.03	1.99	6.02
	5-Year Median	1.41	1.97	3.47	9.23
P/S F12M	Current	3.47	2.6	5.81	3.24
	5-Year High	5.52	3.81	6.7	3.44
	5-Year Low	2.63	2.6	4.99	2.54
	5-Year Median	4.63	3.54	6.05	3.02

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (224 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	4
Huntington Bancshares Incorporated (HBAN)	Neutral	3
Peoples United Financial Inc (PBCT)	Neutral	3
Commerce Bancshares Inc (CBSH)	Underperform	3
East West Bancorp Inc (EWBC)	Underperform	4
Synovus Financial Corp (SNV)	Underperform	5
Webster Financial Corporation (WBS)	Underperform	4
Zions Bancorporation NA (ZION)	Underperform	5

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	SBNY	X Industry	S&P 500	EWBC	WBS	ZION
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	4	5
VGM Score	C	-	-	B	C	F
Market Cap	5.14 B	136.88 M	19.25 B	4.58 B	2.05 B	4.56 B
# of Analysts	14	3	14	6	8	13
Dividend Yield	2.33%	2.83%	2.21%	3.40%	7.05%	4.89%
Value Score	C	-	-	A	A	D
Cash/Price	0.28	0.45	0.06	0.87	0.11	0.53
EV/EBITDA	8.07	5.82	11.70	1.06	6.63	3.04
PEG Ratio	0.89	1.30	2.61	0.93	1.33	2.00
Price/Book (P/B)	1.08	0.75	2.61	0.94	0.71	0.66
Price/Cash Flow (P/CF)	7.14	6.93	10.36	5.68	4.44	4.59
P/E (F1)	9.58	10.53	19.13	9.27	10.65	15.35
Price/Sales (P/S)	2.62	1.73	1.96	2.19	1.43	1.43
Earnings Yield	9.49%	9.44%	5.00%	10.78%	9.38%	6.50%
Debt/Equity	1.07	0.40	0.75	0.16	0.80	0.26
Cash Flow (\$/share)	13.44	2.25	7.01	5.70	5.12	6.07
Growth Score	D	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	12.08%	12.52%	10.82%	16.94%	17.94%	28.77%
Proj. EPS Growth (F1/F0)	-16.08%	-26.63%	-10.31%	-24.26%	-47.60%	-58.13%
Curr. Cash Flow Growth	-4.00%	9.97%	5.83%	3.66%	6.12%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	12.57%	13.63%	8.52%	24.66%	10.73%	17.66%
Current Ratio	0.99	0.98	1.27	0.99	0.83	0.85
Debt/Capital	51.75%	28.52%	44.25%	14.01%	43.14%	19.37%
Net Margin	27.75%	18.93%	10.59%	31.34%	22.40%	19.32%
Return on Equity	11.50%	8.76%	16.33%	14.00%	10.80%	9.36%
Sales/Assets	0.04	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	8.41%	0.00%	-2.53%	-6.69%	-2.02%	-1.75%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	-5.94%	-3.76%	-2.55%	-4.12%	-6.51%	-4.72%
1 Week Price Chg	1.52%	-0.12%	3.23%	3.60%	-4.57%	-0.58%
4 Week Price Chg	10.64%	-5.73%	-0.84%	13.34%	-7.57%	-5.79%
12 Week Price Chg	-33.48%	-33.22%	-21.82%	-30.91%	-50.65%	-38.28%
52 Week Price Chg	-22.80%	-31.69%	-10.27%	-32.34%	-54.49%	-40.07%
20 Day Average Volume	540,844	16,619	2,520,117	1,360,368	953,963	3,277,983
(F1) EPS Est 1 week change	0.16%	0.00%	0.00%	4.33%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.73%	-8.58%	-6.29%	6.51%	-5.22%	-29.62%
(F1) EPS Est 12 week change	-20.59%	-26.42%	-16.21%	-26.39%	-43.73%	-58.88%
(Q1) EPS Est Mthly Chg	1.64%	-13.30%	-12.28%	6.06%	11.31%	-3.78%

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	C
Growth Score	D
Momentum Score	B
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.