

Signature Bank (SBNY)

\$145.37 (As of 02/21/20)

Price Target (6-12 Months): **\$153.00**

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:F

Value: C

Growth: F

Momentum: F

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. Fourth-quarter results reflect higher revenues, partly muted by elevated costs and provisions. The company's efforts to expand operations by making strategic hires, and opening new divisions and platforms bode well for its growth. Also, rising deposits and loans reflect a healthy balance-sheet position. Continued growth in NII is likely to further support top-line expansion. However, declining fee income keeps the 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 also remain a concern.

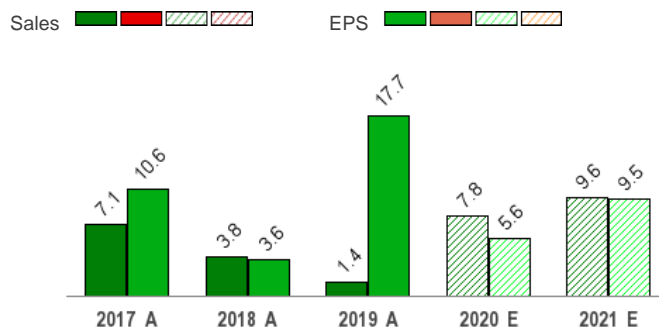
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.64 - \$111.91
20 Day Average Volume (sh)	330,978
Market Cap	\$7.8 B
YTD Price Change	6.4%
Beta	1.37
Dividend / Div Yld	\$2.24 / 1.5%
Industry	Banks - Northeast
Zacks Industry Rank	Top 35% (89 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.4%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	04/15/2020
Earnings ESP	0.1%
P/E TTM	13.4
P/E F1	12.7
PEG F1	1.2
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	380 E	390 E	402 E	410 E	1,583 E
2020	346 E	355 E	367 E	376 E	1,444 E
2019	325 A	335 A	334 A	346 A	1,340 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.00 E	\$3.09 E	\$3.22 E	\$3.28 E	\$12.56 E
2020	\$2.72 E	\$2.79 E	\$2.93 E	\$3.02 E	\$11.47 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

Overview

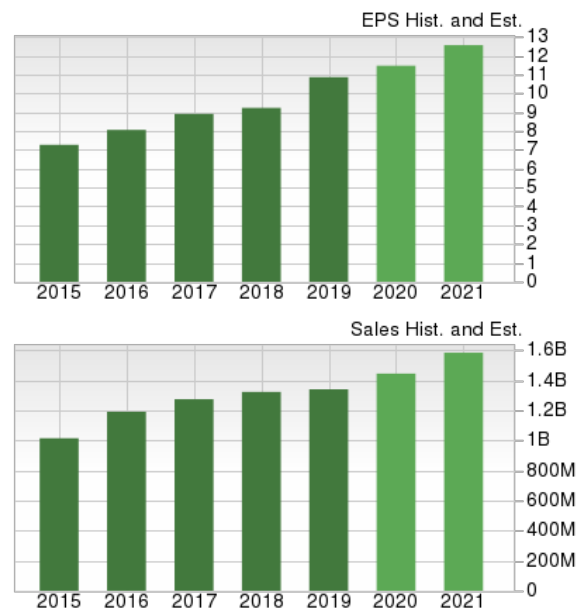
Signature Bank is a New York-based full-service commercial bank with 30 private client offices located in the New York metropolitan area. These offices consist of 99 private client banking teams that cater to privately-owned business clients, their owners and senior managers. Founded in 2001, the company 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). 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.
- ▲ Signature Bank's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 12.57% compares favorably with the industry's 10.09%.
- ▲ The company's capital ratios remain well above the well-capitalized levels. As of Dec 31, 2019, the tier 1 risk-based capital ratio was 11.62%. 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 estimates for 2020 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.

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.
- ▼ Despite a rising interest-rate environment in the past years, net interest margin remains 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.
- ▼ Decline in non-interest income is a concern for Signature Bank. Non-interest income 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.
- ▼ The stock seems overvalued compared with its broader industry. Its current price-to-book and price-to-earnings (P/E) (F1) ratios are higher than the respective industry averages.

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 Q4 Earnings Top Estimates, Revenues Up

Signature Bank's fourth-quarter 2019 earnings of \$2.78 per share outpaced the Zacks Consensus Estimate of \$2.69. However, the bottom line decreased 5.4% from the prior-year quarter's reported figure.

Results reflect growth in revenues, and loan and deposit balances. However, fall in net interest margin (NIM), and escalating expenses and provisions acted as major drags.

Net income for the quarter came in at \$148.2 million, down 7.8% from the previous-year quarter.

For 2019, earnings were \$10.87 per share compared with the prior-year figure of \$9.23. The bottom line surpassed the consensus estimate of \$10.82. Net income increased 16.5% to \$588.9 million.

Quarter Ending **12/2019**

Report Date	Jan 21, 2020
Sales Surprise	2.88%
EPS Surprise	3.35%
Quarterly EPS	2.78
Annual EPS (TTM)	10.89

Revenues Rise, Loans & Deposits Increase, Expenses Escalate

Signature Bank's total revenues improved 1.4% from the prior-year quarter to \$345.6 million. Also, the top line beat the consensus estimate of \$335.9 million.

For 2019, total revenues of \$1.3 billion matched the consensus estimate. Also, the same increased 1.3% year over year.

Net interest income increased 1% year over year to \$338.3 million in the quarter, backed by rise in average interest earning assets. However, NIM contracted 18 basis points to 2.72%.

Non-interest income was \$7.3 million, up 23.7% year over year. This upside primarily stemmed from an increase in fees and services charges.

Non-interest expenses of \$138 million flared up 15.9% 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 39.94% as of Dec 31, 2019 compared with 34.94% as of Dec 31, 2018. Higher ratio indicates fall in profitability.

The company's loans as of Dec 31, 2019, were \$39.1 billion, rising 3.1% on a sequential basis. Further, total deposits increased 3.4% sequentially to \$40.4 billion.

Credit Quality: Mixed Bag

The company recorded net charge offs of \$2.5 million in the fourth quarter against the prior-year quarter's net recoveries of \$2.9 million. In addition, provision for loan and lease losses jumped 51.5% year over year to \$9.8 million.

The ratio of non-accrual loans to total loans was 0.15%, down from 0.30% recorded in the prior-year quarter.

Capital Ratios

As of Dec 31, 2019, Tier 1 risk-based capital ratio was 11.62% compared with 12.11% on Dec 31, 2018. In addition, total risk-based capital ratio was 13.32% compared with the prior-year quarter's 13.41%. However, tangible common equity ratio was 9.34% as of Dec 31, 2019, up from 9.21%.

Return on average assets was 1.17% in the quarter compared with the year-earlier quarter's 1.37%. As of Dec 31, 2019, return on average common stockholders' equity was 12.36%, down from 14.76%.

Capital Deployment

During the December-end quarter, the company repurchased 722,420 shares of common stock at a total cost of \$89.4 million.

Outlook

Looking at the future on the CECL, management has completed the implementation of various models and upon adoption in the first-quarter 2020, an increase of 15% to 20% in allowance for loan losses is expected. As for the provision moving forward, management expects greater volatility.

Management expects 15-12% expense range in 2020, with the declining trend.

Management anticipates deposits to be up near the higher end of the range \$3-\$5 billion in 2020.

Recent News

Dividend Update

On Jan 21, Signature Bank's board of directors announced a quarterly common stock dividend of 56 cents. The dividend was paid on Feb 14, to shareholders of record at the close of business on Jan 31, 2020.

Valuation

Signature Bank's shares are up 6.4% in the year-to-date period and 7.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 6% while up 0.3% in the Zacks Finance sector, in the year-to-date period. Over the past year, the Zacks sub-industry is down 1.9%, while the sector is up 7.9%.

The S&P 500 Index is up 3.6% in the year-to-date period and 18.5% in the past year.

The stock is currently trading at 12.5X forward 12 months earnings, which compares to 11.48X for the Zacks sub-industry, 14.89X for the Zacks sector and 19.09X 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 13.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$153 price target reflects 13.16X 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	12.5	11.48	14.89	19.09
	5-Year High	20.46	16.7	16.21	19.34
	5-Year Low	8.86	9.49	12.01	15.18
	5-Year Median	13.91	13.36	14.15	17.47
P/TB TTM	Current	1.62	2.11	3.3	17.24
	5-Year High	2.92	2.88	3.98	17.5
	5-Year Low	1.27	1.82	2.44	6.03
	5-Year Median	1.88	2.29	3.46	9.13
P/S F12M	Current	5.31	4.07	6.55	3.51
	5-Year High	7.08	4.63	6.65	3.51
	5-Year Low	4.04	3.46	5.39	2.54
	5-Year Median	5.29	4.07	6.04	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 255)



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	F	-	-	C	D	C
Market Cap	7.78 B	215.37 M	24.03 B	6.71 B	4.25 B	7.74 B
# of Analysts	17	2	13	6	8	13
Dividend Yield	1.54%	1.83%	1.76%	2.39%	3.46%	2.99%
Value Score	C	-	-	A	B	A
Cash/Price	0.10	0.27	0.04	0.59	0.06	0.27
EV/EBITDA	12.78	9.93	14.08	3.60	11.24	5.45
PEG Ratio	1.18	1.53	2.08	0.97	1.52	1.34
Price/Book (P/B)	1.63	1.19	3.29	1.34	1.39	1.14
Price/Cash Flow (P/CF)	10.68	11.67	13.42	8.46	10.97	8.11
P/E (F1)	12.67	12.05	19.00	9.73	12.19	10.33
Price/Sales (P/S)	4.01	2.82	2.64	3.21	2.95	2.39
Earnings Yield	7.89%	8.29%	5.26%	10.28%	8.20%	9.69%
Debt/Equity	1.01	0.43	0.70	0.18	0.81	0.25
Cash Flow (\$/share)	13.61	2.17	7.03	5.45	4.21	5.60
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	13.63%	12.85%	10.84%	17.10%	18.41%	30.32%
Proj. EPS Growth (F1/F0)	5.60%	1.94%	7.09%	2.71%	-6.88%	1.56%
Curr. Cash Flow Growth	22.33%	22.92%	6.72%	-0.88%	-12.67%	30.46%
Hist. Cash Flow Growth (3-5 yrs)	16.23%	13.47%	8.25%	23.55%	6.50%	12.61%
Current Ratio	0.98	0.98	1.22	1.01	0.83	0.85
Debt/Capital	50.37%	29.84%	42.37%	15.18%	43.69%	18.98%
Net Margin	30.36%	20.86%	11.56%	32.22%	26.57%	25.15%
Return on Equity	12.57%	10.09%	16.80%	14.73%	12.99%	12.19%
Sales/Assets	0.04	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	7.78%	1.41%	3.90%	0.47%	0.92%	-1.20%
Momentum Score	F	-	-	B	F	B
Daily Price Chg	-0.75%	-0.22%	-0.83%	-3.31%	-3.59%	-1.77%
1 Week Price Chg	1.02%	0.06%	1.65%	0.27%	-0.57%	0.06%
4 Week Price Chg	-0.62%	-1.62%	-0.37%	-9.50%	-5.46%	-4.94%
12 Week Price Chg	16.78%	-0.26%	3.74%	-0.45%	-5.81%	-9.27%
52 Week Price Chg	7.67%	2.28%	14.14%	-16.22%	-18.14%	-10.75%
20 Day Average Volume	330,978	8,730	1,992,841	947,042	486,767	1,968,874
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.18%	0.00%	0.00%
(F1) EPS Est 4 week change	0.78%	0.00%	-0.02%	1.03%	-1.27%	-0.56%
(F1) EPS Est 12 week change	2.39%	-0.55%	-0.17%	0.93%	-0.64%	-0.52%
(Q1) EPS Est Mthly Chg	0.83%	0.00%	-0.48%	2.54%	-2.08%	-1.22%

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	F
Momentum Score	F
VGM Score	F

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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