

Signature Bank (SBNY)

\$111.58 (As of 07/23/20)

Price Target (6-12 Months): **\$117.00**

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:B

Value: A

Growth: D

Momentum: A

Summary

Shares of Signature Bank have outperformed the industry in the past six months. The company has a decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters, for as many misses. The second-quarter results reflected escalating costs, higher provisions and lower revenues. The company's efforts to expand operations by making strategic hiring, and opening new divisions and platforms bode well for growth. Further, continued growth in net interest income is likely to support the 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.

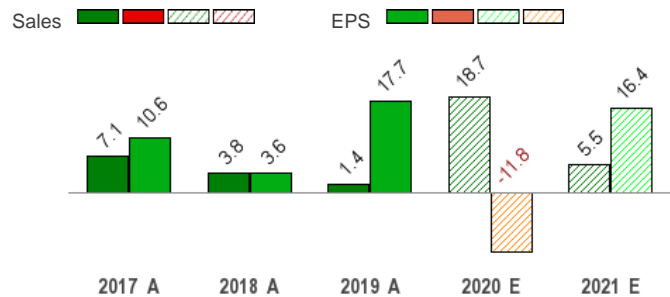
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$148.64 - \$68.98
20 Day Average Volume (sh)	405,528
Market Cap	\$6.0 B
YTD Price Change	-18.3%
Beta	1.79
Dividend / Div Yld	\$2.24 / 2.0%
Industry	Banks - Northeast
Zacks Industry Rank	Top 45% (113 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.6%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	3.6%
Expected Report Date	10/15/2020
Earnings ESP	1.0%
P/E TTM	11.6
P/E F1	11.7
PEG F1	1.1
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	408 E	413 E	424 E	431 E	1,677 E
2020	362 A	400 A	408 E	414 E	1,590 E
2019	325 A	335 A	334 A	346 A	1,340 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.62 E	\$2.66 E	\$2.85 E	\$2.94 E	\$11.15 E
2020	\$1.88 A	\$2.21 A	\$2.83 E	\$2.85 E	\$9.58 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 07/23/2020. The reports text is as of 07/24/2020.

Overview

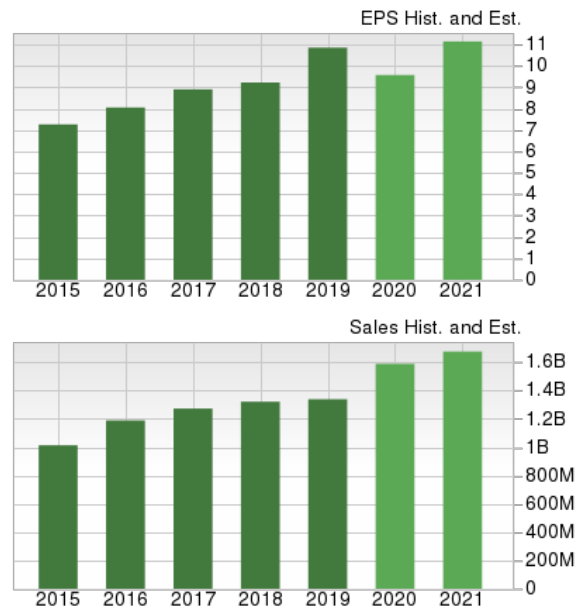
Signature Bank is a New York-based full-service commercial bank with 30 private client offices located in the New York metropolitan area. These offices consist of growing network of private client banking teams that cater to privately-owned business clients, their owners and senior managers. Founded 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 the first half of 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 half of 2020 as well.
- ▲ As of Jun 30, 2020, the company holds a debt level of \$4.7 billion. The company's earnings before interest and tax were 6.2 times the interest expenses and have remained almost stable for the past few quarters. With a record of consistent earnings, Signature Bank has 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 10.74% compares favorably with the industry's 8.6%.
- ▲ The company's capital ratios remain well above the well-capitalized levels. As of Jun 30, 2020, the tier 1 risk-based capital ratio was 10.40%. 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 4.3% 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. Notably, the uptrend continued in the first half of 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 the first half of 2020.
- ▼ Decline in non-interest income is a concern for Signature Bank. 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. Also, fee income declined in the first half of 2020. Therefore, a declining fee income might 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.

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 Q2 Earnings Miss on Higher Expenses & Provisions

Signature Bank reported second-quarter 2020 earnings per share of \$2.21, missing the Zacks Consensus Estimate of \$2.27. Also, the bottom line decreased 18.5% from the prior-year quarter's reported tally.

Results were adversely impacted by escalating expenses and higher provisions. However, 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 second quarter was \$117.2 million compared with the previous-year quarter's \$147.3 million. Pre-tax pre-provision earnings came in at \$247.9 million, up 17.3% year over year.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	3.10%
EPS Surprise	-2.64%
Quarterly EPS	2.21
Annual EPS (TTM)	9.62

Revenues Fall, Loans & Deposits Increase, Expenses Escalate

Signature Bank's total revenues decreased 18.3% from the prior-year quarter to \$399.8 million. However, the top line outpaced the Zacks Consensus Estimate of \$387.8 million.

Net interest income climbed 18.6% year over year to \$387.1 million on rise in average interest earning assets. Further, net interest margin expanded 3 basis points to 2.77%.

Non-interest income was \$12.7 million, down 25.3% year over year.

Non-interest expenses of \$151.9 million flared up 15.2% from the prior-year quarter. This upsurge chiefly stemmed from rise in salaries and benefits due to massive hiring for new business initiatives.

Efficiency ratio was 38% compared with the 38.4% reported as of Jun 30, 2019. A lower ratio indicates a rise in profitability.

The company's loans and leases, as of Jun 30, 2020, were \$44.8 billion, up 10.3% sequentially. Further, total deposits rose 19% sequentially to \$50.2 billion.

Credit Quality Deteriorates

The company recorded net charge-offs of \$4.6 million in the June-end quarter compared with net recoveries of \$3.7 million witnessed in the prior-year quarter. In addition, provision for loan and lease losses went up year over year to \$93 million on coronavirus concerns.

The ratio of non-accrual loans to total loans was 0.10%, down from the 0.11% recorded in the prior-year quarter. Allowance for credit losses for loans and leases came in at \$444.7 million, up 78% year over year.

Capital Ratios Deteriorates

As of Jun 30, 2020, Tier 1 risk-based capital ratio was 10.40% compared with 11.55% on Jun 30, 2019. Furthermore, total risk-based capital ratio was 12.13% compared with the prior-year quarter's 12.79%. Tangible common equity ratio was 7.99%, down from 9.41% recorded as of Jun 30, 2019.

Return on average assets was 0.82% in the reported quarter compared with the year-earlier quarter's 1.21%. As of Jun 30, 2020, return on average common stockholders' equity was 9.79%, down from 12.89% witnessed as of Jun 30, 2019.

Outlook

Management expects expense range in 2020 to decline from the 15% level over the next few quarters.

Recent News

Signature Bank Launches a Digital Payment Platform - Jun 23, 2020

Signature Bank has launched a blockchain-based digital payment platform, Signet, in integration with Fireblocks, an enterprise-grade platform, delivering a secure infrastructure for moving, storing and issuing digital assets. The platform was introduced in January 2019.

The lender has worked toward its development by bolstering the power and capabilities of the platform. With the addition of Application Program Interface ("API"), the platform facilitates instant settlements.

Also, the updated version enables clients and developers to directly integrate their proprietary systems with the Signet platform to access full transactional capabilities. The platform will be operational every day and API will ensure the transactional security of the Signet platform.

The introduction of Signet APIs increases Signature Bank clients' abilities to immediately settle their transactions securely. It also enhances their capabilities while transacting with Signet.

Integration with Fireblocks will provide clients with greater capital efficiency and security during fiat and cryptocurrency settlements, and payments. Notably, Signature Bank clients can immediately use Signet to initiate transactions on the Fireblocks Network via console and API connectivity.

Joseph DePaolo, president and chief executive officer at Signature Bank, said, "With this latest banking technology innovation, Signature Bank remains at the forefront as we advance our Signet product and its capabilities."

He further added, "As the digital needs of our clients continue to evolve and the broader adoption of asset tokenization increases, Signet APIs are yet another example of how we continuously strive to help our clients deliver better business performance and improve their operations,".

Dividend Update

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

Valuation

Signature Bank's shares are down 18.3% in the year-to-date period and 10% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 36.7% and 17.7% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 31.6% and 13.6%, respectively.

The S&P 500 Index is up 2% in the year-to-date period and 9.3% in the past year.

The stock is currently trading at 10.76X forward 12 months earnings, which compares to 10.82X for the Zacks sub-industry, 16.55X for the Zacks sector and 23.05X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.46X and as low as 6.27X, with a 5-year median of 13.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$117 price target reflects 11.28X 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	10.76	10.82	16.55	23.05
	5-Year High	20.46	16.73	16.55	23.05
	5-Year Low	6.27	8.78	11.59	15.25
	5-Year Median	13.41	12.65	14.16	17.52
P/TB TTM	Current	1.23	1.39	3.41	12.77
	5-Year High	2.92	2.88	4	12.94
	5-Year Low	0.8	1.04	2.01	5.96
	5-Year Median	1.8	2.27	3.48	9.51
P/S F12M	Current	3.7	2.86	6.04	3.62
	5-Year High	6.93	4.69	6.66	3.62
	5-Year Low	2.63	2.77	4.96	2.53
	5-Year Median	5.17	3.97	6.06	3.02

As of 07/23/2020

Industry Analysis Zacks Industry Rank: Top 45% (113 out of 252)



Top Peers

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

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	SBNY	X Industry	S&P 500	EWBC	WBS	ZION
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	D	D	D
Market Cap	5.98 B	154.69 M	22.58 B	4.99 B	2.46 B	5.57 B
# of Analysts	18	2	14	5	7	7
Dividend Yield	2.01%	2.75%	1.81%	3.12%	5.85%	4.00%
Value Score	A	-	-	B	C	C
Cash/Price	0.28	0.49	0.06	0.87	0.12	0.50
EV/EBITDA	8.36	6.43	13.13	2.98	5.34	3.45
PEG Ratio	1.07	1.49	3.04	0.98	NA	4.30
Price/Book (P/B)	1.23	0.80	3.15	1.00	0.81	0.80
Price/Cash Flow (P/CF)	8.30	7.75	12.33	6.20	5.34	5.61
P/E (F1)	11.47	11.40	22.09	9.85	11.83	18.80
Price/Sales (P/S)	3.04	1.87	2.41	2.47	1.79	1.80
Earnings Yield	8.59%	8.77%	4.30%	10.14%	8.45%	5.32%
Debt/Equity	0.94	0.39	0.76	0.45	0.36	0.19
Cash Flow (\$/share)	13.44	2.25	7.01	5.70	5.12	6.07
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	12.08%	12.49%	10.82%	16.94%	17.94%	28.77%
Proj. EPS Growth (F1/F0)	-11.78%	-25.08%	-9.01%	-22.26%	-43.24%	-58.20%
Curr. Cash Flow Growth	-4.00%	9.97%	5.47%	3.66%	6.12%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	12.57%	13.63%	8.55%	24.66%	10.73%	17.66%
Current Ratio	0.98	0.98	1.31	1.02	0.79	0.86
Debt/Capital	48.53%	28.16%	44.41%	30.97%	25.62%	15.15%
Net Margin	26.12%	18.70%	10.46%	29.90%	20.01%	15.70%
Return on Equity	10.74%	8.59%	15.13%	12.18%	9.30%	7.46%
Sales/Assets	0.04	0.05	0.54	0.04	0.04	0.04
Proj. Sales Growth (F1/F0)	18.69%	0.00%	-2.06%	-4.13%	-0.90%	-0.28%
Momentum Score	A	-	-	C	A	B
Daily Price Chg	2.20%	0.00%	-0.20%	-0.17%	2.55%	2.22%
1 Week Price Chg	0.20%	0.94%	3.82%	0.56%	-0.58%	1.09%
4 Week Price Chg	5.77%	-1.30%	6.02%	-2.89%	-2.64%	-0.67%
12 Week Price Chg	4.11%	-3.22%	10.03%	0.66%	-3.26%	7.62%
52 Week Price Chg	-10.00%	-28.81%	-2.89%	-26.37%	-46.31%	-23.12%
20 Day Average Volume	405,528	20,432	2,026,477	869,011	596,548	1,779,263
(F1) EPS Est 1 week change	0.01%	0.00%	0.00%	0.00%	-2.17%	7.22%
(F1) EPS Est 4 week change	3.60%	0.00%	0.15%	-1.05%	5.06%	10.14%
(F1) EPS Est 12 week change	0.85%	-4.75%	-3.24%	-0.11%	3.70%	12.46%
(Q1) EPS Est Mthly Chg	5.90%	0.00%	0.00%	1.37%	9.87%	6.65%

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	A
VGM Score	B

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

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