

SVB Financial Group (SIVB)

\$252.86 (As of 08/11/20)

Price Target (6-12 Months): **\$266.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: B

Summary

Shares of SVB Financial have outperformed the industry over the past year. It surpassed the Zacks Consensus Estimate for earnings in three of the trailing four quarters. The company's second-quarter 2020 results reflect an improvement in fee income and higher provisions. Growth in loans and deposit balances, global expansion strategy and the SVB Leerink buyout are expected to be beneficial. Also, a strong balance sheet position and efforts to improve non-interest income are expected to bode well for the company. However, mounting operating costs due to a rise in compensation costs will likely hurt bottom line to some extent. Further, near-zero interest rates are likely to continue putting pressure on margins, in turn hurting top-line growth. Additionally, uncertainties related to the coronavirus-induced economic slowdown make us apprehensive.

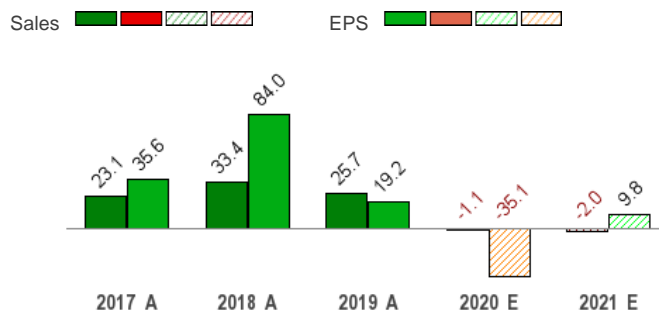
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$270.95 - \$127.39
20 Day Average Volume (sh)	268,458
Market Cap	\$13.1 B
YTD Price Change	0.7%
Beta	2.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Banks - West
Zacks Industry Rank	Top 36% (92 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	49.3%
Last Sales Surprise	16.5%
EPS F1 Est- 4 week change	10.8%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	14.7
P/E F1	17.9
PEG F1	2.2
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	792 E	802 E	816 E	837 E	3,217 E
2020	826 A	882 A	797 E	792 E	3,282 E
2019	793 A	863 A	815 A	847 A	3,318 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.63 E	\$3.76 E	\$4.12 E	\$4.34 E	\$15.48 E
2020	\$2.55 A	\$4.42 A	\$3.70 E	\$3.41 E	\$14.10 E
2019	\$5.44 A	\$6.08 A	\$5.15 A	\$5.06 A	\$21.73 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

Headquartered in Santa Clara, CA, SVB Financial Group is a diversified financial services company. Incorporated in 1999, it operates through, among others, the Silicon Valley Bank, its primary subsidiary, providing a wide range of banking and financial products and services.

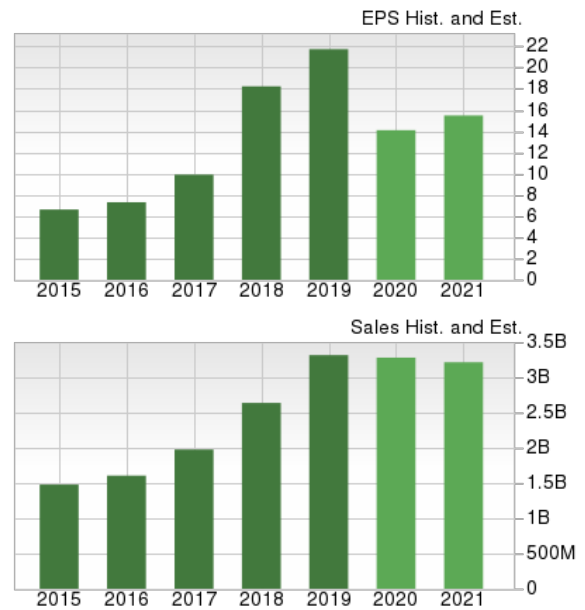
SVB Financial has four operating segments:

- **Global Commercial Bank** (constituting 93% of total average assets in 2019): This segment primarily consists of Commercial Bank, which offers lending, deposit products, cash management services, global banking, and trade products and services, in addition to certain investment services. Other divisions include Private Equity Division, SVB Wine, SVB Analytics and Debt Fund Investments.
- **SVB Private Bank** (5.6%): This being the private banking division of Silicon Valley Bank, it offers a customized suite of private banking services, including mortgages, home equity lines of credit, restricted stock purchase loans, capital call lines of credit, and other secured and unsecured lending. It also fulfills private banking clients' cash management needs through deposit account products and services.
- **SVB Capital** (0.7%): This being the venture capital investment division of SVB Financial, it focuses on funds management, comprising funding of funds and direct venture funds (or co-investment funds). The segment manages venture capital funds, primarily on the behalf of third-party limited partner investors and the company.
- **SVB Leerink** (0.7%): Operating as a wholly-owned subsidiary of SVB Financial, it provides investment banking services across all subsectors of healthcare.

Notably, the company reports for these segments their non-controlling interest under the heading 'Other items', which reflects adjustments required for the reconciliation of results in conformity with U.S GAAP.

In 2019, SVB Financial acquired Boston-based Leerink Holdings LLC ("SVB Leerink").

As of Jun 30, 2020, the company had total assets worth \$85.9 billion, deposits of \$74.6 billion, net loans of \$36.1 billion and shareholders' equity of \$7.3 billion.



Reasons To Buy:

- ▲ SVB Financial remains focused on its organic growth strategy, as evident from consistent rise in loans, deposits and net interest income (NII) over the past several years. The company recorded an increase in net loans at a CAGR of 18.2% over the last six years (2014-2019). Moreover, its NII has witnessed a CAGR of 19.6%, while deposits witnessed a CAGR of 12.5% over the same time frame. Further, improving non-interest income will continue supporting top-line growth. All these metrics improved in the first half of 2020 as well. The company is undertaking efforts to expand globally. While its U.K. and Asia operations seem to be growing, the businesses in Canada and Germany are expected to further boost revenues.
- ▲ As of Jun 30, 2020, SVB Financial had total debt of \$894.1 million, and cash and cash equivalents worth \$14.3 billion. Additionally, its time-interest-earned improved sequentially to 49.1 at second quarter-end. Thus, this indicates that the company has a less chance of defaulting on interest and/or debt repayments if the economic situation worsens.
- ▲ SVB Financial is efficiently deploying capital. In 2019, the company acquired Boston-based Leerink Holdings LLC. The deal is expected to be accretive to its earnings, going forward. In October 2019, it announced a new stock-repurchase program worth up to \$350 million, which is set to expire on Oct 29, 2020. As of Jun 30, 2020, the company had \$290 million in authorized buybacks remaining under that program. Nonetheless, the bank has paused repurchases in response to coronavirus concerns.
- ▲ SVB Financial's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 13.61% compares favorably with 9.28% for the industry.
- ▲ Shares of SVB Financial have outperformed the industry over the past six months. Moreover, the company's earnings estimates for the current year have been revised 10.5% upward over the past 30 days. Therefore, given the strong fundamentals and positive estimate revisions, the stock has decent upside potential.

SVB Financial will likely benefit from a solid balance sheet and the inorganic growth strategy. Its focus on improving non-interest income and rise in loan balances are expected to support growth.

Reasons To Sell:

- ▼ While SVB Financial had been witnessing an increase in net interest margin (NIM) for the last several years, the trend has reversed of late. The company's NIM declined to 3.51% in 2019 from 3.57% in 2018, mainly due to lower interest rates. Likewise, the metric further contracted in first-half 2020. Despite decent loan demand, NIM is expected to be hurt to some extent in the near term due to the low interest rate environment.
- ▼ SVB Financial has been witnessing a continued rise in operating expenses over the past few years. Over the last six years (2014-2019), non-interest expenses rose at a CAGR of 18%. The increase was mainly due to rise in compensation and benefit costs. The uptrend continued for the first six months of 2020. As the company has been investing in upgrading technology, operating expenses are likely to remain elevated.
- ▼ Further, SVB Financial seems overvalued than the broader industry. Its current price-book and price-earnings (F1) ratios are above the respective industry averages.

Elevated expenses will likely hurt SVB Financial's bottom line. Also, pressure on margins due to lower rates and the Fed's accommodative monetary policy remain major near-term concerns.

Last Earnings Report

SVB Financial Q2 Earnings Beat, Provisions Increase

SVB Financial Group's second-quarter 2020 earnings of \$4.42 per share comfortably surpassed the Zacks Consensus Estimate of \$2.96. However, the bottom line was down 27.3% year over year.

The results largely benefited from higher fee income, and improving loan and deposit balances. However, higher provisions, increase in operating expenses and contracting net interest margin (NIM) were the undermining factors.

Net income available to common shareholders was \$228.9 million, down 28% from the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	16.45%
EPS Surprise	49.32%
Quarterly EPS	4.42
Annual EPS (TTM)	17.18

Revenues & Expenses Rise

Net revenues were \$881.7 million, increasing 2.1% year over year. Also, the top line beat the Zacks Consensus Estimate of \$757.2 million.

NII was \$512.9 million, which declined 2.1% year over year. Further, NIM — on a fully-taxable equivalent basis — contracted 88 basis points (bps) to 2.80%.

Non-interest income was \$368.8 million, which grew 10.5% from the prior year. The upswing primarily resulted from a drastic improvement in investment banking revenues.

Non-interest expenses increased 25.1% from the prior-year quarter to \$479.6 million. Increase in all expense components, except for business development and travel costs, resulted in the upside.

Non-GAAP core operating efficiency ratio was 55.70%, up from the prior-year quarter's 45.49%. A rise in efficiency ratio indicates lower profitability.

Loans and Deposit Balances Increase

As of Jun 30, 2020, SVB Financial's net loans amounted to \$36.7 billion, increasing 1.9% from the prior quarter, while total deposits jumped 20.6% to \$74.6 billion.

Credit Quality Deteriorates

Provision for credit losses increased significantly from \$23.9 million in the year-ago quarter to \$66.5 million. Also, the ratio of allowance for loan losses to total loans was 1.61%, up 58 bps year over year.

However, the ratio of net charge-offs to average loans was 0.12%, down 11 bps year over year.

Capital Ratios Mixed, Profitability Ratios Worsen

At second quarter-end, CET 1 risk-based capital ratio was 12.64% compared with 12.92% at the end of the prior-year quarter. Total risk-based capital ratio was 14.78% as of Jun 30, 2020, up from 13.97% in the corresponding period of 2019.

Return on average assets on an annualized basis was 1.17%, down from 2.10% recorded in the year-ago quarter. Also, return on average equity was 13.36%, which decreased from 23.29% a year ago.

Second-Half 2020 Outlook

Average loans are expected to be stable or slightly down from the second-quarter level. Further, average deposit balances are expected between \$71 billion and \$74 billion.

NII is anticipated between \$1.05 billion and \$1.09 billion.

NIM is projected to be 2.70-2.80%. In addition, NIM is expected within 2.75-2.85% for the fourth quarter of 2020. This includes 8-10 bps of favorable impact from estimated PPP forgiveness.

Core fee income (excluding SVB Leerink) is projected in the range of \$255-\$275 million.

Non-GAAP non-interest expenses (excluding costs related to non-controlling interests) are projected between \$900 million and \$930 million.

The effective tax rate is expected to be 27-29%.

Valuation

SVB Financial's shares are up 0.8% in the year-to-date period and 27.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.4% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 3.8% and 7%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 15% in the past year.

The stock is currently trading at 15.89X forward 12 months earnings, which compares to 13.63X for the Zacks sub-industry, 16.76X for the Zacks sector and 22.80X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.90X and as low as 6.89X, with a 5-year median of 15.44X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$266 price target reflects 16.72X forward earnings.

The table below shows summary valuation data for SIVB

Valuation Multiples - SIVB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.89	13.63	16.76	22.8
	5-Year High	24.9	18.23	16.76	22.8
	5-Year Low	6.89	10.28	11.59	15.25
	5-Year Median	15.44	14.29	14.26	17.58
P/TB TTM	Current	1.77	1.5	3.39	15.36
	5-Year High	3.84	2.65	4	15.36
	5-Year Low	1.09	1.09	2.01	5.96
	5-Year Median	2.2	1.96	3.48	9.56
P/S F12M	Current	3.77	3.33	6.22	3.67
	5-Year High	6.7	4.75	6.66	3.67
	5-Year Low	2.05	2.7	4.96	2.53
	5-Year Median	3.99	3.94	6.06	3.05

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 36% (92 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank (FRC)	Outperform	3
Cathay General Bancorp (CATY)	Neutral	3
East West Bancorp, Inc. (EWBC)	Neutral	3
First Hawaiian, Inc. (FHB)	Neutral	3
PacWest Bancorp (PACW)	Neutral	3
Umpqua Holdings Corporation (UMPQ)	Neutral	3
Western Alliance Bancorporation (WAL)	Neutral	3
Zions Bancorporation, N.A. (ZION)	Neutral	3

Industry Comparison Industry: Banks - West				Industry Peers		
	SIVB	X Industry	S&P 500	EWBC	FRC	ZION
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	D	C
Market Cap	13.09 B	266.68 M	23.61 B	5.51 B	20.48 B	5.80 B
# of Analysts	11	4	14	5	9	7
Dividend Yield	0.00%	2.49%	1.69%	2.82%	0.67%	3.84%
Value Score	F	-	-	B	D	A
Cash/Price	1.17	0.68	0.07	1.23	0.16	0.46
EV/EBITDA	-0.04	3.70	13.32	1.34	22.52	3.68
PEG Ratio	2.25	2.24	2.95	1.06	2.84	4.47
Price/Book (P/B)	1.83	0.93	3.22	1.10	2.17	0.83
Price/Cash Flow (P/CF)	11.37	7.62	12.79	6.83	18.77	5.83
P/E (F1)	18.00	12.32	22.02	10.55	22.28	19.55
Price/Sales (P/S)	3.70	2.25	2.57	2.73	4.72	1.88
Earnings Yield	5.58%	8.15%	4.29%	9.48%	4.49%	5.11%
Debt/Equity	0.12	0.17	0.77	0.45	1.82	0.19
Cash Flow (\$/share)	22.23	2.79	6.94	5.70	6.34	6.07
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	36.25%	12.82%	10.41%	15.83%	12.45%	24.41%
Proj. EPS Growth (F1/F0)	-35.11%	-25.70%	-6.51%	-19.96%	2.71%	-58.20%
Curr. Cash Flow Growth	19.94%	5.43%	5.22%	3.66%	10.31%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	34.83%	14.60%	8.55%	24.66%	17.90%	17.66%
Current Ratio	0.71	0.92	1.34	1.02	1.04	0.86
Debt/Capital	10.15%	14.27%	44.59%	30.97%	61.89%	15.15%
Net Margin	25.26%	22.78%	10.13%	29.90%	22.03%	15.70%
Return on Equity	13.61%	9.28%	14.59%	12.18%	10.68%	7.46%
Sales/Assets	0.05	0.05	0.51	0.04	0.04	0.04
Proj. Sales Growth (F1/F0)	-1.07%	0.00%	-1.45%	-2.88%	12.92%	-0.46%
Momentum Score	B	-	-	C	B	B
Daily Price Chg	5.31%	0.80%	-0.17%	2.72%	2.47%	1.99%
1 Week Price Chg	5.83%	3.40%	2.30%	6.43%	3.24%	4.07%
4 Week Price Chg	21.50%	6.38%	6.41%	16.38%	9.46%	10.52%
12 Week Price Chg	38.08%	13.84%	15.42%	18.79%	21.92%	21.12%
52 Week Price Chg	27.35%	-21.33%	2.88%	-5.35%	26.88%	-14.19%
20 Day Average Volume	268,458	20,563	2,007,486	851,678	585,525	1,631,903
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	10.78%	2.96%	1.84%	2.96%	5.35%	7.22%
(F1) EPS Est 12 week change	16.78%	3.59%	2.40%	-0.27%	9.30%	15.23%
(Q1) EPS Est Mthly Chg	4.42%	0.00%	0.72%	2.70%	2.24%	-9.80%

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	F
Growth Score	F
Momentum Score	B
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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