

SVB Financial Group (SIVB)

\$253.85 (As of 01/13/20)

Price Target (6-12 Months): **\$268.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/23/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

Shares of SVB Financial have outperformed the industry over the past year. The company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Also, earnings estimates have been going up ahead of its fourth quarter 2019 results. The company is well-poised to capitalize on opportunities, driven by strong balance sheet position, improving asset quality, continued growth in loans and deposits, and efforts to improve non-interest income. Moreover, its global expansion strategy and SVB Leerink's buyout are likely to further support profitability. However, high debt level remains a concern as it is likely to limit flexibility in terms of procuring additional finance. Also, continuously rising expenses, due to higher compensation costs, will likely hurt bottom-line growth.

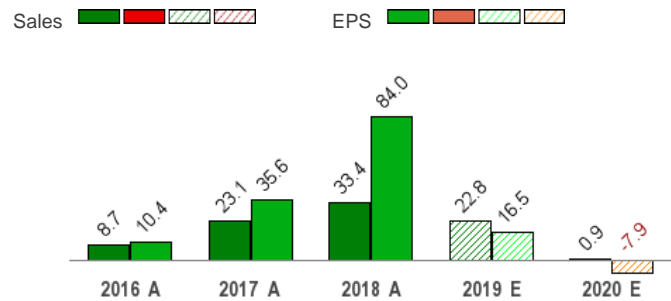
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$259.95 - \$183.04
20 Day Average Volume (sh)	344,897
Market Cap	\$13.1 B
YTD Price Change	1.1%
Beta	2.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Banks - West
Zacks Industry Rank	Top 36% (91 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/23/2020
Earnings ESP	0.1%
P/E TTM	11.7
P/E F1	13.0
PEG F1	1.7
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	795 E	812 E	830 E	846 E	3,269 E
2019	793 A	863 A	815 A	787 E	3,240 E
2018	575 A	659 A	703 A	701 A	2,639 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$4.75 E	\$4.89 E	\$5.02 E	\$5.07 E	\$19.55 E
2019	\$5.44 A	\$6.08 A	\$5.15 A	\$4.59 E	\$21.23 E
2018	\$3.63 A	\$4.42 A	\$5.10 A	\$5.07 A	\$18.23 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

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

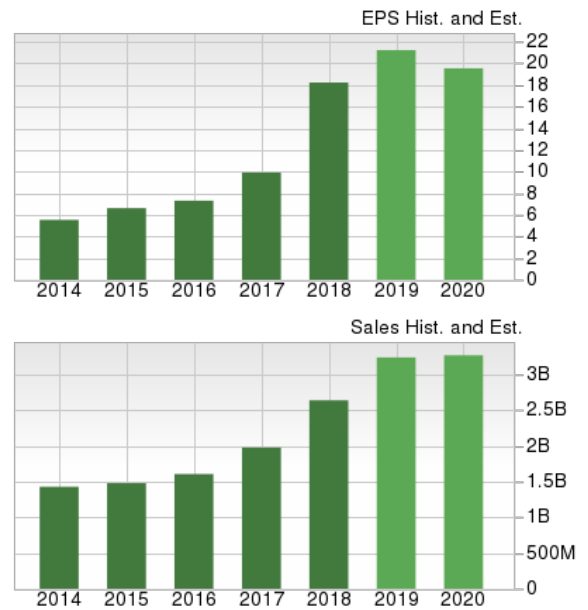
SVB Financial has three operating segments:

- Global Commercial Bank** (96% of total average assets in 2018): 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 investment services – serving commercial clients in the technology, venture capital/private equity, and life science and clean tech industries. Other divisions include Private Equity Division, SVB Wine, SVB Analytics and Debt Fund Investments.
- SVB Private Bank** (3.4%): 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 to venture capital/private equity professionals. It also fulfills private banking clients' cash management needs through deposit account products and services.
- SVB Capital** (0.6%): 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.

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.

As of Sep 30, 2019, the company had total assets worth \$68.23 billion, total deposits of \$59.54 billion, net loans of \$30.76 billion and shareholders equity of \$5.89 billion.



Reasons To Buy:

- ▲ SVB Financial remains focused on organic growth strategy, as evident from consistent rise in its deposits and net interest income (NII) over the past several years. The company recorded an increase in NII at a CAGR of 21.9%, while deposits witnessed a CAGR of 9.5%, over the last five years (2014-2018). Further, improving non-interest income (constituting 36.8% of total revenues at the end of the first nine months of 2019) will continue supporting top-line growth. The uptrend for deposits, NII and non-interest income continued in the first nine months of 2019. Notably, the company is undertaking efforts to expand globally. While its U.K. and Asia operations seem to be growing, its business in Canada and Germany is expected to further boost revenues.
- ▲ Moreover, SVB Financial's net interest margin (NIM) increased to 3.57% in 2018 from 3.50% in 2017, 2.72% in 2016 and 2.57% in 2015. The upward trend continued in the first nine months of 2019. Further, the company is witnessing steady loan growth, which saw a CAGR of 19.4%, for the last three years (2016-2018). Loan growth continued in the first nine months of 2019. Steady improvement in loan demand is expected to offer some support to NIM amid the Federal Reserve's accommodative policy stance.
- ▲ SVB Financial's asset quality has been improving for the past few years. While the company recorded rise in provision for loan losses in the first nine months of 2019, the same declined at a CAGR of 4.8% over the last four years (ended 2018). Moreover, non-performing assets decreased at a CAGR of 8% over the same time frame, with the trend continuing in the first nine months of 2019. The downward trend is expected to continue in the near term, driven by improving economy.
- ▲ SVB Financial is deploying capital efficiently. In January 2019, it acquired Boston-based Leerink Holdings LLC. The deal is expected to be accretive to the company's earnings in 2019 and 2020. Further, in October 2019, the company announced a new stock-repurchase program worth up to \$350 million, expiring on Oct 29, 2020. These efforts are expected to enhance shareholder value.
- ▲ Shares of SVB Financial have outperformed the industry over the past year. With this favorable trend, the company's 2019 earnings estimates have been revised marginally upward over the past seven days. Further, the stock seems undervalued compared with the broader industry. Its current price/earnings (P/E) (F1) and PEG ratios are in line with the respective industry averages. Also, the stock has a Value Score of B. Therefore, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

SVB Financial is well poised to benefit from its organic and inorganic growth strategy, focus on improving non-interest income and rise in loan balances. Its capital deployment actions are impressive.

Reasons To Sell:

- ▼ Consistently rising operating expenses remain a major cause of concern for SVB Financial. Over the last five years (2014-2018), non-interest expenses rose at a CAGR of 14.1%, with the trend continuing in the first nine months of 2019. The increase was mainly due to rise in compensation and benefit costs. Further, management anticipates non-interest expenses to trend higher in 2019.
- ▼ High debt level of the company could restrict it from procuring additional finance for working capital, capital expenditures, acquisitions, debt service requirements or other purposes. As of Sep 30, 2019, SVB Financial's long-term debt amounted to \$697.2 million. High-debt obligation, if combined with unfavorable economic and industry conditions, can drag the company to a relatively disadvantageous position.
- ▼ SVB Financial's loan portfolio has significant concentration of commercial loans (86% of the total loan portfolio as of Sep 30, 2019). Such high concentration can be risky for the company as lack of diversifying efforts might hamper its top- and bottom-line growth.

Persistent rise in expenses remains near-term concern for SVB Financial. Further, high debt obligation and significant exposure to commercial loans pose as headwinds and might limit its flexibility.

Last Earnings Report

SVB Financial Q3 Earnings Beat, Revenues Increase Y/Y

SVB Financial's third-quarter 2019 earnings of \$5.15 per share outpaced the Zacks Consensus Estimate of \$4.99. Also, the bottom line was nearly 1% higher than the year-ago quarter's reported figure.

Results were driven by improvement in revenues as well as growth in loan and deposit balances. However, higher non-interest expenses and provisions, along with contracting net interest margin, were major headwinds.

Net income available to common shareholders was \$267.3 million, down 2.7% from the prior-year quarter.

Revenues Up, Expenses Rise

Net revenues were \$814.7 million, increasing 15.8% year over year. Further, the top line surpassed the Zacks Consensus Estimate of \$788.1 million.

Net interest income was \$520.6 million, increasing 5.6% year over year. However, NIM on a fully-taxable equivalent basis, contracted 28 basis points (bps) to 3.34%.

Non-interest income came in at \$294 million, surging 40% year over year. This upswing resulted from rise in all the components of fee income.

Non-interest expenses rose 26.5% to \$391.3 million. Increase in all expense components except FDIC and state assessments resulted in this upside.

Non-GAAP core operating efficiency ratio was 48.05%, edging down from the prior-year quarter's 48.35%. A fall in efficiency ratio indicates higher profitability.

Loan and Deposit Balances Increase

As of Sep 30, 2019, SVB Financial's loans, net of unearned income amounted to \$31.1 billion, increasing 6.4% from the prior quarter, while total deposits grew 7.1% to \$59.5 billion.

Credit Quality: A Mixed Bag

The ratio of net charge-offs to average gross loans was 0.44%, up 14 bps. Further, provision for credit losses came in at \$36.5 million, significantly up from the prior-year quarter's figure of \$17.2 million.

However, the ratio of allowance for loan losses to total gross loans was 0.97%, down 6 bps year over year.

Capital & Profitability Ratios Decline

As of the third-quarter end, CET 1 risk-based capital ratio was 12.71%, compared with 13.28% recorded at the end of prior-year quarter. Total risk-based capital ratio was 13.70% as of Sep 30, 2019, down from 14.34% as of Sep 30, 2018.

Return on average assets on an annualized basis was 1.62%, down from the 1.93% recorded in the year-ago quarter. Also, return on average equity was 18.27%, decreasing from 22.46% as of Sep 30, 2018.

Share Repurchase Update

During the reported quarter, SVB Financial repurchased 0.03 million shares for \$5.7 million. This marks the completion of its \$500-million stock-repurchase program, announced in November 2018.

2019 Outlook

Management provided 2019 guidance based on expectations of no further changes in the Federal Funds rates.

The company projects average loan balance growth in the mid-teens, while average deposit balance growth is expected to be in the low teens, up from the prior outlook of low double digits.

Additionally, NII is anticipated to be in the low double digits (down from the previous outlook of low teens) and NIM is projected at 3.50-3.60% (down from the previous range of 3.60-3.70%).

Further, core fee income is expected to grow in the low-20s. Including the favorable impact of the SVB Leerink acquisition, it will likely increase in the high-60s, down from the prior outlook of low-70s.

Non-GAAP non-interest expenses (excluding expenses related to non-controlling interests) are projected to increase in the low teens. Including the impact of the SVB Leerink acquisition, it is projected to rise in the mid-30s.

Notably, net loan charge-offs are projected to be between 0.20% and 0.40% of average total gross loans. Non-performing loans as a percentage of total gross loans will likely be 0.30-0.50%.

The effective tax rate is expected in the range of 26-28%.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	3.37%
EPS Surprise	3.21%
Quarterly EPS	5.15
Annual EPS (TTM)	21.74

Preliminary 2020 Outlook

Management provided preliminary 2020 guidance based on expectations of no further changes in the rates and no deterioration in the economy.

The company projects average loan balance to grow in the low teens and average deposit balances are will likely be up in the low-double digits.

NII growth is likely to be in the low single digits, and the NIM is anticipated to be between 3.20% and 3.30%.

Further, net loan charge-offs are expected to grow between 0.20% and 0.40% of average total gross loans.

Core fee income growth (including and excluding the impact of the SVB Leerink acquisition) is projected to be in the low teens.

Additionally, non-interest expenses (excluding expenses related to non-controlling interests) are likely to be in the high single digits. Also, including the impact of SVB Leerink's acquisition, the same are anticipated to be in the high single digits.

Valuation

SVB Financial's shares are up 16.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 12.2% and 15.2%, over the past year, respectively.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 12.94X forward 12 months earnings, which compares to 13.45X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.90X and as low as 8.73X, with a 5-year median of 16.54X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$268 price target reflects 13.66X 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	12.94	13.45	14.88	18.88
	5-Year High	24.9	18.23	16.21	19.34
	5-Year Low	8.73	10.42	12.01	15.17
	5-Year Median	16.54	14.52	13.98	17.44
P/S F12M	Current	3.99	4.13	6.53	3.5
	5-Year High	6.7	4.75	6.61	3.5
	5-Year Low	2.54	3.05	5.2	2.54
	5-Year Median	4.32	3.97	6.04	3
P/B TTM	Current	2.16	1.53	2.82	4.46
	5-Year High	3.78	2.01	2.89	4.47
	5-Year Low	1.23	1.09	1.83	2.85
	5-Year Median	2.18	1.52	2.5	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 36% (91 out of 254)



Top Peers

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

Industry Comparison Industry: Banks - West				Industry Peers		
	SIVB Neutral	X Industry	S&P 500	EWBC Neutral	FRC Neutral	ZION Neutral
VGM Score	D	-	-	B	C	C
Market Cap	13.09 B	351.94 M	24.31 B	6.90 B	19.45 B	8.70 B
# of Analysts	10	3	13	2	9	10
Dividend Yield	0.00%	1.87%	1.76%	2.32%	0.66%	2.67%
Value Score	B	-	-	A	C	B
Cash/Price	0.54	0.31	0.04	0.59	0.11	0.32
EV/EBITDA	5.11	7.24	14.12	3.86	21.60	5.36
PEG Ratio	1.74	1.59	2.05	1.01	2.83	1.39
Price/Book (P/B)	2.16	1.40	3.34	1.41	2.29	1.25
Price/Cash Flow (P/CF)	14.85	11.23	13.66	8.58	19.66	9.10
P/E (F1)	13.08	12.94	18.82	10.05	21.73	11.52
Price/Sales (P/S)	3.90	3.32	2.64	3.35	4.82	2.68
Earnings Yield	7.70%	7.73%	5.29%	9.94%	4.60%	8.68%
Debt/Equity	0.12	0.13	0.72	0.18	1.43	0.18
Cash Flow (\$/share)	17.09	2.68	6.94	5.52	5.87	5.60
Growth Score	D	-	-	F	B	F
Hist. EPS Growth (3-5 yrs)	36.95%	16.09%	10.56%	16.88%	13.17%	29.02%
Proj. EPS Growth (F1/F0)	-7.90%	-1.21%	7.49%	5.34%	4.82%	2.86%
Curr. Cash Flow Growth	91.61%	26.53%	14.83%	23.88%	13.96%	30.46%
Hist. Cash Flow Growth (3-5 yrs)	34.23%	12.69%	9.00%	44.01%	22.33%	12.61%
Current Ratio	0.66	0.91	1.23	1.01	1.02	0.84
Debt/Capital	10.34%	11.49%	42.99%	15.53%	56.35%	14.19%
Net Margin	33.95%	26.30%	11.08%	31.98%	22.69%	26.50%
Return on Equity	20.38%	11.32%	17.16%	14.90%	11.23%	12.27%
Sales/Assets	0.05	0.05	0.55	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	0.92%	0.92%	4.23%	2.07%	10.72%	-1.14%
Momentum Score	D	-	-	A	D	A
Daily Price Chg	0.84%	0.23%	0.73%	0.23%	1.01%	0.69%
1 Week Price Chg	0.56%	-0.94%	0.39%	-3.45%	-2.86%	-1.99%
4 Week Price Chg	1.05%	-0.76%	1.84%	-2.23%	-0.41%	-0.33%
12 Week Price Chg	20.60%	4.48%	6.48%	12.59%	10.07%	11.71%
52 Week Price Chg	17.67%	10.80%	23.15%	0.11%	36.89%	15.12%
20 Day Average Volume	344,897	17,371	1,578,594	843,950	845,554	1,488,475
(F1) EPS Est 1 week change	0.59%	0.00%	0.00%	0.68%	0.17%	0.32%
(F1) EPS Est 4 week change	0.02%	0.00%	0.00%	1.49%	-0.15%	0.09%
(F1) EPS Est 12 week change	1.12%	-2.49%	-0.48%	-3.03%	0.37%	2.31%
(Q1) EPS Est Mthly Chg	-1.11%	0.00%	0.00%	0.00%	-0.80%	-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	D
Momentum Score	D
VGM Score	D

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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