

SVB Financial Group (SIVB)

\$161.89 (As of 04/15/20)

Price Target (6-12 Months): **\$135.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Shares of SVB Financial have underperformed the industry over the past year. The company has an impressive earnings surprise history. Its earnings have surpassed the Zacks Consensus Estimate in each of the trailing four quarters. The presence of high debt levels might limit the company's flexibility in terms of procuring additional finance. Moreover, elevated operating expenses due to rise in compensation costs will likely hurt the bottom line to an extent in the near term. While a strong balance sheet position, growth in loans and deposits, efforts to improve non-interest income, global expansion strategy and the SVB Leerink buyout are expected to support the company's profitability, lower interest rates amid the Fed's accommodative policy stance are expected to put pressure on margins, thereby hurting the top line to some extent.

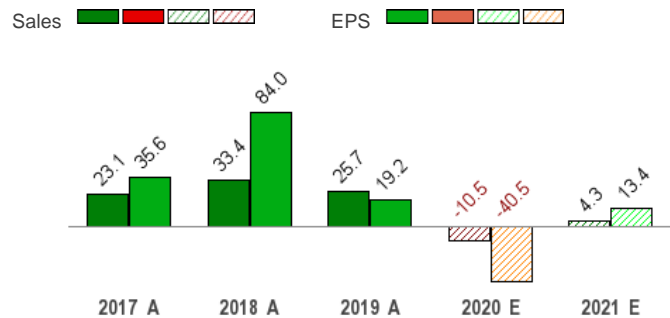
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$270.95 - \$127.39
20 Day Average Volume (sh)	664,347
Market Cap	\$8.3 B
YTD Price Change	-35.5%
Beta	2.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Banks - West
Zacks Industry Rank	Bottom 5% (240 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.2%
Last Sales Surprise	7.7%
EPS F1 Est- 4 week change	-29.6%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	7.5
P/E F1	12.5
PEG F1	1.7
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	850 E	874 E	905 E	921 E	3,100 E
2020	771 E	753 E	766 E	773 E	2,971 E
2019	793 A	863 A	815 A	847 A	3,318 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.65 E	\$3.71 E	\$3.80 E	\$3.84 E	\$14.67 E
2020	\$3.09 E	\$2.76 E	\$3.11 E	\$3.67 E	\$12.94 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 04/15/2020. The reports text is as of 04/16/2020.

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.

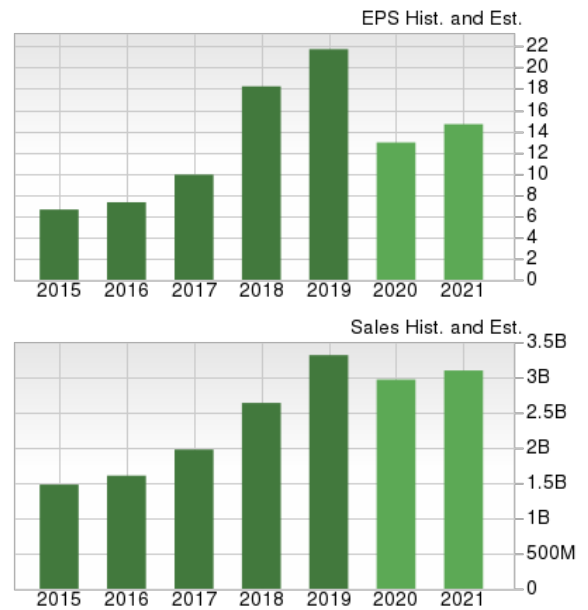
SVB Financial has four operating segments:

- **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 Dec 31, 2019, the company had total assets worth \$71 billion, total deposits of \$61.76 billion, net loans of \$32.86 billion and shareholders' equity of \$6.47 billion.



Reasons To Sell:

- ▼ 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. Further, management anticipates adjusted expenses to rise in the high-single-digit range in 2020.
- ▼ Moreover, while SVB Financial had been witnessing an increase in net interest margin (NIM) over the past several years, the trend has reversed off late. The company's NIM declined to 3.51% in 2019 from 3.57% in 2018, mainly due to lower interest rates. Despite steady improvement in loan demand, NIM is expected to be hurt to some extent in the near term due to the Federal Reserve's accommodative policy stance. Notably, management expects NIM in 2020 to be 3.10-3.20%.
- ▼ 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 Dec 31, 2019, SVB Financial's long-term debt amounted to \$348 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 (85.8% of the total loan portfolio as of Dec 31, 2019). Such high concentration can be risky for the company as lack of diversifying efforts might hamper its top and bottom-line growth.
- ▼ Shares of SVB Financial have underperformed the industry over the past year. Moreover, the company's current-year earnings estimates have been revised 9.8% lower over the past seven days. Further, the stock seems overvalued compared with the broader industry. Its current PEG and price/book (P/B) ratios are above the respective industry averages. Therefore, given the concerns and downward estimate revisions, the stock has limited upside potential.

Elevated expenses will likely hurt SVB Financial's bottom line. Pressure on margins due to lower rates is also a concern. Also, high debt obligation might limit the company's flexibility.

Risks

- 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 (constituting 36.8% of total revenues in 2019) will continue supporting top-line growth. Notably, the company is also 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.
 - 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 2020. Further, in October 2019, the company announced a new stock-repurchase program worth up to \$350 million, expiring on Oct 29, 2020. As of Dec 31, 2019, no shares were purchased under this program. These efforts reflect strong balance sheet position and are expected to enhance shareholder value.
 - SVB Financial's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 19.33% compares favorably with 11.04% for the industry.
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Last Earnings Report

SVB Financial Q4 Earnings & Revenues Beat Estimates

SVB Financial's fourth-quarter 2019 earnings of \$5.06 per share outpaced the Zacks Consensus Estimate of \$4.59. Also, the bottom line was 2% higher than the year-ago quarter's reported figure.

Results were driven by higher revenues as well as growth in loan and deposit balances. Further, the SVB Leerink acquisition offered support. However, higher non-interest expenses and provisions along with contracting NIM were major headwinds.

Net income available to common shareholders was \$262.9 million, down 1.3% from the prior-year quarter.

For 2019, earnings per share of \$21.73 surpassed the consensus estimate of \$21.23 and jumped 20% year over year. Net income available to common shareholders was \$1.14 billion, up 16.7%.

Revenues & Expenses Rise

Net revenues were \$847 million, increasing 20.8% year over year. Further, the top line surpassed the Zacks Consensus Estimate of \$786.8 million.

For 2019, net revenues jumped 25.7% to \$3.32 billion. Also, it beat the consensus estimate of \$3.24 billion.

Net interest income was \$533.7 million, increasing 3.7% year over year. However, NIM on a fully-taxable equivalent basis contracted 43 basis points (bps) to 3.26%.

Non-interest income was \$313.3 million, surging 67.8% year over year. The upswing resulted from rise in all the components of fee income.

Non-interest expenses rose 49.8% to \$460.8 million. Increase in all expenses resulted in the upside.

Non-GAAP core operating efficiency ratio was 54.40%, up from the prior-year quarter's 45.42%. A rise in efficiency ratio indicates lower profitability.

Loans and Deposit Balances Increase

As of Sep 30, 2019, SVB Financial's loans, net of unearned income amounted to \$33.2 billion, increasing 6.8% from the prior quarter, while total deposits grew 3.7% to \$61.8 billion.

Credit Quality: Mixed Bag

The ratio of net charge-offs to average gross loans was 0.18%, down 2 bps. Also, ratio of allowance for loan losses to total gross loans was 0.91%, down 8 bps year over year.

However, provision for credit losses was \$13.2 million, up 29.6% from the prior-year quarter.

Capital & Profitability Ratios Decline

As of fourth-quarter end, CET 1 risk-based capital ratio was 12.64% compared with 13.41% at the end of the prior-year quarter. Total risk-based capital ratio was 14.30% as of Dec 31, 2019, down from 14.45% on Dec 31, 2018.

Return on average assets on an annualized basis was 1.51%, down from the 1.83% recorded in the year-ago quarter. Also, return on average equity was 17.03%, decreasing from 20.61%.

2020 Outlook

Management provided 2020 guidance based on expectations of no further changes in the Federal Funds rates.

The company projects average loan balance growth in the low-teens, while average deposit balance growth is expected to be in the mid-teens.

Additionally, NII is anticipated to rise in low-single digits and NIM is projected to be 3.10-3.20%.

Further, core fee income is expected to grow in low-double digits. Including the SVB Leerink acquisition, it is likely to increase in high-single digits.

Non-GAAP non-interest expenses (excluding expenses related to non-controlling interests and including SVB Leerink) are projected to rise in the high-single-digit range.

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 are likely to be 0.30-0.50%.

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

Quarter Ending **12/2019**

Report Date	Jan 23, 2020
Sales Surprise	7.65%
EPS Surprise	10.24%
Quarterly EPS	5.06
Annual EPS (TTM)	21.73

Valuation

SVB Financial's shares are down 35.5% in the year-to-date period and 34.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.3% and 24.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 28.3% and 19.1%, respectively.

The S&P 500 index is down 11.8% in the year-to-date period and 2.4% in the past year.

The stock is currently trading at 8.48X forward 12 months earnings, which compares to 12.06X for the Zacks sub-industry, 13.70X for the Zacks sector and 18.98X 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 16.16X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$135 price target reflects 7.07X 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	8.48	12.06	13.7	18.98
	5-Year High	24.9	18.23	16.19	19.34
	5-Year Low	6.89	9.78	11.23	15.19
	5-Year Median	16.16	14.49	13.95	17.45
P/TB TTM	Current	1.38	1.33	2.46	10.73
	5-Year High	3.84	2.65	3.97	12.78
	5-Year Low	1.12	1.09	1.97	6.02
	5-Year Median	2.23	1.97	3.45	9.15
P/S F12M	Current	2.52	2.99	4.93	3.16
	5-Year High	6.7	4.75	6.65	3.44
	5-Year Low	2.05	2.71	4.93	2.54
	5-Year Median	4.18	3.97	6.03	3.01

As of 04/15/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - West				Industry Peers		
	SIVB Underperform	X Industry	S&P 500	EWBC Underperform	FRC Neutral	ZION Underperform
VGM Score	C	-	-	C	F	D
Market Cap	8.34 B	249.49 M	19.18 B	3.70 B	15.92 B	4.59 B
# of Analysts	10	4	14	5	9	13
Dividend Yield	0.00%	3.00%	2.24%	4.22%	0.80%	4.86%
Value Score	C	-	-	A	F	B
Cash/Price	0.71	0.40	0.06	0.95	0.10	0.42
EV/EBITDA	1.36	4.24	11.46	0.28	21.06	4.88
PEG Ratio	1.62	1.30	2.08	0.76	3.01	1.49
Price/Book (P/B)	1.33	0.78	2.58	0.76	1.73	0.70
Price/Cash Flow (P/CF)	7.28	6.70	10.15	4.57	14.91	4.62
P/E (F1)	12.18	9.83	17.24	7.57	22.39	11.44
Price/Sales (P/S)	2.36	1.92	1.99	1.77	3.71	1.42
Earnings Yield	7.99%	10.18%	5.64%	13.20%	4.46%	8.75%
Debt/Equity	0.06	0.13	0.70	0.18	1.96	0.56
Cash Flow (\$/share)	22.23	2.79	7.01	5.70	6.34	6.07
Growth Score	C	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	38.74%	15.58%	10.92%	17.10%	13.27%	30.32%
Proj. EPS Growth (F1/F0)	-40.44%	-21.49%	-2.92%	-25.29%	-18.80%	-43.44%
Curr. Cash Flow Growth	19.94%	5.43%	5.93%	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	0.67	0.91	1.24	1.01	1.06	0.88
Debt/Capital	4.99%	11.54%	42.36%	15.18%	63.50%	33.93%
Net Margin	32.20%	26.46%	11.64%	32.22%	21.46%	25.15%
Return on Equity	19.33%	11.04%	16.74%	14.73%	10.64%	12.19%
Sales/Assets	0.05	0.05	0.54	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-10.46%	0.00%	0.00%	-9.19%	7.59%	-6.07%
Momentum Score	D	-	-	D	F	D
Daily Price Chg	-5.91%	-5.20%	-3.26%	-8.75%	-5.08%	-5.18%
1 Week Price Chg	33.26%	16.14%	16.01%	36.57%	21.67%	25.59%
4 Week Price Chg	7.56%	1.52%	16.73%	-14.78%	10.76%	1.97%
12 Week Price Chg	-36.84%	-37.06%	-22.44%	-45.06%	-19.44%	-41.45%
52 Week Price Chg	-34.12%	-34.07%	-14.41%	-49.76%	-8.41%	-42.08%
20 Day Average Volume	664,347	31,131	3,301,889	2,136,542	1,813,632	4,281,341
(F1) EPS Est 1 week change	-9.78%	0.00%	0.00%	0.12%	-9.53%	-23.48%
(F1) EPS Est 4 week change	-29.57%	-14.80%	-6.78%	-21.10%	-19.53%	-41.90%
(F1) EPS Est 12 week change	-33.50%	-18.63%	-9.07%	-26.52%	-21.43%	-44.73%
(Q1) EPS Est Mthly Chg	-28.63%	-11.11%	-11.31%	-15.00%	-20.69%	-55.00%

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	C
Momentum Score	D
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.

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