

SVB Financial Group (SIVB)

\$187.46 (As of 05/18/20)

Price Target (6-12 Months): **\$197.00**

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:D

Value: B

Growth: F

Momentum: C

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. First-quarter 2020 results reflect a significant rise in provisions and lower margins. Elevated operating expenses due to a rise in compensation costs will likely hurt the bottom line to some extent. Also, lower interest rates amid the Fed's accommodative policy stance are likely to put pressure on margins, in turn hurting the top line to some extent. Further, uncertainties related to the coronavirus outbreak make us apprehensive. However, 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 profitability. Its capital deployments look sustainable.

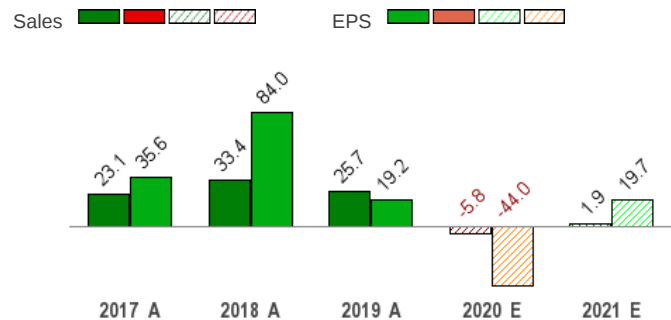
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$270.95 - \$127.39
20 Day Average Volume (sh)	498,391
Market Cap	\$9.7 B
YTD Price Change	-25.3%
Beta	2.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Banks - West
Zacks Industry Rank	Bottom 33% (171 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-16.9%
Last Sales Surprise	7.2%
EPS F1 Est- 4 week change	-5.8%
Expected Report Date	07/23/2020
Earnings ESP	-1.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	817 E	833 E	854 E	861 E	3,185 E
2020	826 A	753 E	762 E	761 E	3,126 E
2019	793 A	863 A	815 A	847 A	3,318 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.51 E	\$3.68 E	\$3.91 E	\$4.03 E	\$14.58 E
2020	\$2.55 A	\$2.87 E	\$3.28 E	\$3.25 E	\$12.18 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.

P/E TTM	10.0
P/E F1	15.4
PEG F1	2.1
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/18/2020. The reports text is as of 05/19/2020.

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.

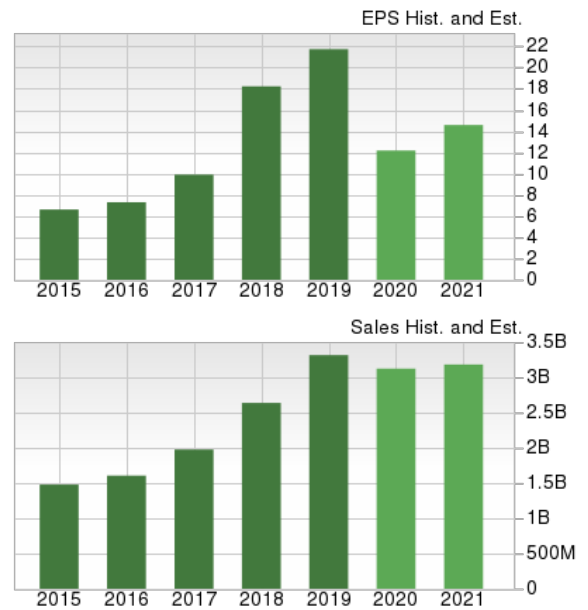
SVB Financial has four operating segments:

- **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 Mar 31, 2020, the company had total assets worth \$75 billion, deposits of \$61.9 billion, net loans of \$35.4 billion and shareholders' equity of \$7 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 quarter on a year-over-year basis. 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 Mar 31, 2020, SVB Financial had total debt of \$34.9 billion, with a large portion being short-term borrowings, which increased substantially in the first quarter attributed to cash management strategies to fight the pandemic. Despite this rise in debt level, its time-interest-earned ratio improved sequentially to 46.3 at the end of first quarter. Also, the total debt to total capital of 4.62% improved sequentially. These, along with the record of consistent earnings growth, indicates that the company has a lower credit risk and less chance of defaulting on interest and/or debt repayments if the economic situation worsens.
- ▲ 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 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 Mar 31, 2020, the company had \$290 million in authorized buybacks remaining under that program. Notably, the bank has paused repurchases in response to coronavirus concerns. Given strong balance sheet position and earnings strength, its capital deployments look sustainable.
- ▲ SVB Financial's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 15.82% compares favorably with 9.98% for the industry.

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:

- ▼ 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 in first-quarter 2020. As the company has been investing in upgrading technology, operating expenses are likely to remain elevated.
- ▼ While SVB Financial had been witnessing an increase in net interest margin (NIM) for 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-quarter 2020. Despite decent loan demand, NIM is expected to be hurt to some extent in the near term due to the Federal Reserve's accommodative policy stance.
- ▼ Shares of SVB Financial have outperformed the industry over the past six months. However, the company's earnings estimates for the current year have been revised 5.9% lower over the past 30 days. Therefore, given the ongoing concerns and downward estimate revisions, the stock has limited upside potential.

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 Q1 Earnings Miss, Provisions & Costs Rise

SVB Financial's first-quarter 2020 earnings of \$2.55 per share lagged the Zacks Consensus Estimate of \$3.07. Also, the bottom line was 53.1% lower than the year-ago quarter's reported figure.

Results were primarily hurt by a significant increase in provisions along with higher expenses. Moreover, contracting net interest margin (NIM) was a headwind. Nevertheless, the company recorded higher revenues as well as an improvement in loan balances.

Net income available to common shareholders was \$132.3 million, down 54.2% from the prior-year quarter.

Revenues Improve, Expenses Rise

Net revenues were \$826.1 million, increasing 4.1% year over year. Further, the top line surpassed the Zacks Consensus Estimate of \$770.9 million.

Net interest income (NII) was \$524.1 million, increasing 2.2% year over year. However, NIM, on a fully-taxable equivalent basis, contracted 69 basis points (bps) to 3.12%.

Non-interest income was \$301.9 million, up 7.7% year over year. The upswing resulted from an increase in net gains on investment securities, foreign exchange fees, credit card fees, deposit service charges, letters of credit and standby letters of credit fees, and commissions.

Non-interest expenses rose 9.3% to \$399.6 million. Increase in all expense components, except for business development and travel costs, resulted in the upside.

Non-GAAP core operating efficiency ratio was 47.71%, up from the prior-year quarter's 44.71%. A rise in efficiency ratio indicates lower profitability.

Loans and Deposit Balances Increase

As of Mar 31, 2020, SVB Financial's net loans amounted to \$35.4 billion, increasing 7.8% from the prior quarter, while total deposits grew marginally to \$61.9 billion.

Credit Quality Deteriorates

The ratio of net charge-offs to average loans was 0.35%, up 24 bps year over year. Also, the ratio of allowance for loan losses to total loans was 1.53%, up 50 bps year over year.

Provision for credit losses increased significantly from \$28.6 million to \$243.5 million.

Capital Ratios Mixed, Profitability Ratios Worsen

As of the end of the first quarter, CET 1 risk-based capital ratio was 12.36% compared with 12.89% at the end of the prior-year quarter. Total risk-based capital ratio was 14.44% as of Mar 31, 2020, up from 13.94% on Mar 31, 2019.

Return on average assets on an annualized basis was 0.73%, down from 2.04% recorded in the year-ago quarter. Also, return on average equity was 8.17%, decreasing from 22.16%.

Second-Quarter 2020 Outlook

Given the uncertainties related to the impact of the coronavirus outbreak, management withdrew its 2020 guidance that it provided earlier. Now, the company has provided an outlook for the second quarter.

Both average loans and deposit balances are expected to be stable or slightly down sequentially.

NII is anticipated to be between \$490 million and \$520 million. NIM is projected to be 2.90-3.05%.

Non-GAAP non-interest expenses (excluding expenses related to non-controlling interests) are projected to range between \$390 million and \$410 million.

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

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	7.15%
EPS Surprise	-16.94%
Quarterly EPS	2.55
Annual EPS (TTM)	18.84

Valuation

SVB Financial's shares are down 25.3% in the year-to-date period and 19.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.5% and 29.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 29.2% and 22.6%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and up 0.8% in the past year.

The stock is currently trading at 14.32X forward 12 months earnings, which compares to 12.46X for the Zacks sub-industry, 14.66X for the Zacks sector and 20.83X 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 15.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$197 price target reflects 15.00X 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	14.32	12.46	14.66	20.83
	5-Year High	24.9	18.23	16.18	20.87
	5-Year Low	6.89	10.28	11.58	15.23
	5-Year Median	15.92	14.47	13.94	17.49
P/TB TTM	Current	1.46	1.24	3.3	11.3
	5-Year High	3.84	2.65	4	12.77
	5-Year Low	1.09	1.09	2	5.97
	5-Year Median	2.23	1.97	3.49	9.21
P/S F12M	Current	3.07	2.76	5.81	3.24
	5-Year High	6.7	4.75	6.7	3.44
	5-Year Low	2.05	2.7	4.99	2.53
	5-Year Median	4.08	3.97	6.05	3.01

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Cathay General Bancorp (CATY)	Neutral	3
East West Bancorp, Inc. (EWBC)	Neutral	3
First Republic Bank (FRC)	Neutral	3
PacWest Bancorp (PACW)	Neutral	3
Western Alliance Bancorporation (WAL)	Neutral	3
First Hawaiian, Inc. (FHB)	Underperform	5
Umpqua Holdings Corporation (UMPQ)	Underperform	5
Zions Bancorporation, N.A. (ZION)	Underperform	3

Industry Comparison Industry: Banks - West				Industry Peers		
	SIVB	X Industry	S&P 500	EWBC	FRC	ZION
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	F	F
Market Cap	9.66 B	248.45 M	20.09 B	4.94 B	17.32 B	4.96 B
# of Analysts	11	4	14	6	9	13
Dividend Yield	0.00%	2.72%	2.1%	3.15%	0.79%	4.50%
Value Score	B	-	-	B	F	C
Cash/Price	1.07	0.47	0.07	0.94	0.24	0.60
EV/EBITDA	0.47	4.79	12.13	1.50	20.52	3.33
PEG Ratio	2.05	1.92	2.72	1.00	2.78	3.82
Price/Book (P/B)	1.41	0.91	2.75	1.01	1.88	0.72
Price/Cash Flow (P/CF)	8.43	7.07	10.86	6.13	15.94	4.98
P/E (F1)	15.34	11.64	20.10	10.00	20.68	16.68
Price/Sales (P/S)	2.71	2.14	2.05	2.36	4.03	1.55
Earnings Yield	6.50%	8.61%	4.77%	10.00%	4.84%	5.99%
Debt/Equity	0.05	0.21	0.76	0.16	1.96	0.26
Cash Flow (\$/share)	22.23	2.79	7.01	5.70	6.34	6.07
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	37.90%	12.89%	10.87%	16.94%	12.89%	28.77%
Proj. EPS Growth (F1/F0)	-43.94%	-26.81%	-10.31%	-24.26%	-6.03%	-58.13%
Curr. Cash Flow Growth	19.94%	5.43%	5.51%	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	0.72	0.91	1.28	0.99	1.06	0.85
Debt/Capital	4.62%	17.60%	44.46%	14.01%	63.50%	19.37%
Net Margin	27.57%	24.25%	10.59%	31.34%	21.46%	19.32%
Return on Equity	15.82%	9.98%	16.29%	14.00%	10.64%	9.36%
Sales/Assets	0.05	0.05	0.55	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-5.78%	0.00%	-2.49%	-6.69%	10.11%	-1.75%
Momentum Score	C	-	-	C	A	D
Daily Price Chg	8.49%	8.06%	5.21%	9.65%	5.39%	11.92%
1 Week Price Chg	-7.03%	-10.05%	-4.56%	-9.29%	-7.70%	-12.04%
4 Week Price Chg	7.32%	1.78%	4.12%	24.64%	0.66%	3.31%
12 Week Price Chg	-22.94%	-28.46%	-16.39%	-19.66%	-11.60%	-30.90%
52 Week Price Chg	-19.49%	-27.42%	-5.84%	-26.46%	0.92%	-32.65%
20 Day Average Volume	498,391	30,955	2,651,378	1,364,592	953,925	3,088,650
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.85%	-4.13%	-4.48%	6.51%	0.09%	-25.97%
(F1) EPS Est 12 week change	-37.81%	-26.47%	-16.39%	-26.39%	-8.98%	-58.88%
(Q1) EPS Est Mthly Chg	-8.28%	-0.34%	-9.90%	6.06%	0.00%	10.93%

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	F
Momentum Score	C
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.