

Synovus Financial (SNV)

\$21.89 (As of 08/10/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: B

Summary

Shares of Synovus have outperformed the industry over the past three months. Second-quarter results reflect higher fee income, partly muted by a rise in provisions. Organic and inorganic growth strategies position Synovus well for the future. Also, a decent lending scenario might aid its interest income growth. Strategic investments in M&As reflect strong liquidity position of the company. Yet, the company displays an unimpressive earnings surprise history, having surpassed the Zacks Consensus Estimate in only one of the trailing four quarters and lagged the same in the rest three. Rising costs due to the company's efforts to improve customer experience and continue investments in technology might hinder bottom-line growth. Also, a significant exposure to the commercial real estate and consumer mortgage loans keep us apprehensive.

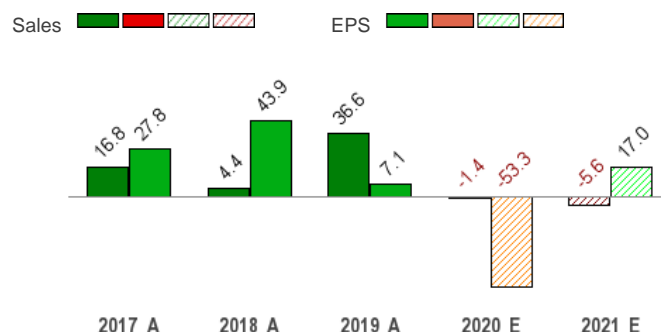
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.32 - \$10.91
20 Day Average Volume (sh)	1,328,372
Market Cap	\$3.2 B
YTD Price Change	-44.2%
Beta	1.65
Dividend / Div Yld	\$1.32 / 6.0%
Industry	Banks - Southeast
Zacks Industry Rank	Top 48% (121 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	53.3%
Last Sales Surprise	24.7%
EPS F1 Est- 4 week change	17.9%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	9.3
P/E F1	12.0
PEG F1	1.5
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	450 E	453 E	462 E	465 E	1,817 E
2020	477 A	550 A	467 E	475 E	1,924 E
2019	477 A	487 A	491 A	497 A	1,952 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.49 E	\$0.57 E	\$0.61 E	\$2.13 E
2020	\$0.21 A	\$0.23 A	\$0.45 E	\$0.52 E	\$1.82 E
2019	\$0.98 A	\$1.00 A	\$0.97 A	\$0.94 A	\$3.90 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 08/10/2020. The reports text is as of 08/11/2020.

Overview

Founded in 1888, Columbus, GA-based Synovus Financial Corp. is a diverse financial services company, which conducts its banking operations through Synovus Bank. It provides integrated financial services, including commercial and retail banking, financial management, insurance, and mortgage services to its customers through locally branded divisions of its wholly owned subsidiary bank, Synovus Bank, by offices located in Georgia, Alabama, South Carolina, Florida and Tennessee.

In May 2019, Synovus completed the transition of FCB Financial Holdings, after concluding the buyout in January. The systems, customers, branches and branding of FCB has been transitioned into Synovus. Notably, the deal was valued at \$2.9 billion. Following the merger's completion, about \$40 million in pre-tax synergies is anticipated to be fully realized by 2020. Excluding one-time charges, the acquisition is likely to be around 6.5% accretive to earnings per share in 2020.

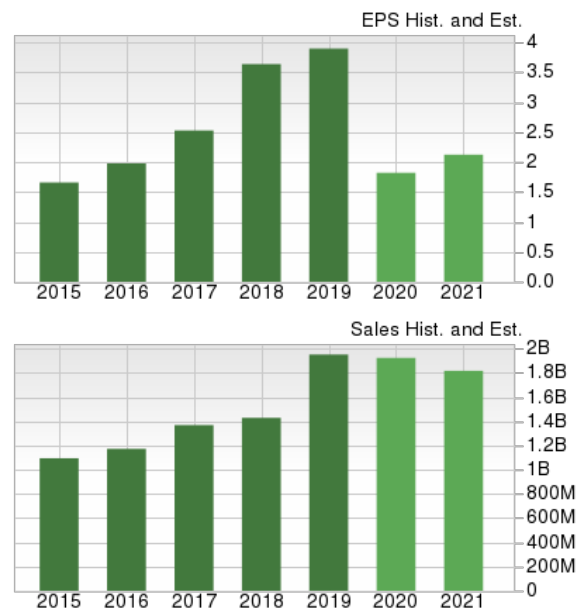
In September 2017, Synovus completed the purchase of Cabela's banking operation — World's Foremost Bank — which issues store-branded credit cards.

In October 2016, Synovus acquired Atlanta-based specialty financial services company, Entaire Global Companies, Inc., for an up-front payment of \$30 million.

In January 2014, Synovus Bank completed a transaction with IberiaBank Corp., according to which the latter acquired 4 office locations, \$87.2 million in loans, net, and \$191.4 million in deposits associated with the Memphis, TN-based operations of Trust One Bank. Trust One Bank is a division of Synovus Bank.

In May 2013, Synovus Bank acquired approximately \$54 million in deposits – including all uninsured deposits – of Valdosta, GA-based failed Sunrise Bank, a subsidiary of Capitol Bancorp, Ltd. from the Federal Deposit Insurance Corporation (FDIC).

As of Jun 30, 2020, Synovus had \$54.1 billion in assets, \$39.3 billion in loans, \$44.2 billion in total deposits and \$5.1 billion in shareholders' equity.



Reasons To Buy:

- ▲ Synovus is focused on its organic growth strategy. This is reflected by continued loan growth over the past few years. Loans witnessed a CAGR of 13.5% for the last five years (2015-2019). In addition, net interest income (NII) saw a CAGR of 17.8% during the same time frame, partly driven by the acquisitions completed during this period. Though NII declined in the first six months of 2020, loans continued to increase. Synovus has debt worth \$2.85 billion as of Jun 30, 2020, which remains manageable due to the company's strong liquid position. Also, it is well-poised to enhance its NII in the quarters ahead, driven by steady growth in loan demand.
- ▲ Driven by its solid liquidity position, Synovus has been making strategic investments through mergers and acquisitions (M&As). For the past few years, the company has undertaken an acquisition spree, fortifying its footprint in various areas. In May 2019, it completed the transition of FCB Financial Holdings and about \$40 million in pre-tax synergies is anticipated to be fully realized by 2020. Moreover, the company looks forward to tapping similar opportunities in the future as well.
- ▲ Recovering from the adverse impact of the financial crisis, Synovus has been substantially reducing the percentage of loans in the residential construction and development, and land acquisition portfolios. Also, credit quality trends though volatile, are expected to continue to show broad-based improvement.
- ▲ Shares of Synovus have outperformed the industry over the past three months. With this favorable trend, earnings estimates for the current year have been revised 32.8% upward over the past 30 days. Also, the stock seems undervalued when compared with the broader industry. Its current price-to-book and price-to-cash flow ratios are below the respective industry averages. Also, it has a Value Score of B. Therefore, given the progress in fundamentals and positive estimate revisions, the stock has upside potential.

Improving interest income and credit quality, along with a strong capital position, will continue to support the company's financials. Also, manageable debt levels reflect strong liquidity.

Reasons To Sell:

- ▼ Despite certain cost-saving initiatives, Synovus has been witnessing a rise in expenses. Over the last five years (ended 2019), expenses witnessed a CAGR of 11.2% with the trend persisting in the first two quarters of 2020 as well. Further, expenses are likely to rise with continued investments in technology, talent and to improve customer experience. Therefore, such rise in expenses will limit bottom-line expansion.
- ▼ Synovus raised its quarterly dividend by 10% in March 2020. Also, in July 2019, the company's board of directors increased its prior \$400-million share repurchase authorization to \$725 million for 2019. Though Synovus boasts an impressive capital deployment plan, its debt/equity ratio is unfavorable compared with the broader industry. Hence, capital deployment activities might not be sustainable.
- ▼ The loan portfolio of Synovus comprises majorly commercial real estate, home equity and consumer mortgage loans (nearly 77% as of Jun 30, 2020). Such high exposure can be risky for the company if the housing sector weakens.

Rising cost base on account of increased investments in technology and to improve customer experience might limit bottom-line expansion. Lack of diversification in loan portfolio remains a concern.

Last Earnings Report

Synovus Q2 Earnings Beat Estimates, Provisions Rise

Synovus reported second-quarter 2020 adjusted earnings of 23 cents per share beat the Zacks Consensus Estimate of 15 cents. Also, the reported figure was 77% lower than the prior-year quarter number.

Results reflected higher fee income on strength in mortgage banking in the quarter. Moreover, strong loan and deposit balances stoked organic growth. However, lower net interest income and higher provisions on the coronavirus scare were key concerns.

Including certain non-recurring items, net income available to common shareholders was \$84.9 million or 57 cents per share compared with \$153 million or 96 cents per share recorded in the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	24.70%
EPS Surprise	53.33%
Quarterly EPS	0.23
Annual EPS (TTM)	2.35

Net Interest Income Falls, Fee Income Grows, Expenses Rise

Total revenues in the second quarter were \$550.9 million, up 12.9% from the prior-year quarter. Also, the top-line figure outpaced the Zacks Consensus Estimate of \$441.1 million.

Net interest income declined 6% year over year to \$376.6 million. Also, net interest margin shrunk 56 basis points (bps) year over year to 3.13%.

Non-interest income climbed 93.2% on a year-over-year basis to \$173.5 million. A substantial rise in mortgage banking revenues drove the upside.

Non-interest expenses were \$284.1 million, up 7.6% year over year. The increase mainly resulted from higher salaries and other personnel expenses, net occupancy and equipment expenses, third-party processing, and other services and professional fees.

Adjusted efficiency ratio came in at 57.91% as compared with 52.08% reported in the year-earlier quarter. A rise in ratio indicates deterioration in profitability.

Total deposits were \$44.2 billion, up 11% sequentially. Total loans climbed 4.3% sequentially to \$39.9 billion.

Credit Quality: A Concern

Credit metrics deteriorated for Synovus in the June-end quarter.

Non-performing loans were up 18.8% year over year to \$147.4 million. The non-performing loan ratio came in at 0.37%, up 3 bps year over year.

Total non-performing assets amounted to \$177.7 million, underlining a rise of 27.3% year over year. The non-performing asset ratio expanded 5 bps year over year to 0.44%.

Net charge-offs climbed significantly on a year-over-year basis to \$24 million. The annualized net charge-off ratio was 0.24%, up 11 bps from the year-earlier quarter. Provision for loan losses was \$141.9 million compared with \$12.1 million in the prior-year quarter. The substantial rise resulted from the coronavirus concerns.

Capital Position Strong

Tier 1 capital ratio and total risk-based capital ratio were 10.15% and 12.7%, respectively, compared with 10.09% and 12.11% as of Jun 30, 2019.

Also, as of Jun 30, 2020, Common Equity Tier 1 ratio (fully phased-in) was 8.9% compared with the 9.61% witnessed in the year-ago quarter. Tier 1 Leverage ratio was 8.38% compared with 8.89% recorded in the year-earlier period.

2020 Outlook

Management expects NII to be higher in remaining 2020. Also, net interest margin is anticipated to remain relatively stable in the second half of 2020.

The company expects loan growth to be flat for the remainder of 2020, excluding the impact of loans forgone under Paycheck Protection Program.

The company expects deposits to decline in the second half of 2020 as excess liquidity is deployed. Also, rate paid on deposits might decline further, led by strategic turnover within its core and broker time deposit portfolios.

Fee revenue is expected to be down, due to slowdown in mortgage.

Management expects expenses to decline in the second half of the year, mainly led by lower personnel expense.

Some pressure on credit metrics is expected over the next few quarters, which aligns with the reserve builds in the first half of the year under the pro-cyclical nature of CECL.

Recent News

Dividend Update

On Jun 5, Synovus' board of directors announced a common stock quarterly dividend of 33 cents per share, up 10% from previous payout. The dividend was paid on Jul 1 to shareholders on record as of Jun 18.

Valuation

Synovus Financial's shares are down 44.2% in the year-to-date period and 37.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33.7% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.5% and 6.8%, respectively.

The S&P 500 Index is up 3.9% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 10.9X forward 12 months earnings, which compares to 12.36X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.75X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.22X and as low as 3.79X, with a 5-year median of 14.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 11.20X forward earnings.

The table below shows summary valuation data for SNV

Valuation Multiples - SNV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.9	12.36	16.65	22.75
	5-Year High	22.22	18.13	16.65	22.75
	5-Year Low	3.79	8.32	11.59	15.25
	5-Year Median	14.67	13.54	14.26	17.58
P/TB TTM	Current	0.82	1.51	3.37	15.31
	5-Year High	2.47	3.26	4	15.31
	5-Year Low	0.49	1.17	2.01	5.96
	5-Year Median	1.51	2.42	3.48	9.56
P/S F12M	Current	1.74	2.61	6.22	3.66
	5-Year High	4.56	4.96	6.66	3.66
	5-Year Low	1	2.29	4.96	2.53
	5-Year Median	3.29	3.87	6.06	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	3
Commerce Bancshares, Inc. (CBSH)	Neutral	3
CullenFrost Bankers, Inc. (CFR)	Neutral	3
Comerica Incorporated (CMA)	Neutral	3
East West Bancorp, Inc. (EWBC)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	4
SVB Financial Group (SIVB)	Neutral	3
Webster Financial Corporation (WBS)	Neutral	3

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	SNV	X Industry	S&P 500	CBSH	CMA	SIVB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	F	F
Market Cap	3.22 B	214.80 M	23.56 B	6.69 B	5.71 B	12.37 B
# of Analysts	8	3	14	8	12	11
Dividend Yield	6.03%	2.45%	1.71%	1.80%	6.63%	0.00%
Value Score	B	-	-	C	D	D
Cash/Price	0.50	0.67	0.07	0.40	2.42	1.17
EV/EBITDA	5.19	4.64	13.39	6.60	-0.45	-0.47
PEG Ratio	1.56	2.79	2.92	NA	13.37	2.13
Price/Book (P/B)	0.71	0.80	3.18	2.08	0.77	1.74
Price/Cash Flow (P/CF)	5.02	7.62	12.69	13.80	4.54	10.80
P/E (F1)	12.51	12.30	22.16	26.10	23.00	17.03
Price/Sales (P/S)	1.33	1.88	2.55	4.74	1.63	3.49
Earnings Yield	8.31%	8.02%	4.33%	3.83%	4.34%	5.87%
Debt/Equity	0.52	0.27	0.77	0.00	0.88	0.12
Cash Flow (\$/share)	4.36	2.51	6.94	4.35	9.04	22.23
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	20.13%	13.83%	10.41%	13.21%	25.58%	36.25%
Proj. EPS Growth (F1/F0)	-53.27%	-25.56%	-6.51%	-35.79%	-77.33%	-35.11%
Curr. Cash Flow Growth	26.77%	10.94%	5.26%	-1.69%	-4.61%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	19.30%	13.66%	8.55%	8.41%	12.59%	34.83%
Current Ratio	0.93	0.95	1.34	0.72	1.02	0.71
Debt/Capital	31.54%	21.23%	44.59%	0.04%	45.53%	10.15%
Net Margin	17.25%	16.78%	10.13%	21.82%	17.42%	25.26%
Return on Equity	8.51%	8.19%	14.59%	10.03%	8.22%	13.61%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-1.41%	0.00%	-1.54%	-2.92%	-14.54%	-1.07%
Momentum Score	B	-	-	D	C	B
Daily Price Chg	2.19%	0.64%	0.91%	0.12%	2.55%	1.16%
1 Week Price Chg	6.30%	4.61%	2.30%	4.68%	3.89%	5.83%
4 Week Price Chg	14.55%	5.29%	8.54%	6.95%	14.00%	11.97%
12 Week Price Chg	18.90%	9.35%	13.68%	1.64%	21.96%	28.08%
52 Week Price Chg	-37.76%	-25.02%	3.71%	10.72%	-32.99%	23.25%
20 Day Average Volume	1,328,372	10,630	2,015,804	523,874	1,782,594	260,914
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	17.87%	7.86%	1.67%	-6.13%	54.70%	10.78%
(F1) EPS Est 12 week change	38.99%	8.09%	2.27%	-5.23%	56.76%	16.78%
(Q1) EPS Est Mthly Chg	6.98%	3.57%	0.67%	-0.47%	14.90%	4.42%

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	B
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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