

Synovus Financial (SNV)

\$16.45 (As of 05/14/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM: C

Value: B

Growth: F

Momentum: C

Summary

Shares of Synovus have underperformed the industry over the past six months. Also, the company display an unimpressive earnings surprise history. It beat the Zacks Consensus Estimate in one of the trailing four quarters and lagged in three. First-quarter results were affected by lower rates and substantial rise in provisions due to the coronavirus mayhem. Rising costs on efforts to improve customer experience and continued investments in technology might keep the bottom line under pressure. Also, unsustainable capital deployment activities keep us apprehensive. Yet, organic and inorganic growth strategies along with improving credit quality position it well for the future. Decent lending scenario is likely to support net interest income growth. Nevertheless, significant exposure to commercial real estate and consumer mortgage loans is a headwind.

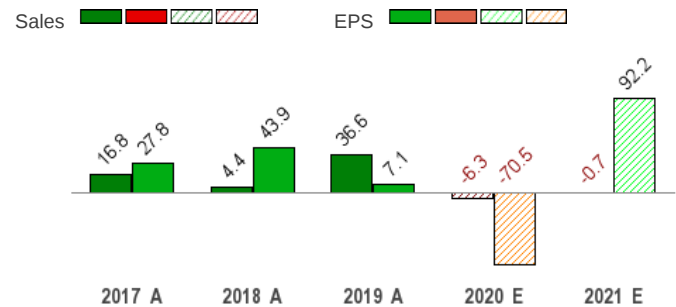
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.32 - \$10.91
20 Day Average Volume (sh)	2,361,845
Market Cap	\$2.4 B
YTD Price Change	-58.0%
Beta	1.71
Dividend / Div Yld	\$1.32 / 8.0%
Industry	Banks - Southeast
Zacks Industry Rank	Bottom 6% (239 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-32.3%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	-32.0%
Expected Report Date	07/21/2020
Earnings ESP	0.5%
P/E TTM	5.3
P/E F1	14.3
PEG F1	1.8
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	453 E	462 E	471 E	474 E	1,818 E
2020	477 A	449 E	456 E	458 E	1,830 E
2019	477 A	487 A	491 A	497 A	1,952 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.64 E	\$0.69 E	\$0.70 E	\$2.21 E
2020	\$0.21 A	\$0.15 E	\$0.33 E	\$0.33 E	\$1.15 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 05/14/2020. The reports text is as of 05/15/2020.

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.

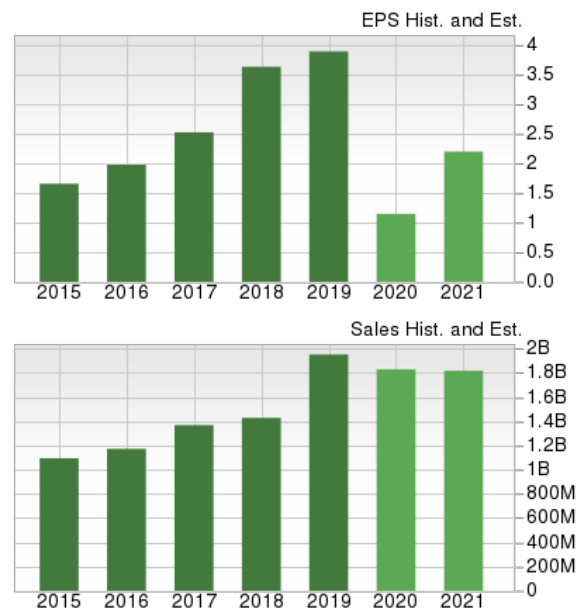
In September 2017, Synovus completed the purchase of Cabela's banking operation — World's Foremost Bank — which issues store-branded credit cards.

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 Mar 31, 2020, Synovus had \$50.6 billion in assets, \$38.3 billion in loans, \$39.8 billion in total deposits, and \$5 billion in shareholders' equity.



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%. Though the trend reversed in first-quarter 2020, 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. Notably, the company temporarily suspended share buybacks through the second quarter of 2020, following the "unprecedented challenge" from the coronavirus pandemic.
- ▼ The loan portfolio of Synovus comprises majorly commercial real estate, home equity and consumer mortgage loans (nearly 74% as of Mar 31, 2020). Such high exposure can be risky for the company if the housing sector weakens.
- ▼ Shares of Synovus have underperformed the industry over the past six months. With the unfavorable trend, earnings estimates for the current year have been revised 32% downward over the past 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

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.

Risks

- 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. Both metrics continued to rise in the first three months of 2020. Though Synovus held long-term debt worth \$3.2 billion as of Mar 31, 2020, the company remains liquid enough to manage these debt levels. Also, it is well-poised to enhance its NII in the quarters ahead, driven by steady growth in loan demand and gradual economic recovery.
 - 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. This is likely to continue with net charge-offs to be within the 15-25 basis points (bps) range in 2020.
 - Synovus 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.
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Last Earnings Report

Synovus Q1 Earnings Miss, Provisions Up on Coronavirus Woes

Synovus reported first-quarter 2020 adjusted earnings of 21 cents per share, missing the Zacks Consensus Estimate of 31 cents. Also, the reported figure comes in 79% lower than the prior-year quarter tally.

Results were negatively impacted by lower net interest income and higher provisions on the coronavirus scare. However, rising fee income and downtrend in expenses were tailwinds, boosting investors' optimism. Moreover, strong loan and deposit balances stoked organic growth.

Including certain non-recurring items, net income available to common shareholders came in at \$30.2 million or 20 cents per share compared with the \$117 million or 72 cents per share recorded in the prior-year quarter.

Quarter Ending 03/2020

Report Date	Apr 24, 2020
Sales Surprise	3.93%
EPS Surprise	-32.26%
Quarterly EPS	0.21
Annual EPS (TTM)	3.12

Net Interest Income Falls, Non-Interest Income Up, Expenses Down

Adjusted total revenues in the first quarter came in at \$473.4 million, down marginally from the prior-year quarter. However, the top-line figure outpaced the Zacks Consensus Estimate of \$459.1 million.

Net interest income declined 6% year over year to \$373.3 million. Also, net interest margin shrunk 24 basis points (bps) year over year to 3.35%.

Non-interest income climbed 30.8% on a year-over-year basis to \$103.9 million. Rise in almost all components of income drove this upside.

Non-interest expenses came in at \$276.3 million, down 5.5% year over year. These decreases mainly resulted from lower FDIC insurance and other regulatory fees, advertising expenses and amortization of intangibles. Higher salaries and other personnel expense, net occupancy and equipment expense, third-party processing and other services, professional fees and other expenses were on the downside.

Adjusted efficiency ratio came in at 56.72% as compared with the 50.24% reported in the year-earlier quarter. A rise in ratio indicates deterioration in profitability.

Total deposits came in at \$39.8 billion, up 3.6% sequentially. Total loans climbed 3% sequentially to \$38.3 billion.

Credit Quality: A Concern

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

Non-performing loans were up 8.6% year over year to \$156.3 million. The non-performing loan ratio came in at 0.41%, up 1 basis point year over year.

Total non-performing assets amounted to \$190 million, underlining a rise of 22.3% year over year. The non-performing asset ratio expanded 6 bps year over year to 0.50%.

Net charge-offs climbed 17.5% on a year-over-year basis to \$20.1 million. The annualized net charge-off ratio was 0.21%, up 2 bps from the year-earlier quarter. Provision for loan losses increased significantly from the prior-year quarter to \$158.7 million on coronavirus concerns and reflecting first quarter under Current Expected Credit Loss.

Strong Capital Position

Tier 1 capital ratio and total risk based capital ratio were 9.97% and 12.31%, respectively, compared with 10.01% and 12.06% as of Mar 31, 2019.

Also, as of Mar 31, 2020, Common Equity Tier 1 Ratio (fully phased-in) was 8.72% compared with the 9.52% witnessed in the year-ago quarter. Tier 1 Leverage ratio was 8.94% compared with the 8.81% recorded in the year-earlier period.

Capital-Deployment Update

During the January-March period, the company repurchased 450,000 shares for \$16.2 million in common stock.

2020 Outlook

Management expects NII to remain relatively flat. Also, net interest margin is anticipated to be down 4-5 bps for every 25 bps decrease in interest rates. The company expects the majority of the impacts from March rate cuts to be realized in the second quarter.

Loans from the Paycheck Protection Program are expected to serve as a primary engine for loan growth. Under the existing economic conditions, the company expects consumer portfolio to decline in the near term as it witnessed a decrease in unsecured lending and third-party partnership purchases.

Adjusted non-interest income is likely to rise as the economy stabilizes.

Management expects coronavirus outbreak-related expenses between \$5 million and \$6 million for the second quarter. The company expects adjusted expenses to remain relatively stable sequentially before declining in the second half of the year.

Recent News

Dividend Update

On Mar 3, 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 Apr 1 to shareholders on record as of Mar 19.

Valuation

Synovus Financial's shares are down 58% in the year-to-date period and 52.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 46.7% and 29.2% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 41.1% and 23%, respectively.

The S&P 500 Index is down 11.5% in the year-to-date period and 1.2% in the past year.

The stock is currently trading at 10.68X forward 12 months earnings, which compares to 10.23X for the Zacks sub-industry, 14.69X for the Zacks sector and 20.67X 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 15.04X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$14 price target reflects 9.08X 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	10.68	10.23	14.69	20.67
	5-Year High	22.22	18.09	16.18	20.79
	5-Year Low	3.79	8.29	11.58	15.19
	5-Year Median	15.04	13.7	13.94	17.45
P/B TTM	Current	0.54	0.83	2	3.74
	5-Year High	2.39	2.11	2.9	4.55
	5-Year Low	0.42	0.78	1.71	2.84
	5-Year Median	1.44	1.6	2.53	3.65
P/S F12M	Current	1.33	2.2	5.81	3.22
	5-Year High	4.56	5.07	6.7	3.44
	5-Year Low	1	2.2	4.99	2.54
	5-Year Median	3.36	3.94	6.05	3.02

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (239 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	5
Commerce Bancshares, Inc. (CBSH)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	3
SVB Financial Group (SIVB)	Neutral	3
CullenFrost Bankers, Inc. (CFR)	Underperform	5
Comerica Incorporated (CMA)	Underperform	5
East West Bancorp, Inc. (EWBC)	Underperform	4
Webster Financial Corporation (WBS)	Underperform	5

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	SNV	X Industry	S&P 500	CBSH	CMA	SIVB
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	5	3
VGM Score	C	-	-	D	C	B
Market Cap	2.42 B	185.43 M	18.95 B	6.10 B	4.39 B	8.93 B
# of Analysts	12	3	14	9	12	11
Dividend Yield	8.02%	3.15%	2.2%	1.97%	8.62%	0.00%
Value Score	B	-	-	D	C	B
Cash/Price	0.63	0.53	0.06	0.26	1.06	1.00
EV/EBITDA	4.92	4.35	11.58	8.32	3.68	0.03
PEG Ratio	1.76	1.87	2.60	7.52	13.79	1.78
Price/Book (P/B)	0.53	0.69	2.59	1.98	0.59	1.31
Price/Cash Flow (P/CF)	3.77	6.36	10.20	12.58	3.49	7.79
P/E (F1)	14.04	10.78	19.00	22.55	23.71	14.23
Price/Sales (P/S)	1.01	1.59	1.93	4.22	1.18	2.50
Earnings Yield	6.99%	9.27%	5.05%	4.44%	4.21%	7.03%
Debt/Equity	0.70	0.25	0.75	0.24	1.00	0.05
Cash Flow (\$/share)	4.36	2.52	7.01	4.35	9.04	22.23
Growth Score	F	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	24.29%	14.19%	10.82%	15.11%	29.42%	37.90%
Proj. EPS Growth (F1/F0)	-70.51%	-33.27%	-10.48%	-32.25%	-83.09%	-43.94%
Curr. Cash Flow Growth	26.77%	10.16%	5.68%	-1.69%	-4.61%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	19.30%	14.63%	8.52%	8.41%	12.59%	34.83%
Current Ratio	0.96	0.96	1.27	0.75	1.02	0.72
Debt/Capital	38.36%	19.75%	44.25%	18.87%	50.11%	4.62%
Net Margin	20.00%	18.87%	10.54%	26.01%	21.37%	27.57%
Return on Equity	11.20%	8.79%	16.29%	12.44%	10.77%	15.82%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.05
Proj. Sales Growth (F1/F0)	-6.26%	0.00%	-2.55%	-3.32%	-13.92%	-5.78%
Momentum Score	C	-	-	B	C	C
Daily Price Chg	5.52%	0.00%	1.17%	3.23%	7.97%	8.37%
1 Week Price Chg	-0.50%	-0.22%	3.23%	1.08%	3.23%	0.54%
4 Week Price Chg	7.31%	0.00%	1.06%	1.03%	21.15%	7.39%
12 Week Price Chg	-54.62%	-36.40%	-22.80%	-21.79%	-50.24%	-36.01%
52 Week Price Chg	-52.51%	-35.55%	-12.40%	-4.02%	-57.40%	-25.41%
20 Day Average Volume	2,361,845	24,839	2,553,422	494,452	2,822,616	482,110
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.27%	0.00%	0.00%
(F1) EPS Est 4 week change	-32.02%	-14.59%	-5.57%	-4.21%	-55.09%	-6.08%
(F1) EPS Est 12 week change	-66.61%	-31.36%	-16.22%	-29.39%	-80.31%	-37.81%
(Q1) EPS Est Mthly Chg	-46.69%	-16.88%	-11.63%	2.27%	-16.59%	-8.28%

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	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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