

Synovus Financial (SNV)

\$12.74 (As of 03/18/20)

Price Target (6-12 Months): **\$11.00**

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:D

Value: B

Growth: D

Momentum: C

Summary

Shares of Synovus have underperformed the industry over the past six months. But it displays a decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters. Synovus' 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. Also, Synovus remains focused on enhancing shareholders' value through steady capital deployment activities. However, rising costs due to the company's efforts to improve customer experience are likely to keep the bottom line under pressure. Also, management expects expenses to increase further due to continued investments in technology. Significant exposure to commercial real estate, home equity and consumer mortgage loans is a headwind.

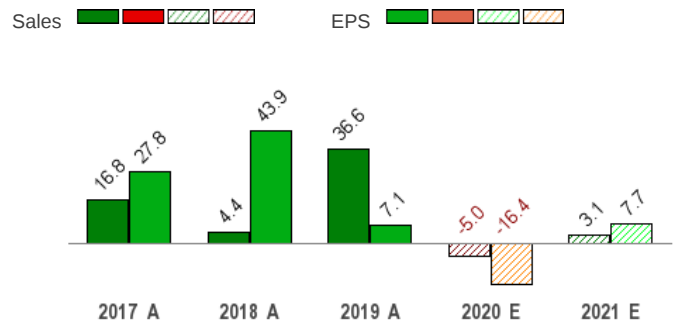
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.32 - \$10.91
20 Day Average Volume (sh)	2,508,574
Market Cap	\$1.9 B
YTD Price Change	-67.5%
Beta	1.43
Dividend / Div Yld	\$1.32 / 10.4%
Industry	Banks - Southeast
Zacks Industry Rank	Bottom 14% (217 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.1%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	-5.3%
Expected Report Date	04/28/2020
Earnings ESP	-3.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	452 E	462 E	471 E	475 E	1,912 E
2020	461 E	461 E	466 E	470 E	1,854 E
2019	477 A	487 A	491 A	497 A	1,952 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$0.82 E	\$0.86 E	\$0.88 E	\$3.51 E
2020	\$0.78 E	\$0.79 E	\$0.83 E	\$0.84 E	\$3.26 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.

P/E TTM	3.3
P/E F1	3.9
PEG F1	0.5
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/18/2020. The reports text is as of 03/19/2020.

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.

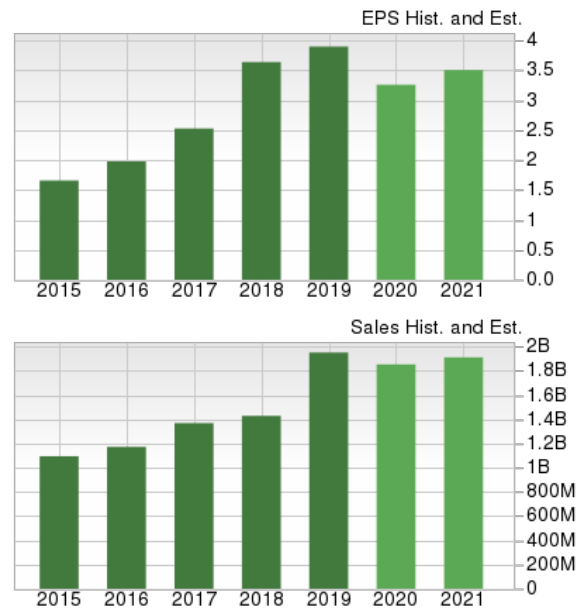
In September 2017, Synovus completed the purchase of Cabela's banking operation — World's Foremost Bank — which issues store-branded credit cards.

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 Dec 31, 2019, Synovus had \$48 billion in assets, \$36.9 billion in loans, \$38.4 billion in total deposits and \$4.9 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%. 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.
- ▼ The loan portfolio of Synovus comprises majorly commercial real estate, home equity and consumer mortgage loans (nearly 73% as of Dec 31, 2019). 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 this unfavorable trend, earnings estimates for the current year have been revised 5.2% 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. Further, the company 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.
 - Synovus remains committed to creating value for its shareholders through dividend hikes and share buybacks, thereby reflecting strong balance sheet position. Also, recently, it announced a 10% hike in quarterly dividend, effective April 2020, reflecting strong capital-deployment activities. In June 2019, the company's board of directors had increased its prior \$400 million share repurchase authorization to \$725 million for the year. Though dividend payout ratio is below the industry average, it indicates constant improvement in earnings over the past few quarters, boosting shareholders' confidence.
 - 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-earnings (P/E) (F1) 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 Q4 Earnings Miss Estimates, Costs Increase

Synovus reported fourth-quarter 2019 adjusted earnings of 94 cents per share, lagging the Zacks Consensus Estimate of 97 cents. However, the bottom line was 3.1% higher than the prior-year quarter figure.

Escalating expenses and provisions were the undermining factors. However, higher revenues along with strong loan and deposit balances supported the company's performance. Lower efficiency ratio was another positive.

Including certain non-recurring items, net income available to common shareholders came in at \$143.4 million or 97 cents per share compared with \$101.9 million or 87 cents per share recorded in the prior-year quarter.

In 2019, adjusted earnings of \$3.90 per share jumped 7.3% from the prior year. Also, it outpaced the consensus estimate of \$3.66. After adjustments, net income available to common shareholders came at 540.9 million or \$3.47 per share compared with \$410.5 million or \$3.47 in 2018.

Top Line Rises, Expenses Flare Up

Total revenues for the fourth quarter came in at \$497.2 million, up 35.9% year over year. Further, the top line outpaced the consensus estimate of \$483.9 million. Also, adjusted total revenues of \$492.1 million improved 33.6% year over year.

In 2019, total revenues were \$2 billion, up 36.6%. Also, the top line surpassed the Zacks Consensus Estimate of \$1.9 billion. Further, adjusted total revenues of \$2 billion increased 35.9% from prior year.

NII improved 34% to \$399.3 million year over year. However, net interest margin shrunk 27 bps to 3.65%.

Non-interest income climbed 44.1% to \$98 million, including a favorable adjustment in the fair value of private equity investments. Rise in almost all components of income drove this upside.

Non-interest expenses were \$266.1 million, up 26.8% year over year. Notably, rise in almost all components of expenses resulted in this increase.

Efficiency ratio was 53.44% compared with 57.34% reported in the year-earlier quarter. A decline in ratio indicates improvement in profitability.

Total deposits totaled \$38.4 billion, increasing 2.6% sequentially. Total loans climbed 2% from the prior quarter to \$37.2 billion.

Credit Quality: Mixed Bag

Non-performing loans were down 4.8% year over year to \$101.6 million. Non-performing loan ratio came in at 0.27%, contracting 14 bps.

However, total non-performing assets amounted to \$137.5 million, rising 20.1% year over year. Non-performing asset ratio shrunk 7 bps to 0.37%.

Also, net charge-offs rose 32.4% on a year-over-year basis to \$8.8 million. Annualized net charge-off ratio was 0.10%, down 10 bps. Provision for loan losses was up significantly to \$24.5 million.

Capital Position

Tier 1 capital ratio and total risk-based capital ratio were 10.24% and 12.25%, respectively, compared with 10.61% and 12.37% as of Dec 31, 2018.

Also, as of Dec 31, 2019, Common Equity Tier 1 Ratio (fully phased-in) was 8.94% compared with 9.92% in the year-ago quarter. Tier 1 Leverage ratio was 9.16% compared with 9.60% recorded a year ago.

Capital Deployment Update

During the quarter, the company repurchased \$36.5 million in common stock or 1.1 million shares. Concurrent with the results, the company announced a dividend hike of 10%, bringing the quarterly amount to 33 cents per share. The increase will be effective April 2020.

2020 Outlook

Management expects NII, excluding purchase accounting adjustments, to grow between 0% and 3%. Purchase accounting adjustments are expected to reduce revenues by about \$90 million. Also, net interest margin is anticipated to be down slightly, assuming flat interest rates and similar balance sheet mix.

Adjusted non-interest income is likely to rise 3-6%. Continued growth in fee income is a function of expanding in higher opportunity markets, product areas such as treasury and payment solutions as well as in expansion of the share of wallet with existing relationships.

Adjusted non-interest expenses are projected to increase 3-5%. The primary drivers include continued investments in people, processes and technology that will have relative short-term paybacks. These investments will be partially offset by savings realized during the execution of the company's strategic efficiency initiatives. In first-quarter 2020, expenses are likely to be little higher due to the seasonal impact of personnel expense.

Quarter Ending **12/2019**

Report Date	Jan 24, 2020
Sales Surprise	2.75%
EPS Surprise	-3.09%
Quarterly EPS	0.94
Annual EPS (TTM)	3.89

Management expects period-end assets to grow 4-7%.

The company expects net charge-off ratio of 15-25 bps.

The company plans to repurchase 2-3 million shares in 2020.

Given the current loan growth profile and expectations for the economy, the company anticipates adding up to 10 bps to the allowance for credit losses ratio through 2020 to account for the change in provisioning to the life of loans.

Management expects the tax rate to be 23-25% for 2020.

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 will be paid on Apr 1 to shareholders on record as of Mar 19.

Valuation

Synovus Financial's shares are down 67.5% in the year-to-date period and 65.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 49.7% and 35.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 43.6% and 30.8%, respectively.

The S&P 500 Index is down 25.3% in the year-to-date period and 16% in the past year.

The stock is currently trading at 3.79X forward 12 months earnings, which compares to 7.38X for the Zacks sub-industry, 10.72X for the Zacks sector and 14.78X 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 15.4X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$11 price target reflects 3.22X 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	3.79	7.38	10.72	14.78
	5-Year High	22.22	18.08	16.21	19.34
	5-Year Low	3.79	7.38	10.72	14.78
	5-Year Median	15.4	13.76	13.97	17.42
P/TB TTM	Current	0.49	1.42	2.38	9.57
	5-Year High	2.47	3.33	3.98	12.81
	5-Year Low	0.49	1.32	2.27	6.02
	5-Year Median	1.52	2.47	3.46	9.14
P/S F12M	Current	1	2.39	5.99	2.71
	5-Year High	4.56	5.08	6.64	3.43
	5-Year Low	1	2.39	5.39	2.54
	5-Year Median	3.36	4	6.04	3

As of 03/18/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (217 out of 253)



Top Peers

BOK Financial Corporation (BOKF)	Neutral
Commerce Bancshares, Inc. (CBSH)	Neutral
Cullen/Frost Bankers, Inc. (CFR)	Neutral
East West Bancorp, Inc. (EWBC)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
SVB Financial Group (SIVB)	Neutral
Webster Financial Corporation (WBS)	Neutral
Comerica Incorporated (CMA)	Underperform

Industry Comparison Industry: Banks - Southeast				Industry Peers		
	SNV Underperform	X Industry	S&P 500	CBSH Neutral	CMA Underperform	SIVB Neutral
VGM Score	D	-	-	F	D	C
Market Cap	1.88 B	192.06 M	16.02 B	6.89 B	3.85 B	7.76 B
# of Analysts	11	3	13	8	12	11
Dividend Yield	10.36%	2.98%	2.66%	1.76%	9.92%	0.00%
Value Score	B	-	-	D	B	B
Cash/Price	0.38	0.44	0.06	0.28	1.09	0.84
EV/EBITDA	3.88	4.55	10.21	8.36	2.77	1.01
PEG Ratio	0.52	0.54	1.46	6.15	0.30	1.06
Price/Book (P/B)	0.42	0.72	2.18	2.31	0.54	1.24
Price/Cash Flow (P/CF)	2.92	6.62	8.79	14.11	3.03	6.77
P/E (F1)	4.16	7.34	12.92	18.45	4.58	8.50
Price/Sales (P/S)	0.78	1.62	1.74	4.75	1.01	2.20
Earnings Yield	25.59%	13.61%	7.70%	5.43%	21.81%	11.76%
Debt/Equity	0.49	0.19	0.70	0.00	0.99	0.06
Cash Flow (\$/share)	4.36	2.58	7.01	4.35	9.04	22.23
Growth Score	D	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	26.33%	15.32%	10.85%	15.65%	30.93%	38.74%
Proj. EPS Growth (F1/F0)	-16.36%	-2.48%	5.12%	-7.12%	-23.97%	-18.53%
Curr. Cash Flow Growth	26.77%	10.94%	6.03%	-1.69%	-4.61%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	19.30%	14.99%	8.55%	8.41%	12.59%	34.83%
Current Ratio	0.95	0.95	1.23	0.73	1.03	0.67
Debt/Capital	30.35%	16.02%	42.57%	0.08%	49.80%	4.99%
Net Margin	23.43%	21.34%	11.57%	29.06%	31.33%	32.20%
Return on Equity	14.09%	9.72%	16.74%	14.18%	16.20%	19.33%
Sales/Assets	0.05	0.05	0.54	0.06	0.05	0.05
Proj. Sales Growth (F1/F0)	-5.02%	0.00%	3.22%	-1.47%	-10.97%	-4.06%
Momentum Score	C	-	-	F	D	F
Daily Price Chg	-25.54%	-10.17%	-6.77%	0.71%	-20.29%	0.76%
1 Week Price Chg	-16.93%	-12.72%	-11.01%	-1.73%	-13.70%	-10.19%
4 Week Price Chg	-64.74%	-33.86%	-34.65%	-11.84%	-56.46%	-43.63%
12 Week Price Chg	-67.11%	-36.46%	-32.08%	-9.72%	-61.81%	-40.29%
52 Week Price Chg	-65.20%	-31.17%	-23.52%	8.94%	-64.51%	-36.42%
20 Day Average Volume	2,508,574	32,942	3,834,688	913,102	3,613,758	977,863
(F1) EPS Est 1 week change	-1.51%	0.00%	-0.06%	-1.63%	-3.73%	-5.83%
(F1) EPS Est 4 week change	-5.30%	-2.07%	-0.74%	-3.20%	-11.48%	-9.61%
(F1) EPS Est 12 week change	-11.03%	-3.39%	-1.38%	-1.58%	-14.30%	-9.35%
(Q1) EPS Est Mthly Chg	-3.36%	-0.65%	-0.85%	-0.52%	-2.66%	-3.22%

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	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.

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