

TCF Financial Corp (TCF)

\$26.55 (As of 05/04/20)

Price Target (6-12 Months): **\$23.00**

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: B

Growth: C

Momentum: F

Summary

Shares of TCF Financial have underperformed the industry over the past six months. Its first-quarter results reflect a decline in expenses, partially offset by higher provisions and lower revenues. Pressure on margin due to lower rates keeps the company's top-line under pressure. Also, persistent rise in expenses on account of increase in staff level might impact bottom-line growth of TCF Financial. However, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. The bank's increasing loan and strong deposit mix along with rising fee income supports top-line growth. Nevertheless, the company remains exposed to credit risk in case of any economic downturn. Notably, it temporarily suspended the share buyback program, following the coronavirus-led slowdown.

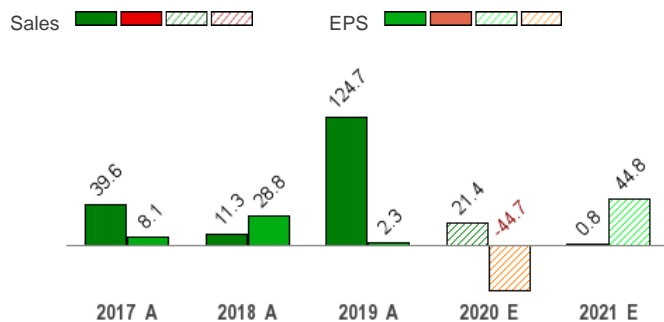
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|-----------------------------------|
| 52 Week High-Low | \$47.46 - \$16.96 |
| 20 Day Average Volume (sh) | 1,052,386 |
| Market Cap | \$4.0 B |
| YTD Price Change | -43.3% |
| Beta | 1.93 |
| Dividend / Div Yld | \$1.40 / 5.3% |
| Industry | Banks - Northeast |
| Zacks Industry Rank | Bottom 12% (222 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 62.9% |
| Last Sales Surprise | 0.8% |
| EPS F1 Est- 4 week change | -32.8% |
| Expected Report Date | 07/22/2020 |
| Earnings ESP | -2.5% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 521 E | 533 E | 531 E | 537 E | 2,148 E |
| 2020 | 538 A | 524 E | 529 E | 532 E | 2,130 E |
| 2019 | 188 A | 203 A | 466 A | 567 A | 1,755 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.83 E | \$0.92 E | \$0.91 E | \$0.98 E | \$3.23 E |
| 2020 | \$0.57 A | \$0.43 E | \$0.57 E | \$0.64 E | \$2.23 E |
| 2019 | \$1.02 A | \$1.06 A | \$0.98 A | \$1.04 A | \$4.03 A |

*Quarterly figures may not add up to annual.

| | |
|---------|------|
| P/E TTM | 7.3 |
| P/E F1 | 11.9 |
| PEG F1 | 1.4 |
| P/S TTM | 1.9 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

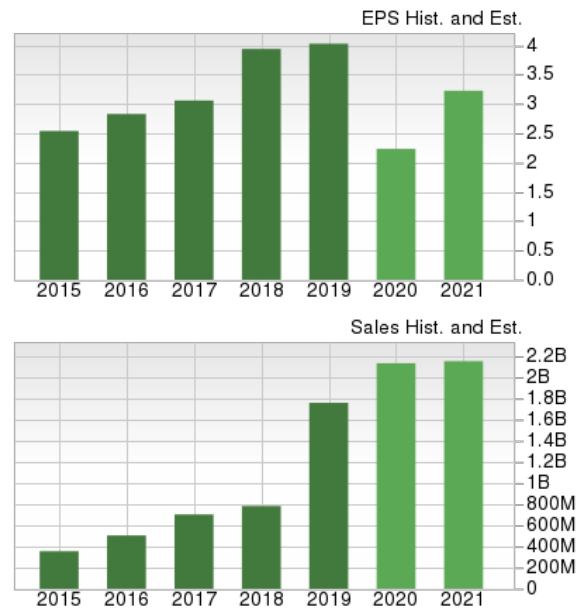
Overview

TCF Financial Corporation is a Detroit, MI-based national financial holding company with \$48.6 billion in total assets as of Mar 31, 2020. TCF Financial's primary banking subsidiary, TCF National Bank, is a premier Midwest bank offering consumer and commercial banking, trust and wealth management, and specialty leasing and lending products and services to consumers, small businesses and commercial clients.

On Aug 1, 2019, Legacy TCF Financial Corporation and Legacy Chemical Financial Corporation successfully closed the merger of equals, with Chemical as the surviving company. Upon the merger closing, Chemical was renamed TCF Financial Corporation, and its common shares began trading on Nasdaq under the symbol "TCF". The merger is expected to be 17% and 31% accretive to earnings per share of Chemical Financial and TCF Financial, respectively, by 2020. Also, it is expected to generate about \$180 million in annual run-rate cost synergies by 2020, with minimal reduction in branches.

Effective Aug 1, 2019, the company reorganized its reportable segments as follows:

- **Consumer Banking:** The segment comprises all of the consumer-facing businesses of the company and includes retail banking, consumer lending, wealth management and small business banking.
- **Commercial Banking:** The segment involves commercial and industrial and commercial real estate banking along with lease financing.
- **Enterprise Services:** The segment consists of corporate treasury, which includes investment and borrowing portfolios and management of capital, debt and market risks. Also, it includes corporate functions, such as IT, risk and credit management, bank operations, finance, investor relations, corporate development, legal and human capital management that provide services to the operating segments.



Reasons To Sell:

- ▼ Pressure on net interest margin (NIM) for TCF Financial eased in 2016, 2017 and 2018, after witnessing a declining trend for years, with the help of higher interest rates. However, NIM contracted in 2019 and first-quarter 2020 on account of a fall in interest rates. Given the Federal Reserve's accommodative monetary policy stance and lower yields, we expect the bank's key metric to remain under pressure in the quarters ahead.
- ▼ As of Mar 31, 2020, the company held long-term debt, and cash and cash equivalents worth \$2.6 billion and \$1.3 billion, respectively. The debt level witnessed a rise over the past few quarters due to borrowings assumed in the merger with Chemical Financial. Also, the company's time-interest-earned ratio has decreased in the past few quarters and is currently at 5. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe that TCF Financial carries higher likelihood of default of interest and debt repayments if the economic situation worsens.
- ▼ Overall, non-interest expenses of the company witnessed a five-year (2015-2019) compound annual growth rate (CAGR) of 10.5%, with the increasing trend continued in first three months of 2020. Though the company expects to achieve \$180 million of merger-related cost savings by 2020-end, costs are likely to remain elevated, driven by growth in staff level to support business growth. We believe that continuation of such a trend exposes the company to operational risks and strains the bottom-line growth.
- ▼ Shares of TCF Financial have underperformed the industry over the past six months. With this unfavorable trend, the company's current-year earnings estimates have been revised 44% downward over the past 30 days. Therefore, given the above concerns and lack of positive estimates revision, the stock has a limited upside potential.

Consistently rising expenses and pressure on margins remain major headwinds for TCF Financial's profitability. Further, the company is exposed to credit risk in case of any economic downturn.

Risks

- A solid deposit base is likely to support the company's organic growth. Notably, over the last five years (2015-2019), deposits saw a CAGR of 19.8%. We believe that a huge deposits base should help it fund loan growth as well as meet other general business purposes. Loans also witnessed a five-year CAGR of 18.6% in 2019. Both metrics continued to rise in the first three months of 2020. The uptrend is expected to continue with support from expected improvement in the economy.
 - TCF Financial's fee income growth remains a positive factor. Over the last three years (ended 2019), non-interest income saw a CAGR of 1.9%, with the increasing trend continuing in first-quarter 2020. The uptrend resulted from rising leasing revenues, driven by the acquisition of Equipment Financing & Leasing Corporation in mid-2017. Also, addition of wealth management revenues as a result of merger with Chemical Financial contributed to fee income growth. With the company's efforts to make investments in opportunistic areas, fee income is expected to continue supporting top-line growth.
 - TCF Financial's involvement in capital deployment activities is impressive. In October 2019, the board of directors approved \$150 million share buyback program. Also, it announced first quarterly dividend of 35 cents per share as a combined company. Notably, its debt/equity ratio compares favorably with the broader industry. Thus, these capital deployment activities might be sustainable in the long term. Notably, the company temporarily suspended the share buyback program, following the coronavirus-related slowdown.
 - The company's several credit metrics have been improving since the financial crisis, with continuation in 2018. The ratio of non-accrual loans as a percentage of loans & leases, and Other Real Estate Loans, also dropped consistently over the past several years. The ratio witnessed a volatile trend in 2019. Also, credit quality deteriorated in first-quarter 2020 due to coronavirus-related crisis. Going forward, the company's diversified loan portfolio will likely help keep its credit quality at normalized levels.
 - TCF Financial seems undervalued when compared with the broader industry. Its current price-to-cash flow and price-to-book ratios are lower than the respective industry averages.
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Last Earnings Report

TCF Financial Q1 Earnings Top Estimates, Provisions Up

TCF Financial reported first-quarter 2020 adjusted earnings per share of 57 cents, beating the Zacks Consensus Estimate of 35 cents. However, the figure plunged 45.2% from the prior quarter.

Disciplined cost management aided the results. Also, the company witnessed continued increase in loans and deposits. However, higher provisions on the coronavirus crisis were on the downside. Further, margin pressure and lower fee income were undermining factors.

Including post-tax merger-related expenses and notable items, the company reported net income of \$51.9 million or 32 cents compared with the \$112.4 million or 72 cents recorded in the previous quarter.

Revenues Down, Cost Declines

Total revenues came in at \$538.8 million in the reported quarter, down 5% sequentially. The top-line figure, however, surpassed the Zacks Consensus Estimate of \$534.3 million.

Net interest income was down 1.8% sequentially to \$401.5 million. This decline mainly resulted from decreased interest income on loans and leases, along with loans held for sale and other earning assets, partially mitigated by fall in total interest expense. The NIM of 3.53% contracted 7 basis points (bps) sequentially.

Non-interest income came in at \$137 million, down 13.3% on a sequential basis. Fall in almost all components of income chiefly resulted in this decrease, partly offset by higher net gains on sale of loans and leases, and servicing fee revenues.

TCF Financial reported non-interest expenses of \$374.6 million, down 10.1% from the fourth quarter. This decrease primarily reflects the lower merger-related expenses, compensation and employee benefits, net foreclosed real estate and repossessed assets, along with other expenses.

Adjusted efficiency ratio was 58.24%, down from the prior quarter's 58.51%. A fall in ratio indicates rise in profitability.

As of Mar 31, 2020, total deposits increased 3.9% sequentially to \$35.8 billion. Additionally, net loans and leases climbed 3.3% to \$35.5 billion in the March-end quarter.

Credit Quality: A Mixed Bag

Credit quality for TCF Financial reflected mixed credit metrics. Non-accrual loans and leases, and other real estate owned jumped 41.9% sequentially to \$289.4 million.

Provisions for credit losses were \$96.9 million, significantly up on a sequential basis due to the coronavirus pandemic.

Net charge-offs, as a percentage of average loans and leases, shrunk 1 bps sequentially to 0.06%. Non-performing assets as a percentage of total loans and leases and other real estate owned came in at 0.80%, up 21 bps sequentially.

Robust Capital Position

TCF Financial's capital ratios remained strong. As of Mar 31, 2020, Common equity Tier 1 capital ratio was 10.44% compared with 10.99% as of Dec 31, 2019. Total risk-based capital ratio was 12.31% compared with 12.70% as of Dec 31, 2019. Tier 1 leverage capital ratio was 9.27%, down from 9.49% as of Dec 31, 2019.

Capital-Deployment Update

During the January-March period, the company repurchased 873,000 shares for a total value of \$33.1 million in common stock.

Outlook

The company expects full-year loan growth in the low single-digits, driven by demand for commercial loans. This outlook could change if borrower sentiment improves.

Management expects deposit growth opportunities across all its channels, as customers continue to hold higher balances in the current environment due to less spending. Cost of deposits is expected to continue to decline over time, as the company has reduced deposit rates across products.

It continues to execute integration cost synergies and remain on track to witness expenses of \$321 million or lower in the fourth quarter of 2020.

Net interest income is expected to be lower in second-quarter 2020 on account of seasonality. However, it is anticipated to stabilize in the third quarter.

Margin is likely to remain under pressure, given a full-quarter impact of the Fed fund rate cuts and lower LIBOR rates. Reported NIM (excluding purchase account accretions) is expected to stabilize toward the end of second-quarter 2020 or into the third quarter of 2020, as earning asset yields will likely be fully repriced in the second quarter.

Effective tax rate is anticipated to be between 21% and 23% for 2020.

Quarter Ending 03/2020

| Report Date | Apr 27, 2020 |
|------------------|--------------|
| Sales Surprise | 0.77% |
| EPS Surprise | 62.86% |
| Quarterly EPS | 0.57 |
| Annual EPS (TTM) | 3.65 |

Recent News

TCF Financial Decreases Its Prime Lending Rate by 100 Bps - Mar 16, 2020

Pursuant to the U.S. Federal Reserve interest rate cut by 100 bps, TCF Financial reduced its prime lending rate from 4.25% to 3.25%, effective Mar 16. Prior to this, the company reduced the rate from 4.75% to 4.25%, in early March.

Dividend Update

On Apr 27, TCF Financial announced a quarterly cash dividend of 35 cents per share. The dividend will be paid on Jun 1 to its stockholders of record as of May 15.

Valuation

TCF Financial's shares are down 43.3% in the year-to-date period and 40.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 36.7% and 26.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 34.5% and 22.5%, respectively.

The S&P 500 Index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 9.64X forward 12 months earnings, which compares to 10.68X for the Zacks sub-industry, 14.81X for the Zacks sector and 20.16X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.51X and as low as 4.47X, with a 5-year median of 13.31X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$23 price target reflects 8.19X forward earnings.

The table below shows summary valuation data for TCF

| Valuation Multiples - TCF | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 9.64 | 10.68 | 14.81 | 20.16 |
| | 5-Year High | 19.51 | 16.72 | 16.18 | 20.16 |
| | 5-Year Low | 4.47 | 8.36 | 11.24 | 15.18 |
| | 5-Year Median | 13.31 | 13.07 | 13.94 | 17.44 |
| P/B TTM | Current | 0.74 | 0.97 | 2.07 | 3.77 |
| | 5-Year High | 1.7 | 2.14 | 2.9 | 4.55 |
| | 5-Year Low | 0.47 | 0.71 | 1.71 | 2.84 |
| | 5-Year Median | 1.32 | 1.69 | 2.53 | 3.64 |
| P/S F12M | Current | 1.89 | 2.86 | 4.98 | 3.2 |
| | 5-Year High | 7.78 | 4.64 | 6.7 | 3.44 |
| | 5-Year Low | 1.24 | 2.86 | 4.98 | 2.54 |
| | 5-Year Median | 3.64 | 3.98 | 6.06 | 3.01 |

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|--|--------------|------|
| Peoples United Financial, Inc. (PBCT) | Neutral | 3 |
| UMB Financial Corporation (UMBF) | Neutral | 5 |
| Bank of Hawaii Corporation (BOH) | Underperform | 3 |
| BancorpSouth Bank (BXS) | Underperform | 5 |
| Commerce Bancshares, Inc. (CBSH) | Underperform | 3 |
| Cullen/Frost Bankers, Inc. (CFR) | Underperform | 5 |
| First Horizon National Corporation (FHN) | Underperform | 5 |
| Webster Financial Corporation (WBS) | Underperform | 5 |

| Industry Comparison Industry: Banks - Northeast | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|--------------|---------|
| | TCF | X Industry | S&P 500 | BOH | CBSH | UMBF |
| Zacks Recommendation (Long Term) | Underperform | - | - | Underperform | Underperform | Neutral |
| Zacks Rank (Short Term) | 5 | - | - | 3 | 3 | 5 |
| VGM Score | C | - | - | F | F | F |
| Market Cap | 4.04 B | 154.27 M | 19.65 B | 2.54 B | 6.56 B | 2.34 B |
| # of Analysts | 8 | 2 | 14 | 3 | 9 | 4 |
| Dividend Yield | 5.27% | 2.69% | 2.19% | 4.21% | 1.85% | 2.56% |
| Value Score | B | - | - | D | D | F |
| Cash/Price | 0.42 | 0.45 | 0.06 | 0.22 | 0.27 | 0.98 |
| EV/EBITDA | 6.84 | 6.57 | 11.76 | 5.72 | 9.05 | 0.39 |
| PEG Ratio | 1.43 | 1.43 | 2.48 | 2.00 | 8.01 | 4.65 |
| Price/Book (P/B) | 0.74 | 0.81 | 2.63 | 1.92 | 2.11 | 0.88 |
| Price/Cash Flow (P/CF) | 5.29 | 7.57 | 10.38 | 9.25 | 13.43 | 7.09 |
| P/E (F1) | 11.91 | 10.72 | 18.81 | 16.03 | 24.02 | 20.99 |
| Price/Sales (P/S) | 1.91 | 1.87 | 2.02 | 3.29 | 4.54 | 1.82 |
| Earnings Yield | 8.40% | 9.28% | 5.07% | 6.24% | 4.16% | 4.76% |
| Debt/Equity | 0.47 | 0.42 | 0.73 | 0.05 | 0.24 | 0.05 |
| Cash Flow (\$/share) | 5.02 | 2.25 | 7.01 | 6.88 | 4.35 | 6.85 |
| Growth Score | C | - | - | F | D | F |
| Hist. EPS Growth (3-5 yrs) | 13.51% | 12.52% | 10.87% | 9.39% | 15.11% | 13.80% |
| Proj. EPS Growth (F1/F0) | -44.57% | -22.87% | -8.14% | -28.66% | -32.06% | -53.66% |
| Curr. Cash Flow Growth | 57.50% | 9.97% | 5.88% | 3.89% | -1.69% | 12.97% |
| Hist. Cash Flow Growth (3-5 yrs) | 55.93% | 13.63% | 8.55% | 4.36% | 8.41% | 9.00% |
| Current Ratio | 0.96 | 0.98 | 1.25 | 0.70 | 0.75 | 0.69 |
| Debt/Capital | 31.50% | 29.51% | 44.07% | 4.36% | 18.87% | 4.37% |
| Net Margin | 12.11% | 19.35% | 11.00% | 26.13% | 26.01% | 14.24% |
| Return on Equity | 9.34% | 9.10% | 16.43% | 15.55% | 12.44% | 7.17% |
| Sales/Assets | 0.05 | 0.05 | 0.55 | 0.04 | 0.06 | 0.05 |
| Proj. Sales Growth (F1/F0) | 49.56% | 0.00% | -1.76% | 2.03% | -3.32% | 3.82% |
| Momentum Score | F | - | - | C | D | F |
| Daily Price Chg | -2.82% | -0.02% | -0.01% | -1.38% | 0.34% | -0.58% |
| 1 Week Price Chg | 15.62% | 5.41% | 0.53% | 4.86% | 5.38% | 8.02% |
| 4 Week Price Chg | 14.14% | 4.70% | 6.66% | 13.39% | 11.49% | 11.72% |
| 12 Week Price Chg | -38.31% | -29.46% | -20.38% | -29.74% | -17.04% | -28.72% |
| 52 Week Price Chg | -40.60% | -28.23% | -13.44% | -24.07% | -0.53% | -32.32% |
| 20 Day Average Volume | 1,052,386 | 15,953 | 2,567,149 | 267,157 | 496,635 | 327,986 |
| (F1) EPS Est 1 week change | -25.38% | 0.00% | 0.00% | 0.00% | -3.95% | -26.19% |
| (F1) EPS Est 4 week change | -32.84% | -4.28% | -6.96% | -13.53% | -16.80% | -26.19% |
| (F1) EPS Est 12 week change | -45.94% | -23.61% | -13.90% | -27.72% | -29.19% | -46.23% |
| (Q1) EPS Est Mthly Chg | -45.41% | -8.22% | -13.62% | -19.84% | -23.06% | -34.23% |

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 | C |
| Momentum Score | F |
| 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.

Disclosures

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