

TCF Financial Corp (TCF)

\$45.67 (As of 01/14/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/09/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: D

Summary

Shares of TCF Financial have outperformed the industry over the past six months. Also, 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 loans and strong deposit mix is likely continue to support revenue growth. Also, the bank has been benefiting from improving credit quality and has witnessed enhanced profitability ratios as well, which keeps us encouraged. Investments in technology by TCF Financial in order to improve customer experience bode well for the long-term. Additionally, the company's steady capital deployment activities is commendable. However, declining fee income and pressure on margin remain key concerns. Also, persistent rise in expenses driven by growth in staff level will likely impact bottom-line growth.

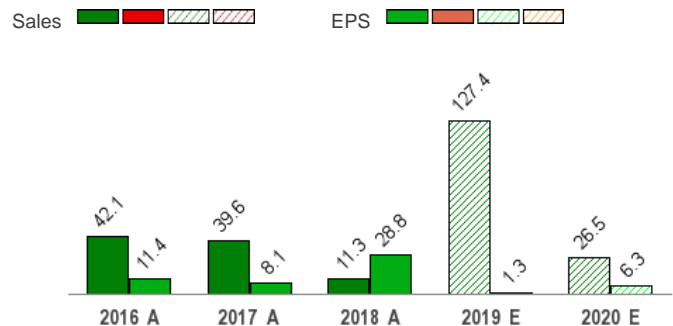
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.71 - \$35.96
20 Day Average Volume (sh)	1,008,879
Market Cap	\$7.0 B
YTD Price Change	-2.4%
Beta	1.54
Dividend / Div Yld	\$1.40 / 3.1%
Industry	Banks - Northeast
Zacks Industry Rank	Bottom 35% (165 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	-6.0%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/27/2020
Earnings ESP	1.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	552 E	562 E	572 E	582 E	2,246 E
2019	188 A	203 A	466 A	557 E	1,776 E
2018	192 A	196 A	197 A	196 A	781 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.95 E	\$1.01 E	\$1.09 E	\$1.21 E	\$4.24 E
2019	\$1.02 A	\$1.06 A	\$0.98 A	\$0.98 E	\$3.99 E
2018	\$0.97 A	\$0.96 A	\$0.98 A	\$1.01 A	\$3.94 A

*Quarterly figures may not add up to annual.

P/E TTM	11.2
P/E F1	10.8
PEG F1	1.3
P/S TTM	5.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

Overview

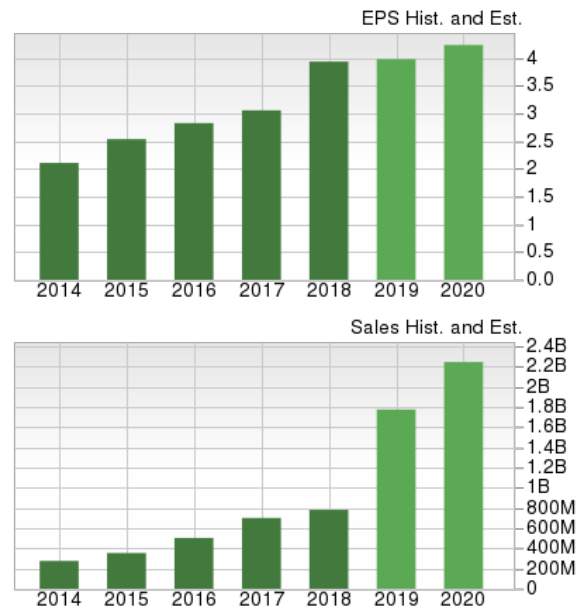
TCF Financial Corporation is a Detroit, MI-based national financial holding company with \$46 billion in total assets as of Sep 30, 2019. TCF Financial's primary banking subsidiary, TCF National Bank, is a premier Midwest bank offering consumer and commercial banking, trust and wealth management, and specialty leasing and lending products and services to consumers, small businesses and commercial clients.

As of Sep 30, 2019, TCF Financial had more than 500 branches primarily located in Michigan, Illinois and Minnesota with additional locations in Arizona, Colorado, Indiana, Ohio, South Dakota and Wisconsin. The company also conducts business across all 50 states and Canada through its specialty lending and leasing businesses.

On Aug 1, 2019, Legacy TCF Financial Corporation and Legacy Chemical Financial Corporation successful 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".

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 the company's 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, internal audit, legal and human capital management that provide services to the operating segments.



Reasons To Buy:

- ▲ A solid deposit base is likely to support the company's organic growth. Notably, over the last five years (2014-2018), deposits saw a compound annual growth rate (CAGR) of 5.2%. We believe that a huge deposits base should help it fund loan growth as well as meet other general business purposes. Notably, loans witnessed a five-year CAGR of 3.8% in 2018. Further, the uptrend was witnessed in first nine months of 2019 as well, and is expected to continue with support from improving economy.
- ▲ 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.
- ▲ The company's several credit metrics have been improving 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 the first nine months of 2019. Going forward, the company's diversified loan portfolio will likely help keep its credit quality at normalized levels.
- ▲ Shares of TCF Financial have outperformed the industry over the past six months. With this favorable trend, the company's 2019 earnings estimates have remained stable over the past 60 days. The stock seems undervalued when compared with the broader industry. Its current price-to-book value and price-earnings (F1) ratios are lower than the respective industry averages. Therefore, given the strong fundamentals, the stock has upside potential.

TCF Financial remains well poised to benefit from loan and deposit growth along with improving credit quality. Further, the company's involvement in capital deployment activities is encouraging.

Reasons To Sell:

- ▼ TCF Financial's declining fee income remains a key headwind. ATM revenues recorded a three-year (2016-2018) negative CAGR of 1.9%, and servicing fees declined at a CAGR of 17.5% over the same time period. Though ATM revenues climbed slightly in first three quarters of 2019, overall fee income continued to decline due to lower servicing fees. Hence, muted growth in these sources is likely to limit overall revenue expansion.
- ▼ With the gradual change in the rate environment, margin pressure for TCF Financial eased as the company reported a rise net interest margin (NIM) in 2016, 2017 and 2018, after witnessing a declining trend for years. However, NIM declined in the first nine months of 2019 as the Federal Reserve's accommodative monetary policy and lower yields affected the bank's key metric. Moreover, with lower interest rates in 2019, management anticipates further pressure on NIM in the fourth quarter.
- ▼ Overall, non-interest expenses of the company have witnessed a five-year (2014-2018) CAGR of 7.9%, with the trend continuing in first three quarters of 2019. 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.

Consistently declining fee income and escalating expenses remain major headwinds for TCF Financial's profitability. Further, pressure on margin is likely to weigh on the bottom line to some extent.

Last Earnings Report

TCF Financial Q3 Earnings Top Estimates, Revenues Rise

TCF Financial delivered a positive earnings surprise of 2.1% in third-quarter 2019. Adjusted earnings per share of 98 cents surpassed the Zacks Consensus Estimate of 96 cents. However, the bottom line was nearly 2% down from the prior-year quarter.

Third-quarter results reflect positive impact of merger with Chemical Financial Corporation. The company benefited from improved loans and deposits balance. Also, the company witnessed rise in top line. However, contraction of margin and higher expenses were headwinds.

Per the combined company's latest filing, Legacy TCF's historical financial statements are to be assumed historical financial statements of the combined company for all periods before the Merger Date (Aug 1, 2019). Also, TCF Financial's results of operations for third-quarter 2019 and the first nine months of 2019 include the results of operations of Chemical Financial on and after the merger date.

After considering after-tax impact of merger-related expenses and non-core items, the company reported net income of \$22.1 million, down 74.3% from \$86.2 million in the year-ago quarter.

Revenues & Loans Increase, Expenses Rise

Total revenues for the third quarter came in at \$466.1 million, up 27.5% year over year. However, the top line missed the Zacks Consensus Estimate of \$496 million.

Net interest income for the quarter increased 46.7% year over year to \$371.8 million. The rise stemmed from higher interest income. Net interest margin on a fully tax-equivalent basis came in at 4.14% contracting 59 basis points (bps).

Non-interest income came in at \$94.3 million, down nearly 16% on a year-over-year basis. This decrease primarily resulted from fall in almost all components of income, partially mitigated by higher card revenues.

TCF Financial incurred non-interest expenses of \$425.6 million for the September quarter, up 72.7% from the year-earlier quarter. The rise primarily resulted from higher compensation and employee benefits and merger-related expenses.

As of Sep 30, 2019, deposits were \$35.3 billion, up 84.6% from the prior-quarter end. Also, total loans and leases climbed 74.7% sequentially to \$33.5 billion.

Credit Quality Worsens

Total non-performing assets climbed considerably year over year to \$209.4 million in the third quarter. Further, net charge-offs, as a percentage of average loans and leases, expanded 24 bps to 0.39%. The upsurge chiefly resulted from elevated net charge-offs in the commercial and inventory finance portfolios.

Also, provisions for credit losses were \$27.2 million, up slightly year over year.

Capital Position

As of Sep 30, 2019, Common equity Tier 1 capital ratio was 10.88% compared with 11.04% as of Sep 30, 2018. Also, total risk-based capital ratio was 12.63% compared with 13.66% on Sep 30, 2018. Tier 1 leverage capital ratio was 11.16% on Sep 30, 2019, up from 10.58%.

Outlook

The company expects modest margin pressure to continue in the remaining 2019 on account of expectations of another rate cut in 2019 and redeployment of cash flow into securities and other loans.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	-6.04%
EPS Surprise	2.08%
Quarterly EPS	0.98
Annual EPS (TTM)	4.07

Recent News

TCF Financial Completes Merger With Chemical Financial - Aug 1, 2019

TCF Financial concluded an all-stock deal to acquire Chemical Financial Corporation, announced in January 2019. The combined entity has \$47 billion in assets, \$35 billion in total deposits, more than 500 branches across nine states along with a top 10 deposit market share in the Midwest.

Craig R. Dahl, TCF Financial's president and chief executive officer said, "With complementary banking platforms and the additional scale created through the merger, we are uniquely positioned to provide a more robust product set to a broader customer base with limited overlap and disruption."

Per the agreement, legacy TCF Financial was merged into Chemical Financial, with the latter being the surviving company. Also, as decided at the time of announcement, Chemical Financial was renamed as TCF Financial.

Further, upon closing of the transaction, each share of legacy TCF Financial was converted into 0.5081 common shares of the merged company, and each common share of Chemical Financial is now a common share of the new entity.

Also, TCF Financial and Chemical Financial shareholders own 54% and 46% of the combined company, respectively, on a fully diluted basis. The combined company's board of directors will have 16 directors — eight from TCF Financial and Chemical Financial each.

Earlier this year, the companies had disclosed financial benefits that are expected from this deal. The merger is expected to be 17% and 31% accretive to earnings per share of Chemical Financial and TCF Financial, respectively, by 2020. The transaction is also expected to generate approximately \$180 million in annual run-rate cost synergies by 2020, with minimal reduction in branches.

Both the companies consider smooth customer experience a priority. Thus, initially, TCF Bank will operate under both the TCF Financial and Chemical Bank brands. The company expects to combine its banking technology platforms by the middle of 2020 without any disruption to customers.

Dividend Update

On Oct 24, TCF Financial announced a quarterly cash dividend of 35 cents per share. The dividend was paid on Dec 2 to its stockholders on record as of Nov 15.

Valuation

TCF Financial's shares are up 25.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 21.1% and 12.9%, respectively, over the past year.

The S&P 500 Index is up 24.7% in the past year.

The stock is currently trading at 10.72X forward 12 months earnings, which compares to 11.54X for the Zacks sub-industry, 14.95X for the Zacks sector and 19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.51X and as low as 8.05X, with a 5-year median of 13.33X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$48 price target reflects 11.26X 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	10.72	11.54	14.95	19
	5-Year High	19.51	16.7	16.21	19.34
	5-Year Low	8.05	9.49	12.01	15.17
	5-Year Median	13.33	13.37	13.98	17.44
P/TB TTM	Current	1.45	2.08	2.82	4.46
	5-Year High	2.83	2.88	2.89	4.47
	5-Year Low	1.16	1.82	1.83	2.85
	5-Year Median	2	2.29	2.5	3.61
P/S F12M	Current	3.12	3.69	6.53	3.52
	5-Year High	3.64	4.74	6.61	3.52
	5-Year Low	7.78	3.46	5.2	2.54
	5-Year Median	1.24	4.02	6.04	3

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 254)



Top Peers

Bank of Hawaii Corporation (BOH)	Neutral
BancorpSouth Bank (BXS)	Neutral
Commerce Bancshares, Inc. (CBSH)	Neutral
Cullen/Frost Bankers, Inc. (CFR)	Neutral
First Horizon National Corporation (FHN)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
UMB Financial Corporation (UMBF)	Neutral
Webster Financial Corporation (WBS)	Neutral

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	TCF Neutral	X Industry	S&P 500	BOH Neutral	CBSH Neutral	UMBF Neutral
VGM Score	F	-	-	D	D	D
Market Cap	7.01 B	230.74 M	24.31 B	3.78 B	7.59 B	3.31 B
# of Analysts	4	2	13	1	7	5
Dividend Yield	3.07%	1.76%	1.76%	2.86%	1.54%	1.84%
Value Score	C	-	-	C	C	B
Cash/Price	0.23	0.26	0.04	0.10	0.23	0.41
EV/EBITDA	15.48	9.85	14.08	10.34	9.93	5.79
PEG Ratio	1.28	1.67	2.06	2.12	6.61	2.87
Price/Book (P/B)	0.59	1.22	3.33	2.92	2.56	1.29
Price/Cash Flow (P/CF)	10.00	12.07	13.62	14.68	15.82	11.28
P/E (F1)	10.68	12.39	18.86	16.99	19.82	15.10
Price/Sales (P/S)	5.41	2.88	2.65	4.95	5.25	2.62
Earnings Yield	9.28%	8.07%	5.27%	5.89%	5.05%	6.62%
Debt/Equity	0.16	0.40	0.72	0.09	0.09	0.03
Cash Flow (\$/share)	4.57	2.17	6.94	6.38	4.26	5.97
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	15.35%	12.16%	10.56%	9.38%	15.00%	13.70%
Proj. EPS Growth (F1/F0)	6.42%	3.64%	7.52%	1.04%	-4.13%	-6.31%
Curr. Cash Flow Growth	24.21%	24.38%	14.88%	11.32%	30.57%	2.75%
Hist. Cash Flow Growth (3-5 yrs)	34.83%	13.64%	9.00%	4.11%	8.38%	5.16%
Current Ratio	0.96	0.98	1.23	0.70	0.73	0.68
Debt/Capital	13.13%	28.66%	42.99%	7.89%	7.65%	3.28%
Net Margin	17.59%	21.64%	11.14%	29.05%	29.34%	16.06%
Return on Equity	9.88%	10.16%	17.16%	17.33%	14.52%	8.55%
Sales/Assets	0.05	0.05	0.55	0.04	0.06	0.05
Proj. Sales Growth (F1/F0)	26.46%	3.19%	4.18%	-0.53%	-0.61%	1.16%
Momentum Score	D	-	-	C	B	B
Daily Price Chg	-0.09%	-0.25%	0.08%	-0.06%	-0.27%	-0.50%
1 Week Price Chg	-2.22%	-0.51%	0.39%	-1.12%	-0.61%	-2.34%
4 Week Price Chg	-0.87%	-1.43%	1.93%	0.14%	-0.36%	-3.64%
12 Week Price Chg	20.06%	5.38%	6.50%	7.65%	10.65%	1.98%
52 Week Price Chg	11.74%	12.15%	22.56%	29.91%	21.09%	3.44%
20 Day Average Volume	1,008,879	11,180	1,571,506	177,231	412,172	168,870
(F1) EPS Est 1 week change	-0.09%	0.00%	0.00%	0.00%	0.15%	0.00%
(F1) EPS Est 4 week change	0.07%	0.00%	0.00%	0.30%	0.58%	0.22%
(F1) EPS Est 12 week change	-5.39%	-2.07%	-0.52%	-1.14%	-1.29%	-3.65%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.65%	0.00%

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	C
Growth Score	F
Momentum Score	D
VGM Score	F

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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