

TCF Financial Corp (TCF)

\$27.80 (As of 03/13/20)

Price Target (6-12 Months): **\$29.00**

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:B

Value: B

Growth: C

Momentum: C

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 loan and strong deposit mix is likely continue supporting revenue growth. Further, rising fee income supports top line growth. Also, TCF Financial has been benefiting from improving credit quality and has witnessed enhanced profitability ratios, which keeps us encouraged. Additionally, the company's involvement in steady capital deployment activities continues to enhance shareholders' confidence. However, pressure on margin due to lower rates keeps the top line under pressure. Also, persistent rise in expenses on account of increase in staff level might impact bottom-line growth.

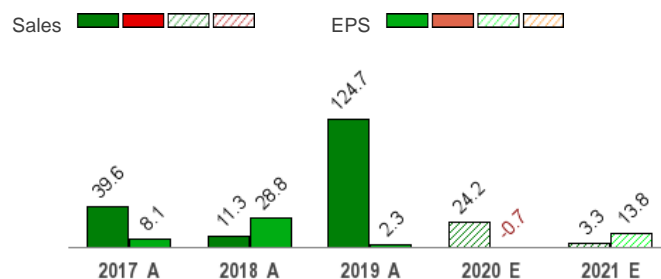
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.46 - \$21.75
20 Day Average Volume (sh)	1,172,406
Market Cap	\$4.2 B
YTD Price Change	-40.6%
Beta	1.55
Dividend / Div Yld	\$1.40 / 5.0%
Industry	Banks - Northeast
Zacks Industry Rank	Top 30% (75 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.1%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-3.3%
Expected Report Date	04/28/2020
Earnings ESP	-0.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	532 E	550 E	550 E	561 E	2,253 E
2020	538 E	544 E	551 E	558 E	2,180 E
2019	188 A	203 A	466 A	567 A	1,755 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.99 E	\$1.08 E	\$1.12 E	\$1.15 E	\$4.55 E
2020	\$0.87 E	\$0.92 E	\$0.99 E	\$1.12 E	\$4.00 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	6.8
P/E F1	7.0
PEG F1	0.8
P/S TTM	2.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

Overview

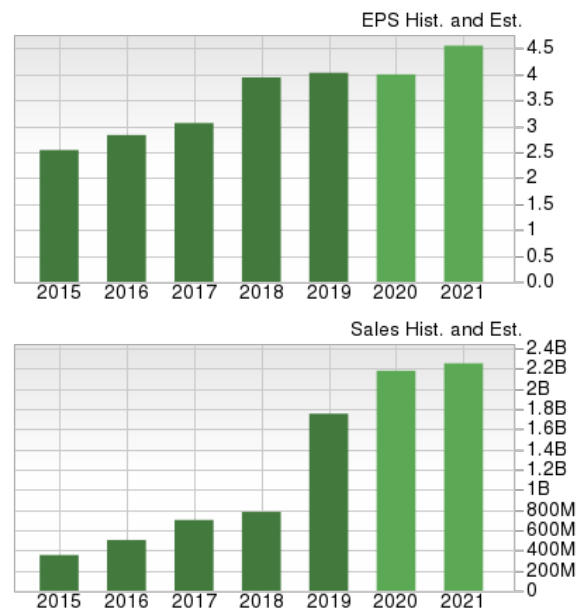
TCF Financial Corporation is a Detroit, MI-based national financial holding company with \$47 billion in total assets as of Dec 31, 2019. TCF Financial's primary banking subsidiary, TCF National Bank, is a premier Midwest bank offering consumer and commercial banking, trust and wealth management, and specialty leasing and lending products and services to consumers, small businesses and commercial clients.

As of Dec 31, 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". 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 Buy:

- ▲ A solid deposit base is likely to support the company's organic growth. Notably, over the last five years (2015-2019), deposits saw a compound annual growth rate (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. The uptrend is expected to continue with support from improving economy.
- ▲ TCF Financial's fee income growth remains a positive factor. Over the last three years, non-interest income saw a CAGR of 1.9%. The uptrend resulted from rising leasing revenues, driven by the acquisition of Equipment Financing & Leasing Corporation in mid-2017. With the company's efforts to make investments in opportunistic areas, fee income is expected to continue supporting top-line growth.
- ▲ 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.
- ▲ 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 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. 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-earnings (F1) ratios are lower than the respective industry averages.

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:

- ▼ 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 2019 on account of 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.
- ▼ Overall, non-interest expenses of the company witnessed a five-year (2015-2019) CAGR of 10.5%. 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 3% downward over the past 30 days. Therefore, given the above concerns, the stock has limited upside potential.

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 Q4 Earnings Impressive, Revenues Improve

TCF Financial reported fourth-quarter 2019 adjusted earnings per share of \$1.04, beating the Zacks Consensus Estimate as well as the prior-quarter figure of 98 cents.

Top-line strength and disciplined cost management drove the results. The company also witnessed continued rise in loans, while maintaining a solid capital position during the quarter. Furthermore, lower provisions were a positive factor. However, margin pressure and lower deposits were on the downside.

Including post-tax merger-related expenses and notable items, the company reported net income of \$112.4 million or 72 cents compared with the \$22.1 million or 15 cents recorded in the previous quarter.

The company's prior quarter (three-month period ended Sep 30, 2019) results reflect Legacy TCF financial results for the period before Aug 1, 2019, and the post-merger combined TCF financial results on and after Aug 1, 2019.

Revenues Climb, Cost Declines

Total revenues came in at \$566.8 million in the reported quarter, up 21.6% sequentially. Moreover, the top line surpassed the Zacks Consensus Estimate of \$557.1 million.

Net interest income was up 9.9% sequentially to \$408.8 million. This upswing can be mainly attributed to increased interest income on loans and leases, along with loans held for sale, partially mitigated by rise in total interest expense. NIM of 3.89% contracted 25 basis points (bps) sequentially.

Non-interest income came in at \$158.1 million, up 67.7% on a sequential basis. Rise in almost all components of income mainly led to this increase, partly offset by lower net gains on investment securities.

TCF Financial reported non-interest expenses of \$416.6 million, down 2.1% from the third quarter. This decrease primarily reflects lower merger-related expenses, partly mitigated by higher compensation and employee benefits, occupancy and equipment along with other expenses.

As of Dec 31, 2019, total deposits declined 2.3% sequentially to \$34.5 billion. Yet, net loans and leases climbed 3% to \$34.4 billion in the December-ended quarter.

Credit Quality: A Marked Improvement

Credit quality for TCF Financial reflected improved credit metrics. Non-accrual loans and leases, and other real estate owned slipped 2.6% sequentially to \$203.9 million. Provisions for credit losses were \$14.4 million, down 47% from the prior quarter.

Net charge-offs, as a percentage of average loans and leases, contracted 32 bps year over year to 0.07%. Non-performing assets as a percentage of total loans and leases and other real estate owned came in at 0.59%, down 3 bps sequentially.

Robust Capital Position

TCF Financial's capital ratios remained strong. As of Dec 31, 2019, Common equity Tier 1 capital ratio was 10.99% compared with 10.88% as of Sep 30, 2019. Total risk-based capital ratio was 12.71% compared with 12.63% as of Sep 30, 2019. Tier 1 leverage capital ratio was 9.49%, down from 11.16% as of Sep 30, 2019.

Outlook

The company remains optimistic about loan growth opportunities in 2020 and expects full-year growth in the mid- to high single-digit range.

Management expects deposit costs to decline in 2020 as it remains active in pricing down certain deposits and maturing CDs as market rates continue to move lower.

Net interest income is expected to be lower in first-quarter 2020 on account of seasonality. However, it is anticipated to grow in the second quarter. Reported NIM (excluding purchase account accretions) is expected to expand 21-25 bps in the first-quarter 2020.

Non-interest income is expected to decline in first-quarter 2020 due to seasonal fall in leasing fee revenues.

The company expects expenses to fall to about \$321 million by fourth-quarter 2020.

Effective tax rate is expected between 21% and 23% for 2020, excluding any discrete tax items.

Allowance for credit losses is expected to increase between \$200 million and \$225 million as a result of CECL, with the majority of the increase related to acquired loans, which includes the Chemical portfolio.

Common equity Tier 1 capital ratio (fully-phased in) is expected to decline 40-50 bps from the impact of CECL. It expects to maintain a payout ratio of between 30% and 40%.

Quarter Ending **12/2019**

Report Date	Jan 27, 2020
Sales Surprise	1.75%
EPS Surprise	6.12%
Quarterly EPS	1.04
Annual EPS (TTM)	4.10

Recent News

TCF Financial Decreases Its Prime Lending Rate by 50 Bps - Mar 3, 2020

Pursuant to the U.S. Federal Reserve interest rate cut by 50 bps, TCF Financial reduced its prime lending rate from 4.75% to 4.25%, effective Mar 4. Prior to this, the company reduced the rate from 5% to 4.75%, in October 2019.

Dividend Update

On Jan 27, TCF Financial announced a quarterly cash dividend of 35 cents per share. The dividend was paid on Mar 2 to its stockholders on record as of Feb 14.

Valuation

TCF Financial's shares are down 40.6% in the year-to-date period but down 38% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 5.1% and 22.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.5% and 17.8%, respectively.

The S&P 500 Index is down 15.8% in the year-to-date period and 5.3% in the past year.

The stock is currently trading at 6.72X forward 12 months earnings, which compares to 8.35X for the Zacks sub-industry, 11.62X for the Zacks sector and 15.72X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.51X and as low as 5.85X, with a 5-year median of 13.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 7.06X 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	6.72	8.35	11.62	15.72
	5-Year High	19.51	16.7	16.21	19.34
	5-Year Low	5.85	8.35	11.62	15.18
	5-Year Median	13.32	13.32	13.97	17.42
P/B TTM	Current	0.77	1.03	2.19	3.64
	5-Year High	1.7	2.14	2.89	4.55
	5-Year Low	0.47	0.94	1.83	2.85
	5-Year Median	1.32	1.69	2.52	3.63
P/S F12M	Current	1.93	2.94	5.99	2.9
	5-Year High	7.78	4.63	6.64	3.43
	5-Year Low	1.24	2.94	5.39	2.54
	5-Year Median	3.64	3.97	6.04	3

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



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	B	-	-	D	D	C
Market Cap	4.25 B	173.49 M	19.05 B	2.60 B	6.40 B	2.46 B
# of Analysts	9	2	13	4	8	5
Dividend Yield	5.04%	2.35%	2.31%	4.11%	1.90%	2.48%
Value Score	B	-	-	C	D	D
Cash/Price	0.34	0.29	0.05	0.20	0.27	1.18
EV/EBITDA	6.91	7.77	11.57	5.95	7.57	-1.85
PEG Ratio	0.72	1.08	1.68	1.51	5.62	2.44
Price/Book (P/B)	0.77	0.90	2.56	2.04	2.14	0.94
Price/Cash Flow (P/CF)	5.54	8.94	10.18	9.47	13.10	7.31
P/E (F1)	6.00	8.82	14.94	12.09	16.85	11.01
Price/Sales (P/S)	2.47	2.06	2.02	3.38	4.41	1.91
Earnings Yield	14.39%	11.34%	6.67%	8.27%	5.93%	9.09%
Debt/Equity	0.42	0.42	0.70	0.07	0.00	0.04
Cash Flow (\$/share)	5.02	2.17	7.01	6.88	4.35	6.85
Growth Score	C	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	14.85%	12.85%	10.85%	9.76%	15.65%	14.60%
Proj. EPS Growth (F1/F0)	-0.80%	0.97%	5.99%	-3.10%	-5.59%	-8.90%
Curr. Cash Flow Growth	57.50%	15.07%	6.15%	3.89%	-1.69%	12.97%
Hist. Cash Flow Growth (3-5 yrs)	55.93%	13.05%	8.52%	4.36%	8.41%	9.00%
Current Ratio	0.98	0.99	1.24	0.70	0.73	0.71
Debt/Capital	29.13%	29.68%	42.57%	6.23%	0.08%	3.61%
Net Margin	15.52%	20.86%	11.64%	29.31%	29.06%	18.89%
Return on Equity	10.38%	10.02%	16.74%	17.60%	14.18%	9.80%
Sales/Assets	0.05	0.05	0.54	0.04	0.06	0.05
Proj. Sales Growth (F1/F0)	53.09%	0.71%	3.54%	-1.21%	-1.35%	2.62%
Momentum Score	C	-	-	D	F	B
Daily Price Chg	15.11%	5.48%	8.21%	12.35%	12.61%	9.73%
1 Week Price Chg	-10.92%	-4.02%	-0.67%	-5.40%	-5.05%	-1.01%
4 Week Price Chg	-36.49%	-23.61%	-22.67%	-28.86%	-19.43%	-27.07%
12 Week Price Chg	-40.09%	-26.35%	-20.46%	-30.53%	-16.00%	-27.60%
52 Week Price Chg	-36.99%	-18.93%	-10.79%	-20.34%	-1.76%	-24.42%
20 Day Average Volume	1,172,406	16,271	3,061,271	261,610	676,704	251,942
(F1) EPS Est 1 week change	-1.32%	-1.23%	0.00%	-1.82%	-0.95%	-1.43%
(F1) EPS Est 4 week change	-3.25%	-1.32%	-0.32%	-1.82%	-1.60%	-1.43%
(F1) EPS Est 12 week change	-5.67%	-1.43%	-0.65%	-2.05%	0.05%	2.20%
(Q1) EPS Est Mthly Chg	-1.27%	0.00%	-0.62%	-0.19%	-0.35%	0.00%

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	C
VGM Score	B

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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