

TCF Financial Corp (TCF)

\$27.64 (As of 07/27/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

Shares of TCF Financial have underperformed the industry in the past six months. Yet, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Second-quarter 2020 results reflect lower provisions, higher expenses and a fall in revenues. The bank's increasing loan and strong deposit mix along with rising fee income is likely to support top-line growth. Also, its inorganic growth strategies in order to tap opportunistic areas seems encourages. However, pressure on margin due to lower rates keeps the company's topline under pressure. Also, persistent rise in expenses on account of increase in staff level might impact bottom-line growth. Notably, the company temporarily suspended the share buyback program, following the coronavirus outbreak-led slowdown.

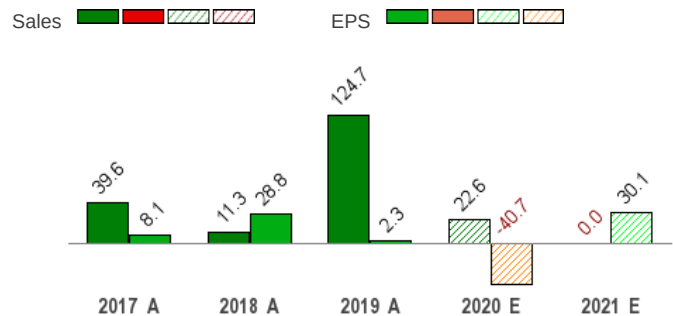
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.46 - \$16.96
20 Day Average Volume (sh)	591,320
Market Cap	\$4.2 B
YTD Price Change	-40.9%
Beta	1.93
Dividend / Div Yld	\$1.40 / 5.1%
Industry	Banks - Northeast
Zacks Industry Rank	Top 42% (105 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.9%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	12.9%
Expected Report Date	10/26/2020
Earnings ESP	-14.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	509 E	531 E	526 E	528 E	2,150 E
2020	538 A	511 A	542 E	538 E	2,151 E
2019	188 A	203 A	466 A	567 A	1,755 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.39 E	\$0.78 E	\$0.90 E	\$0.95 E	\$3.11 E
2020	\$0.57 A	\$0.54 A	\$0.68 E	\$0.73 E	\$2.39 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	8.8
P/E F1	11.6
PEG F1	1.4
P/S TTM	1.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/27/2020. The reports text is as of 07/28/2020.

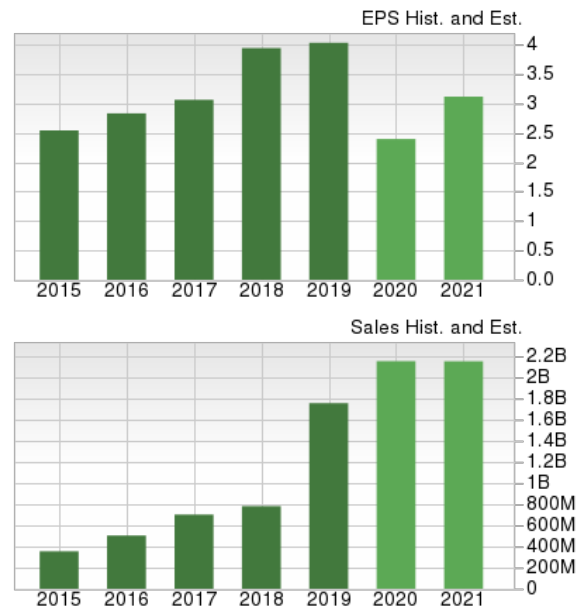
Overview

TCF Financial Corporation is a Detroit, MI-based national financial holding company with \$50 billion in total assets as of Jun 30, 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 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 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 six months of 2020. The uptrend is likely 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 two quarters of 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.
- ▲ 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 the first half of 2020 due to the coronavirus outbreak-led crisis. Going forward, the company's diversified loan portfolio will likely help keep its credit quality at normalized levels.
- ▲ Shares of TCF Financial have underperformed the industry in the past three months. Despite this unfavorable trend, the company's current-year earnings estimates have been revised 15.5% upward over the past month. Further, the stock seems undervalued when compared with the broader industry. Its current price-to-cash flow and PEG ratios are below the respective industry averages. Therefore, given the strong fundamentals and positive estimate revisions, the stock has decent upside potential.

TCF Financial remains well poised to benefit from loan and deposit growth along with improving credit quality. Also, increasing fee income on the back of inorganic growth strategies is a tailwind.

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 the first half of 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.
- ▼ 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 six 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.
- ▼ TCF Financial announced the first quarterly dividend of 35 cents per share as a combined company in October 2019. Also, the board of directors approved a \$150-million share buyback program. However, its debt/equity ratio compares unfavorably with the broader industry. Thus, these capital deployment activities might not be sustainable in the long term. Notably, the company temporarily suspended the share buyback program, following the coronavirus outbreak-led slowdown.

Consistently rising expenses due to merger-related expenses remains a major headwind for TCF Financial's profitability. Further, pressure on margins due to low interest rates is a concern.

Last Earnings Report

TCF Financial Q2 Earnings Beat, Provisions Decline

TCF Financial reported second-quarter 2020 adjusted earnings per share of 54 cents, beating the Zacks Consensus Estimate of 47 cents. However, the figure plunged 5.3% from the prior quarter.

Results were supported by lower provisions. Also, the company witnessed a continued increase in deposits and a strong capital position. However, higher expenses were on the downside. Further, margin pressure and lower fee income were other undermining factors.

Including post-tax merger-related expenses and notable items, the company reported net income of \$23.8 million or 14 cents per share compared with the \$51.9 million or 32 cents per share recorded in the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 27, 2020
Sales Surprise	-3.10%
EPS Surprise	14.89%
Quarterly EPS	0.54
Annual EPS (TTM)	3.13

Revenues Decline, Cost Increases

Total revenues were \$511.4 million in the reported quarter, down 5% sequentially. Also, the top-line figure lagged the Zacks Consensus Estimate of \$527.8 million.

Net interest income was down 5.8% sequentially to \$378.4 million. This decline mainly resulted from decreased interest income on loans and leases along with taxable investment securities, partially mitigated by a fall in total interest expenses. The NIM of 3.33% contracted 40 basis points (bps) sequentially.

Non-interest income was \$133.1 million, down 2.9% on a sequential basis. Fall in almost all components of income chiefly resulted in the decrease, partly offset by higher net gains on sale of loans and leases, and leasing revenues.

TCF Financial reported non-interest expenses of \$400.2 million, up 6.8% from the first quarter. This increase primarily reflects the substantial rise in merger-related expenses.

Adjusted efficiency ratio was 59.8%, down from the prior quarter's 58.24%. A rise in ratio indicates lower profitability.

As of Jun 30, 2020, total deposits increased 9.5% sequentially to \$39.2 billion. Additionally, net loans and leases declined 1.2% to \$35.1 billion in the June-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 15.5% sequentially to \$334.2 million.

Provisions for credit losses were \$78.7 million, declining 18.8% on a sequential basis due to the coronavirus pandemic.

Net charge-offs, as a percentage of average loans and leases, shrunk 2 bps sequentially to 0.04%. Non-performing assets as a percentage of total loans and leases and other real estate owned were 0.94%, up 14 bps sequentially.

Robust Capital Position

TCF Financial's capital ratios remained strong. As of Jun 30, 2020, common equity Tier 1 capital ratio was 11.09% compared with 10.44% as of Mar 31, 2020. Total risk-based capital ratio was 13.51% compared with 12.31% as of Mar 31, 2020. Tier 1 leverage capital ratio was 8.75%, down from 9.27% as of Mar 31, 2020.

Capital-Deployment Update

During the April-June period, the company did not repurchase any shares as it has temporarily suspended share buybacks, following the unprecedented challenge from the coronavirus pandemic.

Recent News

Dividend Update

On Jul 2, TCF Financial announced a quarterly cash dividend of 35 cents per share. The dividend will be paid on Sep 1 to its stockholders of record as of Aug 14.

Valuation

TCF Financial's shares are down 40.9% in the year-to-date period and 35.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 37.5% and 18.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 32.9% and 14%, respectively.

The S&P 500 Index is up 0.8% and 7.7% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 9.85X forward 12 months earnings, which compares to 10.50X for the Zacks sub-industry, 16.52X for the Zacks sector and 22.08X 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 13.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 10.34X 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	9.85	10.5	16.52	22.08
	5-Year High	19.51	16.73	16.52	22.08
	5-Year Low	4.47	8.78	11.58	15.23
	5-Year Median	13.14	12.65	13.94	17.49
P/TB TTM	Current	1.05	1.35	3.33	12.69
	5-Year High	2.83	2.88	4	12.94
	5-Year Low	0.69	1.04	2.01	5.96
	5-Year Median	2.07	2.27	3.48	9.52
P/S F12M	Current	1.96	2.77	6.04	3.55
	5-Year High	7.78	4.69	6.66	3.55
	5-Year Low	1.24	2.77	4.96	2.53
	5-Year Median	3.64	3.97	6.06	3.02

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Top 42% (105 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bank of Hawaii Corporation (BOH)	Neutral	4
BancorpSouth Bank (BXS)	Neutral	3
Commerce Bancshares, Inc. (CBSH)	Neutral	3
CullenFrost Bankers, Inc. (CFR)	Neutral	3
First Horizon National Corporation (FHN)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	3
UMB Financial Corporation (UMBF)	Neutral	3
Webster Financial Corporation (WBS)	Neutral	3

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	TCF	X Industry	S&P 500	BOH	CBSH	UMBF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	D	F	D
Market Cap	4.20 B	154.20 M	22.74 B	2.31 B	6.35 B	2.25 B
# of Analysts	5	2	14	4	9	4
Dividend Yield	5.07%	2.83%	1.8%	4.64%	1.90%	2.65%
Value Score	C	-	-	C	C	C
Cash/Price	0.40	0.51	0.07	0.24	0.41	0.98
EV/EBITDA	7.06	6.16	13.03	5.07	6.05	0.19
PEG Ratio	1.36	2.45	3.03	1.80	NA	4.61
Price/Book (P/B)	0.77	0.79	3.17	1.71	1.97	0.85
Price/Cash Flow (P/CF)	5.51	7.60	12.05	8.40	13.08	6.84
P/E (F1)	11.29	11.40	21.90	14.40	24.95	20.81
Price/Sales (P/S)	1.73	1.80	2.38	3.01	4.50	1.76
Earnings Yield	8.65%	8.77%	4.30%	6.94%	4.01%	4.80%
Debt/Equity	0.47	0.39	0.76	0.04	0.00	0.05
Cash Flow (\$/share)	5.02	2.25	7.01	6.88	4.35	6.85
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	13.51%	12.32%	10.85%	9.39%	13.21%	13.80%
Proj. EPS Growth (F1/F0)	-40.60%	-25.95%	-7.56%	-27.88%	-36.31%	-54.91%
Curr. Cash Flow Growth	57.50%	9.97%	5.47%	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	1.31	0.70	0.72	0.69
Debt/Capital	31.50%	28.16%	44.41%	4.28%	0.04%	4.37%
Net Margin	8.67%	18.58%	10.45%	23.91%	21.82%	14.24%
Return on Equity	8.37%	8.54%	15.13%	13.98%	10.03%	7.17%
Sales/Assets	0.05	0.05	0.54	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	51.10%	0.00%	-2.00%	0.24%	-3.00%	5.39%
Momentum Score	A	-	-	A	F	D
Daily Price Chg	-3.69%	-0.11%	0.48%	-2.40%	-2.52%	-3.74%
1 Week Price Chg	3.61%	0.33%	0.37%	3.23%	3.37%	2.16%
4 Week Price Chg	-3.19%	-2.71%	5.61%	-4.48%	-2.74%	-6.84%
12 Week Price Chg	4.11%	-1.33%	13.36%	-9.17%	-2.62%	-3.50%
52 Week Price Chg	-35.33%	-27.74%	-3.30%	-31.81%	-0.82%	-30.38%
20 Day Average Volume	591,320	11,951	1,917,592	225,429	375,561	207,693
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-6.90%	0.00%
(F1) EPS Est 4 week change	12.93%	0.00%	0.21%	0.94%	-3.39%	-3.15%
(F1) EPS Est 12 week change	-7.78%	-4.35%	-2.00%	1.09%	-6.09%	-26.89%
(Q1) EPS Est Mthly Chg	8.37%	0.00%	0.00%	10.36%	7.62%	3.27%

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	A
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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