

Truist Financial (TFC)

\$37.21 (As of 08/20/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/02/19)

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

We have initiated coverage of Truist Financial, the sixth largest bank in the United States in terms of total assets, which was formed following the BB&T-SunTrust merger. Its shares have outperformed the industry so far this year. Its earnings surpassed the Zacks Consensus Estimate in each of the trailing four quarters. The bank's second-quarter 2020 results reflect revenue growth and lower provisions. Consistent loan growth, a strong balance sheet position and focus on non-interest income growth will likely continue to support profitability. However, near-zero interest rates are expected to hurt margins, thereby adversely impacting the top line. Further, mounting expenses, mainly due to a rise in merger-related costs, are expected to hurt the bottom line to some extent. The company's significant exposure to risky loans is a concern.

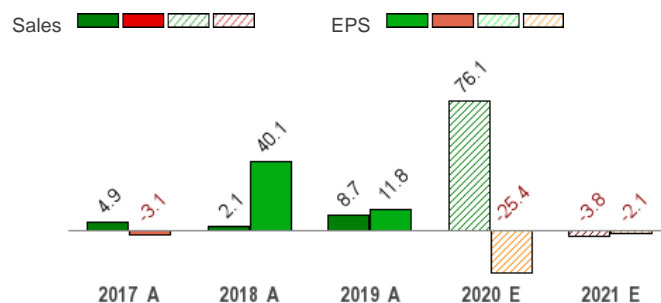
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.92 - \$24.01
20 Day Average Volume (sh)	4,322,590
Market Cap	\$50.1 B
YTD Price Change	-33.9%
Beta	1.42
Dividend / Div Yld	\$1.80 / 4.8%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 13% (218 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.1%
Last Sales Surprise	6.3%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	10/15/2020
Earnings ESP	0.7%
P/E TTM	9.6
P/E F1	11.4
PEG F1	1.4
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,214 E	5,312 E	5,363 E	5,358 E	21,287 E
2020	5,611 A	5,871 A	5,373 E	5,353 E	22,128 E
2019	2,898 A	3,042 A	3,003 A	3,625 A	12,568 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.74 E	\$0.77 E	\$0.82 E	\$0.91 E	\$3.19 E
2020	\$0.87 A	\$0.82 A	\$0.76 E	\$0.73 E	\$3.26 E
2019	\$1.05 A	\$1.12 A	\$1.07 A	\$1.12 A	\$4.37 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/20/2020. The reports text is as of 08/21/2020.

Overview

Truist Financial, formed following the 'merger of equals' deal between BB&T Corp and SunTrust Banks, is the sixth largest bank in the United States. The company — headquartered in Charlotte, NC — conducts business operations primarily through its bank subsidiary, Truist Bank, and other non-bank subsidiaries.

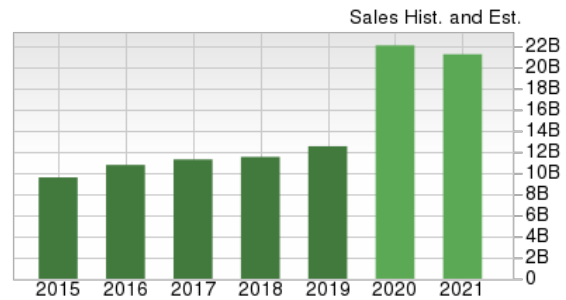
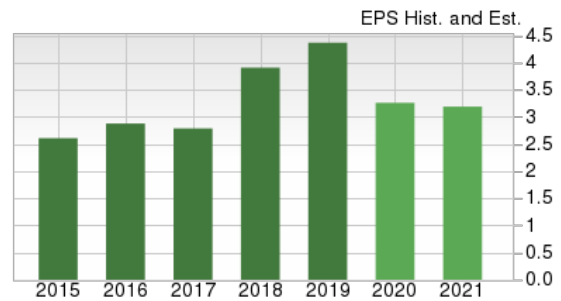
Truist Bank — through more than 2,900 banking offices and 4,354 ATMs — offers a variety of services to consumer and commercial clients.

Truist Financial has the following three operating segments:

- **Consumer Banking and Wealth (CB&W)** comprises five primary operations - Retail Community Banking, NCF&P, Wealth, Mortgage Banking and Dealer Retail Services.
- **Corporate and Commercial Banking (C&CB)** is made up of four primary businesses - Corporate and Investment Banking, Commercial Community Banking, Commercial Real Estate, and Grandbridge Real Estate Capital, LLC and Treasury Solutions product group.
- **Insurance Holdings (IH)** provides property and casualty, employee benefits, life insurance surety coverage, as well as title insurance. Also, the segment offers commercial and retail insurance premium finance.

Others, Treasury & Corporate includes Truist Financial's investment securities portfolio, long-term debt, derivative instruments used for balance sheet hedging, short-term liquidity and funding activities, balance sheet risk management, as well as most real estate assets. The company's functional activities such as marketing, finance, enterprise risk, legal, enterprise technology and executive leadership, among others, are also part of this unit.

As of Jun 30, 2020, Truist Financial's total assets were \$504.3 billion, total loans and leases were \$321.1 billion, deposits totaled \$376.2 billion and stockholders' equity was \$68.9 billion.



Reasons To Buy:

- ▲ Truist Financial, formed following the 'merger of equals' deal between BB&T and SunTrust Banks, is the sixth largest bank in the United States. Legacy BB&T relied extensively on acquisitions to grow and expand footprints. Over the years, these transactions have resulted in cost and revenue synergies. Such strategic initiatives will likely continue to support bottom-line growth in the upcoming quarters.
- ▲ Truist Financial has been recording a rise in net interest income (NII) despite lower rates. NII in 2019 and first-half 2020 increased on the back of high loan demand. Though there has been a fall in demand for consumer loans amid coronavirus-related economic slowdown, commercial lending activities continue to improve. As of Jun 30, 2020, total commercial loans were 58.5% of total loans and leases. With signs of economic revival, the demand for loans is expected to increase going forward. Thus, this is likely to support NII in the upcoming quarters.
- ▲ Truist Financial remains focused on growth of non-interest revenue sources. Fee income grew in 2019 and the first six months of 2020. With near-zero interest rates and lower mortgage rates, a rise in origination volume and higher refinancing activities are being witnessed. Further, strength in investment banking and insurance income will accelerate non-interest income growth, going forward.
- ▲ As of Jun 30, 2020, Truist Financial has total debt worth \$47.8 billion, and cash a due from banks totaled \$5.1 billion. The company has nominal debt maturities in the near term. Also, its times-interest earned — which was 4.9 at second quarter-end — rose sequentially. Further, total debt/total capital — which was 38% at quarter-end — has been improving over the last few quarters. These imply that the company will likely be able to meet near-term debt obligations even if the economic situation worsens.
- ▲ We are encouraged by Truist Financial's capital deployment activities. The company cleared the 2020 stress test and announced that it will maintain dividend at the prior level. Also, the company suspended share repurchases until a sustained economic recovery is seen. Given a solid liquidity position and debt/equity ratio lower than the industry, the company will be able to sustain dividend payments.
- ▲ Further, Truist Financial seems undervalued than the broader industry. Its current price/earnings (F1) and PEG ratios are below the respective industry averages.

Decent loan demand and efforts to improve fee income will likely continue supporting Truist Financial's prospects. Further, its steady capital deployments indicate a solid balance sheet position.

Reasons To Sell:

- ▼ Owing to the Federal Reserve's accommodative monetary policy stance and near-zero interest rates, Truist Financial is expected to continue witnessing pressure on net interest margin (NIM). After recording an improving trend over the last several years, NIM contracted to 3.42% in 2019 from 3.46% in 2018. The fall was mainly due to flattening/inversion of the yield curve and lower interest rates. The trend persisted in the first six months of 2020.
- ▼ Truist Financial has been witnessing a persistent rise in total operating expenses. The company recorded a CAGR of 6.1% over the last five years (2015-2019). The increase was mainly due to a rise in personnel expenses and its efforts to improve digitization. The uptrend continued in first-half 2020, largely owing to the merger deal. Expenses are likely to remain elevated, primarily owing to investments in technology upgrades and merger integration.
- ▼ Truist Financial's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 8.07% compares unfavorably with 14.67% for the S&P 500. This reflects that the company is less efficient in using shareholders' funds.
- ▼ Truist Financial's shares have underperformed the industry over the past year. Also, the company's earnings estimates for 2020 have moved marginally lower over the past 30 days. Thus, given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

Decline in margins due to lower rates will likely hamper Truist Financial's top-line growth. Also, rising expenses, mainly due to higher merger-related charges, will likely hurt the bottom line.

Last Earnings Report

Truist Financial Q2 Earnings Beat, Revenues & Costs Rise

Truist Financial's second-quarter 2020 adjusted earnings of 82 cents per share surpassed the Zacks Consensus Estimate of 64 cents. The results excluded restructuring charges and BB&T-SunTrust Banks merger-related charges, incremental operating expenses related to the merger, securities gains and losses from the early extinguishment of long-term debt.

The results benefited from an improvement in revenues and a decline in provision for credit losses. However, higher expenses were an undermining factor. The balance sheet position remained strong in the reported quarter.

After considering non-recurring items, net income available to common shareholders (GAAP basis) was \$902 million or 67 cents per share, down from \$986 million or 73 cents per share in the first quarter.

Revenues Improve, Expenses Rise

Total revenues (on a tax-equivalent basis) were \$5.90 billion, up 4.5% sequentially. Also, the figure beat the Zacks Consensus Estimate of \$5.53 billion.

Tax-equivalent net interest income declined 5.6% from the first quarter to \$3.48 billion. Net interest margin decreased 45 basis points (bps) to 3.13%. The declines were due to lower Fed Funds and LIBOR rates, higher low-yielding balances at the Federal Reserve and a deferral related to accrued interest for loans that are granted an accommodation in connection with the COVID-19 pandemic.

Non-interest income jumped 23.6% sequentially to \$2.42 billion. For the reported quarter, the company recorded \$300 million worth of securities gains from the sale of non-agency mortgage-backed securities against a loss in the prior quarter.

Non-interest expenses were \$3.88 billion, up 13% from the prior quarter. The rise reflects an increase in almost all cost components, except for those associated with marketing and customer development, as well as loan-related costs. Moreover, for the reported quarter, it recorded a loss on early extinguishment of debt worth \$235 million.

Adjusted efficiency ratio was 55.8%, up from 54.6% in the first quarter. A rise in efficiency ratio indicates fall in profitability.

As of Jun 30, 2020, total deposits were \$376.2 billion, up 7.4% sequentially. Total loans and leases of \$321.1 billion declined marginally from first quarter-end.

Credit Quality Worsens

As of Jun 30, 2020, total non-performing assets (NPAs) were \$1.25 billion, up 6.4% sequentially. As a percentage of total assets, NPAs were 0.25%, increasing 2 bps from the prior quarter.

Also, allowance for loan and lease losses was 1.81% of total loans and leases held for investment, increasing 18 bps. Net charge-offs (NCOs) were 0.39% of average loans and leases, up 3 bps sequentially.

Provision for credit losses declined 5.5% on a sequential basis to \$844 million. Provisions included a \$522 million build to the allowance for credit losses, reflecting increased economic stress associated with the coronavirus pandemic and its impact.

Profitability Ratios Deteriorate, Capital Ratios Improve

At the end of the reported quarter, return on average assets was 0.75%, down from 0.90% in the prior quarter. Return on average common equity was 5.90%, down from 6.58% in the first quarter of 2020.

As of Jun 30, 2020, Tier 1 risk-based capital ratio was 11.5%, up from 10.5% recorded in the first quarter. Common equity Tier 1 ratio under Basel III was 9.7% as of Jun 30, 2020, up from 9.3% in first-quarter 2020.

Third-Quarter 2020 Outlook

On a sequential basis, management expects taxable equivalent revenues to be down 3-5%, excluding one-time security gains from the sale of non-agency MBS. Some of the factors impacting revenues include a reduction in earning assets, seasonally lower insurance income, and lower residential mortgage spreads a servicing income.

NIM is projected to be flat and core NIM is likely to increase modestly from the second quarter.

Core non-interest expenses (excluding merger costs and amortization) are anticipated to be down 1-3%.

NCOs are projected between 45 and 65 bps.

Medium-Term Targets

Management expects ROTCE in low 20%, adjusted efficiency ratio in low 50% and CET1 ratio of 10%.

Further, the company has provided net expense savings run rate related to the merger. It projects achieving 40% of net cost saves in 2020 (reflecting fourth-quarter 2020 annualized), higher than 30% previously targeted. The bank is on track to achieve "run rate net cost saves of \$1.6

Quarter Ending 06/2020

Report Date	Jul 16, 2020
Sales Surprise	6.26%
EPS Surprise	28.13%
Quarterly EPS	0.82
Annual EPS (TTM)	3.88

billion by 4Q22."

Recent News

Dividend Update

On Jul 28, Truist Financial announced a quarterly cash dividend of 45 cents per share. The dividend will be paid on Sep 1 to shareholders of record as of Aug 14.

Valuation

Truist Financial's shares are down 33.9% in the year-to-date period and 20.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 34.5% and 16.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 18.2% and 7.4%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 11.47X forward 12 months earnings, which compares to 13.05X for the Zacks sub-industry, 16.50X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.89X and as low as 5.87X, with a 5-year median of 12.29X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 12.35X forward earnings.

The table below shows summary valuation data for TFC

Valuation Multiples - TFC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.47	13.05	16.5	22.77
	5-Year High	16.89	14.2	16.5	22.77
	5-Year Low	5.87	8.01	11.6	15.25
	5-Year Median	12.29	11.31	14.26	17.58
P/TB TTM	Current	2.92	1.51	3.33	13.2
	5-Year High	0.76	2.68	4	13.26
	5-Year Low	2.32	1.21	2.01	5.96
	5-Year Median	1.54	2.11	3.48	9.58
P/S F12M	Current	2.32	2.76	6.22	3.7
	5-Year High	6.29	4.59	6.67	3.7
	5-Year Low	1.57	2.39	4.97	2.53
	5-Year Median	2.97	3.59	6.06	3.05

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (218 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Bank of America Corporation (BAC)	Neutral	3
Citigroup Inc. (C)	Neutral	4
KeyCorp (KEY)	Neutral	4
MT Bank Corporation (MTB)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	4
U.S. Bancorp (USB)	Neutral	3
Wells FargoCompany (WFC)	Neutral	4
Fifth Third Bancorp (FITB)	Underperform	4

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	TFC	X Industry	S&P 500	BAC	C	USB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	D	D	D
Market Cap	50.14 B	31.78 B	23.46 B	217.47 B	103.22 B	53.64 B
# of Analysts	4	9	14	9	10	13
Dividend Yield	4.84%	4.14%	1.65%	2.87%	4.11%	4.72%
Value Score	C	-	-	C	D	B
Cash/Price	0.87	2.32	0.07	4.24	8.67	0.92
EV/EBITDA	9.40	-0.94	13.34	-9.10	-12.50	4.66
PEG Ratio	1.39	2.21	3.00	2.21	1.47	2.38
Price/Book (P/B)	0.81	0.81	3.12	0.90	0.59	1.15
Price/Cash Flow (P/CF)	11.92	6.25	12.60	6.84	4.86	7.22
P/E (F1)	11.41	14.08	21.61	15.44	15.41	14.28
Price/Sales (P/S)	2.45	1.86	2.44	2.04	1.03	2.01
Earnings Yield	8.76%	7.10%	4.43%	6.49%	6.49%	6.99%
Debt/Equity	0.68	0.88	0.76	1.08	1.60	0.92
Cash Flow (\$/share)	3.12	6.63	6.93	3.67	10.20	4.93
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	12.36%	10.96%	10.44%	21.29%	10.06%	6.78%
Proj. EPS Growth (F1/F0)	-25.34%	-42.47%	-5.53%	-40.89%	-57.55%	-42.54%
Curr. Cash Flow Growth	12.42%	2.66%	5.20%	3.02%	2.56%	2.66%
Hist. Cash Flow Growth (3-5 yrs)	9.49%	9.49%	8.52%	27.50%	7.31%	3.99%
Current Ratio	0.95	0.89	1.33	0.93	0.98	0.84
Debt/Capital	37.95%	44.79%	44.50%	49.62%	59.26%	44.79%
Net Margin	17.32%	18.16%	10.13%	19.09%	13.64%	19.70%
Return on Equity	8.07%	8.52%	14.67%	9.11%	7.40%	11.82%
Sales/Assets	0.05	0.05	0.51	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	76.07%	-1.23%	-1.54%	-5.24%	0.29%	-1.23%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	-1.95%	-1.57%	-0.59%	-1.57%	-1.41%	-1.52%
1 Week Price Chg	1.13%	1.49%	1.09%	1.38%	1.55%	0.85%
4 Week Price Chg	-1.82%	-1.63%	1.91%	2.28%	-4.80%	-3.15%
12 Week Price Chg	-2.46%	-1.74%	6.82%	0.97%	0.85%	-2.47%
52 Week Price Chg	-20.29%	-22.42%	1.47%	-7.69%	-22.42%	-31.59%
20 Day Average Volume	4,322,590	4,624,694	1,873,576	56,936,116	17,543,980	5,649,353
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.88%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.62%	0.74%	1.79%	2.95%	0.81%	-1.31%
(F1) EPS Est 12 week change	0.32%	13.68%	3.35%	13.68%	5.55%	14.35%
(Q1) EPS Est Mthly Chg	-1.16%	3.47%	0.42%	4.08%	14.26%	3.47%

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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