

Zions Bancorporation (ZION)

\$32.13 (As of 08/20/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

Shares of Zions have underperformed the industry so far this year. Its earnings have surpassed the Zacks Consensus Estimate in two of the trailing four quarters. The bank's second-quarter 2020 results were hurt by a fall in revenues and higher provisions. Near-zero interest rates and the Fed's dovish stance are expected to continue hurting the company's net interest margin (NIM) and revenues in the near term. Elevated expenses mainly because of Zions' investments in franchise will likely hurt the bottom line. However, rise in loan and deposit balances, the removal of SIFI label, exemption from stringent regulations and the company's business simplifying efforts are expected to support growth. Given a stable capital position, the company is expected to keep enhancing shareholder value through efficient capital deployments.

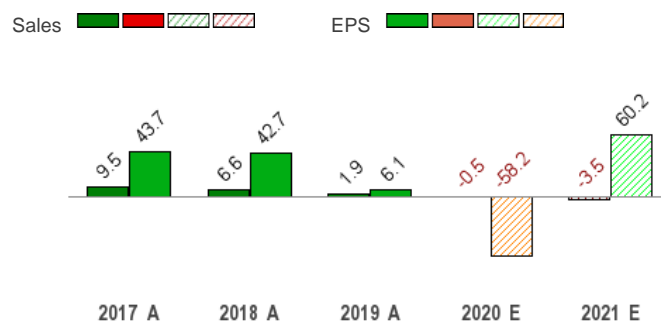
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.48 - \$23.58
20 Day Average Volume (sh)	1,359,884
Market Cap	\$5.3 B
YTD Price Change	-38.1%
Beta	1.65
Dividend / Div Yld	\$1.36 / 4.2%
Industry	Banks - West
Zacks Industry Rank	Top 42% (106 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.1%
Last Sales Surprise	-1.2%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	10/19/2020
Earnings ESP	0.0%
P/E TTM	11.9
P/E F1	17.8
PEG F1	2.0
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	678 E	678 E	687 E	689 E	2,722 E
2020	689 A	686 A	709 E	737 E	2,820 E
2019	708 A	701 A	713 A	711 A	2,834 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.66 E	\$0.77 E	\$0.83 E	\$2.90 E
2020	\$0.04 A	\$0.34 A	\$0.74 E	\$0.84 E	\$1.81 E
2019	\$1.04 A	\$0.99 A	\$1.17 A	\$1.14 A	\$4.33 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

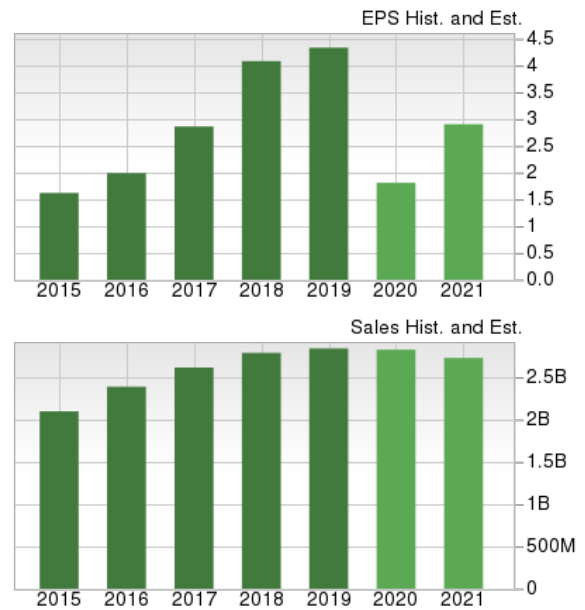
Headquartered in Salt Lake City, UT and founded in 1873, Zions Bancorporation, National Association is a diversified financial service provider, operating a widespread network of nearly 430 banking offices. The company's footprint spans 11 western and southwestern states, namely Utah, Idaho, California, Nevada, Arizona, Colorado, Texas, New Mexico, Washington, Oregon and Wyoming.

Effective October 2018, Zions Bancorporation, N.A. merged with its holding company, Zions Bancorporation. Earlier in 2015, the company had consolidated its seven subsidiary banks into a single national bank charter.

Zions offers its services through local banking identities using local management teams. The company provides a full range of traditional banking services and is a national leader in small business administration lending, public finance advisory and electronic bond trading.

The bank conducts its operations through seven separately managed and branded segments - **Zions Bank, Amegy Bank, California Bank & Trust, National Bank of Arizona, Nevada State Bank, Vectra Bank Colorado** and **The Commerce Bank of Washington**.

As of Jun 30, 2020, Zions had \$76.4 billion in total assets, \$54.3 billion in net loans held for investment, \$65.7 billion in total deposits and \$7.6 billion in stockholders' equity.



Reasons To Buy:

- ▲ Zions has been witnessing consistent growth in loans, with net loans and leases recording a CAGR of 4.4% over the last five years (2015-2019). The uptrend continued in the first half of 2020. Additionally, the bank's non-interest-bearing deposits (46.8% of total deposits as of Jun 30, 2020) support its financials. The company's initiatives to efficiently deploy the capital generated from these deposits and rise in loan demand is expected to support revenue growth in the quarters ahead.
- ▲ Zions' exemption from the Federal Reserve's annual stress tests in accordance with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 provides flexibility in announcing capital plans. Also, the removal of the SIFI label supports the company's financials. Nonetheless, currently the bank has suspended share repurchases, while is expected to continue paying quarterly dividends at the same rate. Given its robust capital position as well as lower dividend payout ratio compared with its peers, the company is expected to sustain its capital deployment activities, thereby continuing to enhance shareholder value.
- ▲ Zions' shares have underperformed the industry so far this year. However, the company's earnings estimates for 2020 have moved 30.2% upward over the 60 days. Also, the stock seems undervalued than the broader industry. Its current price/book and price/cash flow ratios are below the respective industry averages. Also, it has a Value Score of B. Given the strength in fundamentals and positive estimate revisions, the price performance is expected to improve in the near term.

Growth in loan and deposit balances, strong capital position and business simplifying initiatives will support Zions. Exemption from stringent regulations and removal of SIFI label are key positives.

Reasons To Sell:

- ▼ Owing to the Federal Reserve's accommodative monetary policy stance, Zions is expected to continue to witness pressure on NIM. After recording an improving trend over the last several years, NIM contracted to 3.54% in 2019 from 3.61% in 2018. The fall was mainly due to flattening/inversion of the yield curve and lower interest rates. Moreover, NIM declined in the first six months of 2020 as well. Despite continued decent loan growth, NIM is expected to be adversely impacted in the quarters ahead due to near-zero interest rates.
- ▼ Zions has been witnessing a persistent rise in non-interest expenses. While expenses declined in the first quarter, it witnessed a year-over-year rise in the second quarter of 2020. Moreover, non-interest expenses have recorded a CAGR of 2.6% over the last three years (2017-2019). Primarily, higher salaries and employee benefits, net occupancy and advertising costs were the reasons for elevated expenses. As the company continues to invest in franchise, operating expenses are expected to increase in the quarters ahead.
- ▼ As of Jun 30, 2020, Zions had total debt worth \$2.2 billion, down 60.2% sequentially. However, it was significantly higher than the cash and cash equivalents balance of \$570 million as of the same date. While the company's times-interest-earned ratio of 7.3 improved sequentially at the end of the second quarter, it is highly leveraged. In fact, given the significantly high amounts of debt in comparison with the current cash balance, Zions might not be able to meet debt obligations if economic situation worsens.
- ▼ Further, Zions' trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 7.46% compares unfavorably with 9.28% for the industry. This reflects that it is less efficient in using shareholders' funds.

Lower interest rates will likely hurt Zions' margins in the quarters ahead. Further, mounting expenses, as the company continues to invest in franchises, are likely to hurt bottom-line growth.

Last Earnings Report

Zions Q2 Earnings Miss Estimates, Revenues Decline Y/Y

Zions' second-quarter 2020 net earnings per share of 34 cents missed the Zacks Consensus Estimate of 37 cents. Moreover, the bottom line compares unfavorably with the year-ago quarter's 99 cents.

Results reflect lower net interest and non-interest income, and a significant rise in provision for credit losses. However, an increase in deposit and loan balances, and fall in expenses were positives.

Net income attributable to common shareholders was \$57 million, down from the prior-year quarter's \$189 million.

Revenues Decline, Expenses Down

Net revenues were \$686 million, down 3.1% year over year. Further, the top line missed the Zacks Consensus Estimate of \$694.1 million.

Net interest income was \$563 million, down 1.1% from the prior-year quarter. This downside resulted from a fall in interest income. Net interest margin contracted 31 basis points (bps) year over year to 3.23%.

Non-interest income amounted to \$117 million, down 11.4% from the year-ago quarter. The decrease resulted from a fall in card fees, retail and business banking fees and capital markets and foreign exchange fees.

Adjusted non-interest expenses were \$402 million, down 5% from the prior-year quarter.

Efficiency ratio was 57.3%, down from 59.0% reported in the prior-year period. A fall in efficiency ratio indicates an increase in profitability.

Solid Balance Sheet

As of Jun 30, 2020, net loans held for investment were \$54.3 billion, up from the \$49.2 billion recorded at the end of the prior quarter. Total deposits were \$65.7 billion, up 14.2% from the end of first-quarter 2020.

Credit Quality Deteriorates

The ratio of non-performing assets to loans and leases as well as other real estate owned expanded 10 bps year over year to 0.62%. Provision for credit losses was \$168 million compared with \$21 million reported in the year-earlier quarter.

Moreover, net loan and lease charge-offs were \$31 million at the end of the reported quarter compared with \$14 million witnessed in the year-earlier quarter.

Capital & Profitability Ratios Deteriorate

Tier 1 leverage ratio was 8.4% as of Jun 30, 2020, compared with 9.5% recorded at the end of the prior-year quarter. Tier 1 risk-based capital ratio was 11.2%, down from the year-ago quarter's 11.8%.

At the end of the June-end quarter, return on average assets was 0.35%, down from 1.14% as of Jun 30, 2019. Also, return on average tangible common equity was 3.8%, down from 12.7% in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Jul 20, 2020
Sales Surprise	-1.17%
EPS Surprise	-8.11%
Quarterly EPS	0.34
Annual EPS (TTM)	2.69

Recent News

Dividend Update

On Jul 31, Zions announced a quarterly cash dividend of 34 cents per share. The dividend was paid on Aug 20 to shareholders of record as of Aug 13.

Valuation

Zions' shares are down 38.1% in the year-to-date period and 21.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23.8% and 16.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 9.2% and 7.4%, respectively.

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

The stock is currently trading at 12.62X forward 12 months earnings, which compares to 13.20X 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 22.81X and as low as 5.79X, with a 5-year median of 13.67X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 13.33X forward earnings.

The table below shows summary valuation data for ZION

Valuation Multiples - ZION					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.62	13.2	16.5	22.77
	5-Year High	22.81	18.23	16.5	22.77
	5-Year Low	5.79	10.28	11.6	15.25
	5-Year Median	13.67	14.28	14.26	17.58
P/TB TTM	Current	0.88	1.41	3.33	13.2
	5-Year High	2.03	2.65	4	13.26
	5-Year Low	0.72	1.09	2.01	5.96
	5-Year Median	1.45	1.95	3.48	9.58
P/S F12M	Current	1.91	3.23	6.22	3.7
	5-Year High	4.06	4.75	6.67	3.7
	5-Year Low	1.45	2.7	4.97	2.53
	5-Year Median	3.03	3.91	6.06	3.05

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Bank of Hawaii Corporation (BOH)	Neutral	4
East West Bancorp, Inc. (EWBC)	Neutral	3
First Hawaiian, Inc. (FHB)	Neutral	3
First Republic Bank (FRC)	Neutral	3
PacWest Bancorp (PACW)	Neutral	3
SVB Financial Group (SIVB)	Neutral	3
Umpqua Holdings Corporation (UMPQ)	Neutral	3
Western Alliance Bancorporation (WAL)	Neutral	3

Industry Comparison Industry: Banks - West				Industry Peers		
	ZION	X Industry	S&P 500	EWBC	FRC	SIVB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	D	D
Market Cap	5.27 B	259.57 M	23.46 B	5.14 B	19.41 B	12.46 B
# of Analysts	7	4	14	5	9	10
Dividend Yield	4.23%	2.63%	1.65%	3.03%	0.71%	0.00%
Value Score	B	-	-	A	D	D
Cash/Price	0.46	0.79	0.07	1.16	0.15	1.10
EV/EBITDA	3.30	2.28	13.34	1.05	21.84	-0.34
PEG Ratio	1.98	2.13	3.00	0.98	2.65	2.13
Price/Book (P/B)	0.75	0.86	3.12	1.03	2.06	1.74
Price/Cash Flow (P/CF)	5.30	7.42	12.60	6.37	17.79	10.83
P/E (F1)	17.54	11.30	21.61	9.84	20.78	17.01
Price/Sales (P/S)	1.71	2.15	2.44	2.54	4.47	3.52
Earnings Yield	5.63%	8.90%	4.43%	10.16%	4.81%	5.88%
Debt/Equity	0.19	0.17	0.76	0.45	1.82	0.12
Cash Flow (\$/share)	6.07	2.79	6.93	5.70	6.34	22.23
Growth Score	F	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	24.41%	12.82%	10.44%	15.83%	12.45%	36.25%
Proj. EPS Growth (F1/F0)	-58.20%	-26.95%	-5.53%	-19.96%	4.38%	-34.87%
Curr. Cash Flow Growth	-3.96%	5.43%	5.20%	3.66%	10.31%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	17.66%	14.60%	8.52%	24.66%	17.90%	34.83%
Current Ratio	0.86	0.91	1.33	1.02	1.04	0.71
Debt/Capital	15.15%	14.84%	44.50%	30.97%	61.89%	10.15%
Net Margin	15.70%	22.78%	10.13%	29.90%	22.03%	25.26%
Return on Equity	7.46%	9.28%	14.67%	12.18%	10.68%	13.61%
Sales/Assets	0.04	0.05	0.51	0.04	0.04	0.05
Proj. Sales Growth (F1/F0)	-0.46%	0.00%	-1.54%	-2.88%	12.92%	-1.07%
Momentum Score	B	-	-	D	B	C
Daily Price Chg	-2.37%	-0.43%	-0.59%	-2.39%	-1.59%	-0.96%
1 Week Price Chg	2.07%	1.36%	1.09%	4.26%	1.05%	5.49%
4 Week Price Chg	-5.56%	-1.03%	1.91%	2.89%	-2.01%	7.03%
12 Week Price Chg	-5.56%	-1.52%	6.82%	-0.44%	3.61%	11.65%
52 Week Price Chg	-21.90%	-24.11%	1.47%	-9.63%	23.01%	23.16%
20 Day Average Volume	1,359,884	22,191	1,873,576	742,566	525,119	245,623
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.56%	0.30%	1.79%	2.96%	1.62%	11.19%
(F1) EPS Est 12 week change	14.24%	2.63%	3.35%	2.73%	11.07%	17.21%
(Q1) EPS Est Mthly Chg	3.10%	0.00%	0.42%	2.70%	0.00%	4.42%

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	F
Momentum Score	B
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.

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