Zions Bancorporation (ZION)

$46.46 (As of 01/27/20)

Price Target (6-12 Months): **$50.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/20/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: A | Growth: F | Momentum: B	

Summary

Shares of Zions have underperformed the industry over the past year. The bank surpassed the Zacks Consensus Estimate for earnings in two of the trailing four quarters. Its fourth-quarter 2019 results reflect a rise in fee income and lower credit costs. The company's business simplifying efforts, initiatives to improve operating efficiency and consistent rise in loan and deposit balances are likely to continue supporting growth. Additionally, removal of SIFI label and exemption from stringent regulations are positives. Although there is less chance of further cut in interest rates, lower rates remain major near-term concern and will hurt the company's margins and revenues, going forward. Moreover, elevated costs (mainly owing to higher compensation and marketing-related expenses) are likely to hurt bottom-line growth in the near term.

Price, Consensus & Surprise

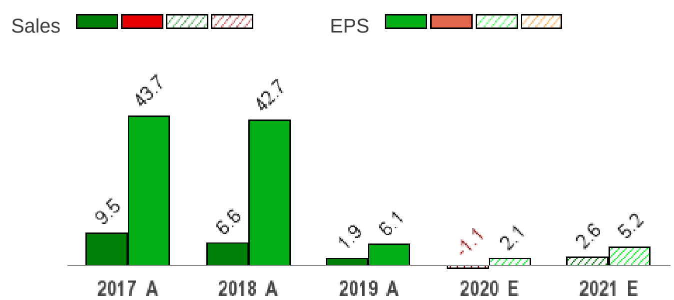
Data Overview

52 Week High-Low	**$52.48 - $39.11**
20 Day Average Volume (sh)	**1,928,401**
Market Cap	**$7.9 B**
YTD Price Change	**-10.5%**
Beta	**1.58**
Dividend / Div Yld	**$1.36 / 2.9%**
Industry	**Banks - West**
Zacks Industry Rank	**Top 42% (108 out of 255)**

Last EPS Surprise	**5.6%**
Last Sales Surprise	**1.3%**
EPS F1 Est- 4 week change	**0.1%**
Expected Report Date	**04/27/2020**
Earnings ESP	**0.2%**

P/E TTM	**10.7**
P/E F1	**10.5**
PEG F1	**1.2**
P/S TTM	**2.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	702 E	716 E	732 E	737 E	2,874 E
2020	691 E	696 E	707 E	712 E	2,802 E
2019	708 A	701 A	713 A	711 A	2,834 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.08 E	$1.15 E	$1.23 E	$1.25 E	$4.65 E
2020	$1.04 E	$1.08 E	$1.13 E	$1.15 E	$4.42 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 01/27/2020. The reports text is as of 01/28/2020.

Overview

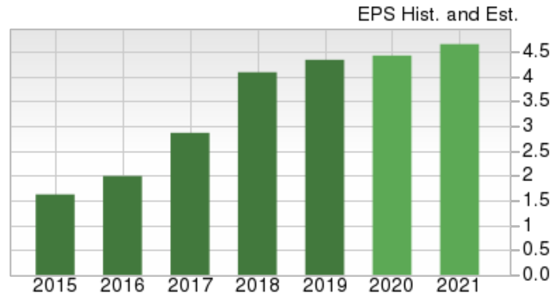
Headquartered in Salt Lake City, UT and founded in 1873, Zions Bancorporation, National Association is a diversified financial service provider, operating a widespread network of nearly 430 banking offices. The company's footprint spans 11 western and southwestern states, namely Utah, Idaho, California,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

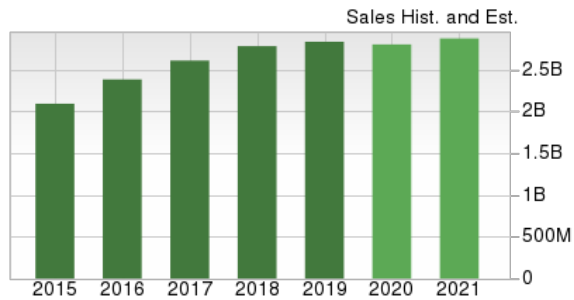
Effective October 2018, Zions Bancorporation, N.A. merged with its holding company, Zions Bancorporation. Earlier in 2015, the company had consolidated its seven subsidiary banks into a single national bank charter.

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 Dec 31, 2019, Zions had $69.2 billion in total assets, $48.2 billion in net loans held for investment, $57.1 billion in total deposits and $7.4 billion in stockholders' equity.





Reasons To Buy:

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

- 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). Additionally, the bank's non-interest-bearing deposits (41.2% of total deposits as of Dec 31, 2019) support its financials. The company's initiatives to efficiently deploy the capital generated from these deposits and rise in loan demand will 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. Given the robust capital position as well as lower dividend payout ratio compared to its peers, the company is expected to sustain its capital deployment activities, thereby continuing to enhance shareholder value.

- Credit quality continues to be a major strength for Zions. Notably, over the past several quarters, the company had been recording a consistent decline in allowance for credit losses and provision for loan losses. With stress in energy portfolio gradually diminishing and no longer a concern, the company's asset quality is likely to remain at manageable level driven by improving economy.

- Further, Zions looks undervalued right now, as evident from its price/book and price/earnings (F1) ratios, which are below the respective industry averages. The stock has a Value Score of A.

Reasons To Sell:

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

- Owing the Federal Reserve's accommodative monetary policy stance, Zions is expected to witness pressure on net interest margin (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. Thus, despite decent loan growth, NIM is expected to be adversely impacted in the quarters ahead by the above-mentioned issues.

- Mounting non-interest expenses remain a concern for Zions. In fact, expenses 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.

- High level of commercial real estate (CRE) assets (23.7% of net loans and leases as of Dec 31, 2019) and total commercial (52.1%) is likely to put Zions in a tight spot. Because of this, raising new capital and removing troubled loans are expected to take precedence over finding new growth opportunities.

- Zions' trailing 12-month ROE undercuts its growth potential. The company's ROE of 12.19% compares unfavorably with ROE of 17.10% for the S&P 500. This reflects that it is less efficient in using shareholders' funds.

- Zions' shares have underperformed the industry over the past three months. Also, the company's 2020 earnings estimates have been revised marginally lower over the past seven days. Given the concerns and downward estimate revisions, the stock has limited upside potential.

Last Earnings Report

Zions Q4 Earnings Beat Estimates Despite Higher Costs

Quarter Ending	12/2019
Report Date	Jan 21, 2020
Sales Surprise	1.28%
EPS Surprise	5.56%
Quarterly EPS	1.14
Annual EPS (TTM)	4.34

Zions' fourth-quarter 2019 adjusted earnings per share of $1.14 surpassed the Zacks Consensus Estimate of $1.08.

Results benefited from an improvement in non-interest income and decline in provision for credit losses. Also, the company's balance sheet position remained strong. However, lower net interest income and higher expenses hurt results to some extent.

Net income attributable to common shareholders (GAAP basis) was $174 million or 97 cents per share, down from $217 million or $1.08 per share recorded in the prior-year quarter.

In 2019, the company reported net income attributable to common shareholders of $782 million or $4.16 per share compared with $850 million or $4.08 per share recorded in 2018.

Revenues Decline Marginally, Expenses Rise

Net revenues for the quarter under review were $711 million, down marginally year over year. However, the top line surpassed the Zacks Consensus Estimate of $702 million.

For 2019, net revenues were $2.83 billion, up 1.9% year over year.

Net interest income was $559 million for the quarter, down 3% from the prior-year quarter. The decline resulted from a fall in interest income along with higher interest expenses. Net interest margin contracted 21 basis points (bps) year over year to 3.46%.

Non-interest income amounted to $152 million, up 8.6% from the year-ago quarter. The increase was driven by rise in total customer-related fees, and dividends and other income.

Adjusted non-interest expenses were $435 million, up 4.1% from the prior-year quarter.

Efficiency ratio was 61.3%, up from 57.8% reported a year ago. A rise in efficiency ratio indicates a decline in profitability.

Balance Sheet Strong

As of Dec 31, 2019, net loans held for investment were $48.2 billion, marginally down from $48.3 billion recorded at the end of the prior quarter. Total deposits were $57.1 billion, up from $56.1 billion recorded at the end of the third quarter.

Credit Quality: A Mixed Bag

The ratio of non-performing assets to loans and leases as well as other real estate owned shrunk 4 bps year over year to 0.51%. Further, provision for credit losses was $4 million, down 33.3% from the year-earlier quarter.

However, net loan and lease charge-offs were $22 million at the end of the reported quarter against recoveries of $8 million in the prior-year quarter.

Capital & Profitability Ratios Deteriorate

Tier 1 leverage ratio was 9.2% as of Dec 31, 2019, compared with 10.3% at the end of the prior-year quarter. Tier 1 risk-based capital ratio was 11.2%, down from 12.7% in the year-ago quarter.

At the end of the fourth quarter, return on average assets was 1.04%, down from 1.34% as of Dec 31, 2018. Also, return on average tangible common equity was 11.8%, down from 14.5% reported in the year-ago quarter.

Share Repurchases

During the quarter, Zions repurchased $275 million worth of shares.

Outlook

Net interest income is expected to decrease marginally in the next 12 months on assumption of benchmark rates generally consistent with the forward curve.

Further, NIM is expected to decline over the next couple of quarters owing to lower interest rates.

Customer-related fees (excluding securities gains and dividends) are expected to rise slightly.

Loan balance is anticipated to moderately rise over the next 12 months. This is likely to be driven by moderate to robust growth in 1-4 family, municipal, C&I and low-single digits rate growth in CRE loans.

Further, deposit growth is expected to be moderate. Deposit costs are expected to decline slightly.

Driven by streamlining efforts that include branch closures, adjusted non-interest expenses for 2020 are expected to be flat or down year over year despite investment in technology upgrades. Additionally, the company is expected to incur one-time charge in mid-2020 related to elimination of its defined benefit pension plan.

Increase in loan loss provisions is projected to be modest in the next 12 months.

Management expects capital return to shareholders in 2020 to be significantly lower than 2019 level, assuming no material change in the macroeconomic environment.

The company believes that positive operating leverage will likely be difficult to achieve in 2020.

Recent News

Dividend Update

On Oct 25, 2019, Zions announced a quarterly cash dividend of 34 cents per share. The dividend was paid on Nov 21 to shareholders of record as of Nov 14.

Valuation

Zions' shares are down 3.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 4.8% and 10% over the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 10.48X forward 12 months earnings, which compares to 13.25X for the Zacks sub-industry, 14.53X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.81X and as low as 8.93X, with a 5-year median of 14.15X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $50 price target reflects 11.29X 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	10.48	13.25	14.53	18.94
	5-Year High	22.81	18.23	16.21	19.34
	5-Year Low	8.93	10.42	12.01	15.18
	5-Year Median	14.15	14.52	13.98	17.45
P/B TTM	Current	1.17	1.51	2.81	4.5
	5-Year High	1.63	2.01	2.89	4.55
	5-Year Low	0.61	1.09	1.83	2.85
	5-Year Median	1.18	1.53	2.51	3.62
P/S F12M	Current	2.82	4.12	6.53	3.52
	5-Year High	4.06	4.75	6.61	3.52
	5-Year Low	1.7	3.05	5.2	2.54
	5-Year Median	3.03	3.97	6.04	3

As of 01/27/2020

Industry Analysis **Zacks Industry Rank:** Top 42% (108 out of 255)

Top Peers

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

Industry Comparison Industry: Banks - West

Industry Peers

	ZION Neutral	X Industry	S&P 500	EWBC Neutral	FRC Neutral	SIVB Neutral
VGM Score	C	-	-	C	B	C
Market Cap	7.92 B	344.04 M	23.86 B	6.90 B	18.86 B	12.55 B
# of Analysts	13	3	13	6	10	11
Dividend Yield	2.93%	1.85%	1.81%	2.32%	0.68%	0.00%
Value Score	A	-	-	A	C	B
Cash/Price	0.27	0.30	0.04	0.57	0.09	0.52
EV/EBITDA	5.57	7.24	13.94	3.80	22.60	4.82
PEG Ratio	1.21	1.48	2.00	1.00	2.80	1.56
Price/Book (P/B)	1.17	1.38	3.25	1.38	2.17	2.00
Price/Cash Flow (P/CF)	8.29	11.13	13.46	8.70	19.07	14.24
P/E (F1)	10.71	12.71	18.67	10.01	20.84	12.50
Price/Sales (P/S)	2.44	3.25	2.62	3.30	4.54	3.55
Earnings Yield	9.51%	7.87%	5.35%	10.00%	4.80%	8.00%
Debt/Equity	0.25	0.13	0.72	0.18	1.55	0.06
Cash Flow ($/share)	5.60	2.53	6.92	5.45	5.87	17.09
Growth Score	F	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	30.32%	15.67%	10.68%	17.10%	13.27%	38.74%
Proj. EPS Growth (F1/F0)	1.99%	-2.03%	7.51%	2.78%	3.35%	-10.41%
Curr. Cash Flow Growth	30.46%	25.92%	13.40%	-0.88%	13.96%	91.61%
Hist. Cash Flow Growth (3-5 yrs)	12.61%	12.69%	8.78%	23.55%	22.33%	34.23%
Current Ratio	0.85	0.91	1.22	1.01	1.01	0.67
Debt/Capital	18.98%	11.49%	42.92%	15.18%	57.77%	4.99%
Net Margin	25.15%	26.02%	11.39%	32.22%	22.38%	32.20%
Return on Equity	12.19%	11.38%	17.19%	14.73%	11.08%	19.33%
Sales/Assets	0.05	0.05	0.54	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-1.09%	0.00%	4.09%	-0.40%	10.56%	-0.98%
Momentum Score	B	-	-	B	A	C
Daily Price Chg	-0.36%	-0.43%	-1.40%	-3.70%	-1.55%	-3.67%
1 Week Price Chg	-8.10%	-0.67%	-1.09%	2.39%	-3.75%	-2.22%
4 Week Price Chg	-10.26%	-2.70%	-0.25%	-3.32%	-4.58%	-2.58%
12 Week Price Chg	-7.46%	0.30%	3.64%	4.36%	2.27%	2.28%
52 Week Price Chg	-4.80%	4.69%	18.08%	-9.78%	15.25%	-0.11%
20 Day Average Volume	1,928,401	15,154	1,615,215	1,199,162	1,236,829	438,784
(F1) EPS Est 1 week change	-0.35%	0.00%	0.00%	1.10%	0.00%	0.04%
(F1) EPS Est 4 week change	0.10%	0.00%	0.00%	1.39%	1.38%	-0.11%
(F1) EPS Est 12 week change	0.51%	-1.47%	-0.17%	0.82%	0.83%	-1.75%
(Q1) EPS Est Mthly Chg	-1.16%	-0.75%	0.00%	-1.40%	0.18%	-4.28%

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	A
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.

Disclosures

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