

Zions Bancorporation (ZION)

\$31.33 (As of 04/28/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: B

Summary

Shares of Zions have underperformed the industry so far this year. The company's earnings have surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Its first-quarter 2020 results were hurt by a significant increase in provisions along with lower revenues. Lower interest rates amid the Federal Reserve's accommodative policy stance are expected to hurt the company's net interest margin (NIM) and revenues, going forward. Moreover, continuously increasing expenses (mainly owing to higher compensation and marketing-related expenses) will likely hamper bottom-line growth to an extent in the near term. Nevertheless, 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 in the long run.

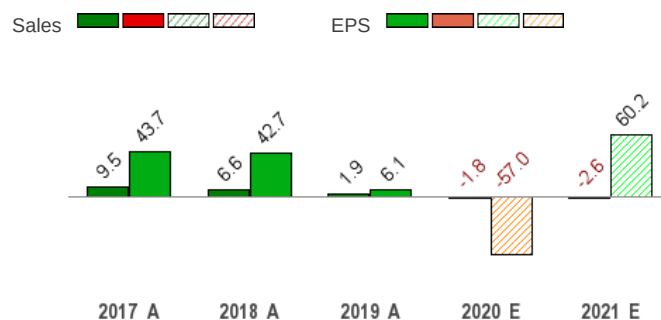
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.48 - \$23.58
20 Day Average Volume (sh)	3,330,088
Market Cap	\$5.1 B
YTD Price Change	-39.7%
Beta	1.71
Dividend / Div Yld	\$1.36 / 4.3%
Industry	Banks - West
Zacks Industry Rank	Bottom 7% (235 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-91.7%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-52.1%
Expected Report Date	07/27/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	661 E	673 E	685 E	690 E	2,712 E
2020	689 A	709 E	712 E	679 E	2,783 E
2019	708 A	701 A	713 A	711 A	2,834 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.67 E	\$0.77 E	\$0.87 E	\$0.89 E	\$2.98 E
2020	\$0.04 A	\$0.50 E	\$0.69 E	\$0.47 E	\$1.86 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 04/28/2020. The reports text is as of 04/29/2020.

Overview

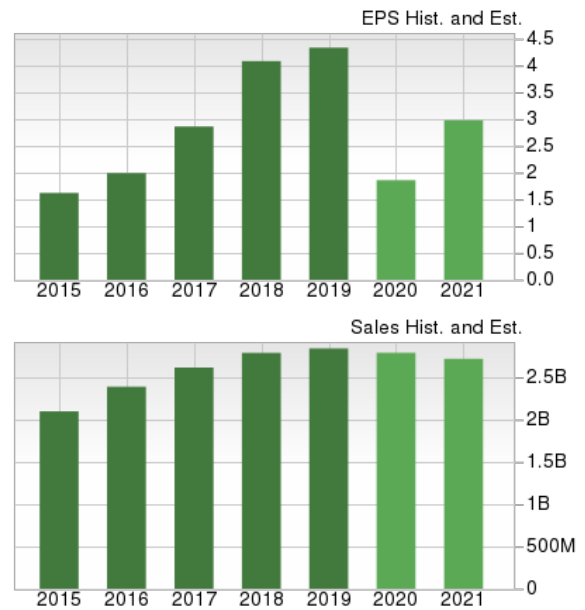
Headquartered in Salt Lake City, UT and founded in 1873, Zions Bancorporation, National Association is a diversified financial service provider, operating a widespread network of nearly 430 banking offices. The company's footprint spans 11 western and southwestern states, namely Utah, Idaho, California, 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 Mar 31, 2020, Zions had \$71.5 billion in total assets, \$49.2 billion in net loans held for investment, \$57.5 billion in total deposits and \$7.5 billion in stockholders' equity.



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 quarter of 2020 on a year-over-year basis. Despite 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 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) loans (23.5% of net loans and leases as of Mar 31, 2020) and total commercial loans (52.9%) will likely 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.
- ▼ As of Mar 31, 2020, Zions had total debt worth \$5.6 billion, up 47.2% sequentially. The company's debt-capital ratio of 19.37 is higher than the industry average of 12.72. Moreover, its times-interest-earned ratio, which has been consistently declining over the past several quarters, witnessed a sequential decline in first-quarter 2020 as well. The times-interest-earned ratio currently stands at 6.76, lower than the industry average of 9.72. These show that the company carries relatively higher credit risk, which possibly increases its likelihood of a default in repayment of debt if economic situation worsens.
- ▼ Zions' trailing 12-month ROE undercuts its growth potential. The company's ROE of 9.36% compares unfavorably with ROE of 16.47% for the S&P 500. This reflects that it is less efficient in using shareholders' funds.
- ▼ Zions' shares have underperformed the industry so far this year. Also, the company's 2020 earnings estimates have been revised 51.9% lower over the past 30 days. Given the concerns and downward estimate revisions, the price performance is not expected to improve in the near term.

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.

Risks

- 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 first-quarter 2020. Additionally, the bank's non-interest-bearing deposits (42.4% of total deposits as of Mar 31, 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. Given its 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.
 - Further, Zions looks undervalued right now, as evident from its price/book and price/cash flow ratios, which are below the respective industry averages. The stock has a Value Score of B.
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Last Earnings Report

Zions Q1 Earnings Lag Estimates, Revenues Decline Y/Y

Zions' first-quarter 2020 net earnings per share of 4 cents missed the Zacks Consensus Estimate of 48 cents. Results included certain notable non-recurring items.

While improvement in non-interest income was a positive, a significant increase in provision for credit losses and lower net interest income hampered results.

Net income attributable to common shareholders was \$6 million, down from \$205 million recorded in the prior-year quarter.

Quarter Ending 03/2020

Report Date	Apr 20, 2020
Sales Surprise	1.47%
EPS Surprise	-91.67%
Quarterly EPS	0.04
Annual EPS (TTM)	3.34

Revenues & Expenses Down

Net revenues for the quarter under review were \$689 million, down 3.5% year over year.

Net interest income was \$548 million for the quarter, down 4.9% from the prior-year quarter. The decline resulted from a fall in interest income. Net interest margin contracted 27 basis points (bps) year over year to 3.41%.

Non-interest income amounted to \$134 million, up 2% from the year-ago quarter. The increase was driven by a rise in total customer-related fees, and wealth management and trust fees.

Adjusted non-interest expenses were \$407 million, down 6% from the prior-year quarter.

Efficiency ratio was 57.7%, up from 60.2% reported a year ago. A rise in efficiency ratio indicates a decline in profitability.

Balance Sheet Strong

As of Mar 31, 2020, net loans held for investment were \$49.2 billion, up from \$48.2 billion recorded at the end of the prior quarter. Total deposits were \$57.5 billion, marginally up from \$57.1 billion recorded at the end of fourth-quarter 2019.

Credit Quality: A Mixed Bag

The ratio of non-performing assets to loans and leases as well as other real estate owned shrunk 6 bps year over year to 0.56%. Provision for credit losses was \$258 million as compared with \$4 million in the year-earlier quarter.

However, net loan and lease charge-offs were \$7 million at the end of the reported quarter compared with no charge-offs.

Capital & Profitability Ratios Deteriorate

Tier 1 leverage ratio was 9% as of Mar 31, 2020, compared with 9.9% at the end of the prior-year quarter. Tier 1 risk-based capital ratio was 11%, down from 12.3% in the year-ago quarter.

At the end of the first quarter, return on average assets was 0.08%, down from 1.26% as of Mar 31, 2019. Also, return on average tangible common equity was 0.4%, down from 13.9% reported in the year-ago quarter.

Share Repurchases

During the quarter, Zions repurchased \$75 million worth of shares.

Recent News

Dividend Update

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

Valuation

Zions' shares are down 39.6% in the year-to-date period and 36.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 26.5% and 25% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 23.4% and 20.7%, respectively.

The S&P 500 index is down 10.8% in the year-to-date period and 2.7% in the past year.

The stock is currently trading at 14.10X forward 12 months earnings, which compares to 14.16X for the Zacks sub-industry, 14.94X for the Zacks sector and 20.17X 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 13.91X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$26 price target reflects 11.71X 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	14.1	14.16	14.94	20.17
	5-Year High	22.81	18.23	16.17	20.17
	5-Year Low	5.79	9.78	11.19	15.19
	5-Year Median	13.91	14.49	13.93	17.45
P/TB TTM	Current	0.92	1.57	2.49	10.78
	5-Year High	2.03	2.65	4	12.78
	5-Year Low	0.72	1.09	2	6.02
	5-Year Median	1.45	1.97	3.47	9.16
P/S F12M	Current	1.86	3.17	4.96	3.21
	5-Year High	4.06	4.75	6.69	3.44
	5-Year Low	1.45	2.71	4.96	2.54
	5-Year Median	3.03	3.97	6.05	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (235 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank (FRC)	Neutral	3
PacWest Bancorp (PACW)	Neutral	3
Umpqua Holdings Corporation (UMPQ)	Neutral	5
Bank of Hawaii Corporation (BOH)	Underperform	3
East West Bancorp, Inc. (EWBC)	Underperform	4
First Hawaiian, Inc. (FHB)	Underperform	5
SVB Financial Group (SIVB)	Underperform	5
Western Alliance Bancorporation (WAL)	Underperform	4

Industry Comparison Industry: Banks - West				Industry Peers		
	ZION	X Industry	S&P 500	EWBC	FRC	SIVB
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	4	3	5
VGM Score	D	-	-	D	F	D
Market Cap	5.14 B	257.23 M	20.14 B	4.80 B	17.73 B	9.96 B
# of Analysts	13	4	14	6	9	11
Dividend Yield	4.34%	2.68%	2.13%	3.25%	0.72%	0.00%
Value Score	B	-	-	A	F	D
Cash/Price	0.55	0.43	0.06	1.00	0.23	0.72
EV/EBITDA	3.46	4.68	12.15	1.28	20.78	2.34
PEG Ratio	1.96	2.03	2.43	1.01	2.90	1.99
Price/Book (P/B)	0.74	0.91	2.68	0.98	1.92	1.59
Price/Cash Flow (P/CF)	5.16	7.75	10.78	5.93	16.60	8.69
P/E (F1)	17.41	11.74	19.06	10.10	21.56	15.94
Price/Sales (P/S)	1.61	2.30	2.12	2.30	4.13	2.79
Earnings Yield	5.94%	8.53%	5.11%	9.91%	4.64%	6.27%
Debt/Equity	0.26	0.15	0.72	0.16	1.96	0.06
Cash Flow (\$/share)	6.07	2.79	7.01	5.70	6.34	22.23
Growth Score	F	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	28.77%	14.30%	10.88%	16.94%	12.89%	37.90%
Proj. EPS Growth (F1/F0)	-57.10%	-24.38%	-6.33%	-27.40%	-6.11%	-44.22%
Curr. Cash Flow Growth	-3.96%	5.43%	5.92%	3.66%	10.31%	19.94%
Hist. Cash Flow Growth (3-5 yrs)	17.66%	14.60%	8.55%	24.66%	17.90%	34.83%
Current Ratio	0.85	0.92	1.23	0.99	1.06	0.67
Debt/Capital	19.37%	12.72%	43.90%	14.01%	63.50%	4.99%
Net Margin	19.32%	26.13%	11.13%	31.34%	21.46%	27.57%
Return on Equity	9.36%	10.09%	16.47%	14.00%	10.64%	16.36%
Sales/Assets	0.05	0.05	0.55	0.05	0.04	0.05
Proj. Sales Growth (F1/F0)	-1.75%	0.00%	-1.35%	-8.49%	10.11%	-6.52%
Momentum Score	B	-	-	C	B	C
Daily Price Chg	1.75%	1.39%	1.10%	5.23%	0.53%	0.32%
1 Week Price Chg	1.31%	0.00%	-1.74%	8.43%	0.03%	5.94%
4 Week Price Chg	17.08%	7.44%	11.80%	31.31%	27.93%	27.91%
12 Week Price Chg	-32.88%	-28.21%	-17.28%	-28.28%	-7.98%	-24.14%
52 Week Price Chg	-36.49%	-27.60%	-10.69%	-34.34%	-0.34%	-23.23%
20 Day Average Volume	3,330,088	27,533	2,660,864	1,544,810	1,208,522	491,816
(F1) EPS Est 1 week change	-5.41%	0.00%	0.00%	2.08%	0.00%	-6.30%
(F1) EPS Est 4 week change	-52.08%	-11.61%	-6.46%	-8.23%	-3.28%	-22.86%
(F1) EPS Est 12 week change	-57.85%	-24.15%	-12.81%	-29.45%	-9.15%	-37.95%
(Q1) EPS Est Mthly Chg	-45.74%	-18.86%	-10.84%	-15.36%	-1.14%	-30.51%

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	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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