



Commerce Bancshares (CBSH)

Updated July 25th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	4.8%	Volatility Percentile:	33.5%
Fair Value Price:	\$50	5 Year Growth Estimate:	6.3%	Momentum Percentile:	29.9%
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Growth Percentile:	64.3%
Dividend Yield:	1.7%	5 Year Price Target	\$68	Valuation Percentile:	29.4%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	25.2%

Overview & Current Events

Commerce Bancshares is a bank holding for Commerce Bank. Commerce Bank offers general banking services to its customers, which include businesses as well as individuals. Its services include retail and corporate banking, as well as asset management, investment banking, and other offerings. The company, which is currently valued at \$6.6 billion, was founded in 1865 and operates branches in Colorado, Kansas, Missouri, Illinois and Oklahoma. Commerce Bancshares is headquartered in Kansas City, MO.

Commerce Bancshares reported its second quarter 2019 earnings results on July 16. The company generated revenues of \$339 million during the quarter, which was 0.9% more than the company's revenues during the previous year's second quarter. Commerce Bancshares' revenue growth was driven by a small increase in Commerce Bancshares' net interest income, which grew by \$1 million year over year, as well as by an increase in Commerce Bancshares non-interest income, which grew at a slightly higher pace, and which was up \$2.5 million versus the previous year's second quarter. Commerce Bancshares generated earnings-per-share of \$0.96 during the second quarter, which was up double digits versus the \$0.85 that the bank earned during the previous year's quarter.

Commerce Bancshares' book value totaled \$27.53 at the end of the second quarter, which represents an increase of more than 16% versus the bank's book value of \$23.47 at the end of Q2 of 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.40	\$1.79	\$2.10	\$2.27	\$2.24	\$2.25	\$2.32	\$2.49	\$2.89	\$3.92	\$3.85	\$5.22
DPS	\$0.62	\$0.64	\$0.65	\$0.69	\$0.71	\$0.74	\$0.78	\$0.82	\$0.86	\$0.94	\$1.04	\$1.50
Shares	123	122	119	117	117	112	107	107	107	107	105	101

Commerce Bancshares has grown its earnings-per-share by 6.8% annually since 2008, which is a solid, but unspectacular growth rate. During the financial crisis, Commerce Bancshares' profitability declined, but the company remained highly profitable -- unlike many other American banks. Compared to its peers, Commerce Bancshares is a relatively stable performer and a lower-risk stock during times when the economy is not in good shape.

Commerce Bancshares' profits are driven by several factors. The bank's net interest income depends on the amount of outstanding loans as well as the spread between the interest rates the bank pays and the interest rates the bank earns. During recent years these metrics improved meaningfully. The bank was able to grow its net interest income regularly.

The tightening cycle has been a tailwind for Commerce Bancshares' net interest margin, but more recent statements from Fed officials point to a more dovish policy going forward. This could potentially harm Commerce Bancshares' net interest margin, which is why analyst estimates for this year's profits forecast a small decline versus 2018.

Commerce Bancshares keeps growing the fees it receives, which is positive for its revenue growth. Commerce Bancshares has also repeatedly done share repurchases, which have lowered the bank's share count considerably over the last decade. During the most recent quarter Commerce Bancshares has bought back 800,000 shares, which represents a higher repurchase pace versus the last couple of years. We believe that the bank's long-term growth will be relatively in line with its historic growth rate.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.6	14.7	13.5	12.8	15.0	16.4	16.6	17.6	18.7	14.3	15.3	13.0
Avg. Yld.	2.7%	2.4%	2.3%	2.4%	2.1%	2.0%	2.0%	1.9%	1.6%	1.6%	1.7%	2.2%

Commerce Bancshares trades at roughly 15 times 2019's earnings right now, which is slightly higher than how shares were valued during 2018. The longer-term median earnings multiple is higher than that, but we believe that shares would be fairly valued at a 13 times price to earnings multiple, which results in some downside potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	44.3%	35.8%	31.0%	30.4%	31.7%	32.9%	33.6%	32.9%	29.8%	24.0%	27.0%	28.7%

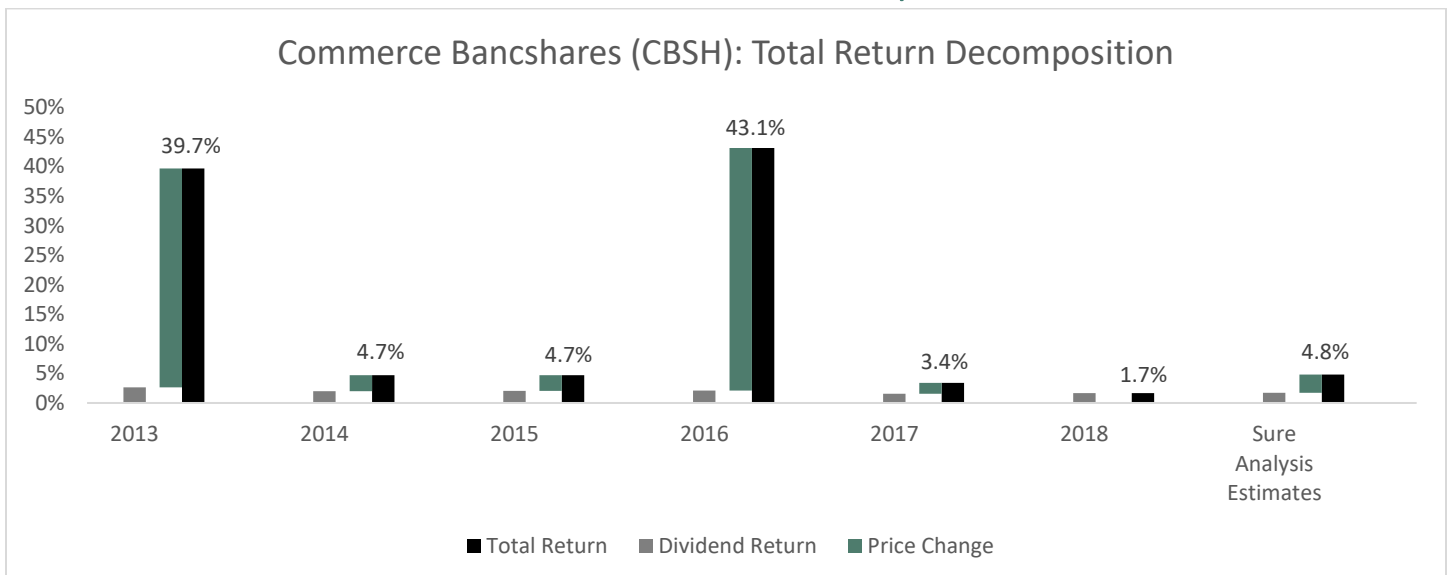
Commerce Bancshares' dividend payout ratio has never been particularly high, even during the last financial crisis when the company's profits took a hit. The dividend payout ratio has declined further during the last decade, and is now at a low level of less than 30%. With earnings growth moderating from the very high level during 2018 we believe that the payout ratio will expand slightly going forward, but the dividend will still be very safe.

Commerce Bancshares is not an overly large bank, but the company has strong fundamentals. This includes an above-average return on equity, which was 14.5% during the second quarter, which is quite attractive versus the ROEs that many of the bank's peers achieve. Commerce Bancshares' capitalization is strong as well, the company has a tier 1 leverage ratio of 11.8%. Commerce Bancshares' credit quality is strong, net charge-offs totaled just \$169 million during the second quarter. Commerce Bancshares would likely be more resilient than its peers during another recession.

Final Thoughts & Recommendation

Commerce Bancshares is not a major player in the banking industry, and the company has not produced overly high earnings growth rates in the past. Commerce Bancshares looks like a high-quality company with compelling fundamentals, though. We believe that shares are trading above fair value right now, and the low dividend yield is not a major total return driver either. Due to its valuation, we rate Commerce Bancshares a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1025	1054	1050	1044	1033	1071	1086	1123	1186	1322
SG&A Expense	485	479	466	483	493	513	536	560	582	607
D&A Expense	52	49	47	43	42	42	43	41	40	39
Net Profit	169	222	256	269	261	262	264	275	319	434
Net Margin	16.5%	21.0%	24.4%	25.8%	25.3%	24.4%	24.3%	24.5%	26.9%	32.8%
Free Cash Flow	266	653	386	349	338	317	259	430	396	519
Income Taxes	74	96	121	127	123	122	117	124	111	106

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	18120	18502	20649	22160	23072	23994	24605	25641	24833	25464
Cash & Equivalents	441	451	506	752	1226	1068	488	767	469	1198
Goodwill & Int.	140	137	133	131	148	146	146	146	147	148
Total Liabilities	16234	16479	18479	19988	20858	21660	22238	23140	22115	22527
Long-Term Debt	736	112	112	104	107	104	104	102	2	9
Shareholders' Equity	1884	2022	2166	2167	2211	2185	2217	2351	2572	2787
D/E Ratio	0.39	0.06	0.05	0.05	0.05	0.04	0.04	0.04	0.00	0.00

Profitability Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.9%	1.2%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	1.3%	1.7%
Return on Equity	9.8%	11.4%	12.2%	12.4%	11.9%	11.9%	12.0%	12.1%	13.0%	16.2%
ROIC	5.7%	9.3%	11.6%	11.8%	11.4%	11.0%	10.7%	10.9%	12.0%	15.3%

Note: All figures in millions of U.S. Dollars unless otherwise noted.

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