



Commerce Bancshares (CBSH)

Updated January 28th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	-0.4%	Market Cap:	\$7.6B
Fair Value Price:	\$44	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/07/20 ¹
% Fair Value:	152%	5 Year Valuation Multiple Estimate:	-8.0%	Dividend Payment Date:	03/20/20 ²
Dividend Yield:	1.5%	5 Year Price Target	\$59	Years Of Dividend Growth:	6
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	10.6%

Overview & Current Events

Commerce Bancshares is a bank holding for Commerce Bank. It 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 was founded in 1865 and operates branches in Colorado, Kansas, Missouri, Illinois and Oklahoma. Commerce Bancshares is headquartered in Kansas City, Missouri.

Commerce Bancshares reported its fourth quarter 2019 earnings results on January 22. The company generated revenues of \$346 million during the quarter, which was 0.2% more than the company's revenues during the previous year's comparable quarter. Commerce Bancshares' small revenue growth was possible thanks to higher average loans, which offset a decline in its net interest margin. Noninterest income rose as well versus the previous year's quarter, which further helped offset the negative impact of a lower interest margin, which in turn can be explained by the Fed's easing over the last couple of quarters, which led to depressed yields on loans.

Commerce Bancshares generated earnings-per-share of \$0.93 during the fourth quarter, which was up \$0.02 from the previous year's quarter. Commerce Bancshares' book value totaled \$26.70 at the end of the fourth quarter, which represents an increase of 12% versus the bank's book value of \$23.93 at the end of the fourth quarter of 2018.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.79	\$2.10	\$2.27	\$2.24	\$2.25	\$2.32	\$2.49	\$2.89	\$3.60	\$3.58	\$3.40	\$4.55
DPS	\$0.64	\$0.65	\$0.69	\$0.71	\$0.74	\$0.78	\$0.82	\$0.86	\$0.94	\$1.04	\$1.04	\$1.50
Shares³	122	119	117	117	112	107	107	107	117	114	110	103

Commerce Bancshares has grown its earnings-per-share by 7% annually since 2008, which is a solid 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 it earns. During recent years the bank's loan book grew regularly, and the bank was able to grow its net interest income regularly. The tightening cycle had been a tailwind for Commerce Bancshares' net interest margin, but more recent acts from the Fed were dovish, which has a negative impact on Commerce Bancshares' net interest margin. This is why profits in 2019 were down slightly, and why 2020's earnings could decline as well. Once the Fed is done with its easing cycle, this headwind will cease to exist. Commerce Bancshares also keeps growing the fees it receives, which is positive for its revenue growth. Commerce Bancshares has repeatedly done share repurchases, which have lowered the bank's share

¹ Estimated date

² Estimated date

³ In Millions

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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count considerably over the last decade. This was partially offset by some stock dividends that the bank issued over the last two years, though, which is why the share count has gone up again.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.7	13.5	12.8	15.0	16.4	16.6	17.6	18.7	14.3	19.0	19.7	13.0
Avg. Yld.	2.4%	2.3%	2.4%	2.1%	2.0%	2.0%	1.9%	1.6%	1.6%	1.5%	1.5%	2.5%

Commerce Bancshares trades at close to 20 times 2020's earnings right now, which is far higher than how shares were valued during the last couple of years. The longer-term median earnings multiple is in the mid-teens, but we believe that shares would be fairly valued at a 13 times price to earnings multiple, which results in substantial downside potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	35.8%	31.0%	30.4%	31.7%	32.9%	33.6%	32.9%	29.8%	26.1%	29.1%	30.6%	33.0%

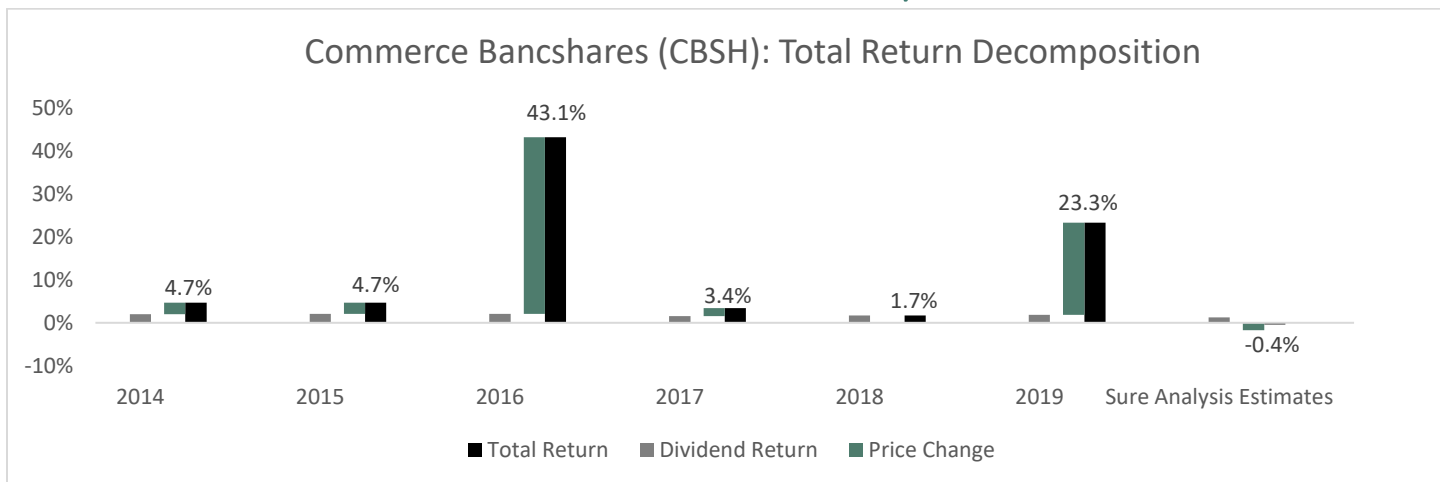
Commerce Bancshares' dividend payout ratio has never been particularly high, even during the last financial crisis when the company's profits took a hit. The dividend payout ratio has declined further during the last decade, and is now at a low level of around 30%. With earnings growth moderating from the very high level seen in 2017 and 2018, we believe that the payout ratio will expand 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% during the most recent quarter, and 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 11.4%. Commerce Bancshares' credit quality is strong, as net charge-offs are at a below-average level. 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, and it has been more resilient than many peers in the past. We believe that shares are trading well above fair value right now. Due to its valuation, we rate Commerce Bancshares a strong sell 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	1,025	1,054	1,050	1,044	1,033	1,071	1,086	1,123	1,186	1,322
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	18,120	18,502	20,649	22,160	23,072	23,994	24,605	25,641	24,833	25,464
Cash & Equivalents	441	451	506	752	1,226	1,068	488	767	469	1,198
Goodwill & Int.	140	137	133	131	148	146	146	146	147	148
Total Liabilities	16,234	16,479	18,479	19,988	20,858	21,660	22,238	23,140	22,115	22,527
Long-Term Debt	736	112	112	104	107	104	104	102	2	9

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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