



Commerce Bancshares (CBSH)

Updated July 23rd, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	1.8%	Market Cap:	\$6.5B
Fair Value Price:	\$43	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/04/20 ¹
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	09/22/20 ²
Dividend Yield:	1.8%	5 Year Price Target	\$58	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	3.8%

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 second quarter earnings results on July 22. The company generated revenues of \$321 million during the quarter, which was down 5% from the previous year's quarter. At the end of the quarter, Commerce Bancshares' loan portfolio totaled \$16.4 billion, while deposits stood at \$24.5 billion at the same time. These were increases by double-digits on a year over year basis, loans grew by 15% over the last twelve months. Due to the coronavirus crisis, Commerce Bancshares' provisions for loan losses rose to \$78 million.

Commerce Bancshares generated earnings-per-share of \$0.34 during the second quarter, which was down a lot from the previous year's quarter. It is expected that this year's profits will be well below 2019's level, due to higher credit losses. We believe that this will reverse over the coming years though, and that Commerce Bancshares' underlying earnings power (\$3.60) is higher than this year's forecasted earnings. We use the earnings power metric to calculate fair value.

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	\$2.50	\$4.82
DPS	\$0.64	\$0.65	\$0.69	\$0.71	\$0.74	\$0.78	\$0.82	\$0.86	\$0.94	\$1.04	\$1.08	\$1.51
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 continuously. Net interest margins will likely come under pressure a bit from the Fed's policy of lowering interest rates. Commerce Bancshares also keeps growing the trust fees it receives, which is positive for its revenue growth. Commerce Bancshares has repeatedly done share repurchases, which have lowered the bank's share 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. In 2020, the coronavirus crisis will have a huge impact on Commerce Bancshares' profits, but we believe that a recovery to "normal" profitability will not take a long time.

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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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	16.4	12.0
Avg. Yld.	2.4%	2.3%	2.4%	2.1%	2.0%	2.0%	1.9%	1.6%	1.6%	1.5%	1.8%	2.6%

Commerce Bancshares trades at around 16 times 2020's earnings power estimate right now, although actual reported profits will be lower. The longer-term median earnings multiple is in the mid-teens, but we believe that shares would be fairly valued at a 12 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%	30.0%	31.4%

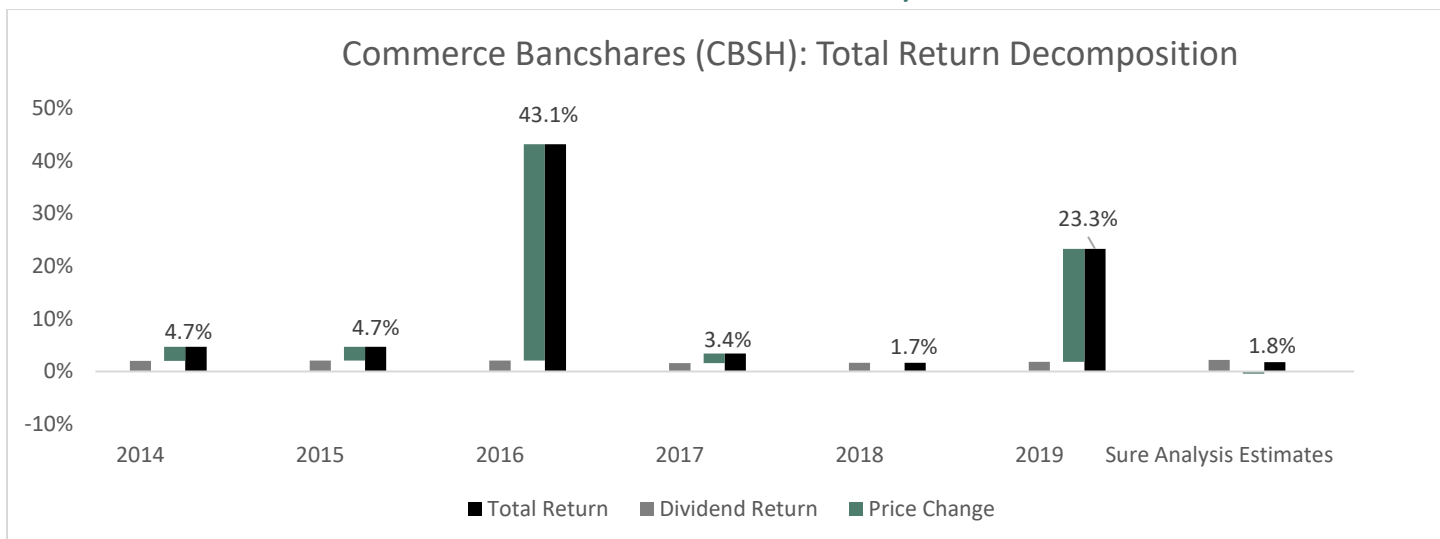
Commerce Bancshares' dividend payout ratio has never been particularly high, even during the last financial crisis when the company's profits took a hit. The dividend payout ratio has declined further during the last decade, and is now at a low level of around 30%. We believe that the payout ratio will expand going forward, but the dividend will still be rather safe, as Commerce Bancshares will continue to pay out significantly less than half of its profits.

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 2019, 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 10.8%. Commerce Bancshares' credit quality is strong, as net charge-offs are at a below-average level compared to most peers. The current crisis will have an impact, but we see a recovery over the next couple of years.

Final Thoughts & Recommendation

Commerce Bancshares is not among the largest players 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 above fair value right now, even when using underlying earnings power instead of this year's artificially low forecasted net profits. Due to its high valuation, we rate Commerce Bancshares a sell for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1,054	1,050	1,044	1,033	1,071	1,089	1,127	1,220	1,325	1,350
SG&A Expense	479	466	483	493	513	536	560	582	607	635
D&A Expense	49	47	43	42	42	43	41	40	39	41
Net Profit	222	256	269	261	262	264	275	319	434	421
Net Margin	21.0%	24.4%	25.8%	25.3%	24.4%	24.2%	24.4%	26.2%	32.7%	31.2%
Free Cash Flow	653	386	349	338	317	259	430	396	519	470
Income Taxes	96	121	127	123	122	117	124	111	106	109

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	18,502	20,649	22,160	23,072	23,994	24,605	25,641	24,833	25,464	26,066
Cash & Equivalents	451	506	752	1,226	1,068	488	767	469	1,198	887
Goodwill & Int.	137	133	131	148	146	146	146	147	148	148
Total Liabilities	16,479	18,479	19,988	20,858	21,660	22,238	23,140	22,115	22,527	22,927
Long-Term Debt	112	112	104	107	104	104	102	2	9	2

Profitability Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.2%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	1.3%	1.7%	1.6%
Return on Equity	11.4%	12.2%	12.4%	11.9%	11.9%	12.0%	12.1%	13.0%	16.2%	14.6%
ROIC	9.3%	11.6%	11.8%	11.4%	11.0%	10.7%	10.9%	12.0%	15.3%	13.8%

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

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