



Commerce Bancshares (CBSH)

Updated January 26th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	-0.9%	Market Cap:	\$8.0B
Fair Value Price:	\$44	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/04/21 ¹
% Fair Value:	155%	5 Year Valuation Multiple Estimate:	-8.5%	Dividend Payment Date:	03/22/21 ²
Dividend Yield:	1.6%	5 Year Price Target	\$59	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	C	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 fourth quarter earnings results on January 20. The company generated revenues of \$345 million during the quarter, which was down 0.4% from the previous year's quarter. At the end of the quarter, Commerce Bancshares' loan portfolio totaled \$16.3 billion, while deposits stood at \$26.9 billion at the same time. These were increases by double-digits on a year over year basis, a trend that has been visible in the results of other banks as well. Commerce Bancshares' provisions for loan losses declined versus previous quarters, which is why profits improved.

Commerce Bancshares generated earnings-per-share of \$1.11 during the fourth quarter, which was up by 25% compared to the previous year's quarter. Still, earnings-per-share for all of 2020 were below the previous year's level, due to weak profitability during H1 of 2020, which was caused by higher loan loss provisions. During 2020 Commerce Bancshares earned \$2.91 on a per-share basis.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.10	\$2.27	\$2.24	\$2.25	\$2.32	\$2.49	\$2.89	\$3.60	\$3.58	\$2.91	\$3.55	\$4.75
DPS	\$0.65	\$0.69	\$0.71	\$0.74	\$0.78	\$0.82	\$0.86	\$0.94	\$1.04	\$1.08	\$1.08	\$1.51
Shares³	119	117	117	112	107	107	107	117	118	117	115	105

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 had a huge impact on Commerce Bancshares' profits, but a recovery to more "normal" profitability will not take a long time.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.5	12.8	15.0	16.4	16.6	17.6	18.7	14.3	19.0	22.7	19.4	12.5
Avg. Yld.	2.3%	2.4%	2.1%	2.0%	2.0%	1.9%	1.6%	1.6%	1.5%	1.6%	1.6%	2.6%

Commerce Bancshares trades at more than 19 times our 2021 earnings-per-share estimate right now, which is a major premium to the historic valuation. The longer-term median earnings multiple is in the mid-teens, but we believe that shares would be fairly valued at a 12.5 times price to earnings multiple, which results in substantial downside potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	31.0%	30.4%	31.7%	32.9%	33.6%	32.9%	29.8%	26.1%	29.1%	37.1%	30.4%	31.9%

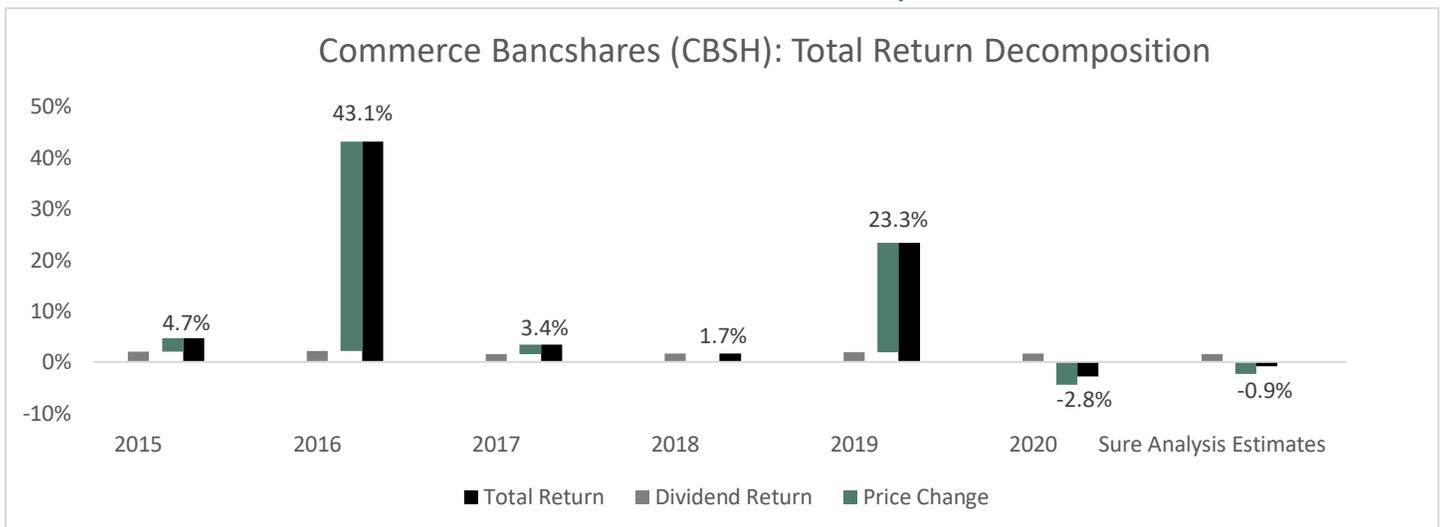
Commerce Bancshares' dividend payout ratio has never been particularly high, even during the last financial crisis when the company's profits took a hit. The dividend payout ratio has declined further during the last decade, and is now at a low level of around 30%. We believe that the payout ratio will 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% before the pandemic, 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%. Commerce Bancshares' credit quality is strong, as net charge-offs are at a below-average level compared to most peers. The current crisis does have an impact, but we see a recovery in profits going forward.

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 is 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 based on 2021 EPS estimates that are significantly higher than the profits the bank generated during 2020. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,050	1,044	1,033	1,071	1,089	1,127	1,220	1,325	1,350	1,347
SG&A Expense	466	483	493	513	536	560	582	607	635	645
D&A Expense	47	43	42	42	43	41	40	39	41	
Net Profit	256	269	261	262	264	275	319	434	421	354
Net Margin	24.4%	25.8%	25.3%	24.4%	24.2%	24.4%	26.2%	32.7%	31.2%	26.3%
Free Cash Flow	386	349	338	317	259	430	396	519	470	
Income Taxes	121	127	123	122	117	124	111	106	109	87

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	20,649	22,160	23,072	23,994	24,605	25,641	24,833	25,464	26,066	32,923
Cash & Equivalents	506	752	1,226	1,068	488	767	469	1,198	887	2,185
Goodwill & Int.	133	131	148	146	146	146	147	148	148	150
Total Liabilities	18,479	19,988	20,858	21,660	22,238	23,140	22,115	22,527	22,927	29,523
Long-Term Debt	112	104	107	104	104	102	2	9	2	1

Profitability Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	1.3%	1.7%	1.6%	1.2%
Return on Equity	12.2%	12.4%	11.9%	11.9%	12.0%	12.1%	13.0%	16.2%	14.6%	11.1%
ROIC	11.6%	11.8%	11.4%	11.0%	10.7%	10.9%	12.0%	15.3%	13.8%	10.8%

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

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