



Commerce Bancshares (CBSH)

Updated July 26th, 2021 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$72 | 5 Year CAGR Estimate: | 3.2% | Market Cap: | \$8.4B |
| Fair Value Price: | \$58 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 09/04/21 ¹ |
| % Fair Value: | 124% | 5 Year Valuation Multiple Estimate: | -4.2% | Dividend Payment Date: | 09/22/21 |
| Dividend Yield: | 1.5% | 5 Year Price Target | \$78 | Years Of Dividend Growth: | 53 |
| Dividend Risk Score: | A | Retirement Suitability Score: | B | Last Dividend Increase: | 2.1% |

Overview & Current Events

Commerce Bancshares is a bank holding for Commerce Bank. It offers general banking services to its customers. 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 \$347 million during the quarter, which was up 8% from the previous year's quarter. At the end of the quarter, Commerce Bancshares' loan portfolio totaled \$15.6 billion, while deposits stood at \$27.5 billion at the same time. Loans were down sequentially, as well as on a year-over-year basis, partially due to a harsh comparison with the pandemic-impacted second quarter of 2020. Commerce Bancshares' provisions for loan losses declined versus previous quarters.

Commerce Bancshares generated earnings-per-share of \$1.38 during the second quarter, which was up by more than 300% compared to the previous year's quarter, which had been impacted by very high provisions for credit losses caused by the pandemic. It is expected that profits will grow meaningfully this year on the back of lower provisioning expenses, which is why earnings per share are forecast to hit a new record high in 2021.

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 | \$4.15 | \$5.55 |
| DPS | \$0.63 | \$0.66 | \$0.68 | \$0.71 | \$0.75 | \$0.79 | \$0.82 | \$0.91 | \$1.00 | \$1.03 | \$1.05 | \$1.47 |
| Shares² | 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 couple of 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 2021 should be a significantly stronger year for the company again.

¹ Estimated date

² 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 | 17.3 | 14.0 |
| Avg. Yld. | 2.3% | 2.4% | 2.1% | 2.0% | 2.0% | 1.9% | 1.6% | 1.6% | 1.5% | 1.6% | 1.5% | 1.9% |

Commerce Bancshares trades at 17 times our 2021 earnings-per-share estimate right now, which represents a premium to the historic valuation. The longer-term median earnings multiple is in the mid-teens, and we believe that shares would be fairly valued at a 14 times price to earnings multiple, which is why we see downside potential for the bank's shares.

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% | 25.3% | 26.5% |

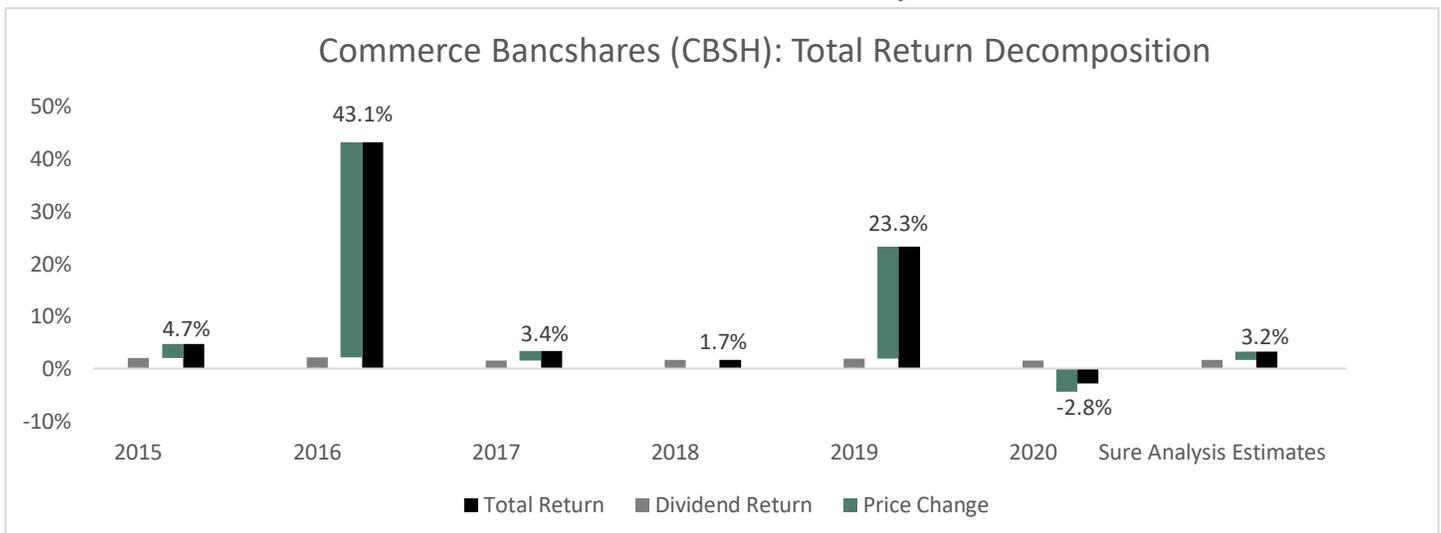
Commerce Bancshares' dividend payout ratio has never been particularly high, even during the last financial crisis when the company's profits took a hit. The dividend payout ratio has declined further during the last decade, and is now at a low level of around 30%. We believe that the payout ratio will expand going forward, but the dividend will still be quite safe, as Commerce Bancshares will continue to pay out just a small fraction 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 healthy as well, the company has a tier 1 leverage ratio of ~9%. 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 meaningful improvement in profits in 2021.

Final Thoughts & Recommendation

Commerce Bancshares is not among the largest players in the banking industry by far, and the company has not produced overly high earnings growth rates in the past. Commerce Bancshares is a high-quality company with healthy fundamentals, however, and it has been more resilient than many peers in the past. We believe that shares are trading above fair value right now, based on 2021 earnings-per-share estimates that do already factor in a steep recovery versus 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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