Zions Bancorporation (ZION)

Updated June 21st, 2022, by Patrick Neuwirth

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$8 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	08/12/22
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.5%	**Dividend Payment Date[1]:**	08/20/22
Dividend Yield:	2.9%	**5 Year Price Target**	$80	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Zions Bancorporation (ZION) is a bank holding company that operates full-service banking offices in 11 western states in the US. The company also offers a range of investment, mortgage, insurance, and electronic commerce services. Zions primarily focuses on providing banking services to small and midsize businesses, with the majority of its loans focused on commercial and commercial real estate lending. The company was formerly known as ZB, National Association and changed its name to Zions Bancorporation, National Association in September 2018. The company was founded in 1873 and has 9,750 employees.

On April 26th, 2022, Zions Bancorporation released its first-quarter fiscal 2022 results. For the quarter the company reported net income of $195 million which represents a 37.9% decline compared with a quarterly net income of $314 million in the same quarter of 2021. Reported earnings per diluted share for the same periods were $1.27 and $1.90, a decrease of 33% year-over-year. Quarterly net revenues of $694 million were down 3.9% compared to the prior year's fiscal first-quarter. A small decline in net interest income (NII) and non-interest income, along with a rise in expenses, did hurt quarterly results to some extent. NII was $544 million, down marginally from $545 million in the prior-year quarter. Net interest margin (NIM) shrank 23 basis points (bps) year-over-year to 2.60%. The company recorded a benefit from credit losses of $33 million, which was positive. Operating costs were higher due to compensation increases resulting from a tight labor market and related inflationary pressures. Management expects moderate growth in the next twelve months, excluding PPP loans. NNI should also increase consistent with the forward yield curve and the bank stated that it is well prepared for rising interest rates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.97	$1.58	$1.68	$1.20	$1.99	$2.83	$4.08	$4.16	$3.02	$6.79	**$5.25**	**$6.70**
DPS	$0.04	$0.13	$0.16	$0.22	$0.28	$0.44	$1.04	$1.28	$1.36	$1.44	**$1.52**	**$1.94**
Shares[2]	184	185	203	204	203	198	188	165	164	152	**150**	**150**

The company has grown earnings by 24.1% per year over the past nine years and 13.2% over the past five years. After the above-average EPS in 2021, we expect a decline in EPS for 2022, due to the absence of loan loss provision recoveries that occurred last year ($276 million). We expect earnings to increase by 5% per year for the next five years and key business drivers such as loan growth and NNI to return to historical levels. The company has been able to increase its yearly dividend for 10 consecutive years. Over the last five years, the average annual dividend growth rate is 12%. In July 2021, the company increased its quarterly dividend by 11.8% from $0.34 to $0.38 per share. Zions board has approved a $50M stock buyback for Q2-2022.

[1] Estimated date

[2] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	20.3	17.1	17.4	23.7	14.4	15.6	12.7	11.2	11.8	8.0	**10.1**	**12.0**
Avg. Yld.	1.9%	0.5%	0.5%	0.8%	1.0%	1.0%	2.0%	2.7%	3.8%	2.6%	**2.9%**	**2.4%**

During the past decade shares of Zions Bancorporation have traded with an average price-to-earnings ratio of about 15 times earnings and today, it stands at 10.1. We are using 12 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 2.9% which is above the average yield over the past decade of 1.5% and closer to the past 5 years average of 2.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	4%	8%	10%	18%	14%	16%	25%	31%	45%	21%	**29%**	**29%**

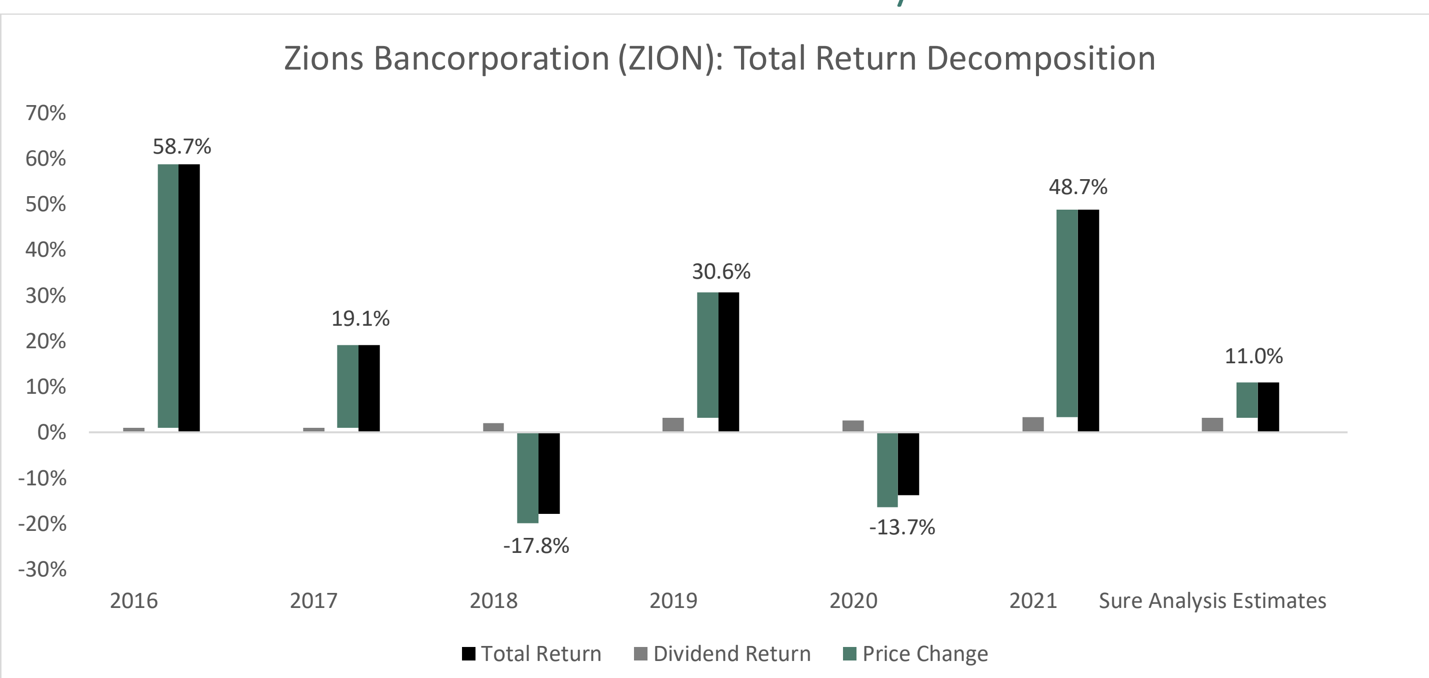
During the past five years, the company's dividend payout ratio has averaged around 28%. Zions Bancorporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Zions Bancorporation is a strong collection of community banks with local decision-making and a focus on commercial banking. The local "ownership" helps the company to spot local market opportunities and better understand specific regional challenges. Roughly 2/3 of revenue is from commercial customers. The bank is undergoing a digital banking replacement (called FutureCore) to improve its customer experience and lower operating costs. The new digital banking strengthens Zions' competitive position and reduces its risk profile.

Final Thoughts & Recommendation

Zions Bancorporation is an old and well-established regional bank active in 11 western states with a solid earnings track record and a dividend yield of 2.9%. We estimate total return potential of 11% per year for the next five years based on a 5% earnings-per-share growth, and a valuation tailwind. The shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,152	2,034	2,173	2,072	2,383	2,609	2,782	2,834	2,790	2,923
SG&A Exp.	955	974	1,014	1,032	1,040	1,081	1,146	1,185	1,131	1,171
D&A Exp.	185	131	58	86	123	179	193	188	86	(14)
Net Profit	350	264	398	309	469	592	884	816	539	1,129
Net Margin	16.2%	13.0%	18.3%	14.9%	19.7%	22.7%	31.8%	28.8%	19.3%	38.6%
Free Cash Flow	667	747	205	307	400	759	1,047	580	548	423
Income Tax	193	143	223	142	236	344	259	237	133	317

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	55,512	56,031	57,209	59,665	63,239	66,288	68,746	69,172	81,479	93,200
Cash & Equivalents	7,821	9,350	8,020	6,906	2,148	1,330	1,233	1,448	1,617	10,878
Goodwill & Int.	1,065	1,051	1,040	1,030	1,022	1,016	1,015	1,014	1,016	1,015
Total Liabilities	49,463	49,567	49,839	52,157	55,605	58,609	61,168	61,819	73,593	85,737
Long-Term Debt	2,342	2,273	1,092	811	1,034	3,982	5,224	2,719	1,332	1,008
Total Equity	4,924	5,461	6,366	6,679	6,924	7,113	7,012	6,787	7,320	7,023
LTD/E Ratio	0.39	0.35	0.15	0.11	0.14	0.52	0.69	0.37	0.17	0.14

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.6%	0.5%	0.7%	0.5%	0.8%	0.9%	1.3%	1.2%	0.7%	1.3%
Return on Equity	7.3%	5.1%	6.7%	4.7%	6.9%	8.4%	12.5%	11.8%	7.6%	15.7%
ROIC	4.0%	3.1%	4.6%	3.7%	5.5%	5.8%	7.2%	7.1%	5.6%	12.8%
Shares Out.	184	185	203	204	203	198	188	165	164	152
Revenue/Share	11.74	11.04	11.27	10.17	11.67	12.44	13.47	15.20	16.85	18.24
FCF/Share	3.64	4.05	1.06	1.51	1.96	3.62	5.07	3.11	3.31	2.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.