Associated Banc-Corp (ASB)

Updated October 22nd, 2022, by Patrick Neuwirth

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	14.0%	**Market Cap:**	$3.4 B
Fair Value Price:	$26	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	11/30/22
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date[1]:**	12/15/22
Dividend Yield:	3.6%	**5 Year Price Target**	$38	**Years Of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Associated Banc-Corp (ASB) is a diversified bank holding company. Through its subsidiaries, it provides banking and nonbanking products and services to individuals and businesses, primarily within its three-state branch footprint of Wisconsin, Illinois, and Minnesota. It is Wisconsin's second-largest bank with $38 billion in assets and more than 200 offices. Half of its loans are in its home state, followed by 20% and 15% in neighboring Illinois and Minnesota, respectively. The rest are among 40 other states. About 30% of its portfolio is commercial real estate and construction loans. General commercial loans, home equity lines, and residential mortgages account for roughly 25%, 20%, and 20%, respectively. ASB is a $3 billion company and has about 6,000 employees.

On October 20th, 2022, Associated Banc-Corp released its third quarter fiscal 2022 results for the period ending September 30th, 2022. For the quarter the company reported net income of $93 million compared to $84 million in Q2 2022 and $85 million in Q3 2021. Earnings per diluted share for the same periods were $0.62, $0.56, and $0.56 respectively. Net interest income (NII) came in at $264 million, up 22%. Net interest margin also improved to 3.13%, up 42 basis points (bps). For the quarter non-interest income was down $5 million to $71 million. Provision for credit losses for loans was $17 million, compared to a provision of zero in the second quarter of 2022.

Given the expectations of higher rates this year, the company now expects NII to exceed $935 million (up from prior guidance of more than $910 million). The company continues to expect total net interest and non-interest income to be around $1.225 billion.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.00	$1.10	$1.16	$1.19	$1.26	$1.52	$1.89	$1.91	$1.86	$2.18	***$2.25***	***$3.31***
DPS	$0.23	$0.33	$0.37	$0.41	$0.45	$0.50	$0.62	$0.69	$0.72	$0.76	***$0.80***	***$1.29***
Shares[2]	175	164	152	151	152	153	164	157	154	149	***149***	***149***

The company has grown earnings by 9% per year over the past nine years and 8.2% over the past five years. We expect earnings to increase by 8% per year for the next five years. This is based on the assumption of an improved net interest income outlook, supported by loan growth and expectations that the Federal Reserve will move aggressively on interest rates the coming months.

The company has been able to increase its yearly dividend payout for 11 consecutive years. Over the last five years, the average annual dividend growth rate is almost 11.7%. In July 2021, the company increased its quarterly dividend by 11.1% from $0.18 to $0.20 per share.

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[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	13.0	14.2	15.3	15.9	15.1	16.1	13.5	11.1	8.1	9.8	***10.0***	***11.5***
Avg. Yld.	1.9%	2.1%	2.1%	2.2%	2.4%	2.0%	2.4%	3.2%	4.8%	3.6%	***3.6%***	***3.4%***

During the past decade shares of Associated Banc-Corp have traded with an average price-to-earnings ratio of 11.7 times earnings and today, it stands at 10.0. We are using 11.5 times earnings as a fair value baseline, implying the potential for a slight valuation tailwind. The company's dividend yield is currently 3.6%, which is well above the average yield over the past decade of 2.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	30%	32%	34%	36%	33%	33%	36%	39%	35%	***36%***	***39%***

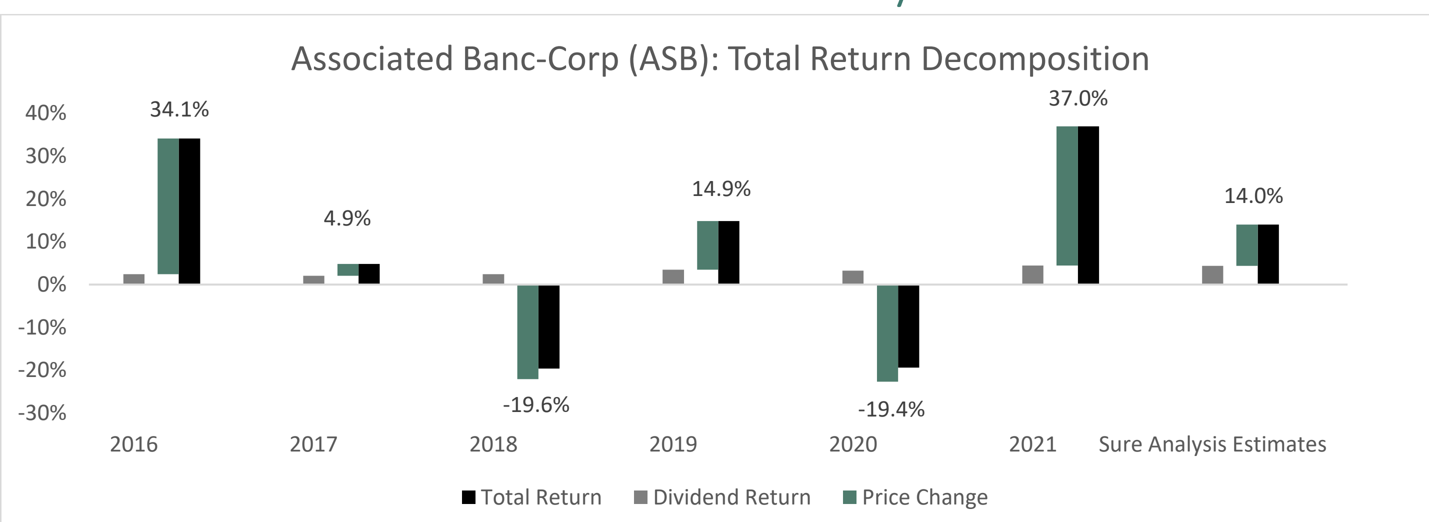
During the past five years, the company's dividend payout ratio has averaged around 35%. Associated Banc-Corp 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

The bank is well-positioned to continue its loan growth this year. ASB's lending capabilities has expanded in recent quarters through its new auto finance, equipment finance and asset-based lending verticals. Management believes that its auto finance portfolio alone could generate $1.3 billion in loans during 2022. Next to this "growth-focused" strategy[3], the bank planned a $50 million investment over the next five years called "Digital Forward" improving its digital capabilities and processes. This should result in a growing net interest margin, improved efficiency ratio, and expanding operating leverage.

Final Thoughts & Recommendation

Associated Banc-Corp is a regional bank with a solid earnings-per-share track record and an above average dividend yield of 3.6%. The bank should benefit from higher interest rates and its strategy to grow loans and have more of a digital presence. We estimate total return potential of 14.0% per year for the next five years, based on 8% earnings-per-share growth, the dividend yield, and multiple expansion. The shares earn a buy rating.

Total Return Breakdown by Year



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[3] Q2 Investor presentation, 5-23-2022

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	939	959	972	1,006	1,060	1,067	1,228	1,208	1,257	1,049
SG&A Exp.	466	489	496	517	543	552	616	615	552	548
D&A Exp.	71	69	65	62	60	59	66	81	83	75
Net Profit	179	189	191	188	200	229	334	327	307	351
Net Margin	19.1%	19.7%	19.6%	18.7%	18.9%	21.5%	27.2%	27.1%	24.4%	33.5%
Free Cash Flow	267	410	149	247	538	411	431	507	495	477
Income Tax	75	79	86	81	87	110	80	80	20	85

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	23,488	24,227	26,822	27,712	29,139	30,484	33,615	32,386	33,420	35,104
Cash & Equivalents	711	582	1,016	455	596	683	728	581	715	1,026
Acc. Receivable	---	---	---	---	---	---	---	91	90	81
Goodwill & Int.	990	1,004	997	1,047	1,049	1,050	1,313	1,332	1,220	1,218
Total Liabilities	20,551	21,336	24,022	24,775	26,048	27,246	29,834	28,464	29,329	31,079
Long-Term Debt	2,592	3,353	4,504	3,079	3,345	3,749	4,415	3,760	2,240	1,905
Total Equity	2,873	2,829	2,741	2,816	2,931	3,078	3,524	3,665	3,737	3,832
LTD/E Ratio	0.88	1.16	1.61	1.05	1.08	1.16	1.17	0.96	0.55	0.47

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.8%	0.7%	0.7%	0.7%	0.8%	1.0%	1.0%	0.9%	1.0%
Return on Equity	6.3%	6.6%	6.8%	6.8%	7.0%	7.6%	10.1%	9.1%	8.3%	9.3%
ROIC	3.4%	3.2%	2.8%	2.8%	3.2%	3.4%	4.4%	4.1%	4.4%	5.7%
Shares Out.	175	164	152	151	152	153	164	157	154	149
Revenue/Share	5.45	5.78	6.14	6.68	7.07	6.94	7.23	7.46	8.18	6.90
FCF/Share	1.55	2.47	0.94	1.64	3.58	2.68	2.54	3.13	3.22	3.14

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