



Zions Bancorporation (ZION)

Updated October 25th, 2022, by Patrick Neuwirth

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	12.9%	Market Cap:	\$7.7 B
Fair Value Price:	\$67	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	11/09/22
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date¹:	11/18/22
Dividend Yield:	3.2%	5 Year Price Target	\$86	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	C	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 U.S. 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 9,895 employees.

On October 24th, 2022, Zions Bancorporation released its third quarter 2022 results for the period ending September 30th, 2022. For the quarter the company reported net income of \$211 million which represents a 9.8% decline compared with a quarterly net income of \$234 million in the same quarter of 2021. Reported earnings per diluted share for the same periods were \$1.40 and \$1.45, a decrease of 3.4% year-over-year. Quarterly net revenues of \$774 million were up 1.8% compared to the prior year's fiscal second quarter.

Net interest income (NII) was \$664 million, rising 19% in the prior-year quarter. In the third quarter, improvement in NII was driven by rising rates and increasing loan demand. A rise in non-interest expenses, lower deposit balance, and worsening credit quality were undermining factors. Net interest margin (NIM) expanded 37 basis points (bps) to 3.24%. Non-interest income was up 3% to \$156 million. This small gain was driven by increases in capital markets and foreign exchange fees, commercial account fees, card fees, and wealth management fees.

Management expects moderate growth in the next twelve months, excluding PPP loans. NII should also increase consistent with the forward yield curve. A decline in non-interest income, decreasing deposit balance, and deteriorating capital and profitability ratios are potential headwinds.

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	\$5.60	\$7.15
DPS	\$0.04	\$0.13	\$0.16	\$0.22	\$0.28	\$0.44	\$1.04	\$1.28	\$1.36	\$1.44	\$1.64	\$2.09
Shares²	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 14.6% 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 dividend for 11 consecutive years. Over the last five years, the average annual dividend growth rate is 12%. In July 2022, the company increased its quarterly dividend by 7.9% from \$0.38 to \$0.41 per share. Zions board has approved and executed the \$50M stock buyback for third quarter 2022.

¹ Estimated date

² 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	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	9.3	12.0
Avg. Yld.	1.9%	0.5%	0.5%	0.8%	1.0%	1.0%	2.0%	2.7%	3.8%	2.6%	3.2%	2.4%

During the past decade shares of Zions Bancorporation have traded with an average price-to-earnings ratio of about 15 and today, it stands at 9.3. 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 3.2% which is above the average yield over the past decade of 1.5% and the five-year 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%

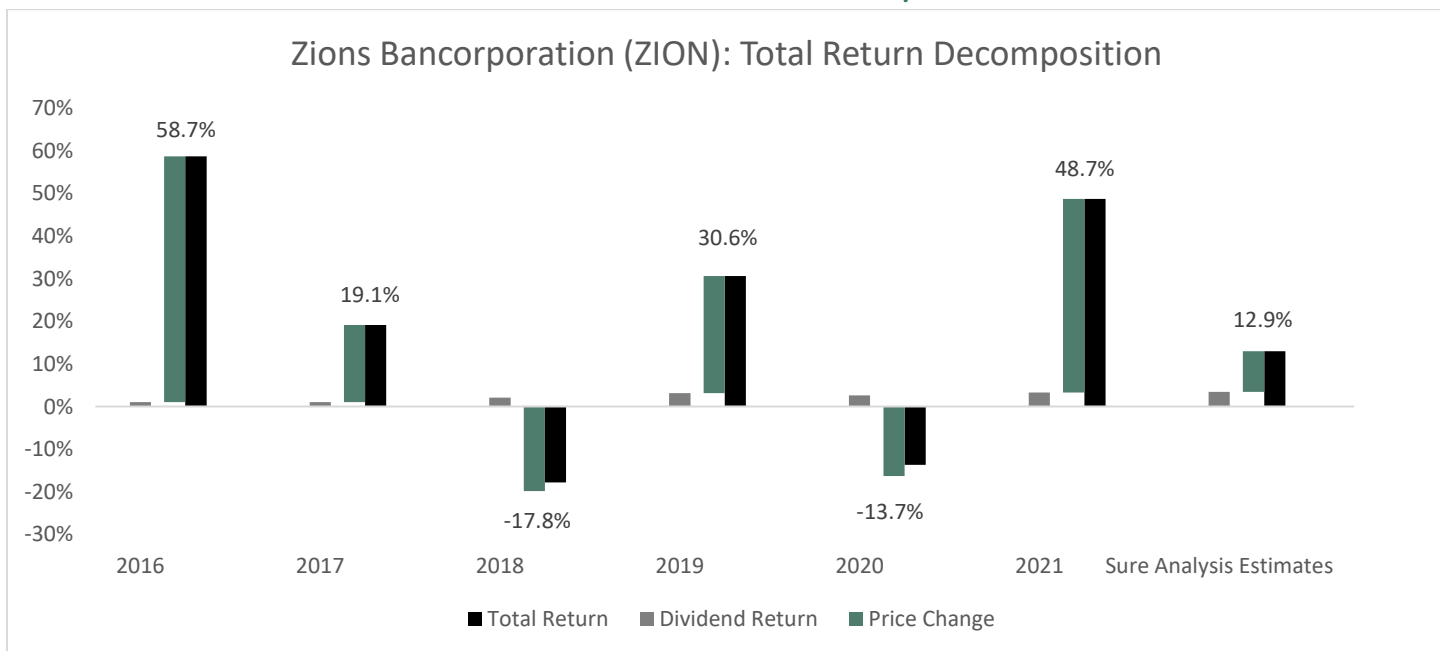
During the past five years, the company's dividend payout ratio has averaged around 28%. Zions Bancorporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 3.2%. We estimate total return potential of 12.9% per year for the next five years based on a 5% earnings-per-share growth, the yield, 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.

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