



Huntington Bancshares Inc. (HBAN)

Updated January 23rd, 2023, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$14 | 5 Year CAGR Estimate: | 10.3% | Market Cap: | \$20.4 B |
| Fair Value Price: | \$18 | 5 Year Growth Estimate: | 2.0% | Ex-Dividend Date: | 3/17/23 |
| % Fair Value: | 80% | 5 Year Valuation Multiple Estimate: | 4.7% | Dividend Payment Date: | 4/3/23 |
| Dividend Yield: | 4.4% | 5 Year Price Target | \$19 | Years Of Dividend Growth: | 1 |
| Dividend Risk Score: | D | Retirement Suitability Score: | C | Rating: | Hold |

Overview & Current Events

Founded in 1866 and headquartered in Columbus, Ohio, Huntington Bancshares is a regional bank holding company with \$183 billion in assets. The company offers full service commercial, small business, and consumer banking services through more than 1,100 branches in 11 states. Huntington has a market cap of \$20.4 billion.

On June 9th, 2021, Huntington completed the acquisition of TCF Financial Corporation.

On June 16th, 2022, Huntington completed the acquisition of Capstone Partners, a middle market investment bank and advisory firm. This acquisition has enhanced the product offerings and fee opportunities of Huntington.

In mid-January, Huntington reported (1/20/2023) financial results for the fourth quarter of fiscal 2022. The company grew its net interest income 4% sequentially thanks to 2% growth of loans and expansion of its net interest margin from 3.42% to 3.52%. As a result, it grew its adjusted earnings-per-share from \$0.39 to \$0.43. Non-performing loans have declined for 6 consecutive quarters. Thanks to favorable business trends, mostly rising interest rates, Huntington posted 10-year high earnings-per-share in 2022 and is likely to grow them even further this year. Notably the bank closed 63 branches in 2022 and expects to close another 31 branches in the running quarter in order to reduce its operating costs.

Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$0.72 | \$0.72 | \$0.81 | \$0.70 | \$0.89 | \$1.20 | \$1.27 | \$0.69 | \$0.90 | \$1.50 | \$1.60 | \$1.77 |
| DPS | \$0.19 | \$0.21 | \$0.25 | \$0.29 | \$0.35 | \$0.50 | \$0.58 | \$0.60 | \$0.60 | \$0.62 | \$0.62 | \$0.72 |
| Shares¹ | 831 | 811 | 795 | 1,086 | 1,072 | 1,047 | 1,020 | 1,033 | 1,287 | 1,468 | 1,470 | 1,500 |

Huntington has grown its earnings-per-share by 8.5% per year on average over the last decade. A portion of this is attributable to business improvement, but a lot of it has been “catch up” from a terrible performance during the Great Recession. In the last few years, Huntington has enjoyed significant earnings improvement, driven by better return on assets and a lower tax rate. The bank was hurt by the fierce recession caused by the pandemic in 2020 but it has fully recovered from that downturn.

Going forward, the bank is well positioned to take advantage of industry tailwinds, including long-term economic growth and the hikes of interest rates implemented by the Fed. Overall, given the high comparison base formed by the 10-year high earnings expected this year and the vulnerability of Huntington to downturns, we expect the bank to grow its earnings-per-share at a 2.0% average annual rate over the next five years.

Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 11.1 | 13.5 | 13.6 | 14.3 | 15.1 | 12.5 | 10.9 | 15.2 | 16.3 | 9.5 | 8.8 | 11.0 |
| Avg. Yld. | 2.4% | 2.2% | 2.3% | 2.9% | 2.6% | 3.3% | 4.2% | 5.7% | 4.1% | 4.4% | 4.4% | 3.7% |

The stock of Huntington has traded at an average price-to-earnings ratio of 13.2 over the last decade. Given the vulnerability of the bank to recessions and moderate growth expectations, we have assumed a fair price-to-earnings

¹ 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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ratio of 11.0 for this stock, which is now trading at a nearly 10-year low price-to-earnings ratio of 8.8. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 4.7% annualized gain in its returns.

The dividend is material after payout increases of 38%, 27% and 7% in 2017, 2018 and 2019. However, it is important to note that the same \$0.15 quarterly payment was paid for nine straight quarters before increasing 3.3% in 2021.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 26% | 29% | 31% | 41% | 39% | 42% | 46% | 87% | 67% | 41% | 39% | 41% |

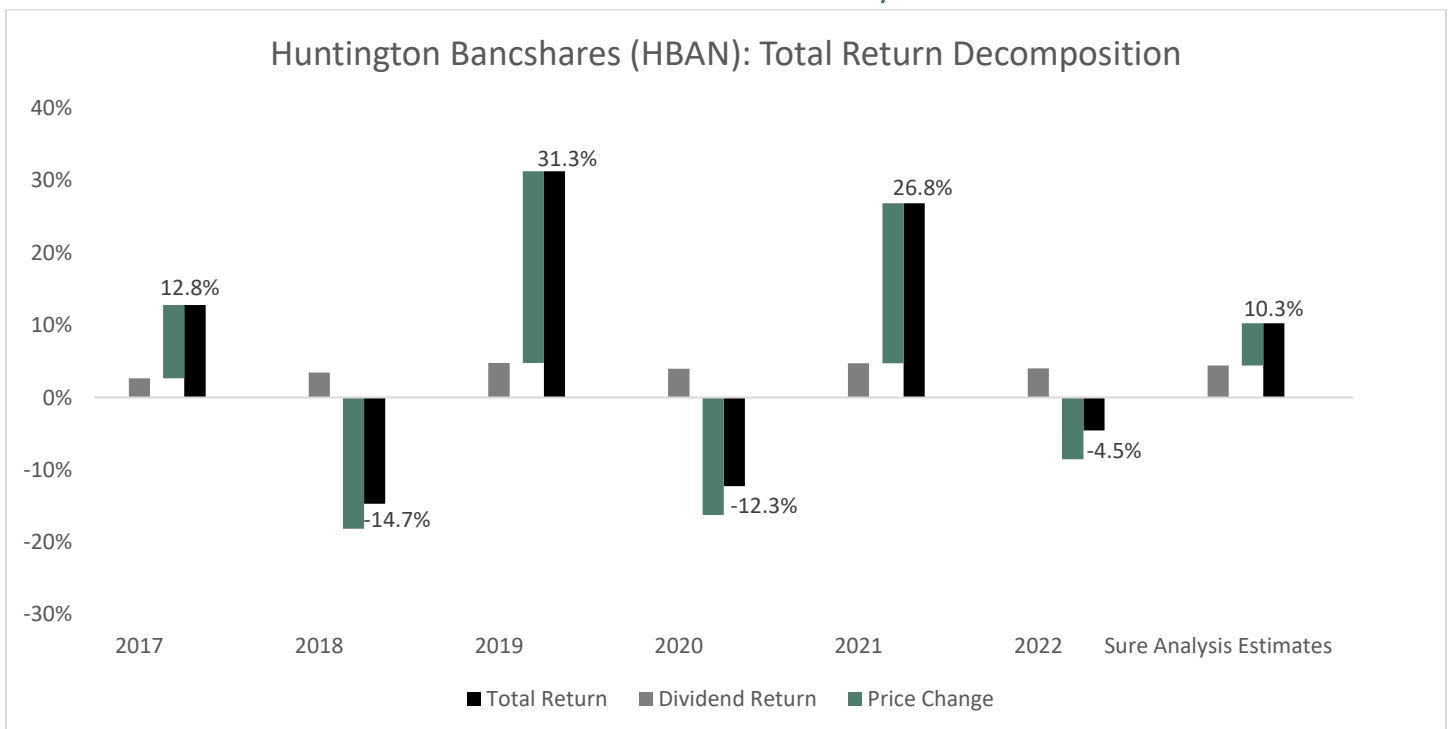
Huntington is far from recession resistant. Prior to the 2007, the company was pumping out consistent earnings-per-share and dividends, hitting \$1.90 and \$1.00 respectively by 2006. In 2008 and 2009, during the Great Recession, Huntington lost a significant amount of money and had to take drastic actions – slashing the dividend to a penny per quarter and effectively doubling the share count. And the share price fell from \$25 down to just \$1. On a company-wide basis, Huntington is much more profitable than it was 15 years ago, but earnings-per-share have not yet reached the pre-recession peak due to the hefty issuance of new shares.

Leading up to 2020 the company’s balance sheet had improved, capital ratios were up, growth had returned somewhat, and dividends and share repurchases were being executed in line with what one would anticipate from a profitable and growing business. Results came under pressure in 2020, with liquidity and business preservation being a more pressing goal, but bounced back in 2021.

Final Thoughts & Recommendation

Huntington currently enjoys a strong tailwind, namely multi-year high interest rates, which have significantly enhanced the net interest margin of the bank. The stock could offer a 10.3% average annual total return over the next five years thanks to 2% growth, a 4.4% dividend yield and a 4.7% valuation tailwind. It thus receives a hold rating but investors should be aware of its vulnerability to recessions.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 2,717 | 2,816 | 2,987 | 3,518 | 4,307 | 4,510 | 4,667 | 4,815 | 5,991 | 7,254 |
| SG&A Exp. | 1,137 | 1,148 | 1,219 | 1,466 | 1,662 | 1,675 | 1,725 | 1,762 | 2,293 | 2,559 |
| D&A Exp. | 282 | 333 | 341 | 380 | 413 | 493 | 386 | 367 | 391 | |
| Net Profit | 641 | 632 | 693 | 712 | 1,186 | 1,393 | 1,411 | 817 | 1,295 | 2,238 |
| Net Margin | 23.6% | 22.5% | 23.2% | 20.2% | 27.5% | 30.9% | 30.2% | 17.0% | 21.6% | 30.9% |
| Free Cash Flow | 911 | 829 | 940 | 1,095 | 1,760 | 1,616 | 1,467 | 1,204 | 1,815 | |
| Income Tax | 227 | 221 | 221 | 208 | 208 | 235 | 248 | 155 | 294 | 515 |

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Total Assets (\$B) | 59.5 | 66.3 | 71.0 | 99.7 | 104.2 | 108.8 | 109.0 | 123.0 | 174.1 | 182.9 |
| Cash & Equivalents | 1,058 | 1,285 | 899 | 1,443 | 1,567 | 2,725 | 1,272 | 6,712 | 5,914 | 6,918 |
| Goodwill & Int. | 537 | 597 | 921 | 2,621 | 2,577 | 2,524 | 2,465 | 2,418 | 5,960 | 6,283 |
| Total Liabilities | 53,377 | 59,970 | 64,424 | 89,406 | 93,371 | 97,679 | 97,207 | 110,045 | 154,746 | 165,137 |
| Long-Term Debt | 4,262 | 5,675 | 7,055 | 10,754 | 12,944 | 8,638 | 11,414 | 8,464 | 7,122 | 11,713 |
| Total Equity | 5,704 | 5,942 | 6,208 | 9,237 | 9,743 | 9,899 | 10,592 | 10,802 | 17,130 | 15,564 |
| LTD/E Ratio | 0.70 | 0.90 | 1.07 | 1.04 | 1.20 | 0.78 | 0.97 | 0.65 | 0.37 | 0.66 |

Profitability & Per Share Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 1.1% | 1.0% | 1.0% | 0.8% | 1.2% | 1.3% | 1.3% | 0.7% | 0.9% | 1.3% |
| Return on Equity | 11.5% | 10.9% | 11.4% | 9.2% | 12.5% | 14.2% | 13.8% | 7.6% | 9.3% | 13.7% |
| ROIC | 6.9% | 5.7% | 5.4% | 4.1% | 5.3% | 6.4% | 6.6% | 3.7% | 5.4% | 8.0% |
| Shares Out. | 831 | 811 | 795 | 1,086 | 1,072 | 1,047 | 1,020 | 1,033 | 1,287 | 1,465 |
| Revenue/Share | 3.22 | 3.38 | 3.66 | 3.83 | 3.79 | 4.08 | 4.42 | 4.66 | 4.66 | 4.95 |
| FCF/Share | 1.08 | 1.00 | 1.15 | 1.19 | 1.55 | 1.46 | 1.39 | 1.17 | 1.41 | |

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

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