



Commerce Bancshares (CBSH)

Updated February 9th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	4.6%	Market Cap:	\$8.3B
Fair Value Price:	\$57	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/06/23 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	03/22/23 ²
Dividend Yield:	1.6%	5 Year Price Target	\$76	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 fourth quarter earnings results on January 19. The company generated revenues of \$390 million during the quarter, which was up 10% from the previous year's quarter. During the quarter, Commerce Bancshares' loan portfolio averaged \$15.9 billion, up 2% sequentially. This was an improvement from the previous trend, as loan demand had grown slower in previous quarters. Commerce Bancshares' provisions for loan losses were slightly higher than during the previous year's quarter.

Commerce Bancshares generated earnings-per-share of \$1.04 during the fourth quarter, which was up 15% compared to the previous year's quarter, with higher revenues offsetting the headwind from higher provisions for credit losses. Profits declined in 2022 on the back of lesser benefits from provision releases, which had boosted 2021's earnings-per-share considerably. In 2023, earnings-per-share will likely grow again.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.24	\$2.25	\$2.32	\$2.49	\$2.89	\$3.60	\$3.58	\$2.91	\$4.32	\$3.85	\$4.05	\$5.42
DPS	\$0.68	\$0.71	\$0.75	\$0.79	\$0.82	\$0.91	\$1.00	\$1.03	\$1.05	\$1.06	\$1.08	\$1.51
Shares³	117	112	107	107	107	117	118	122	121	124	125	120

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. 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 was a very strong year for the company again, before profits pulled back slightly in 2022. In 2023 and beyond, we expect some earnings-per-share growth.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.0	16.4	16.6	17.6	18.7	14.3	19.0	22.7	16.4	17.7	16.3	14.0
Avg. Yld.	2.1%	2.0%	2.0%	1.9%	1.6%	1.6%	1.5%	1.6%	1.5%	1.6%	1.6%	2.0%

Commerce Bancshares trades at 16 times our 2023 earnings-per-share estimate right now. The bank's 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31.7%	32.9%	33.6%	32.9%	29.8%	26.1%	29.1%	37.1%	24.1%	27.5%	26.7%	27.9%

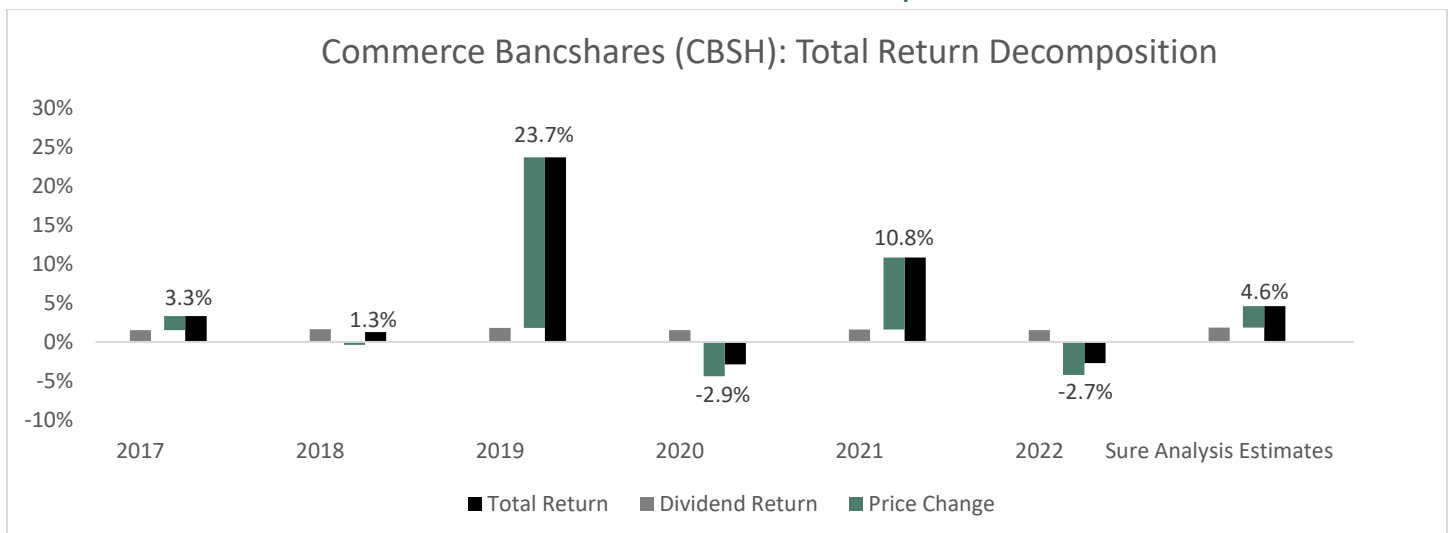
Commerce Bancshares' dividend payout ratio has never been particularly high, even during the last financial crisis when the company's profits took a hit. The dividend payout ratio has declined further during the last decade, and is now at a low level of around 27%. We believe that the payout ratio will 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.

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 the bank has been more resilient than many of its peers in past crises. We believe that shares are trading above fair value right now, based on our 2023 earnings-per-share estimate. Due to its high valuation, we rate Commerce Bancshares a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,033	1,071	1,089	1,127	1,220	1,325	1,350	1,347	1,426	1,509
SG&A Expense	493	513	536	560	582	595	628	645	666	707
D&A Expense	42	42	43	41	40	39	41	44	45	
Net Profit	261	262	264	275	319	434	421	354	531	488
Net Margin	25.3%	24.4%	24.2%	24.4%	26.2%	32.7%	31.2%	26.3%	37.2%	32.4%
Free Cash Flow	338	317	259	430	396	519	470	591	541	
Income Taxes	123	122	117	124	111	106	109	87	146	132

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	23,072	23,994	24,605	25,641	24,833	25,464	26,066	32,923	36,689	31,876
Cash & Equivalents	1,226	1,068	488	767	469	1,198	887	2,185	4,277	842
Goodwill & Int.	148	146	146	146	147	148	148	150	154	154
Total Liabilities	20,858	21,660	22,238	23,140	22,115	22,527	22,927	29,523	33,241	29,394
Long-Term Debt	107	104	104	102	2	9	2	1	13	10
Shareholders' Equity	2,211	2,185	2,217	2,351	2,572	2,787	2,990	3,397	3,437	2,465
LTD/Equity	0.05	0.04	0.04	0.04	0.00	0.00	0.00	0.00	0.00	0.00

Profitability Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.2%	1.1%	1.1%	1.1%	1.3%	1.7%	1.6%	1.2%	1.5%	1.4%
Return on Equity	11.9%	11.9%	12.0%	12.1%	13.0%	16.2%	14.6%	11.1%	15.5%	16.5%
ROIC	11.4%	11.0%	10.7%	10.9%	12.0%	15.3%	13.8%	10.8%	15.5%	16.4%
Shares Outstanding	117	112	107	107	107	117	118	122	121	124
Revenue Per Share	7.36	7.81	8.27	8.78	9.48	10.29	10.73	11.00	11.14	11.93
FCF/Share	2.41	2.31	1.97	3.36	3.07	4.04	3.74	4.83	4.23	

Note: All figures in millions of U.S. Dollars unless otherwise noted.

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