



# Zions Bancorporation (ZION)

Updated January 28<sup>th</sup>, 2023, by Patrick Neuwirth

## Key Metrics

<b>Current Price:</b>	\$53	<b>5 Year CAGR Estimate:</b>	15.2%	<b>Market Cap:</b>	\$8.0 B
<b>Fair Value Price:</b>	\$77	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/15/23
<b>% Fair Value:</b>	69%	<b>5 Year Valuation Multiple Estimate:</b>	7.7%	<b>Dividend Payment Date<sup>1</sup>:</b>	02/23/23
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$99	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 January 23<sup>rd</sup>, 2023, Zions Bancorporation released its fourth quarter 2022 results for the period ending December 31<sup>st</sup>, 2022. For the quarter the company reported net income of \$277 million which represents a 33.8% increase compared with a quarterly net income of \$207 million in the same quarter of 2021. Reported earnings per diluted share for the same periods were \$1.84 and \$1.34, an increase of 37.3% year-over-year. Quarterly net revenues of \$883 million were up 17.3% compared to the prior year's fiscal fourth quarter.

Net interest income (NII) totaled \$720 million, rising 8.6% in the prior-year quarter. In the fourth quarter, improvement in NII driven by rising rates and increasing loan demand was the major positive. Net interest margin (NIM) expanded 95 basis points (bps) to 3.53%. Non-interest income was \$153 million, decreasing 19.5% year over year. The decline was mainly due to a fall in retail and business banking fees, and loan-related fees.

Earnings for 2022 were \$5.79 per share, which is a 14.7% decline from the \$6.79 per share in 2021. Management expects moderate growth in the next twelve months, excluding PPP loans. Full year 2023 NII is expected to increase at a rate in the high single digits relative to end of 2022. Capital ratios are expected to increase by year-end 2023, although some capital may be returned to shareholders through share repurchases.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.58	\$1.68	\$1.20	\$1.99	\$2.83	\$4.08	\$4.16	\$3.02	\$6.79	\$5.79	<b>\$6.45</b>	<b>\$8.23</b>
<b>DPS</b>	\$0.13	\$0.16	\$0.22	\$0.28	\$0.44	\$1.04	\$1.28	\$1.36	\$1.44	\$1.59	<b>\$1.64</b>	<b>\$2.09</b>
<b>Shares<sup>2</sup></b>	185	203	204	203	198	188	165	164	152	150	<b>150</b>	<b>150</b>

The company has grown earnings by 15.5% per year over the past nine years and 9.6% over the past five years. After the above-average EPS in 2021 and the 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 11%. 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 fourth quarter 2022.

<sup>1</sup> Estimated date

<sup>2</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Avg. P/E</b>	17.1	17.4	23.7	14.4	15.6	12.7	11.2	11.8	8.0	9.3	<b>8.3</b>	<b>12.0</b>
<b>Avg. Yld.</b>	1.9%	0.5%	0.8%	1.0%	1.0%	2.0%	2.7%	3.8%	2.6%	3.2%	<b>3.1%</b>	<b>2.1%</b>

During the past decade shares of Zions Bancorporation have traded with an average price-to-earnings ratio of about 14 and today, it stands at 8.3. 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 3.1% which is above the average yield over the past decade of 1.8% and closer to the five-year average of 2.9%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	10%	18%	14%	16%	25%	31%	45%	21%	29%	29%	<b>25%</b>	<b>25%</b>

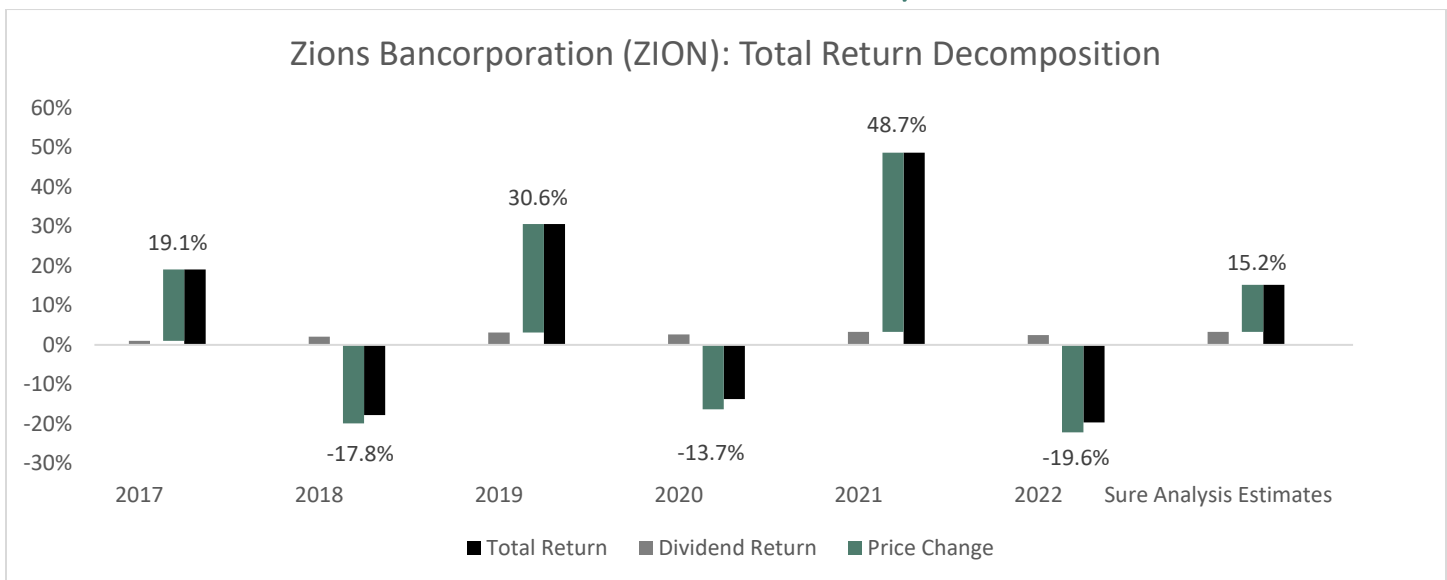
During the past five years, the company's dividend payout ratio has averaged around 31%. Zions Bancorporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 3.1%. We estimate total return potential of 15.2% per year for the next five years based on a 5% earnings-per-share growth, the dividend 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
<b>Revenue</b>	2,152	2,034	2,173	2,072	2,383	2,609	2,782	2,834	2,790	2,923
<b>SG&amp;A Exp.</b>	955	974	1,014	1,032	1,040	1,081	1,146	1,185	1,131	1,171
<b>D&amp;A Exp.</b>	185	131	58	86	123	179	193	188	86	(14)
<b>Net Profit</b>	350	264	398	309	469	592	884	816	539	1,129
<b>Net Margin</b>	16.2%	13.0%	18.3%	14.9%	19.7%	22.7%	31.8%	28.8%	19.3%	38.6%
<b>Free Cash Flow</b>	667	747	205	307	400	759	1,047	580	548	423
<b>Income Tax</b>	193	143	223	142	236	344	259	237	133	317

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	55,512	56,031	57,209	59,665	63,239	66,288	68,746	69,172	81,479	93,200
<b>Cash &amp; Equivalents</b>	7,821	9,350	8,020	6,906	2,148	1,330	1,233	1,448	1,617	10,878
<b>Goodwill &amp; Int.</b>	1,065	1,051	1,040	1,030	1,022	1,016	1,015	1,014	1,016	1,015
<b>Total Liabilities</b>	49,463	49,567	49,839	52,157	55,605	58,609	61,168	61,819	73,593	85,737
<b>Long-Term Debt</b>	2,342	2,273	1,092	811	1,034	3,982	5,224	2,719	1,332	1,008
<b>Total Equity</b>	4,924	5,461	6,366	6,679	6,924	7,113	7,012	6,787	7,320	7,023
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	0.6%	0.5%	0.7%	0.5%	0.8%	0.9%	1.3%	1.2%	0.7%	1.3%
<b>Return on Equity</b>	7.3%	5.1%	6.7%	4.7%	6.9%	8.4%	12.5%	11.8%	7.6%	15.7%
<b>ROIC</b>	4.0%	3.1%	4.6%	3.7%	5.5%	5.8%	7.2%	7.1%	5.6%	12.8%
<b>Shares Out.</b>	184	185	203	204	203	198	188	165	164	152
<b>Revenue/Share</b>	11.74	11.04	11.27	10.17	11.67	12.44	13.47	15.20	16.85	18.24
<b>FCF/Share</b>	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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