Associated Banc-Corp (ASB)

Updated July 24th, 2023 by Patrick Neuwirth

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	13.6%	**Market Cap:**	$2.7 B
Fair Value Price:	$23	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	08/31/23
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.6%	**Dividend Payment Date[1]:**	09/15/23
Dividend Yield:	4.6%	**5 Year Price Target**	$29	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Associated Banc-Corp 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 $41 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 $2.7 billion company and has about 4,200 employees.

On July 20th, 2023, Associated Banc-Corp released its second quarter 2023 results for the period ending June 30th, 2023. For the quarter the company reported net income of $84 million compared to $100 million in the first quarter of 2023 and $84 million in same quarter last year. Earnings per diluted share for the same periods were $0.56, $0.66, and $0.56 respectively.

Net interest income (NII) came in at $258 million, down 6% from the prior quarter. Net interest margin decreased to 2.80%, down 27 basis points (bps), but up 9 bps from the same period last year. Total noninterest income increased to $66 million and decreased $10 million or 13% from the same period last year. Noninterest expenses increased by 3%. Provisions for credit losses was $22 million, compared to $18 million in the prior quarter and zero in the same period of last year. As of June 30th, total loans were $29.8 billion, up 2.2% compared to the previous quarter. Total deposits also increased 5.5% to $32 billion. Management expects loan growth to be in the range of 6 to 8% (previously 7% - 9%) and NII is projected to increase in the 10 to 12% range in 2023. The company's non-interest income is expected to be between 8% and 10%. Compared to the previous guidance the expected "total net interest income & noninterest income" growth has been lowered from 8% - 10% to 6% - 8%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.10	$1.16	$1.19	$1.26	$1.52	$1.89	$1.91	$1.86	$2.18	$2.34	***$2.30***	***$2.94***
DPS	$0.33	$0.37	$0.41	$0.45	$0.50	$0.62	$0.69	$0.72	$0.76	$0.81	***$0.84***	***$1.23***
Shares[2]	164	152	151	152	153	164	157	154	149	149	***149***	***149***

The company has grown earnings by 8.7% per year over the past nine years and 4.0% over the past five years. We expect earnings to increase by 5% per year for the next five years. This is based on the assumption of net interest income growth, supported by loan and deposit growth. The company has been able to increase its yearly dividend payout for 12 consecutive years. Over the last five years, the average annual dividend growth rate is 6.3%. In October 2022, the company increased its quarterly dividend by 5.0% from $0.20 to $0.21 per share.

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[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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	14.2	15.3	15.9	15.1	16.1	13.5	11.1	8.1	9.8	9.8	***8.0***	***10.0***
Avg. Yld.	1.9%	2.1%	2.2%	2.4%	2.0%	2.4%	3.2%	4.8%	3.6%	3.8%	***4.6%***	***4.2%***

During the past decade shares of Associated Banc-Corp have traded with an average price-to-earnings ratio of 12.9 times earnings and today, it stands at 8.0. We are using 10.0 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.6%, which is well above the average yield over the past decade of 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	30%	32%	34%	36%	33%	33%	36%	39%	35%	35%	***37%***	***42%***

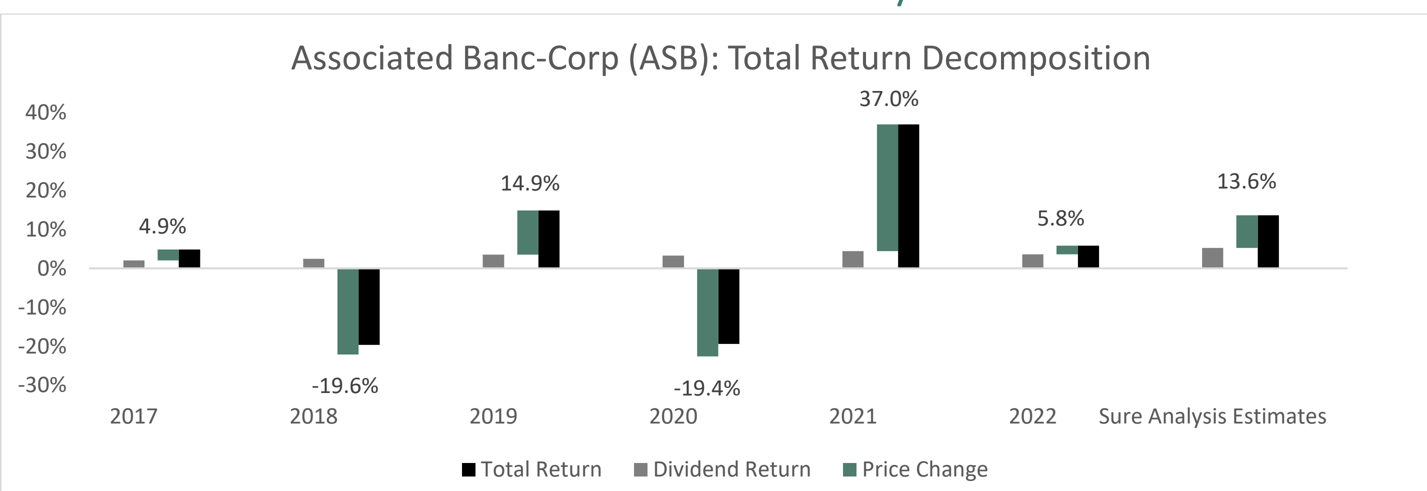
During the past five years, the company's dividend payout ratio has averaged around 35%. Associated Banc-Corp 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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. 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. The company launch a new Mass Affluent initiative in December to reach a core customer deposit growth between 3% and 5%, which resulted in $300m growth in the last quarter. The bank's shares have come under selling pressure since the recent banking crisis emerged and are down 21% year-to-date.

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 4.6%. The bank should benefit from higher interest rates and its strategy to grow loans and become more digital. We estimate total return potential of 13.6% per year for the next five years, based on 5% earnings-per-share growth, the starting yield dividend, and a valuation tailwind. The shares earn a buy rating.

Total Return Breakdown by Year



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[3] Q4 Investor presentation, 1-26-2023

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	959	972	1,006	1,060	1,067	1,228	1,208	1,257	1,049	1,234
SG&A Exp.	489	496	517	543	552	616	615	552	548	502
D&A Exp.	69	65	62	60	59	66	81	83	75	54
Net Profit	189	191	188	200	229	334	327	307	351	366
Net Margin	19.7%	19.6%	18.7%	18.9%	21.5%	27.2%	27.1%	24.4%	33.5%	29.7%
Free Cash Flow	410	149	247	538	411	431	507	495	477	784
Income Tax	79	86	81	87	110	80	80	20	85	94

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	24,227	26,822	27,712	29,139	30,484	33,615	32,386	33,420	35,104	39,410
Cash & Equivalents	582	1,016	455	596	683	728	581	715	1,026	594
Acc. Receivable	---	---	---	---	---	---	91	90	81	144
Goodwill & Int.	1,004	997	1,047	1,049	1,050	1,313	1,332	1,220	1,218	1,232
Total Liabilities	21,336	24,022	24,775	26,048	27,246	29,834	28,464	29,329	31,079	35,390
Long-Term Debt	3,353	4,504	3,079	3,345	3,749	4,415	3,760	2,240	1,905	4,604
Total Equity	2,829	2,741	2,816	2,931	3,078	3,524	3,665	3,737	3,832	3,821
LTD/E Ratio	1.16	1.61	1.05	1.08	1.16	1.17	0.96	0.55	0.47	1.15

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.7%	0.7%	0.7%	0.8%	1.0%	1.0%	0.9%	1.0%	1.0%
Return on Equity	6.6%	6.8%	6.8%	7.0%	7.6%	10.1%	9.1%	8.3%	9.3%	9.6%
ROIC	3.2%	2.8%	2.8%	3.2%	3.4%	4.4%	4.1%	4.4%	5.7%	5.0%
Shares Out.	164	152	151	152	153	164	157	154	149	151
Revenue/Share	5.78	6.14	6.68	7.07	6.94	7.23	7.46	8.18	6.90	8.20
FCF/Share	2.47	0.94	1.64	3.58	2.68	2.54	3.13	3.22	3.14	5.21

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