Zions Bancorporation (ZION)

Updated October 21st, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	16.2%	**Market Cap:**	$4.5 B
Fair Value Price:	$47	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	11/09/23
% Fair Value:	64%	**5 Year Valuation Multiple Estimate:**	9.2%	**Dividend Payment Date[1]:**	11/30/23
Dividend Yield:	5.5%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**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 9,984 employees.

On October 18th, 2023, Zions Bancorporation released its third quarter 2023 results for the period ending September 30th, 2023. For the quarter, the company reported net income of $175 million which represents a 24% decrease compared with a quarterly net income of $217 million in the same quarter of 2022. Reported earnings per diluted share for the same periods were $1.13 and $1.40, a decrease of 19.3% year-over-year. Quarterly net revenues of $776 million were down 7.4% compared to the same quarter last year.

Net interest income remained relatively stable at $585 million in the third quarter of 2023, as higher earning asset yields were offset by an increase in interest paid on deposits and short-term borrowings. The net interest margin was 2.93%, compared with 2.92% in the prior year. Tier-1 leverage ratio was 8.3% as of September 30th, 2023, compared with 7.5% at the end of the prior-year quarter. Tier-1 risk-based capital ratio of 10.9% increased from 10.7%. Total deposits rebounded to $75.4 billion, compared with $69.21 billion in the preceeding quarter, which could signal that customer confidence is increasing, as attention has been drawn to bank deposits following the collapse of three mid-sized banks earlier this year. The allowance for credit losses ("ACL") was $738 million for the reported quarter, compared with $590 million previous year's quarter. The increase in the ACL was primarily due to deterioration in economic forecasts. The efficiency ratio was 64.4%, up from 57.6% in the prior-year period. A rise in the efficiency ratio indicates a decrease in profitability. Zions' management provided guidance for the full year, with NII expected to increase at a rate in the high single-digits relative to the 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
EPS	$1.58	$1.68	$1.20	$1.99	$2.83	$4.08	$4.16	$3.02	$6.79	$5.79	***$4.65***	***$5.39***
DPS	$0.13	$0.16	$0.22	$0.28	$0.44	$1.04	$1.28	$1.36	$1.44	$1.59	***$1.64***	***$2.09***
Shares[2]	185	203	204	203	198	188	165	164	152	150	***150***	***150***

The company has grown earnings by 15.5% per year since 2013 and 2.6% over the past five years. After the above-average growth 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 3% 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

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[1] Estimated date

[2] In millions.

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11 consecutive years. Over the last five years, the average annual dividend growth rate is 9.5%. In July 2022, the company increased its quarterly dividend by 7.9% from $0.38 to $0.41 per share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	17.1	17.4	23.7	14.4	15.6	12.7	11.2	11.8	8.0	9.3	***6.4***	***10.0***
Avg. Yld.	1.9%	0.5%	0.8%	1.0%	1.0%	2.0%	2.7%	3.8%	2.6%	3.2%	***5.5%***	***3.9%***

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 6.4. We are using 10 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 5.5% which is above the average yield of 1.8% over the past decade, primarily due to the drop in the share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	10%	18%	14%	16%	25%	31%	45%	21%	29%	29%	***35%***	***39%***

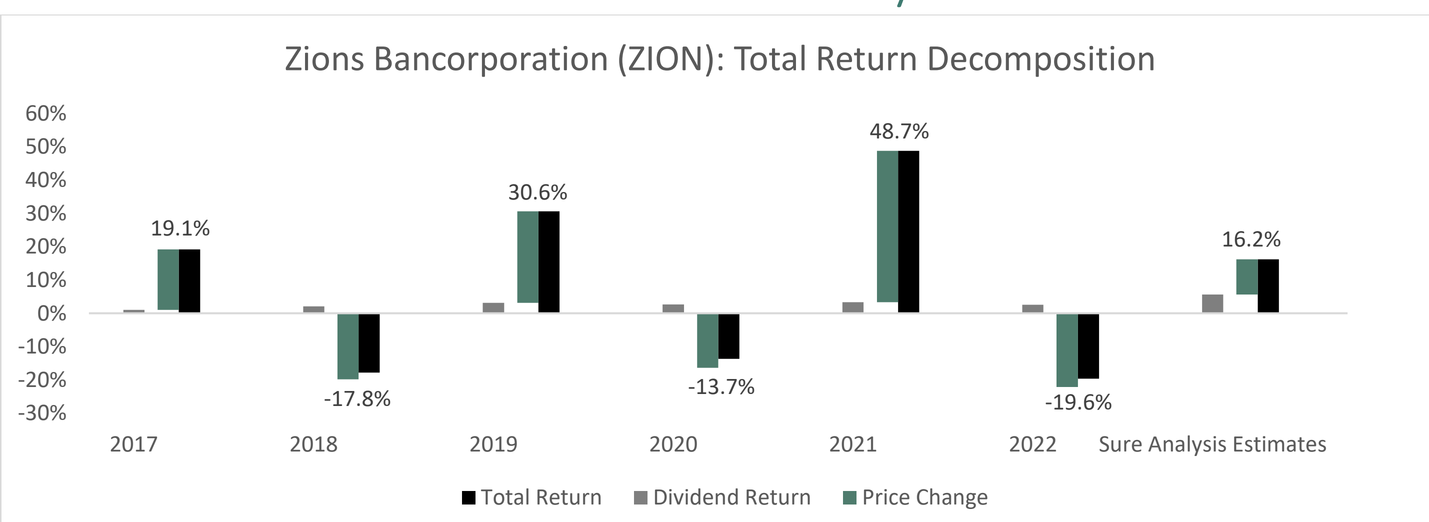
During the past five years, the company's dividend payout ratio has averaged around 31%. Zions Bancorporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 should strengthen 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 5.5%. As with many regional banks, Zions' share price has come under selling pressure since the banking crisis emerged and the stock is down 36% year-to-date. The coming year(s) could be a bumpy road for regional bank stocks. Still, we estimate total return potential of 16.2% per year for the stock over the next five years based on a 3% earnings-per-share growth, the dividend yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,034	2,173	2,072	2,383	2,609	2,782	2,834	2,790	2,923	3,152
SG&A Exp.	974	1,014	1,032	1,040	1,081	1,146	1,185	1,131	1,171	1,324
D&A Exp.	131	58	86	123	179	193	188	86	(14)	110
Net Profit	264	398	309	469	592	884	816	539	1,129	907
Net Margin	13.0%	18.3%	14.9%	19.7%	22.7%	31.8%	28.8%	19.3%	38.6%	28.8%
Free Cash Flow	747	205	307	400	759	1,047	580	548	423	1,280
Income Tax	143	223	142	236	344	259	237	133	317	245

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	56,031	57,209	59,665	63,239	66,288	68,746	69,172	81,479	93,200	89,540
Cash & Equivalents	9,350	8,020	6,906	2,148	1,330	1,233	1,448	1,617	10,878	1,997
Goodwill & Int.	1,051	1,040	1,030	1,022	1,016	1,015	1,014	1,016	1,015	1,065
Total Liabilities	49,567	49,839	52,157	55,605	58,609	61,168	61,819	73,593	85,737	84,650
Long-Term Debt	2,273	1,092	811	1,034	3,982	5,224	2,719	1,332	1,008	7,747
Total Equity	5,461	6,366	6,679	6,924	7,113	7,012	6,787	7,320	7,023	4,453
LTD/E Ratio	0.35	0.15	0.11	0.14	0.52	0.69	0.37	0.17	0.14	1.58

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	0.7%	0.5%	0.8%	0.9%	1.3%	1.2%	0.7%	1.3%	1.0%
Return on Equity	5.1%	6.7%	4.7%	6.9%	8.4%	12.5%	11.8%	7.6%	15.7%	15.8%
ROIC	3.1%	4.6%	3.7%	5.5%	5.8%	7.2%	7.1%	5.6%	12.8%	8.6%
Shares Out.	185	203	204	203	198	188	165	164	152	150
Revenue/Share	11.04	11.27	10.17	11.67	12.44	13.47	15.20	16.85	18.24	20.98
FCF/Share	4.05	1.06	1.51	1.96	3.62	5.07	3.11	3.31	2.64	8.52

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