Associated Banc-Corp (ASB)

Updated July 27th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$23.95	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$3.6 B
Fair Value Price:	$21.50	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	08/30/24
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date[1]:**	09/13/24
Dividend Yield:	3.7%	**5 Year Price Target**	$29	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Associated Banc-Corp (ASB) 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 $3.6 billion company and has about 4,200 employees.

On July 25th, 2024, Associated Banc-Corp released its second quarter 2024 results for the period ending June 30th, 2024. For the quarter, the company reported net income of $116 million compared to $78 million in the preceding quarter and $100 million in the same quarter last year. Earnings per diluted share for the same periods were $0.74, -$0.52, and $0.66 respectively. Associated Banc-Corp showed strong performance, driven by steady revenue and credit stability, despite a decrease in total deposits and net interest margin. The company saw a slight year-over-year increase in net income and an improvement in its capital ratios. Total period-end loans increased by $211 million, although total deposits decreased by $1.0 billion, with core customer deposits showing a slight decrease of $863 million. Net interest income remained stable at $257 million, only down by $1 million from the previous quarter, with a net interest margin of 2.75% compared to 2.80% a year-ago. Noninterest expense slightly decreased by $2 million to $196 million. The provision for credit losses was $23 million, down by $1 million from the previous quarter, indicating a stable approach to potential credit risks. The CET1 capital ratio improved from 9.43% in the first quarter to 9.68%. The updated outlook for 2024 includes expectations of loan growth finishing at the lower end of the previously guided 4% to 6% range, core customer deposit growth at the lower end of the 3% to 5% range, and net interest income growth adjusted to 1% to 3%. The company also anticipates noninterest income to range between a 1% decrease to 1% growth, and noninterest expenses to grow by 2% to 3%. The effective tax rate is projected to remain between 19% and 21%, excluding the impact of the $33 million tax benefit recognized in this quarter. Associated Banc-Corp's strategy[1] in 2024 focuses on advancing growth through expanding its commercial relationship manager base, consumer and small business initiatives aimed at driving incremental deposit growth, while also prioritizing a balanced asset portfolio and enhancing its digital banking experience to deepen customer relationships and improve profitability.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.16	$1.19	$1.26	$1.52	$1.89	$1.91	$1.86	$2.18	$2.34	$1.13	***$2.15***	***$2.88***
DPS	$0.37	$0.41	$0.45	$0.50	$0.62	$0.69	$0.72	$0.76	$0.81	$0.88	***$0.88***	***$1.29***
Shares[2]	152	151	152	153	164	157	154	149	149	149	***149***	***149***

The company has grown earnings by -0.3% per year over the past decade and 2.4% over the past five years. We expect earnings to increase by 6% per year for the next five years. This is based on the assumption of net interest income

[1] ASB Q2-2024 earnings presentation
[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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growth, supported by loan and deposit growth. The company has been able to increase its yearly dividend payout for 13 consecutive years. Over the last five years, the average annual dividend growth rate is 7.3%. In October 2023, the company increased its quarterly dividend by 4.8% from $0.21 to $0.22 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.3	15.9	15.1	16.1	13.5	11.1	8.1	9.8	9.8	9.9	***11.1***	***10.0***
Avg. Yld.	1.9%	2.2%	2.4%	2.0%	2.4%	3.2%	4.8%	3.6%	3.8%	4.1%	***3.7%***	***4.5%***

During the past decade shares of Associated Banc-Corp have traded with an average price-to-earnings ratio of 12.5 times earnings and today, it stands at 11.1. We are using 10.0 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 3.7%, which is above the average yield over the past decade of 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	34%	36%	33%	33%	36%	39%	35%	35%	78%	***41%***	***45%***

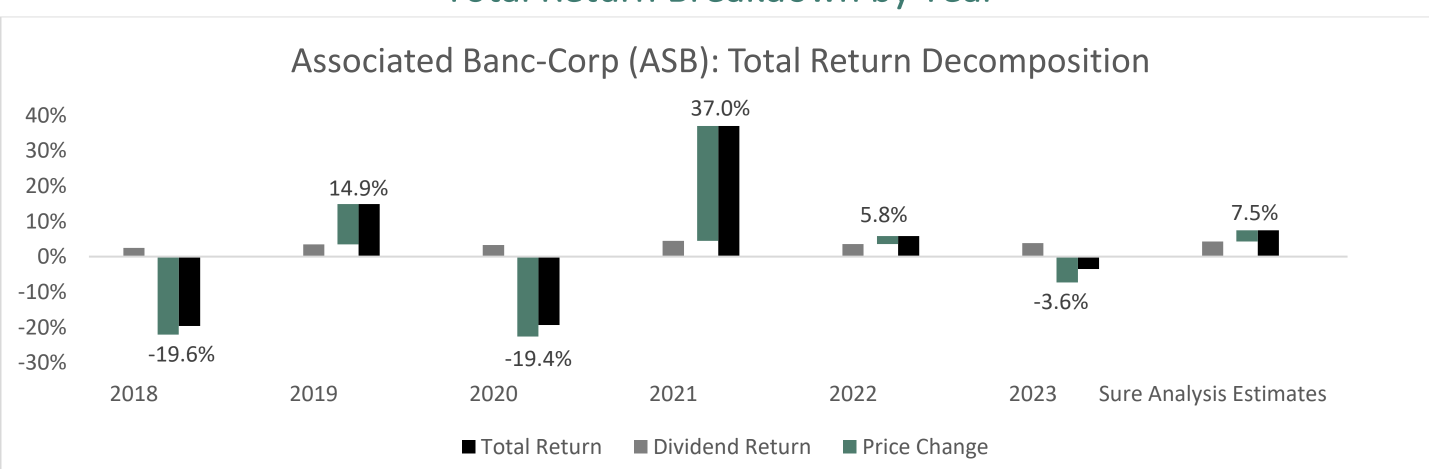
During the past five years, the company's dividend payout ratio has averaged around 39%. Associated Banc-Corp 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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, 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 launched a new Mass Affluent initiative in 2023 to reach a core customer deposit growth between 3% and 5%, which resulted in $300 million growth in the last quarter of that year. The bank plans to launch 15 new consumer and business products, along with digital initiatives, in order to drive deposit acquisition and retention in 2024, with four of them already launched.

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 3.7%. The bank should benefit from higher interest rates and its strategy to grow loans and become more digital. We estimate total return potential of 7.5% per year for the next five years, based on 6% earnings-per-share growth, the dividend, and a valuation headwind. Shares earn a hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	972	1,006	1,060	1,067	1,228	1,208	1,257	1,049	1,234	1,097
SG&A Exp.	496	517	543	552	616	615	552	548	502	564
D&A Exp.	65	62	60	59	66	81	83	75	54	94
Net Profit	191	188	200	229	334	327	307	351	366	183
Net Margin	19.6%	18.7%	18.9%	21.5%	27.2%	27.1%	24.4%	33.5%	29.7%	16.7%
Free Cash Flow	149	247	538	411	431	507	495	477	784	381
Income Tax	86	81	87	110	80	80	20	85	94	23

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	26,822	27,712	29,139	30,484	33,615	32,386	33,420	35,104	39,410	41,020
Cash & Equivalents	1,016	455	596	683	728	581	715	1,026	594	909
Acc. Receivable	---	---	---	---	---	91	90	81	144	170
Goodwill & Int.	997	1,047	1,049	1,050	1,313	1,332	1,220	1,218	1,232	1,230
Total Liabilities	24,022	24,775	26,048	27,246	29,834	28,464	29,329	31,079	35,390	36,840
Long-Term Debt	4,504	3,079	3,345	3,749	4,415	3,760	2,240	1,905	4,604	2,481
Total Equity	2,741	2,816	2,931	3,078	3,524	3,665	3,737	3,832	3,821	3,980
LTD/E Ratio	1.61	1.05	1.08	1.16	1.17	0.96	0.55	0.47	1.15	0.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.7%	0.7%	0.8%	1.0%	1.0%	0.9%	1.0%	1.0%	0.5%
Return on Equity	6.8%	6.8%	7.0%	7.6%	10.1%	9.1%	8.3%	9.3%	9.6%	4.5%
ROIC	2.8%	2.8%	3.2%	3.4%	4.4%	4.1%	4.4%	5.7%	5.0%	2.4%
Shares Out.	152	151	152	153	164	157	154	149	151	151
Revenue/Share	6.14	6.68	7.07	6.94	7.23	7.46	8.18	6.90	8.20	7.27
FCF/Share	0.94	1.64	3.58	2.68	2.54	3.13	3.22	3.14	5.21	2.53

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