Zions Bancorporation (ZION)

Updated July 24th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$8.0 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	08/16/24
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Dividend Payment Date[1]:**	08/23/24
Dividend Yield:	3.1%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

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. Zions Bancorporation is an $8 billion company that was founded in 1873 and has 9,696 employees.

On July 22nd, 2024, Zions Bancorporation released its second quarter 2024 results for the period ending June 30th, 2024. For the quarter, the company reported net earnings of $190 million, an increase compared with net earnings of $166 million in the same quarter of 2023. Earnings per diluted share were $1.28 compared to $1.11 for the year-ago quarter. The company's net interest income was $597 million, up slightly from $591 million in the prior-year quarter. Results were primarily aided by higher revenues and improved efficiency ratios. However, a decline in customer deposits and an increase in classified loans were noted as challenges. The net interest margin (NIM) was 2.98%, up from 2.92% in the second quarter of 2023, and an increase from 2.94% in the previous quarter. Noninterest income was $179 million, down slightly from $189 million in the second quarter of the previous year. Noninterest expense decreased to $509 million from $526 million in the previous quarter. Total loans and leases were $57.7 billion, marking a modest increase. The provision for credit losses was $5 million, down from $46 million. The allowance for credit losses was 1.24% of loans and leases, which compared to 1.25% in the previous year. The efficiency ratio improved to 64.5%, down from 67.9% in the previous quarter, indicating an increase in profitability. Total deposits decreased slightly to $74.0 billion. Short-term borrowings decreased slightly to $5.0 billion from $5.1 billion in the previous quarter. The estimated Common Equity Tier 1 (CET1) capital ratio improved to 10.6% from 10.0% in the previous year. Management's guidance for 2024 indicates a stable outlook, with net interest income expected to face pressure from elevated funding costs, potentially offset by the repricing of earning assets in a higher interest rate environment. Loan and deposit volumes are anticipated to show modest growth, reflecting ongoing economic activities and market conditions.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.68	$1.20	$1.99	$2.83	$4.08	$4.16	$3.02	$6.79	$5.79	$4.35	***$4.50***	***$5.22***
DPS	$0.16	$0.22	$0.28	$0.44	$1.04	$1.28	$1.36	$1.44	$1.59	$1.59	***$1.64***	***$2.09***
Shares[2]	203	204	203	198	188	165	164	152	150	150	***150***	***150***

The company has grown earnings by 11.1% per year since 2014 and 1.6% 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 that 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 NII to return to historical levels. The company has been able to increase its dividend for

[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.

11 consecutive years. Over the last five years, the average annual dividend growth rate is 5.1%. In July 2022, the company increased its quarterly dividend by 7.9% from $0.38 to $0.41 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.4	23.7	14.4	15.6	12.7	11.2	11.8	8.0	9.3	9.5	***11.8***	***13.0***
Avg. Yld.	1.9%	0.8%	1.0%	1.0%	2.0%	2.7%	3.8%	2.6%	3.2%	3.5%	***3.1%***	***3.1%***

During the past decade shares of Zions Bancorporation have traded with an average price-to-earnings ratio of about 13 and today, it stands at 11.8. We are using 13 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 of 1.8% over the past decade, primarily due to the drop in the share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	10%	18%	14%	16%	25%	31%	45%	21%	29%	29%	***36%***	***40%***

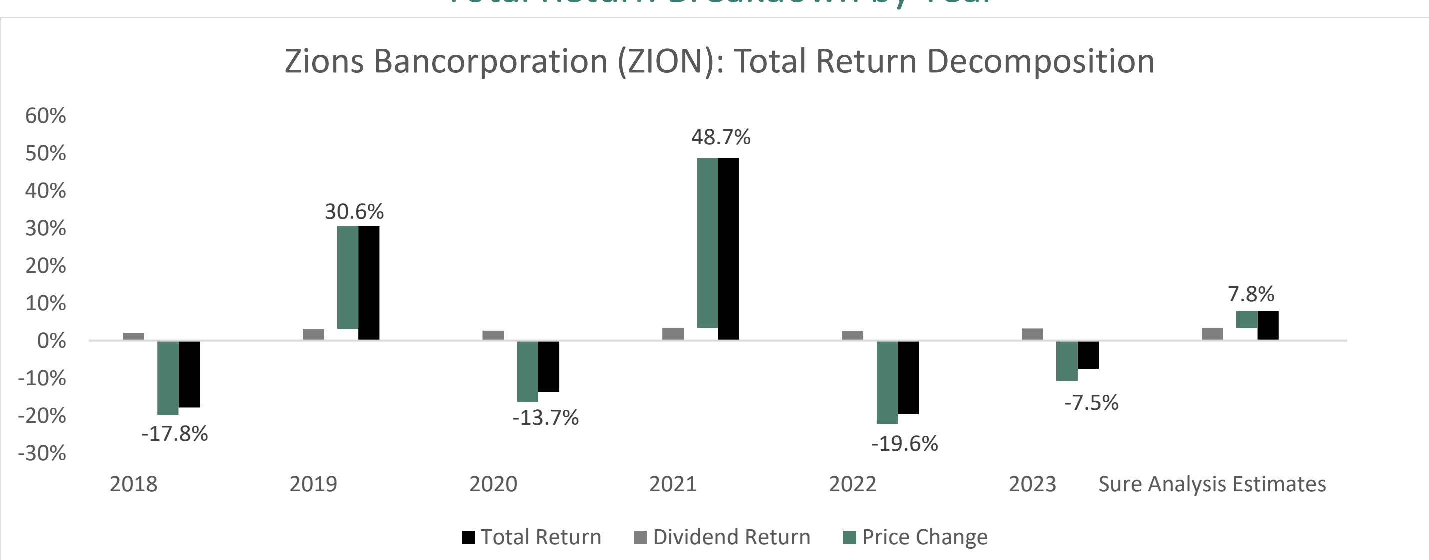
During the past five years, the company's dividend payout ratio has averaged around 31%. Zions Bancorporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 has just completed its digital banking replacement project (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 3.1%. As with many regional banks, Zions' share price has come under selling pressure since the banking crisis emerged, but showed a strong recovery since the second half of 2023. We estimate total return potential of 7.8% per year for the stock over the next five years based on a 3% earnings-per-share growth, the dividend yield, and a small valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,173	2,072	2,383	2,609	2,782	2,834	2,790	2,923	3,152	3,115
SG&A Exp.	1,014	1,032	1,040	1,081	1,146	1,185	1,131	1,171	1,324	1,400
D&A Exp.	58	86	123	179	193	188	86	(14)	110	140
Net Profit	398	309	469	592	884	816	539	1,129	907	680
Net Margin	18.3%	14.9%	19.7%	22.7%	31.8%	28.8%	19.3%	38.6%	28.8%	21.8%
Free Cash Flow	205	307	400	759	1,047	580	548	423	1,280	772
Income Tax	223	142	236	344	259	237	133	317	245	206

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	57,209	59,665	63,239	66,288	68,746	69,172	81,479	93,200	89,540	87,200
Cash & Equivalents	8,020	6,906	2,148	1,330	1,233	1,448	1,617	10,878	1,997	2,204
Goodwill & Int.	1,040	1,030	1,022	1,016	1,015	1,014	1,016	1,015	1,065	1,059
Total Liabilities	49,839	52,157	55,605	58,609	61,168	61,819	73,593	85,737	84,650	81,510
Long-Term Debt	1,092	811	1,034	3,982	5,224	2,719	1,332	1,008	7,747	2,063
Total Equity	6,366	6,679	6,924	7,113	7,012	6,787	7,320	7,023	4,453	5,251
LTD/E Ratio	0.15	0.11	0.14	0.52	0.69	0.37	0.17	0.14	1.58	0.36

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.5%	0.8%	0.9%	1.3%	1.2%	0.7%	1.3%	1.0%	0.8%
Return on Equity	6.7%	4.7%	6.9%	8.4%	12.5%	11.8%	7.6%	15.7%	15.8%	12.9%
ROIC	4.6%	3.7%	5.5%	5.8%	7.2%	7.1%	5.6%	12.8%	8.6%	6.7%
Shares Out.	203	204	203	198	188	165	164	152	150	148
Revenue/Share	11.27	10.17	11.67	12.44	13.47	15.20	16.85	18.24	20.98	21.08
FCF/Share	1.06	1.51	1.96	3.62	5.07	3.11	3.31	2.64	8.52	5.23

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