Zions Bancorporation (ZION)

Updated October 24th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$7.8 B
Fair Value Price:	$62	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	11/15/24
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.8%	**Dividend Payment Date[1]:**	11/22/24
Dividend Yield:	3.2%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**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 $7.8 billion company that was founded in 1873 and has 9,696 employees.

On October 21st, 2024, Zions Bancorporation released its third quarter 2024 results for the period ending September 30th, 2024. For the quarter, the company reported net earnings of $204 million, an increase compared with net earnings of $168 million in the same quarter of 2023. Earnings per diluted share were $1.37, compared to $1.13 for the year-ago quarter. The company's net interest income was $620 million, up from $585 million in the prior-year quarter. Results were primarily aided by higher revenues, improved efficiency ratios, and a stable net interest margin. However, challenges remain with an increase in classified loans and nonperforming assets.

The net interest margin (NIM) was 3.03%, up from 2.93% in the third quarter of 2023 and an increase from 2.98% in the previous quarter. Noninterest income was $172 million, down from $180 million in the third quarter of the previous year. Noninterest expense decreased slightly to $502 million, compared to $509 million in the previous quarter. Total loans and leases were $58.9 billion, marking a 3% increase year-over-year. The provision for credit losses was $13 million, down from $41 million in 3Q23. The allowance for credit losses was 1.25% of loans and leases, compared to 1.30% in the previous year.

The efficiency ratio improved to 62.5%, down from 64.4% in the year-ago quarter, indicating increased profitability. Total deposits were $75.7 billion, up from $75.4 billion in the same period last year. Short-term borrowings decreased significantly to $2.9 billion, from $4.3 billion a year ago. The estimated Common Equity Tier 1 (CET1) capital ratio improved to 10.7%, up from 10.2% in the previous year.

Management's guidance for 2025 remains cautiously optimistic. Net interest income is expected to see slight to moderate growth, supported by asset repricing and stable funding costs. Loan and deposit volumes are projected to show modest growth, reflecting stable economic activities despite potential challenges in the commercial real estate sector.

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	***$4.80***	***$5.56***
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***

[1] Estimated date
[2] In millions.

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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 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	***10.8***	***13.0***
Avg. Yld.	1.9%	0.8%	1.0%	1.0%	2.0%	2.7%	3.8%	2.6%	3.2%	3.5%	***3.2%***	***2.9%***

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 10.8. 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 3.2% 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%	***34%***	***38%***

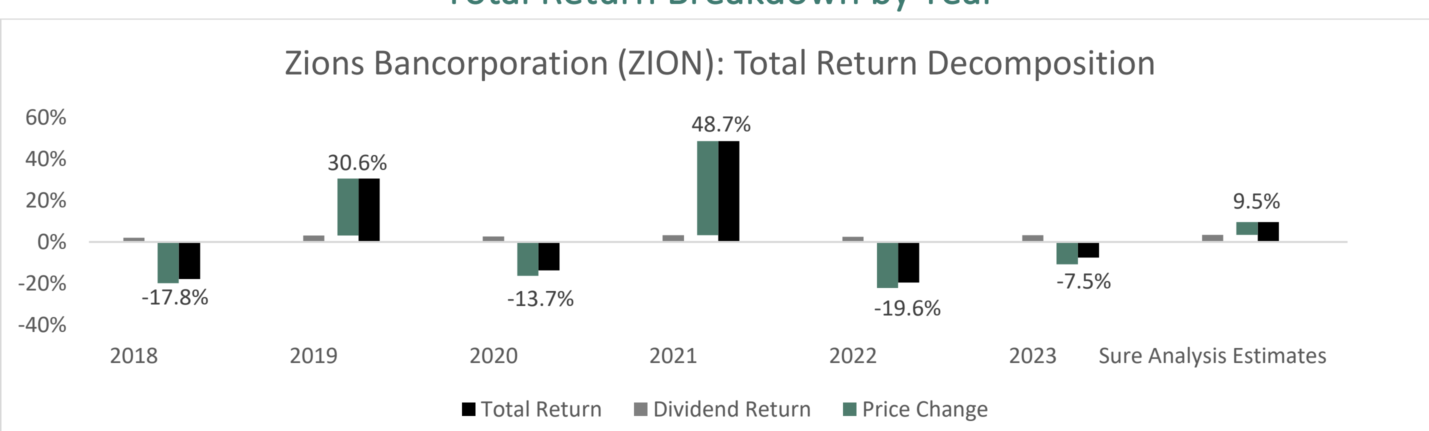
During the past five years, the company's dividend payout ratio has averaged around 31%. Zions Bancorporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 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 3.2%. As with many regional banks, Zions' share price has come under selling pressure since the banking crisis emerged, but showed a very strong recovery since the second half of 2023. We estimate total return potential of 9.5% 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.