

The Disconnect

WBS: Credit concerns overblown

Industry Overview

WBS under indiscriminate selling pressure

Resurgence of CRE-related credit concerns, following updates from NYCB (covered by E. Poonawala) and Japan's Aozora Bank (covered by S. Nakamura), has weighed on the KRX these last two days. While these announcements help to remind investors of the potential credit risk amid ongoing decline in commercial property values (from higher interest rates), we believe the sell-off in WBS (180bp relative underperformance vs. KRX) may be overblown. Firstly, the characteristics of WBS' CRE portfolio are different from those of NYCB (see Exhibit 1). Not to mention, the CRE-related issues at NYCB appear idiosyncratic. Secondly, WBS management noted – less than 10 days ago – the credit profile of its CRE portfolio was largely stable QoQ in 4Q.

Exhibit 1: WBS less exposed to CRE (across broad set of metrics) vs. NYCB

Select CRE portfolio metrics/characteristics

CRE-related loan exposures			Office portfolio metrics		
% of total loans	WBS	NYCB		WBS	NYCB
CRE + MF	42%	56%	Wtd avg DSCR	1.90x	1.68x
Office CRE	2%	4%	Wtd avg LTV	54%	61%
Rent-stabilized	3%	6%	2024 Maturities*	27%	9%
			NCO rate**	2.4%	1.2%

Source: Company filings. * Maturities as % of total office loans. ** WBS' NCOs all attributed to note sales

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Credit concerns overdone + cons. '24e 30% > TTC rate

NCOs increased 16% QoQ to \$34mn (or 27bp of avg. loans) in 4Q. However, loan divestitures resulted in \$14mn of the \$34mn in NCOs. Proactive b/s management and loan sales represented half of FY2023 NCOs. Meanwhile, WBS has seen special mention CRE loans (as % of capital) improve the most among mid-cap banks (see Exhibit 2). Excluding b/s actions taken in 2023, cons. NCO forecast (32bp in 2024) implies losses triple YoY, whereas avg. mid-cap increase is ~80%. (See Exhibit 3 for 4Q23 snapshot of select credit quality metrics vs. peers). Assuming FY24 NCOs increase to 25bp (disclosed TTC loss rate), we est. a 2%+ EPS benefit to cons est., all else equal.

Sell-off creates buying opportunity

We believe the current valuation overlooks the WBS' near best-in-class fundamentals (i.e., top-5 efficiency ratio and ROTCE, and faster loan growth) for near-term headwinds. We can appreciate the headwinds facing WBS, including interest rate and credit risks; however, even under stress we estimate the bank can generate an ROTCE ~300bp higher than the peer average. Expectations for WBS to generate ~18% ROTCE in 2024 suggest shares could re-rate higher (from 8.3x to ~10x), in our view. Maintain Buy rating.

02 February 2024

Equity
United States
Consumer Finance

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Acronyms:

CRE: commercial real estate
DSCR: debt-service coverage ratio
KRX: KBW Regional Banking Index
LTV: loan-to-value
MF: multi-family
NCOs: net charge-offs
ROTCE: return on tang. Common equity
TTC: through-the-cycle

Tickers mentioned:

WBS: Webster Financial
NYCB: New York Community Bancorp

Relevant research:

[Reading the Tea Leaves: Implications: NYCB, FOMC 31 January 2024](#)

[WBS: Stock price reaction doesn't resemble positive message 23 January 2024](#)

[WBS: Missing the forest for the trees: Initiate at Buy 11 January 2024](#)

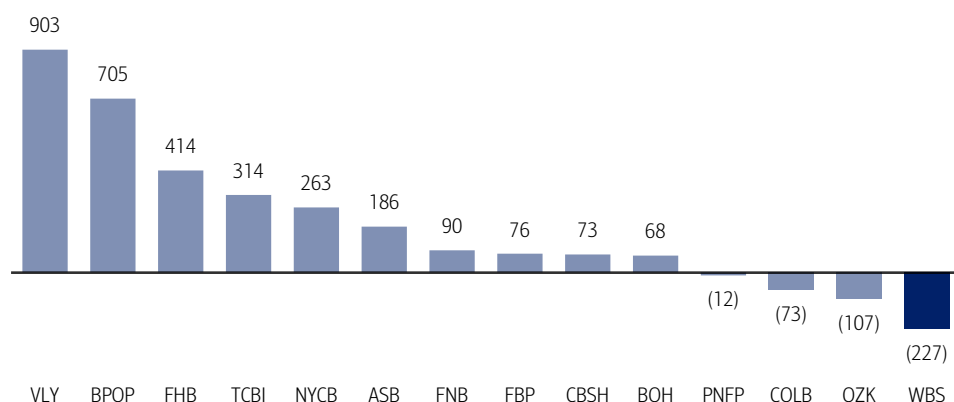
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Timestamp: 02 February 2024 05:30AM EST

Exhibit 2: WBS reported 41% decline in special mention CRE loans 3Q23 vs. 4Q22

YTD change in special mention CRE loans as % of capital (in bps)

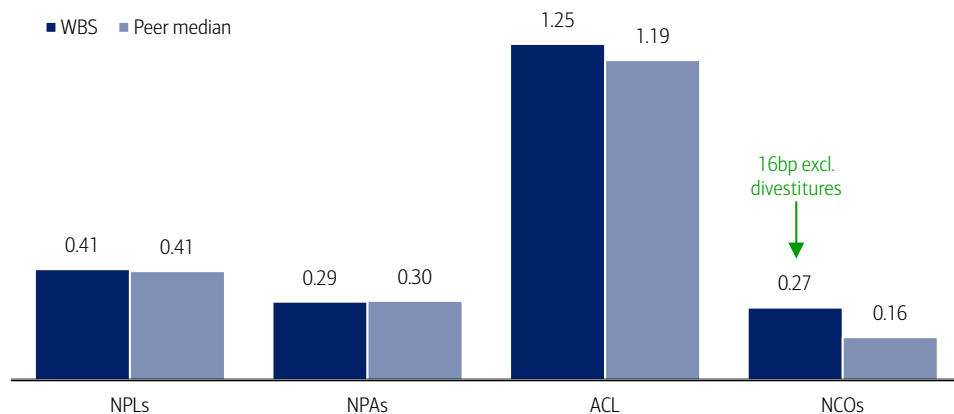


Source: BofA Global Research, company filings

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Exhibit 3: WBS credit performance consistent/better vs. mid-cap peers

Select credit quality ratios (as of 4Q23)



Source: company filings, S&P Capital IQ

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Exhibit 4: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
WBS	WBS US	Webster Financial Co	US\$ 47.17	B-1-7

Source: BofA Global Research

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Price objective basis & risk**Webster Financial Corp. (WBS)**

Our \$61 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e tangible book value (TBV). We assign 10.2x/1.7x multiples, respectively, to correspond with its near 20% ROTCE profile but below its pre-pandemic average (11.4x/1.8x) due to near-term EPS headwinds.

Upside risks: stronger than expected balance sheet growth, quicker return to



profitability, and greater NIM expansion relative to peers.

Downside risks: higher than expected expense growth, accelerated credit migration, and slower balance sheet growth.

Analyst Certification

I, Brandon Berman, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSIX	TSIX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett

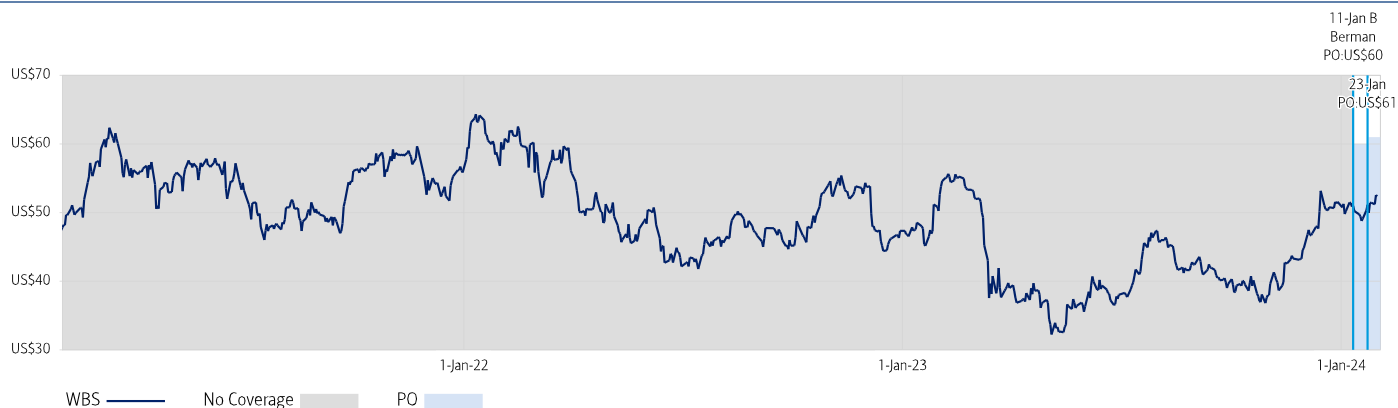
UNDERPERFORM

	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman

Disclosures

Important Disclosures

Webster Financial Co (WBS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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