

## Texas Capital Bancshares Inc.

## Law of action and reaction

Maintain Rating: UNDERPERFORM | PO: 50.00 USD | Price: 61.15 USD

## MF headwind today, downside NIM support tomorrow

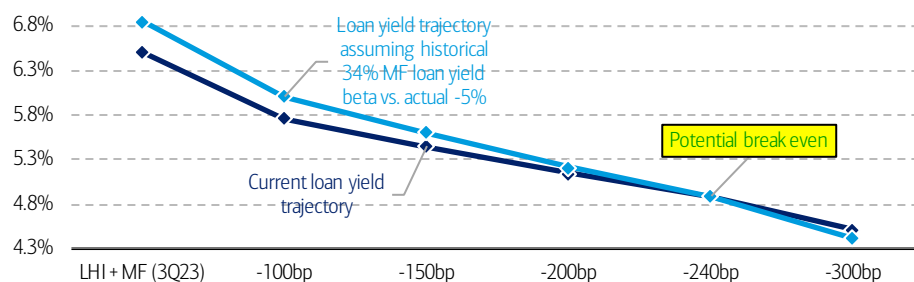
It is understood that Texas Capital Bancshares Inc. (TCBI) is among the more rate sensitive mid-cap banks within our coverage universe. With Fed funds futures pricing in ~150bp worth of rate cuts in 2024, it should be expected that TCBI's share price will come under relative pressure given this earnings headwind. One reason why we maintain our Underperform rating. As of 3Q23, 95% of loans were variable-rate suggesting NII and NIM will decline at a faster rate than that of peers. (Note: some of these loans have embedded floors which will limit the decline in yield when interest rates are low). According to its own sensitivity analysis, a 100bp rate cut would reduce the bank's NII by 4% over NTM (peer avg.: -1.5%). However, TCBI's NIM has not expanded as much as expected this cycle (nor as much as it had between 2016-19), primarily due to more aggressive deposit pricing (including higher cost of Mortgage Finance deposits). We think it is likely this may provide TCBI with some downside support... depending on how much rates are cut.

Reported Mortgage Finance (MF) yields have declined 27bp cycle-to-date (vs. +62bp during 2016-19), despite the majority of portfolio tied to 1mo SOFR. Reason being, overall Mortgage Finance interest income is net of interest paid on associated deposits held in non-interest-bearing accounts (similar to an earnings credit rate). As loan volumes decrease, as we've seen thus far, the reported yield would also decline as deposits remain flat or grow. (See: [Refining mortgage finance forecast 20 Nov 2023](#)). However, given TCBI's muted NIM expansion as rates were rising, we believe the magnitude of NIM compression – when compared to previous cycles – may be diminished when rates are cut.

Assuming the historical relationship between loan yields and interest rates remains constant, we estimate TCBI's NII/NIM breaks even (i.e., current interest income trajectory = “normal” interest income trajectory) after the Fed cuts rates by ~240bp, all else equal. Once interest rates reach these levels, we would expect the pace of headwinds (relative to history) to abate/reverse.

## Exhibit 1: Lower MF yields today offer loan yield support tomorrow (rate dependent)

Loan yield sensitivity analysis



Source: BofA Global Research estimates

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12641077

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04 January 2024

## Equity

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## Stock Data

Price	61.15 USD
Price Objective	50.00 USD
Date Established	14-Dec-2023
Investment Opinion	B-3-9
52-Week Range	42.79 USD -69.27 USD
Mrkt Val / Shares Out (mn)	2,805 USD / 45.9
Free Float	98.1%
Average Daily Value	33.37 USD
BofA Ticker / Exchange	TCBI / NAS
Bloomberg / Reuters	TCBI US / TCBI.OQ
ROE (2023E)	6.6%
ESGMeter™	Medium

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## Acronyms:

MF: Mortgage Finance

NII: net interest income

NIM: net interest margin

SOFR: Secured Overnight Financing Rate

NTM: Next Twelve Months

## Related research:

[US Banks: 2024 Stock Picks: Prepare for an overshoot 04 January 2024](#)

## Price objective basis & risk

### Texas Capital Bancshares Inc. (TCBI)

Our \$53 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e tangible book value (TBV). We assigned 10.8x/1.0x multiples, respectively, below relative history (16.3x/1.7x) due to limited EPS visibility.

Upside risk: stronger than expected balance sheet growth, quicker return to profitability and greater NIM expansion relative to peers Downside risk: higher than expected expense growth, accelerated credit migration, slower balance sheet growth.

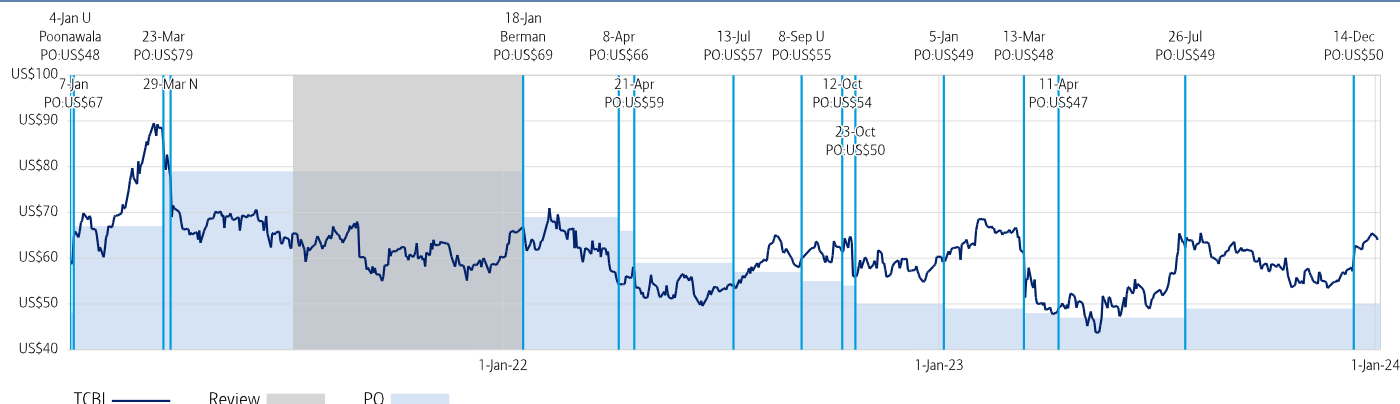
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# Disclosures

## Important Disclosures

### Texas Capital Bancsh (TCBI) 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 <sup>R1</sup>	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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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