



First Horizon National (NYSE: FHN)

Investment Proposal

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<div>LISTING</div> <div>NYSE</div>	<div>SECTOR</div> <div>Financial Services</div>	<div>INDUSTRY</div> <div>Banking</div>	<div>CURRENT PRICE</div> <div>\$9.75</div>
<div>REVENUE</div> <div>\$1.82B</div>	<div>MARKET CAP</div> <div>\$5.38B</div>	<div>BETA</div> <div>10.45</div>	<div>PE RATIO</div> <div>7.06</div>

Founded by Frank S. Davis in 1864 and headquartered in Memphis, TN, First Horizon National Corp. operates as a financial holding company. It offers checking accounts, savings products, mortgage banking, lending, and financing to individuals and businesses through four segments:

Regional Banking

- Financial products and services, including traditional lending and deposit taking, to retail and commercial customers

Fixed Income

- Financial services for institutions through the sale and distribution of fixed income securities, loan sales, portfolio advisory services, and derivative sales.

Corporate:

- Consists of unallocated corporate expenses, expense on subordinated debt issuances, bank owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, tax credit investment activities, gains on the extinguishment of debt, acquisition-related costs, and various charges related to restructuring and repositioning

Non-Strategic

- Includes wind down of national consumer lending activities, loan portfolios, service lines and other discontinued products

Industry Analysis

- Higher loan loss provisions than European Banking Industry -> more resilient in case of mass default
- Increased volatility bolstered US Bank fixed-income trading revenues
- American Banks reported net income of \$26billion in Q2 = the industry remains resilient
- Much higher investment into new technologies than European Banks

Company Analysis

- Trading 20.9% below estimate of fair value, PE ratio at 10.4x = undervalued
- High predicted earnings growth > 30%, PEG ratio 0.3 = good future growth prospects
- Great financial health, high and stable dividends of 6.17%
- focused on CRS and ESG, built strong consumer base in Tennessee
- Merger with Iberiabank increased company size, could lead to accelerated growth and create shareholder value

Competitor Analysis

- Merger with Iberia bank will give FHN a greater asset base, enabling it to become more competitive with its competitors
- Greater Net Margin and lower D/E ratio indicate the company is performing more efficiently than its competitors

Past Performance

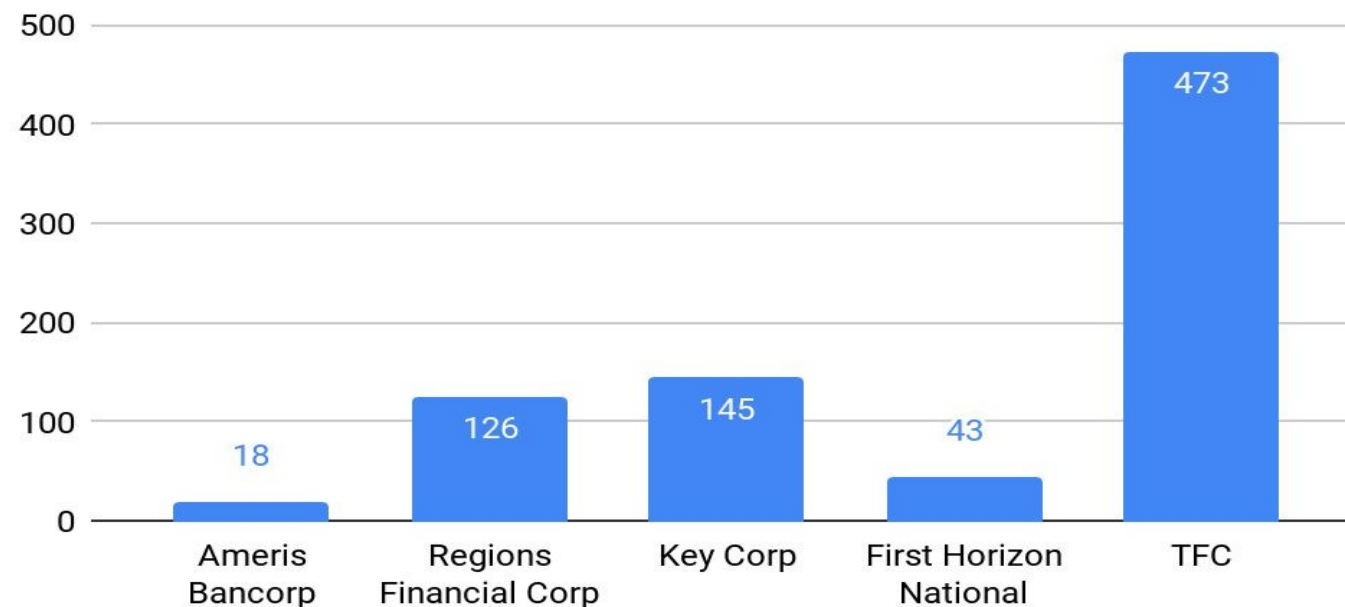
- Company has underperformed an index tracking 387 bank securities primarily due to its smaller capital base making it more difficult to compete
- However, it has been moving in line with the index, and occasionally outperforming it, since its merger and its acquisition of new branches were successfully confirmed in June/July
- The company is primarily undervalued as a result of the coronavirus crisis and its proactives merger and acquisitions show it is responding positively and preparing itself for sustained growth

- The overall US markets remain favourable for investors following Powell's speech at Jackson Hole where he promises to allow more inflation in exchange for stronger economic growth. Institutions such as HSBC and Blackrock are overweight on US equities.
- American banks set aside much more capital for loan loss provisions compared to their European competitors with JP Morgan, Wells Fargo, Citi and Bank of America accounting for a total of \$57 billion. This means that the US Banking industry is more likely to be resilient in event of a wave of defaults.
- Since the market crash in March, there has been a huge spike in market volatility as investors scramble to rebalance their portfolios. This was good news for the US Banking industry as it leads to high trading revenues from FICC market making fees. Morgan Stanley, Goldman Sachs and JP Morgan each doubled their fixed income revenues in Q2. US Banks raked in \$40bn in revenue which helped them offset their losses from loan loss provisions. High volatility is likely to continue in the second half of the year.
- The US Banking industry proved to be resilient in poor macroeconomic conditions as American Banks bagged \$26bn in net income in Q2 with Morgan Stanley increasing their CET1 capital by 6%. Cost cutting schemes including mass layoffs could help bolster profits in the coming months.
- The industry has seen a recent shift of focus from short term gains to long term sustainability as American banks invest heavily into ESG assets. Banks begin to take on more responsibility in tackling socioeconomic issues such as climate change and social equity with Goldman Sachs setting up its Fund for Racial Equity. This could increase trust for the Banking industry among US consumers.
- In 2020 US Banks are forecasted to spend 40% on new technology investment as a percentage of bank's IT spendings compared to only 29% for European Banks, up from 27% in 2015. This demonstrates the determination of the US Banking industry to gain a competitive edge over its global peers in terms of technology. (Source: Celent Research, Wall Street Journal "Technology is bank's new battleground")

- The current value of FHN is US\$ 9.72, below the estimate of fair value given by DCF model of US\$12.28 while FHN's P/E ratio is in line with the US Banking industry at 10.4x, significantly lower than 19.3x for the overall US market. This means that the company is undervalued and offers potential for upwards correction.
- Predicted earnings growth for FHN is high at 30.3% for the next 1-3 years, this beats the predictions for the US market at 23.4% as well as the US Banking industry at 27.2%. This strong future performance predicted is supported by a PEG ratio of 0.3 which far exceeds the common view that a good PEG ratio should be below 1
- FHN has incredible financial health: Assets to Equity ratio is low at 9.3%, FHN has a large 232% allowance for bad loans the level of which is only 0.7% making it resilient to defaults. Out of its liabilities 87% of FHN's liabilities are made up of primarily low risk sources of funding. Its Loans to Assets ratio is 66% and Loans to Deposits ratio is 85% both of which are considered healthy.
- FHN offers attractive dividend yields which stand currently at 6.17%, far higher than the industry average of 3.5%. Furthermore FHN dividends have been stable and increased in the last 10 years. It's dividends will likely continue to be stable as a payout ratio of 62.2% means that its dividends are well covered by earnings, this figure is estimated to drop to 44% in 2023
- First Horizon National has a strong customer base in Tennessee by focusing on CSR (Corporate Social Responsibility) eg recycling over 1 million lb of paper, giving out \$11 million in grants in 2019 and investing \$268 million in low to moderate income homeownership. (Source: First Horizon National Here For Good 2019 by the numbers)
- FHN acts on ESG (Environmental, Social and Corporate Governance) by supporting 650 organisations, its staff has over 35% diverse representation and its Executive Management Committee is made up of over 30% females.
- Merger with IBERIABANK Corporation resulting in a combined company with \$79 billion in assets and \$60 billion in deposits and \$58 billion in loans as of March 31, 2020. First Horizon's President and CEO Bryan Jordan claims that the enhanced scale and expertise will accelerate growth and create long-term shareholder value.

Overview of Competitors

2019 Total Assets By Corporation (\$B)



Truist Financial Corp:

- Engages in the provision of banking services to individuals, businesses and municipalities by offering a variety of loans and lease financing to individuals and entities
- Markets a range of services, including deposits, life insurance, property and casualty insurance, health
- Engages in the provision of banking services to individuals, businesses and municipalities.
- Company operates through the following segments: Consumer Banking and Wealth; Corporate and Commercial Banking; and Insurance Holdings

Ameris Bancorp:

- Bank holding company, which through the subsidiary, Ameris Bank, engages in the provision of banking services to its retail and commercial customers
- Operates five business segments: Banking, Retail Mortgage, Warehouse Lending, the SBA and Premium Finance

Regions Financial Corp:

- Provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing.
- Company operates through the following segments: Corporate Bank, Consumer Bank, and Wealth Management.

Key Corp:

- Company operates through the following segments: Consumer Bank and Commercial Bank.
- Consumer Bank offers deposit and investment products, personal finance services, lending, mortgage and home equity, etc while the Commercial Bank segment engages serves middle market clients in multiple sectors

Name	'19 Revenue (\$B)	'19 Net Income (\$B)	Debt/Equity	ROE	ROA	P/E	Forward P/E	Net Margin	NLTA	Market Cap (\$B)
Ameris Bancorp	0.92	0.13	0.63	6.71	0.85	13.66	8.53	14.62	72%	1.7
Regions Financial Corp	5.84	1.5	0.4	4.18	0.48	17.51	20.2	11.05	61%	11.10
Key Corp	6.37	1.62	0.99	7.22	0.7	11.1	15.11	17.26	62%	12.02
Truist Financial	12.57	3.03	0.76	7.37	0.9	12.77	14.16	18.36	62%	52.30
Average	6.43	1.57	0.70	6.37	0.73	13.76	14.5	11.05	64%	19.28
FHN	1.82	0.43	0.46	6.31	0.64	10.45	10.92	15.22	66%	5.28

- First Horizon National has kept pace with its competitors despite having a smaller asset base
 - FHN derives most of its revenues from the loan market as its Regional Banking Segment makes up almost 65% of revenue
 - Its confirmed merger with Iberia bank will give it access to ~\$30 billion in new assets, allowing it to maintain its Net Loan to Assets Value (NLTA) while increasing its loan volume
 - Provision for Credit Losses were also increased to cover the potential economic fallout from the pandemic but the figure still remains healthy
 - Beyond that, the Fed has announced its intention to keep rates low in order to stimulate economic activity
- FHN has a much better Net Margin on average than its competitors indicating it is able to control its expenses while delivering higher revenue
- Healthier, on average, D/E ratio than its peer group indicates it is utilizing its funding base better than its peers, even though it is marginal
 - Also indicates the company is not too heavily leveraged
- There does remain quite a lot of concern about its modest ROA, ROE, and Forward P/E values but it is our opinion that the synergies from their merger, as well as the acquisition of new branches from SunTrust, will help it deliver greater returns in the long run



- BANK is a NASDAQ index used to track the overall performance of the banking industry
- FHN's greatest value is that it is overlooked in the market in comparison to the biggest banks
 - It has grown slower than the index despite efficiently delivering strongly with a smaller capital base (Upper Graph)
- The merger with IBERIA Bank has given it the necessary capital base to scale up its operations while maintaining efficiency
 - The merged institution will have \$75 billion in assets, \$57 billion in deposits and \$55 billion in loans across 11 states
 - Since it was confirmed in June/July, the company has been moving more in line with the index (Lower Graph)
 - Its acquisition of SunTrust branches also added approximately \$440 million in loans and \$2.3 billion in deposits
- The company is undervalued as a result of the coronavirus crisis and its proactive merger and acquisition show it is responding positively and preparing itself for sustained growth
 - Its cheaper price of ~\$10 also makes it an attractive and cheaper buy than most bank stocks



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