



Company:	<u>Cadence Bancorp</u>
Ticker:	CADE
P/E:	-3.67
Industry & Sector:	Banking
Industry P/E:	12.04
Current Price:	\$12.11
Target Price:	\$46.47
Buy/Hold/Sell:	HOLD

Company Summary:

Founded in 2009, Cadence Bancorporation is a regional financial holding company headquartered in Houston, Texas that operates under the subsidiary “Cadence Bank, N.A.” This company operates 99 branch locations in Alabama, Florida, Georgia, Mississippi, Tennessee, and Texas, and serves a wide range of businesses from corporations and middle market companies, to small businesses and consumers. The bank provides several different services, like commercial & business banking, treasury management, specialized lending, asset-based lending, commercial real estate, SBA lending, foreign exchange, wealth management, investment and trust services, financial planning, retirement plan management, personal and business insurance, consumer banking, consumer loans, mortgages, home equity lines and loans, and credit cards. However, their focus is primarily on commercial & business banking. Cadence’s P/E ratio is -3.36, which means the company is currently losing money.

Industry Outlook:

Using data gathered from IBISWorld, we created a chart that shows the relationship between the 3 external drivers for regional banks. First, Aggregate household debt represents all outstanding credit market debt held by consumers, including credit card debt, mortgages, personal loans and more. This generally rises when consumers are optimistic about the economic future and vice versa. It impacts our holdings through a macro-economic effect: when household debt increases, output growth stalls, unemployment rises, and there becomes a greater probability of a future banking crisis in the form of massive default risk regardless of the mix of loans a bank has. Secondly, the Prime Rate (represented by the green line) is typically set near the federal funds rate which is the interest rate charged by banks for loaning excess funds to banks needing to meet reserve requirements. This impacts our holdings as they should have a significantly lower Net Interest Margin on their loans that will be refinanced during this time of economic distress. Meanwhile, the current prime rate is 3.25% compared to 5.00% a year ago. So, as the prime rate falls, the banking sector as a whole will end up with lower Net Income. Finally, the 30-Year fixed rate mortgage is the most common type of loan for home buying in the U.S. This is represented in all of our holdings as they all have some portion of mortgage loans outstanding. As COVID-

19 took its toll on the U.S. in the first half of this year, unemployment skyrocketed leading to increased risk of default. In an attempt to save higher risk loans from default, banks have been willing to renegotiate outstanding loans with lower interest rates and delaying payments. Our forward projection shows that there will be minimal percentage change in the prime rate and 30-year conventional mortgage rate. Leading us to believe that the economic recovery from COVID-19 will rely on consumer aggregate household debt to remain low. However, this does not mean that consumers should stop spending and save. Simply, this means that consumers should refrain from overextending credit on large purchases.

Fiscal year is January-December. All values USD Thousands.	2015	2016	2017	2018	2019	2020	2021	2022	2023		
Interest Income	293,067	335,250	396,867	512,666	860,076	885,018	910,684	937,094	964,269	ST Growth Rate	2.90%
Interest and Fees on Loans	272,434	305,553	359,308	470,144	796,285	812,316	833,735	858,679	885,694	LT Growth Rate	3.50%
Other Interest or Dividend Income	20,633	29,697	37,559	42,522	63,791	72,702	76,949	78,415	78,575	Forward PE Ratio	27.55
Interest Income Growth	2.03%	14.39%	18.38%	29.18%	67.77%					Cost of Equity	7.13%
Total Interest Expense	45,289	55,811	70,651	124,925	208,903	174,455	187,270	200,040	212,678	Market Price	\$ 11.74
Interest Expense on Bank Deposits	25,821	35,446	49,899	100,447	188,078	129,862	144,307	158,374	171,410		
Other Interest Expense	19,468	20,365	20,952	24,478	20,825	44,592	42,963	41,666	41,268		
Interest Expense on Debt	19,468	20,365	20,952	24,478	20,825	44,592	42,963	41,666	41,268		
Total Interest Expense Growth	40.83%	23.23%	26.59%	76.82%	67.22%						
Net Interest Income	247,778	279,439	326,216	387,741	651,173	710,564	723,414	737,053	751,592		
Net Interest Income Growth	-2.87%	12.78%	16.74%	18.86%	67.94%						
Loan Loss Provision	35,984	49,348	9,735	12,700	111,027	79,364	75,635	65,806	76,527		
Loan Loss Provision Growth	154.88%	37.14%	-80.27%	30.46%	774.23%						
Net Interest Income after Provision	211,794	230,091	316,481	375,041	540,146	631,200	647,779	671,247	675,065		
Net Interest Inc After Loan Loss Prov Growth	-12.11%	8.64%	37.55%	18.50%	44.02%						
Net Interest Margin	-	-	-	-	4%						
Non-Interest Income	76,147	84,749	96,542	92,394	95,174	185,281	181,460	176,689	171,262		
Securities Gain	1,171	3,736	-146	-1,853	2,018	2,390	2,224	657	882		
Trust Income, Commissions & Fees	72,330	74,259	82,674	84,331	83,409	166,047	160,062	156,156	152,647		
Trust Income	15,800	16,109	19,264	17,760	18,066	36,489	35,238	34,506	33,247		
Commission & Fee Income	56,530	58,150	63,410	66,571	65,343	129,557	124,845	121,650	119,400		
Other Operating Income	4,147	6,754	14,014	9,918	9,747	17,750	19,341	20,106	18,017		
Non-Interest Expense	223,343	213,567	225,648	249,342	357,971	508,049	488,534	483,849	487,805		
Labor & Related Expense	128,287	128,468	142,618	158,705	213,874	307,715	300,251	298,931	299,816		
Equipment Expense	29,781	21,264	19,938	12,867	46,296	52,076	45,795	44,661	45,458		
Operating Provisions	656	-1,454	-2,232	-2,244	-3,764	-3,709	-4,172	-4,339	-4,273		
Depreciation & Amortization	9,834	6,718	8,983	17,611	2,163	20,018	18,607	19,220	19,368		
Other Operating Expense	56,117	58,571	56,341	62,403	99,402	131,947	128,053	129,376	127,436		
Operating Income	64,598	101,273	187,375	218,093	277,349	308,432	340,705	364,087	358,521		
Operating Income Growth	-17.83%	56.77%	85.02%	16.39%	34.79%						
Operating Income Margin	-	-	-	-	29.03%						
Unusual Expense	5,233	2,959	4,376	6,715	30,105	15,189	15,503	17,488	19,468		
Pretax Income	59,365	98,314	182,999	211,378	262,301	296,342	329,029	351,323	344,887		
Pretax Income Growth	-16.26%	65.61%	86.14%	15.51%	24.09%						
Pretax Margin	-	-	-	-	27.46%						
Income Taxes	20,109	32,540	80,646	45,117	60,343	93,290	102,697	108,618	94,933		
Income Tax - Current - Domestic	23,037	26,560	36,257	40,653	48,503	68,125	69,804	71,346	70,479		
Income Tax - Deferred - Domestic	-2,928	5,980	44,389	4,464	11,840	25,164	32,893	37,273	24,454		
Other After Tax Income (Expense)	-	-	-	-197	-683	-521	-537	-552	-568		
Consolidated Net Income	39,256	65,774	102,353	166,064	201,275	202,844	226,075	242,387	249,562		
Net Income	39,256	65,774	102,353	166,064	201,275	202,844	226,075	242,387	249,562		

Capex	(\$11,125)	(\$5,356)	(\$6,428)	(\$10,698)	(\$12,960)	(\$18,775)	(\$16,269)	(\$17,095)	(\$17,985)			
Depreciation	\$9,834	\$9,718	\$8,983	\$17,611	\$2,163	\$20,018	\$18,607	\$19,220	\$19,368			
Change in Noncash working capital	\$13,319	(\$14,920)	\$14,444	(\$29,021)	\$813	(\$3,244)	(\$12,283)	(\$8,826)	(\$15,447)			
New Debt Issued	\$412,862	(\$372,424)	\$137,932	\$80	(\$126,438)	\$88,250	(\$147,616)	\$25,924	(\$35,016)			
Debt repayments	\$0	(\$78)	(\$9,600)	\$0	(\$134,922)	(\$32,080)	(\$39,624)	(\$48,885)	(\$55,688)			
Preferred Stock Dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
FCFE	\$459,758	(\$279,578)	\$250,852	\$223,474	\$224,069	\$365,221	\$165,242	\$360,336	\$323,044			
				Valuation	\$209,157	\$318,226	\$134,397	\$273,569	\$228,934	TV		
As a Function of Interest Income								Price Per Share	Number of Shares	Multi-Stage valuation	% Over/Under Valuation	
								\$6,527,891	61.07	125,983,000	\$7,692,173,993	420.16%

Sensitivity Analysis							
Cost of Equity	\$	46.47	ST Growth Rate				
			0.90%	1.90%	2.90%	3.90%	4.90%
		5.13%	\$ 94.03	\$ 97.87	\$ 101.83	\$ 105.91	\$ 110.10
		6.13%	\$ 58.89	\$ 61.23	\$ 63.64	\$ 66.11	\$ 68.66
		7.13%	\$ 43.10	\$ 44.76	\$ 46.47	\$ 48.22	\$ 50.03
		8.13%	\$ 34.11	\$ 35.38	\$ 36.69	\$ 38.04	\$ 39.43
		9.13%	\$ 28.30	\$ 29.33	\$ 30.38	\$ 31.47	\$ 32.59