



COMPANY UPDATE/ ESTIMATES CHANGE/  
TARGET PRICE CHANGE/ RATING CHANGE

**Banks**

Analyst: Andrew W. Stapp  
502-588-4190 / [astapp@hilliard.com](mailto:astapp@hilliard.com)  
Institutional Sales Desk: George Moorin  
502-588-9141 / [gmoorin@hilliard.com](mailto:gmoorin@hilliard.com)  
J.J.B. Hilliard, W.L. Lyons, LLC  
July 21, 2017

**Key Metrics**

BBT - NYSE (as of 07/20/17)	\$46.26
Price Target	\$51.00
52-Week Range	\$36.19-\$49.88
Shares Outstanding (mm)	808.1
Market Cap. (\$mm)	\$37,382
3-Mo. Average Daily Volume (000)	3,712.6
Institutional Ownership	66.0%
Tangible Equity / Tangible Assets	9.5%
ROE	8.3%
Tangible Book Value Per Share	\$20.86
Price/Tangible Book Value	221.8%
Dividend Yield	2.6%
Price/LTM Earnings	17.3x

**Operating EPS CY 12/31**

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.65	\$0.78A	\$0.78A	\$0.86	\$0.89
2Q	\$0.71	\$0.76	\$0.78A	\$0.90	\$0.94
3Q	\$0.77	\$0.77	\$0.79	\$0.92	\$0.97
4Q	\$0.73	\$0.80	\$0.81	\$0.98	\$1.00
Year	\$2.86	\$3.10	\$3.17	\$3.67	\$3.79
P/E	16.2x		14.6x		12.2x

Numbers may not add due to rounding

**Common Dividends**

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.27	\$0.30A	11.1	\$0.33
2Q	\$0.28	\$0.30A	7.1	\$0.33
3Q	\$0.30	\$0.33	10.0	\$0.36
4Q	\$0.30	\$0.33	10.0	\$0.36
Year	\$1.15	\$1.26	9.6	\$1.38

**Company Description** – BB&T Corporation is one of the largest commercial banking organizations in the U.S. with its community banking operations focusing on the Southeast, Mid-Atlantic, Mid-West and Southwest regions of the country, while other operations are scattered across the country. In addition to traditional retail and commercial banking services, BBT offers insurance, mortgage banking, investment banking, securities brokerage and wealth management services. BB&T Insurance Holdings is the fifth largest distributor of insurance products in the U.S..

**BB&T Corporation**

BBT -- NYSE -- Neutral -- 1

**Reports \$0.02 Beat; Downgrading to Neutral on Valuation**

- **Earnings Results:** Excluding merger-related expenses of \$0.01, BBT reported 2Q17 operating EPS of \$0.78, which beat our estimate and the Street consensus of \$0.76.
- **Positive Highlights:** Net interest income rose 1.6% linked-quarter (LQ) to \$1.64 billion on one bp of net interest margin (NIM) expansion to 3.47%, a 0.4% rise in average earning assets and an extra day in the quarter. We had projected net interest income of \$1.62 billion and a 3.45% margin.

Noninterest income advanced 4.2% LQ to \$1.22 billion primarily on a seasonal 5.5% increase in insurance income. Results were in line with our projection.

Loans were up 0.7% LQ on an end-of-period basis, while average loans increased 1.4%.

The provision for loan losses fell \$13 million LQ to \$135 million. The net charge-off ratio and Nonperforming Assets/Assets both dropped five bps to 0.37% and 0.31%, respectively. We had modeled a provision of \$155 million and net charge-offs of 42 bps.

- **Negative Highlights:** Operating noninterest expense rose 3.5% sequentially to \$1.73 billion largely on a 3.1% increase in personnel expense, which was impacted by merit pay increases and performance comp. Results were slightly above our estimate of \$1.72 billion.
- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$3.17 and \$3.79 from \$3.10 and \$3.67, respectively. We are raising our 12-month price target by \$2.00 to \$51.00. With the advance in BBT's share since releasing Q1 results, we are reducing our rating to Neutral from Long-term Buy. Our downgrade is based solely on valuation as we believe BB&T's fundamentals are strong.

**Note Important Disclosures on pages 5 and 6**  
**Note Analyst Certification on page 5**

**OTHER TAKEAWAYS & VALUATION**

- Excluding purchase accounting accretion, the core NIM rose three bps to 3.31%.
- BB&T noted that it is still seeing a high level of optimism among their business clients. This is evidenced by strong loan pipelines and the community banking division recorded its strongest quarterly commercial production ever in 2Q17.
- The company indicated that it plans to close more than 130 branch offices, up from its previous estimate of 100+.
- Delinquencies showed improvement with loans past due 90+ days and still accruing falling 9.0% since 1Q17 and the 30-59 day category registering a decline of 8.6%.
- Management noted that compliance efforts regarding BSA/AML is substantially complete. Consequently, it expects associated costs will moderate.
- BBT indicated that insurance pricing is showing signs of stabilization. As a result, it believes that core growth in insurance income could rise to ~2% from its current rate of 1% by year-end.
- Management provided the following 3Q17 guidance:
  - The core NIM is expected to remain stable LQ, while the GAAP margin is expected to be down 1-3 bps LQ due to the impact of purchase accounting.
  - Annualized sequential growth in total average loans of 1%-3%.
  - Nonperforming Assets/Assets are expected to remain flat LQ, while the net charge-off ratio should range between 35-45 bps.
  - Net interest income should be stable versus Q2.
  - Noninterest income and expense should increase 1%-3% and 0%-2% year-over-year, respectively.
- The company returned 63.8% of 2Q17 earnings through dividends and share repurchases. BBT's CCAR results confirm a total payout ratio in excess of 100% for the upcoming four quarters. The company increased its dividend by 10% to \$0.33 per quarter and announced a \$1.88 billion share buyback program. Management expects to repurchase up to \$920 million of shares in 3Q17.
- Our price target is derived through our discounted dividend model and the application of a 12.7X forward multiple to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

**SUITABILITY**

Our suitability rating on BBT is 1 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

**RISK FACTORS**

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Regulatory** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders. Moreover, the company is one of the largest commercial banking organizations in the nation and, accordingly, is subject to greater regulatory scrutiny compared to smaller financial institutions.
- **Real Estate** – A significant percentage of the company’s loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company’s competitors have greater resources.
- **Sector Rotation** – The share price of the company’s common stock may be vulnerable to any sector rotation that might occur.
- **Other** – Please see the company’s financial statements for a further discussion of risks and considerations.

	BB&T CORPORATION							BBT: NEUTRAL			
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 A	3Q17 E	4Q17 E	2016 A	2017 E	2018 E
\$Millions, Except for Per Share Data <b>Balance Sheet Data:</b> Average Assets 210,102 223,399 222,065 220,165 219,961 221,018 224,333 227,133 239,688 Average Loans 134,381 141,146 141,266 142,339 142,012 143,074 144,798 146,246 153,732 End-of-Period Loans 136,671 144,711 145,112 145,038 143,896 145,116 146,865 148,627 155,006 Earning Assets 183,612 194,822 193,909 192,574 192,564 193,386 196,287 196,470 202,569 Average Deposits 155,103 159,821 159,811 160,751 160,823 161,465 163,682 165,521 174,756 Average Common Equity 25,076 26,519 26,824 26,962 26,807 27,208 27,190 27,066 27,054											
<b>Statement of Operations:</b> FTE Net Interest Income 1,568 1,657 1,650 1,606 1,649 1,675 1,707 1,709 1,705 Net Interest Income 1,529 1,617 1,610 1,565 1,609 1,635 1,666 1,668 1,686 Provision for Credit Losses 184 111 145 129 148 135 157 158 158 Non-Interest Income: Insurance income 419 465 410 419 458 481 416 427 418 Service charges on deposits 154 166 172 172 168 176 175 175 174 Mortgage banking income 91 111 154 107 103 94 109 99 463 Investment banking and brokerage 97 102 101 108 91 105 115 118 457 Bankcard fees and merchant discounts 56 60 61 60 59 75 69 69 272 Trust and investment advisory revenues 62 67 68 69 68 70 71 72 283 Other income 92 159 198 226 224 219 232 233 908 Securities Gains 45 0 0 1 0 0 0 0 0 Total Non-Interest Income 1,016 1,130 1,164 1,162 1,171 1,220 1,187 1,194 4,945 Non-Core Adjustment -45 0 0 -1 0 0 0 0 0 Adjusted Non-Interest Income 971 1,130 1,164 1,161 1,171 1,220 1,187 1,194 4,945 Non-Interest Expense: Personnel expense 915 1,039 1,006 1,004 1,011 1,042 1,027 1,021 4,210 Occupancy and equipment expense 191 194 203 198 193 198 196 194 788 Loan-related expense 32 36 33 33 -6 30 36 33 132 Professional services 22 26 27 27 27 38 27 27 114 Software expense 51 53 63 57 58 57 57 57 232 Other expense 220 231 197 236 234 250 235 235 955 Total Non-Interest Expense 1,545 1,797 1,711 1,668 1,711 1,742 1,686 1,679 6,865 Non-Core Adjustment -22 -92 -43 -13 -428 -10 0 0 -438 Adjusted Non-Interest Expense 1,523 1,705 1,668 1,655 1,674 1,732 1,686 1,679 6,865 Operating Pretax Income 793 931 961 942 958 988 1,011 1,025 3,982 Operating Common Net Income 512 602 630 600 643 637 646 655 2,581											
<b>Share &amp; Per Share Data:</b> Diluted EPS 0.67 0.66 0.73 0.72 0.46 0.77 0.79 0.81 3.79 Operating EPS 0.65 0.71 0.77 0.73 0.78 0.78 0.79 0.81 3.79 Dividends Per Share 0.27 0.28 0.30 0.30 0.30 0.30 0.33 0.33 1.38 Tangible Book Value 20.36 19.75 20.31 20.18 20.33 20.86 21.00 21.16 22.42 Common Shares Outstanding 782,379 814,500 811,424 809,475 811,370 808,093 798,193 788,293 754,967 Average Diluted Shares 790,176 823,682 823,106 821,971 822,719 819,389 813,552 803,652 780,500											
<b>Key Financial Statistics:</b> Return on Assets 1.09% 1.05% 1.16% 1.17% 0.77% 1.23% 1.23% 1.23% 1.35% Return on Equity 8.41% 8.16% 8.93% 8.78% 5.64% 9.30% 9.42% 9.60% 10.97% Net Interest Margin 3.43% 3.41% 3.39% 3.32% 3.46% 3.47% 3.45% 3.45% 3.48% Operating Non-Int. Inc./Operating Rev. 38.84% 41.14% 41.96% 42.59% 42.12% 42.73% 41.61% 41.71% 42.04% Efficiency Ratio 58.37% 59.20% 58.10% 58.11% 58.09% 59.40% 57.83% 57.39% 58.45% Tangible Common Ratio 7.84% 7.61% 7.77% 7.82% 7.85% 8.00% 7.83% 7.69% 7.69% Reserves/Loans 1.09% 1.04% 1.03% 1.03% 1.03% 1.02% 1.02% 1.01% 1.01% NCOs/Average Loans 0.46% 0.27% 0.37% 0.42% 0.42% 0.37% 0.40% 0.40% 0.45%											
<b>YOY Change-BPS</b> 2016 A 2017 E 2018 E 5.2% 3.2% 5.5% 5.6% 2.7% 5.1% 5.9% 2.5% 4.3% 10.8% 1.8% 5.6% 7.8% 3.0% 5.6% 9.0% 0.4% 0.0% 12.9% 4.0% 4.7% 13.0% 4.1% 4.7% 36.5% 5.0% 25.7% 7.3% 4.1% 2.0% 5.2% 4.4% 3.0% 1.8% -12.4% 3.0% 2.5% 5.1% 6.5% 8.7% 14.8% 4.0% 10.8% 5.9% 8.2% 39.5% 34.5% 4.7% -1633.3% -100.0% NA 11.3% 6.7% 3.6% -258.6% -100.0% NA 9.3% 7.8% 3.6% 14.3% 3.5% 2.7% 11.0% -0.6% 0.9% -36.7% 38.9% 0.0% -21.5% 11.9% -3.4% 2.2% 2.2% 1.1% -45.3% 7.9% 0.1% 7.3% -4.8% -100.0% 10.5% 3.4% 1.4% 10.1% 9.8% 5.8% 12.4% 10.1% 14.6% 8.1% 2.2% 33.6% 3.8% 10.9% 19.7% 9.5% 9.6% 9.5% 1.8% 4.8% 6.0% 3.7% -2.6% -4.2% 7.6% 0.0% -4.2% YOY Change-BPS 4 0 23 21 (8) 248 6 7 2 (81) 86 (24) (59) (27) (136) 12 (14) (32) (4) (1) 0 4 1 6											

Source: Company reports and Hilliard Lyons estimates.

*Additional information is available upon request.*

### **Analyst Certification**

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

BB&T Corporation is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

### **Definitions of Ratings:**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

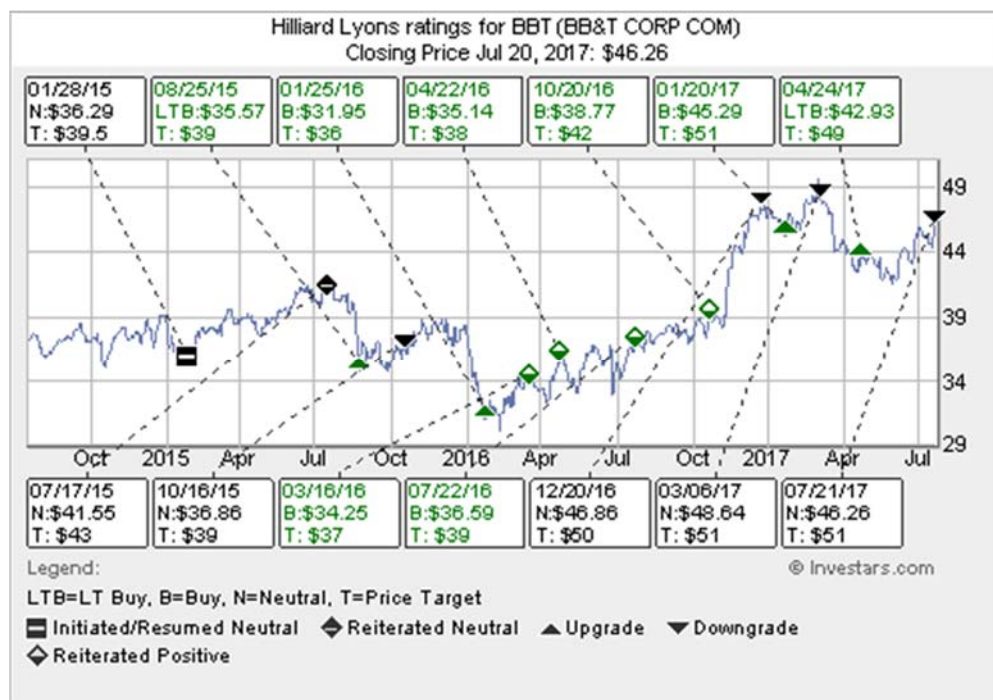
### **Definitions of Suitabilities:**

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	
Buy	36	29%	Banking: 14%, No Banking: 86%
Hold/Neutral	79	63%	Banking: 5%, No Banking: 95%
Sell	10	8%	Banking: 0%, No Banking: 100%

As of 7 July 2017

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.