



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

### Banks

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J.J.B. Hilliard, W.L. Lyons, LLC  
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### Key Metrics

BBT - NYSE (as of 10/19/17)	\$46.74
Price Target	\$50.00
52-Week Range	\$38.23-\$49.88
Shares Outstanding (mm)	788.9
Market Cap. (\$mm)	\$36,874
3-Mo. Average Daily Volume (000)	4,087.3
Institutional Ownership	65.7%
Tangible Equity / Tangible Assets	9.5%
ROE	8.3%
Tangible Book Value Per Share	\$20.78
Price/Tangible Book Value	224.9%
Dividend Yield	2.8%
Price/LTM Earnings	17.4x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.65	\$0.78A	\$0.78A	\$0.88	\$0.91
2Q	\$0.71	\$0.78A	\$0.78A	\$0.92	\$0.93
3Q	\$0.77	\$0.78	\$0.78A	\$0.94	\$0.96
4Q	\$0.73	\$0.80	\$0.78	\$0.98	\$0.96
Year	\$2.86	\$3.14	\$3.13	\$3.72	\$3.75
P/E	16.4x		14.9x		12.5x

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	\$0.33A	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. BBT Insurance is the fifth largest insurance broker in the world.

## BB&T Corporation

BBT -- NYSE -- Neutral -- 1

### 3Q17 Review; Reiterating Neutral Rating

- **Earnings Results:** Excluding merger-related and restructuring charges of \$0.04, BBT reported 3Q17 operating EPS of \$0.78, which was in line with our estimate and the Street consensus.
- **Positive Highlights:** Net interest income rose 0.7% linked-quarter (LQ) to \$1.65 billion as one bp of net interest margin (NIM) expansion to 3.48% and an extra day in the quarter more than offset a 0.2% dip in average earning assets. We had projected net interest income of \$1.67 billion and a 3.45% margin.

Operating noninterest expense declined 2.7% sequentially to \$1.69 billion largely on a 1.7% drop in personnel expense. Results were in line with expectations.

The provision for loan losses fell \$22 million LQ to \$126 million. Nonperforming Assets/Assets remained flat at only 0.31%, while the net charge-off ratio dropped two bps to 0.35%. We had modeled a provision of \$157 million and net charge-offs of 40 bps.

- **Negative Highlights:** Noninterest income declined 4.4% LQ to \$1.17 billion primarily on a 17.5% plunge in insurance income attributable to seasonality and lower performance-based commissions. Our estimate was \$1.19 billion.
- Loans were down 0.6% LQ on a period end basis, while average loans fell 0.3%.
- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$3.13 and \$3.75 from \$3.14 and \$3.72, respectively. We are raising our 12-month price target by \$1.00 to \$50.00. We reaffirm our Neutral rating.

**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 one bp to 3.32%.
- BB&T plans to increase its securities portfolio over the next quarter or two to provide sufficient liquidity in anticipation of more robust loan growth. This action will squeeze the NIM, but will enhance net interest income.
- The company indicated that insurance performance-based commissions were negatively impacted insurance income by \$9 million in Q3 as a result of recent hurricanes. However, it expects insurance carriers to increase pricing as a result of losses incurred from hurricane activity and other natural catastrophes.
- The company closed 61 branches during the quarter and has identified 78 branches that have a high probability of closing in 4Q17.
- Personnel expense declined \$18 million on a LQ basis. Management expects larger reductions in this line item in coming quarters.
- Management stated that compliance systems with regard to BSA/AML are in place and they are evaluating the effectiveness with their regulators.
- Loans 90 days or more past due and still accruing increased 2.4% million due to government guaranteed residential mortgages. Loans 30-89 days past due rose 12.9% largely as a result of seasonality and the impact of recent hurricanes.
- Management provided the following 4Q17 guidance:
  - The core and GAAP NIM are expected to decline 3-5 bps LQ
  - Total loans are expected to be down slightly vs. 3Q17
  - Net charge-off ratio should range between 40-50 bps
  - Net interest income should be stable versus Q3
  - Noninterest income should be up slightly year-over-year
  - Stable noninterest expense on a year-over-year basis
- The company returned 198.0% of 3Q17 earnings through dividends and share repurchases. The dividend payout ratio was 44%, while the rest of the payout reflected \$920 million in share repurchases. The remainder of the company's approved \$1.88 billion of share repurchases are expected to occur evenly through the next three quarters.
- Our price target is derived through our discounted dividend model and the application of a 12.7X forward multiple to our 4Q18-3Q19 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 A	4Q17 E	2015 A	2016 A	2017 E	2018 E	2016 A	2017 E	2018 E
\$Millions, Except for Per Share Data															
<b>Average Balance Sheet Data:</b>															
Assets	210,102	223,399	222,065	220,165	219,961	221,018	220,732	221,717	209,217	220,165	221,717	232,723	5.2%	0.7%	5.0%
Loans	134,381	141,146	141,266	142,339	142,012	143,074	142,691	142,548	134,813	142,339	142,548	149,583	5.6%	0.1%	4.9%
Earning Assets	183,612	194,822	193,909	192,574	192,564	193,386	193,073	194,002	172,542	191,209	193,265	199,512	10.8%	1.1%	3.2%
Deposits	155,103	159,921	159,811	160,751	160,823	158,839	158,398	159,979	149,179	160,751	159,979	168,545	7.8%	-0.5%	5.4%
Common Equity	25,076	26,519	26,824	26,962	26,807	27,208	26,857	26,760	24,736	26,962	26,760	27,121	9.0%	-0.7%	1.3%
<b>Statement of Operations:</b>															
FTE Net Interest Income	1,568	1,657	1,650	1,606	1,649	1,675	1,688	1,681	5,738	6,481	6,693	6,904	12.9%	3.3%	3.1%
Net Interest Income	1,529	1,617	1,610	1,565	1,609	1,635	1,647	1,640	5,592	6,321	6,531	6,736	13.0%	3.3%	3.1%
Provision for Credit Losses	184	111	145	129	148	135	120	150	417	569	553	712	36.5%	-2.8%	28.7%
Non-Interest Income:															
Insurance income	419	465	410	419	458	481	397	417	1,596	1,713	1,753	1,845	7.3%	2.3%	5.3%
Service charges on deposits	154	166	172	172	168	176	179	175	631	664	698	708	5.2%	5.1%	1.5%
Mortgage banking income	91	111	154	107	103	94	114	101	455	463	412	424	1.8%	-11.1%	3.0%
Investment banking and brokerage	97	102	101	108	91	105	103	110	398	408	409	425	2.5%	0.2%	4.0%
Bankcard fees and merchant discounts	56	60	61	60	59	75	70	70	218	237	274	285	8.7%	15.6%	4.0%
Trust and investment advisory revenues	62	67	68	69	68	70	68	69	240	266	275	289	10.8%	3.5%	5.0%
Other income	92	159	198	226	224	219	235	232	484	675	910	945	39.5%	34.8%	3.8%
Securities Gains	45	0	0	0	1	0	0	0	-3	46	0	0	-1633.3%	-100.0%	NA
Total Non-Interest Income	1,016	1,130	1,164	1,162	1,171	1,220	1,166	1,173	4,019	4,472	4,730	4,922	11.3%	5.8%	4.0%
Non-Core Adjustment	-45	0	0	-1	0	0	0	0	29	-46	0	0	-258.6%	-100.0%	NA
Adjusted Non-Interest Income	971	1,130	1,164	1,161	1,171	1,220	1,166	1,173	4,048	4,426	4,730	4,922	9.3%	6.9%	4.0%
Non-Interest Expense:															
Personnel expense	915	1,039	1,006	1,004	1,011	1,042	1,024	1,002	3,469	3,964	4,079	4,026	14.3%	2.9%	-1.3%
Occupancy and equipment expense	191	194	203	198	193	198	198	198	708	786	787	804	11.0%	0.1%	2.2%
Loan-related expense	32	36	33	-6	30	36	32	32	150	95	130	130	-36.7%	36.8%	0.3%
Professional services	22	26	27	27	22	38	27	27	130	102	114	110	-21.5%	11.9%	-3.4%
Software expense	51	53	63	57	58	57	62	60	192	224	237	244	16.7%	5.8%	2.9%
Other expense	220	231	197	236	234	250	247	250	1,617	884	981	1,016	-45.3%	11.0%	3.5%
Total Non-Interest Expense	1,545	1,797	1,711	1,668	2,102	1,742	1,745	1,677	6,266	6,721	7,266	6,755	7.3%	8.1%	-7.0%
Non-Core Adjustment	-22	-92	-43	-13	-428	-10	-47	0	-337	-170	-485	0	-49.6%	185.3%	-100.0%
Adjusted Non-Interest Expense	1,523	1,705	1,668	1,655	1,674	1,732	1,698	1,677	5,929	6,551	6,781	6,755	10.5%	3.5%	-0.4%
Operating Pretax Income	793	931	961	942	968	988	995	987	3,294	3,627	3,928	4,191	10.1%	8.3%	6.7%
Operating Common Net Income	512	602	630	600	643	637	632	626	2,085	2,344	2,538	2,929	12.4%	8.3%	15.4%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	0.67	0.66	0.73	0.72	0.46	0.77	0.75	0.78	2.57	2.78	2.76	3.75	8.1%	-0.6%	36.0%
Operating EPS	0.65	0.71	0.77	0.73	0.78	0.78	0.78	0.78	2.75	2.86	3.13	3.75	3.8%	9.5%	20.0%
Dividends Per Share	0.27	0.28	0.30	0.30	0.30	0.30	0.33	0.33	1.05	1.15	1.26	1.38	9.5%	9.6%	9.5%
Tangible Book Value	20.36	19.75	20.31	20.18	20.33	20.86	20.78	21.00	19.82	20.18	21.00	22.46	1.8%	4.1%	6.9%
Common Shares Outstanding	782,379	814,500	811,424	809,475	811,370	808,093	788,921	782,255	780,337	809,475	782,255	755,896	3.7%	-3.4%	-3.4%
Average Diluted Shares	790,176	823,682	823,106	821,971	822,719	819,389	806,124	797,154	757,415	814,673	811,347	780,563	7.6%	-0.4%	-3.8%
<b>Key Financial Statistics:</b>															
Return on Assets	1.09%	1.05%	1.16%	1.17%	0.77%	1.23%	1.23%	1.21%	1.08%	1.11%	1.11%	1.37%	4	(0)	26
Return on Equity	8.41%	8.16%	8.93%	8.78%	5.64%	9.30%	8.89%	9.27%	8.36%	8.57%	8.27%	10.86%	21	(29)	259
Net Interest Margin	3.43%	3.41%	3.39%	3.32%	3.46%	3.47%	3.48%	3.44%	3.33%	3.39%	3.46%	3.46%	6	7	(0)
Operating Non-Int. Inc./Operating Rev.	38.84%	41.14%	41.96%	42.59%	42.12%	42.73%	41.45%	41.70%	41.99%	41.18%	42.00%	42.22%	(81)	82	22
Efficiency Ratio	58.37%	59.20%	58.10%	58.11%	58.09%	59.40%	59.15%	58.39%	59.04%	58.45%	58.76%	56.78%	(59)	31	(198)
Tangible Common Ratio	7.84%	7.61%	7.77%	7.82%	7.85%	8.00%	7.81%	7.72%	7.71%	7.82%	7.72%	7.57%	12	(10)	(15)
Reserves/Loans	1.10%	1.06%	1.06%	1.04%	1.04%	1.03%	1.04%	1.03%	1.07%	1.04%	1.03%	1.00%	(3)	(1)	(3)
NCOs/Average Loans	0.46%	0.27%	0.37%	0.42%	0.42%	0.37%	0.36%	0.45%	0.35%	0.38%	0.40%	0.47%	4	2	7

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.

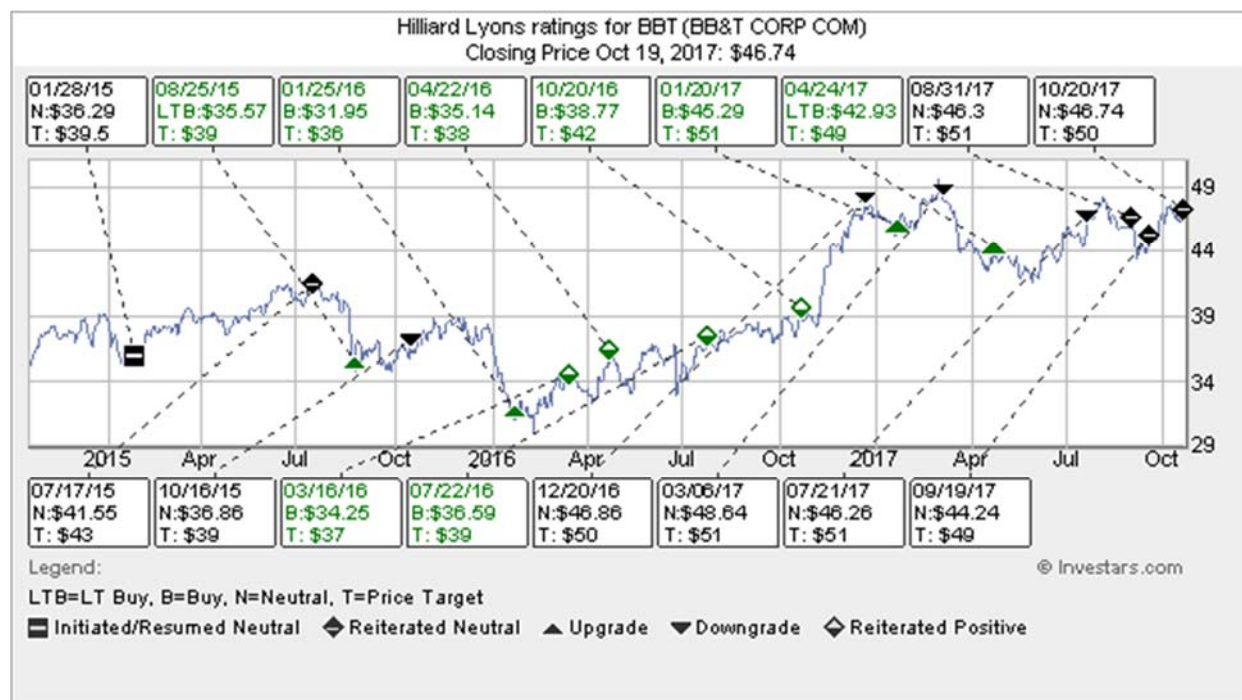
### **Definitions of Suitabilities:**

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	39	32%	8%
Hold/Neutral	74	60%	9%
Sell	8	7%	0%
Restriction	2	2%	100%
			92%
			91%
			100%
			0%

As of 5 October 2017

**Other Disclosures**

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