



## COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHANGE

### Key Metrics

HBAN - NASDAQ (as of 10/26/17)	\$13.88
Price Target	\$15.50
52-Week Range	\$10.07-\$14.74
Shares Outstanding (mm)	1,080.9
Market Cap. (\$mm)	\$15,004
3-Mo. Average Daily Volume (000)	8,036.9
Institutional Ownership	90.7%
Tangible Equity / Tangible Assets	9.5%
ROE	8.5%
Tangible Book Value Per Share	\$6.73
Price/Tangible Book Value	206.2%
Dividend Yield	3.2%
Price/LTMEarnings	16.7x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.21	\$0.21A	\$0.21A	\$0.26	\$0.26
2Q	\$0.21	\$0.26A	\$0.26A	\$0.28	\$0.27
3Q	\$0.23	\$0.25	\$0.25A	\$0.30	\$0.30
4Q	\$0.23	\$0.26	\$0.25	\$0.31	\$0.31
Year	\$0.87	\$0.98	\$0.97	\$1.15	\$1.14
P/E	16.0x		14.3x		12.2x

### Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.07	\$0.08A	14.3	\$0.11
2Q	\$0.07	\$0.08A	14.3	\$0.11
3Q	\$0.07	\$0.08A	14.3	\$0.13
4Q	\$0.08	\$0.11	37.5	\$0.13
Year	\$0.29	\$0.35	20.7	\$0.47

**Company Description** – Huntington Bancshares Incorporated (HBAN) is a commercial banking organization headquartered in Columbus, OH. The company's footprint encompasses Ohio, Michigan, western Pennsylvania, West Virginia and central and northern Indiana. In addition to traditional banking services, Huntington offers insurance, trust, wealth management, investment brokerage service, capital markets services and a large indirect auto lending business that extends outside of its retail branch network.

### Banks

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## Huntington Bancshares Incorporated

HBAN – NASDAQ – Buy – 2

### 3Q17 Review; Increasing Price Target to \$15.50; Maintaining Buy Rating

- **Earnings Results:** Excluding merger-related expenses of \$0.02, HBAN reported 3Q17 operating EPS of \$0.25, which was in line with our estimate and the Street consensus.
- **Positive Highlights:** Operating noninterest income was up 1.5% to \$330.1 million on a LQ basis on gains in a host of line items. We had projected noninterest income of \$321.3 million.  
End-of-period (EOP) loans increased 0.8% LQ, while average loans rose 1.4%.  
The provision for credit losses increased \$18.6 million LQ to \$43.6 million. The net charge-off ratio rose four bps to 0.25%. We had modeled a provision of \$60.3 million and net charge-offs of 0.25%.
- **Negative Highlights:** Net interest income increased 1.9% LQ to \$758.4 million as a 1.2% rise in average earning assets and an extra day in the quarter more than offset two bps of net interest margin compression to 3.29%. However, we had projected net interest income of \$770.0 million and a 3.32% margin.  
Operating noninterest expense rose 0.8% sequentially to \$649.4 million. We had projected noninterest expense of \$638.1 million.
- **Estimates:** We are modestly reducing our 2017 and 2018 operating EPS estimates by a penny each to \$0.97 and \$1.14, respectively. We are boosting our 12-month price target by \$0.50 to \$15.50 and retaining our Buy rating.

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

**OTHER TAKEAWAYS & VALUATION**

- HBAN maintained its guidance for full year 2017 revenue and average balance sheet growth in excess of 20%. However, it lowered EOP loan growth guidance to 3% to 4% from 4% to 6%. Factors contributing to the guidance reductions include aggressive underwriting and pricing by certain competitors, the lack of clarity regarding tax reform policies and payoff activity as commercial customers access the debt markets to lock in low current interest rates.
- The company expects 2017 net charge-offs to remain below its long-term expectations of 35-55 bps.
- The company completed \$123 million in share repurchases during the quarter.
- Purchase accounting accretion contributed 12 bps to the NIM in Q3 compared to 15 bps in Q2. Excluding purchase accounting adjustments, the core NIM rose two bps to 3.18%.
- Management noted that the GAAP NIM should continue to decline due to lower purchase accounting accretion, but the core NIM should expand even in the absence of any Fed rate hikes given that roll-on yields are exceeding roll-off yields.
- HBAN has fully implemented all of the \$255 million of planned expense reductions stemming from the FirstMerit acquisition.
- Management expects at least \$100 million in revenue enhancements associated with the purchase of FirstMerit, of which \$48 million should be realized in 2017 and the remainder in 2018.
- Our price target is derived through our discounted dividend model and the application of a 13X 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 HBAN is 2 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.
- **Geography** – The company's operations are clustered in relatively few states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **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.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.

- **Other** – Please see the company’s financial statements for a further discussion of risks and considerations.

	HUNTINGTON BANCSHARES, INC.										HBAN: BUY		
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 A	3Q17 A	4Q17 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2017 E	FY 2018 E
<b>Balance Sheet Data:</b>													
Assets	72,645.0	73,954.0	100,765.4	99,714.1	100,045.5	101,406.8	101,988.1	102,766.3	71,044.6	99,714.1	102,768.3	109,611.9	109,611.9
Gross Loans	52,107.0	53,330.4	69,719.0	67,474.9	67,616.5	68,807.4	69,239.0	69,827.6	50,815.7	67,474.9	69,827.6	73,747.3	73,747.3
Average Earning Assets	66,234.0	67,863.0	79,687.0	91,463.0	91,132.0	92,849.0	93,846.5	93,846.5	63,004.2	76,237.2	92,390.6	97,130.6	97,130.6
Deposits	55,628.8	55,043.5	77,405.1	75,607.7	77,422.5	75,933.4	78,445.1	79,045.2	55,295.0	75,607.7	79,045.2	84,309.0	84,309.0
Equity	6,385.0	6,536.0	9,315.5	9,236.9	9,365.9	9,582.9	9,679.2	9,679.2	6,208.3	9,236.9	9,679.2	10,128.7	10,128.7
<b>Statement of Operations:</b>													
FTE Net Interest Income	512.2	516.0	636.0	747.5	742.0	756.6	776.2	776.2	1,982.9	2,411.7	3,045.4	3,196.3	3,196.3
Net Interest Income	503.1	505.9	625.4	735.0	730.0	744.5	763.9	763.9	1,950.7	2,369.3	2,996.8	3,145.7	3,145.7
Provision for Credit Losses	27.6	24.5	63.8	74.9	67.6	25.0	56.0	56.0	100.0	190.8	192.2	265.9	265.9
<b>Non-Interest Income:</b>													
Deposit Service Charges	70.3	75.6	86.8	91.6	83.4	87.6	90.7	91.5	280.3	324.3	353.2	362.9	362.9
Mortgage Banking	18.5	31.6	40.6	37.5	31.7	32.3	33.6	28.8	111.9	128.3	126.3	139.0	139.0
Trust Services	22.8	22.5	28.9	34.0	33.9	32.2	33.5	33.9	105.8	108.3	133.5	141.5	141.5
Insurance Income	16.2	15.9	15.9	16.5	15.8	15.3	14.0	16.7	65.3	64.8	61.8	64.9	64.9
Brokerage Income	15.5	14.6	14.7	17.0	15.8	16.3	14.5	16.5	60.2	61.8	63.0	67.2	67.2
BOLI	13.5	12.5	14.5	17.1	17.5	15.3	16.5	16.5	52.4	57.6	65.8	65.8	65.8
Capital Markets Fees	13.0	13.0	14.8	18.7	14.2	16.8	21.7	17.5	53.6	59.5	70.3	79.9	79.9
Gain on Sales of Loans	5.4	9.3	7.5	25.0	12.8	12.0	13.9	12.5	33.0	47.2	51.2	56.3	56.3
Other	66.6	75.4	80.9	78.7	87.9	96.7	91.8	93.7	275.4	301.5	370.1	394.0	394.0
Securities Gains	0.0	0.7	1.0	-1.8	0.0	0.1	0.0	0.0	0.7	(0.1)	0.1	0.0	0.0
Total Non-Interest Income	241.9	271.1	305.6	334.3	312.5	325.2	330.1	327.5	1,038.7	1,152.9	1,295.3	1,371.4	1,371.4
Non-Core Adjustment	0.0	-0.7	-1.0	1.8	-2.2	-0.1	0.0	0.0	(0.7)	0.1	(2.3)	0.0	0.0
Adjusted Non-Interest Income	241.9	270.5	304.5	336.1	310.3	325.1	330.1	327.5	1,038.0	1,153.0	1,293.0	1,371.4	1,371.4
<b>Non-Interest Expense:</b>													
Salaries & Benefits	285.4	298.9	405.0	359.8	382.0	392.0	377.1	369.0	1,122.2	1,349.1	1,520.1	1,511.1	1,511.1
Outside Services	61.9	63.0	91.1	88.7	87.2	75.2	79.6	77.2	231.4	304.7	319.1	314.5	314.5
Occupancy	31.5	30.7	41.5	49.5	67.7	52.6	55.1	38.0	121.9	153.1	213.4	153.9	153.9
Equipment	32.6	31.8	40.8	59.7	46.7	48.9	45.5	37.0	124.9	164.8	172.1	150.8	150.8
Marketing	12.3	14.8	14.4	21.5	13.9	18.8	17.0	17.1	52.2	63.0	66.8	67.1	67.1
Deposit & Other Insurance	11.2	12.2	14.9	15.8	20.0	20.4	18.5	18.7	44.6	54.1	77.6	71.0	71.0
Intangible Amortization	3.7	3.6	9.0	14.1	13.9	14.2	14.0	13.8	27.9	30.5	56.0	52.9	52.9
Professional Services	13.5	21.5	47.1	23.2	18.3	18.2	15.2	13.3	50.3	105.3	65.0	54.3	54.3
Other	39.0	47.1	48.3	49.4	57.1	60.0	58.4	56.0	200.6	183.9	231.6	228.2	228.2
Total Non-Interest Expense	491.1	523.7	712.2	681.5	706.9	694.4	680.4	640.0	1,975.9	2,408.5	2,721.7	2,603.9	2,603.9
Non-Core Adjustment	-5.0	-21.0	-159.0	-53.4	-73.3	-50.0	-31.0	0.0	(58.0)	(238.4)	(154.3)	0.0	0.0
Adjusted Non-Interest Expense	486.1	502.7	553.2	628.1	633.6	644.4	649.4	640.0	1,917.9	2,170.1	2,567.4	2,603.9	2,603.9
Pretax Income	231.3	249.2	312.9	368.1	339.0	400.3	395.5	395.4	970.9	1,161.4	1,530.2	1,647.3	1,647.3
Income Taxes	56.7	61.4	80.0	93.3	84.2	96.1	100.8	100.7	240.7	291.4	381.8	334.2	334.2
Preferred Dividends	8.0	19.9	18.5	18.9	18.9	18.9	18.9	18.9	31.9	31.9	75.6	75.6	75.6
Common Operating Net Income	166.6	167.9	214.3	256.0	246.0	285.3	275.8	275.8	698.3	904.7	1,072.6	1,237.4	1,237.4
<b>Share &amp; Per Share Data:</b>													
Diluted EPS	0.20	0.19	0.11	0.20	0.17	0.23	0.23	0.25	0.81	0.71	0.88	1.14	1.14
Operating EPS	0.21	0.21	0.23	0.23	0.23	0.26	0.25	0.25	0.85	0.87	0.97	1.14	1.14
Dividends Per Share	0.07	0.07	0.07	0.08	0.08	0.08	0.11	0.11	0.25	0.29	0.35	0.47	0.47
Tangible Book Value	7.10	7.27	6.34	6.30	6.43	6.62	6.73	6.82	6.89	6.30	6.82	7.42	7.42
Common Shares Outstanding	796,689	799,154	1,084,783	1,085,689	1,087,120	1,090,016	1,080,946	1,076,626	794,929	1,085,689	1,076,626	1,057,216	1,057,216
Average Diluted Shares	808,349	810,371	952,081	1,104,358	1,108,617	1,108,527	1,106,491	1,099,239	817,226	917,935	1,105,719	1,087,982	1,087,982
<b>Key Financial Statistics:</b>													
Return on Assets	0.96%	0.95%	0.58%	0.95%	0.83%	1.09%	1.08%	1.14%	1.01%	0.86%	1.04%	1.24%	1.24%
Return on Common Equity	10.40%	9.58%	5.44%	9.41%	8.09%	10.62%	10.57%	11.36%	10.77%	8.72%	10.16%	12.49%	12.49%
Net Interest Margin	3.11%	3.06%	3.18%	3.25%	3.30%	3.31%	3.29%	3.28%	3.15%	3.16%	3.30%	3.29%	3.29%
Operating Non-Int. Inc./Operating Rev.	64.76%	63.26%	59.15%	57.53%	58.32%	57.66%	57.11%	56.74%	63.05%	61.20%	57.46%	55.88%	55.88%
Efficiency Ratio	7.87%	7.94%	7.00%	7.03%	7.15%	7.29%	7.31%	7.31%	7.79%	7.03%	7.31%	7.31%	7.31%
Tangible Common Ratio	0.07%	0.13%	0.26%	0.25%	0.23%	0.21%	0.25%	0.25%	0.18%	0.18%	0.24%	0.28%	0.28%
NCOs/Average Loans													

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.

Huntington Bancshares 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.

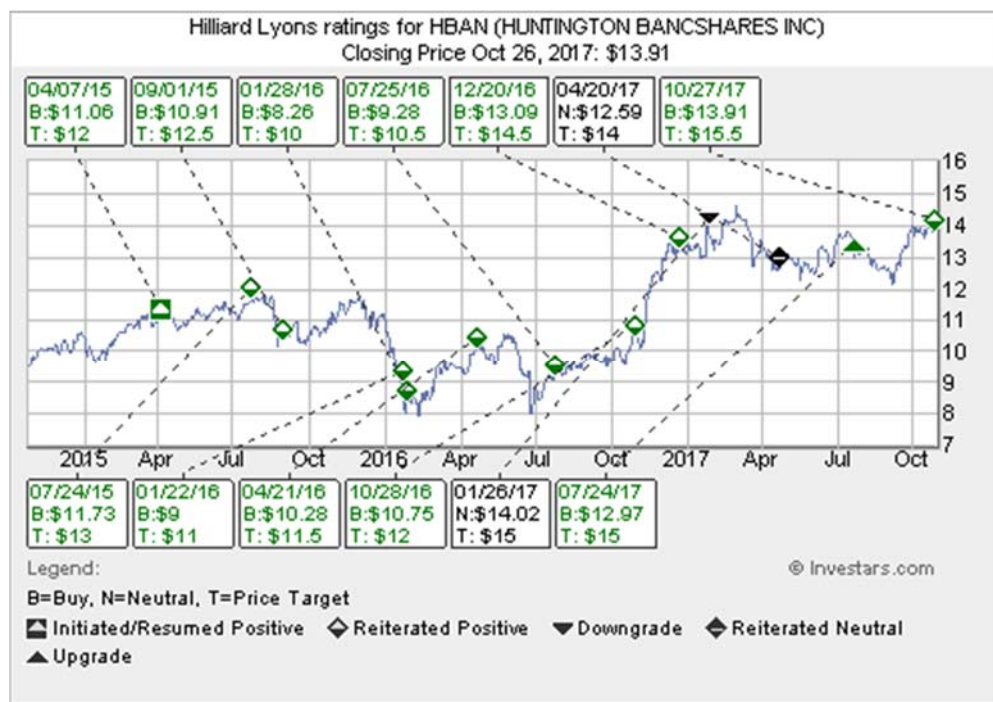
### **Definitions of Suitabilities:**

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	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

**Other Disclosures**

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