



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

### Key Metrics

PNC - NYSE (as of 07/14/17)	\$127.17
Price Target	\$130.00
52-Week Range	\$81.35-\$131.83
Shares Outstanding (mm)	480.0
Market Cap. (\$mm)	\$61,042
3-Mo. Average Daily Volume (000)	2,119.9
Institutional Ownership	83.9%
Tangible Equity/ Tangible Assets	9.5%
ROE	8.6%
Tangible Book Value Per Share	\$67.87
Price/Tangible Book Value	187.4%
Dividend Yield	2.4%
Price/LTM Earnings	16.2x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$1.68	\$1.94A	\$1.94A	\$2.19	\$2.19
2Q	\$1.82	\$2.02	\$2.08A	\$2.45	\$2.47
3Q	\$1.84	\$2.03	\$2.08	\$2.48	\$2.47
4Q	\$1.99	\$2.12	\$2.20	\$2.57	\$2.66
Year	\$7.33	\$8.11	\$8.31	\$9.69	\$9.80
P/E	17.3x		15.3x		13.0x

### Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.51	\$0.55A	7.8	\$0.75
2Q	\$0.51	\$0.55A	7.8	\$0.75
3Q	\$0.55	\$0.75	36.4	\$0.85
4Q	\$0.55	\$0.75	36.4	\$0.85
Year	\$2.12	\$2.60	22.6	\$3.20

**Company Description** – PNC Financial is a commercial banking organization headquartered in Pittsburgh, Pennsylvania and one of the largest financial services firms in the country. The company's products and services include retail banking, corporate and institutional banking, asset management and residential mortgage banking. PNC's primary markets are located in the Mid-Atlantic, Midwest and Southeast regions of the U.S., although many of its products and services are provided nationally. The company also provides certain financial services internationally.

### 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  
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## The PNC Financial Services Group, Inc.

PNC -- NYSE -- Neutral -- 1

### Reports Robust Revenue Growth; Increasing EPS Estimates & Price Target; Retaining Neutral Rating

- **Earnings Results:** Excluding \$0.02 of securities gains, PNC reported 2Q17 EPS of \$2.08, which beat our estimate and the Street consensus by \$0.06 and \$0.07, respectively.
- **Positive Highlights:** Net interest income rose 4.5% linked-quarter (LQ) to \$2.26 billion on seven bps of net interest margin (NIM) expansion to 2.84%, 0.9% of lift in average earning assets and an extra day in the quarter. Earning assets and net interest income were positively impacted by a loan and lease portfolio obtained in a business acquisition. We had projected net interest income of \$2.22 billion and a margin of 2.81%.

Operating noninterest income rose 6.6% LQ to \$1.79 billion versus our estimate of \$1.76 billion primarily on gains in consumer services (8.4%) and corporate services (10.4%).

End-of-period (EOP) loans increased 2.4% LQ, while average loans rose 1.9%. Excluding the aforementioned acquisition, EOP loans rose approximately 2.0%.

The provision for loan losses rose \$10 million LQ to \$98 million, but came in modestly below our estimate. Nonperforming Assets/Assets fell two bps to 0.58% and the net charge-off ratio dropped three bps to 0.20%. We had modeled a provision of \$100 million and net charge-offs of 23 bps.

- **Negative Highlights:** Operating noninterest expense rose 3.2% sequentially, which was moderately above our estimate of \$2.42 billion. Drivers of the increase included salaries & benefits (1.1%) and "other" expenses (6.6%).
- **Estimates:** We are increasing our 2017 and 2018 operating EPS estimates to \$8.31 and \$9.80 from \$8.11 and \$9.69, respectively. We are raising our price target by \$7.00 to \$130.00 and reaffirming our Neutral rating.

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

**OTHER KEY TAKEAWAYS & VALUATION**

- PNC clearly enjoyed a solid quarter with revenue growth of 4.5% on a LQ basis. Moreover, the strong advance in the NIM and loans bodes well for future revenues.
- The NIM benefitted from higher yields on loans and securities, while funding costs were contained. The yield on earning assets rose 13 bps sequentially versus a four bp increase in the cost of interest bearing liabilities.
- Loan growth was primarily driven by gains in commercial & industrial loans. The company noted that the growth was attributable to market share gains in its newer markets as well as increases in credit utilization and asset-based lending in manufacturing.
- The company announced that it is expanding its middle-market operations into Denver, Houston and Nashville in 2018.
- In addition to the improvement in the NPA and net charge-off ratios, delinquencies declined in all past due categories for the second consecutive quarter.
- The provision for loan losses included an allocation for the loan and lease portfolio acquired during the quarter that was partially offset by improvements in the performance of certain residential real estate loans and home equity lines of credit.
- The company returned 93% of 2Q17 earnings to shareholders through \$688 million in share repurchases and \$268 million in common stock dividends.
- In June, PNC announced plans to repurchase up to \$2.7 billion of shares over the four quarter period beginning in 3Q17 as well as a 36% dividend increase to a quarterly rate of \$0.75 per share.
- PNC offered the following guidance for 3Q17 and full year 2017 in its call:
  - Modest sequential loan growth in 3Q17 and mid-single digit growth for the year
  - Low single-digit expansion in Q3 net interest income
  - Stable fee income and noninterest expense in 3Q17
  - A Q3 loan loss provision of \$75 million to \$125 million
  - Revenue growth in the upper mid-single digit range in 2017
  - Low-single digit noninterest expense growth in 2017
  - An effective tax rate of approximately 25%-26% for the remainder of 2017
- Drivers of the increases in our EPS estimates include higher revenues, lower loan loss provisions and reduced share counts.
- In addition to our enhanced earnings estimates, the increase in our price target is attributable to higher projected dividends with the sharp boost in PNC's following its CCAR exam.
- Our price target is derived through our discounted dividend model and the application of a 12.3X 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.

**SUITABILITY**

Our suitability rating on PNC 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.
- **Geography** – The company's operations are primarily clustered in three regions. Accordingly, its earnings are vulnerable to any regional shock and/or slowdown.
- **Competition** – The industry is highly competitive and is impacted by non-bank financial services firms.
- **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. 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.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.



Additional information is available upon request.

**Analyst Certification**

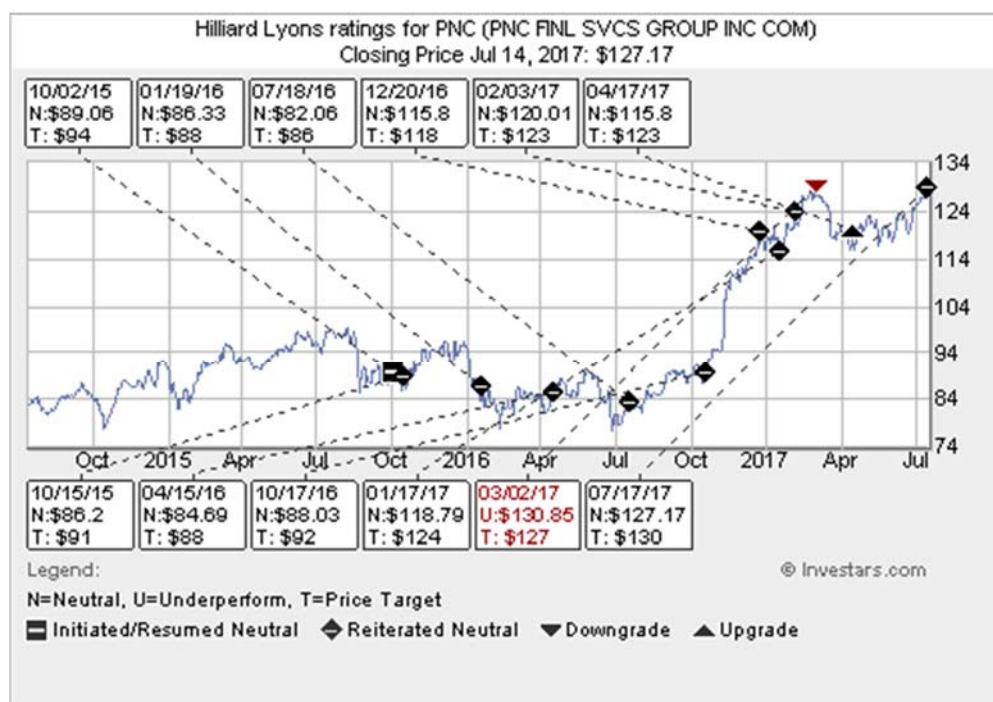
I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing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

From 1998 to 2008, Hilliard Lyons was owned by PNC Financial.

PNC Financial 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.



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

As of 7 July 2017

**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

**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.

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