

Important disclosures can be found on pages 5 - 9 of this report.

IBERIABANK Corporation (IBKC – \$67.76*)

Raise Price Target

Lafayette, LA
September 7, 2016

Outperform
Price Target: \$73.00

STOCK DATA

52-Week Range	\$69.93 – \$42.20
3-Month ADTV	288,805
Dividend Yield	2.01%
Market Cap (mil)	\$2,780.7
Shares Outstanding (mil)	41.0
Beta	1.24
Float (%)	97.8
Fiscal Year-End	December

EARNINGS DATA

EPS	2015A	2016E	2017E
1Q	\$0.95	\$1.01A	\$1.14
2Q	\$1.05	\$1.18A	\$1.24
3Q	\$1.07	\$1.21	\$1.27
4Q	\$1.11	\$1.18	\$1.37
FY	\$4.18	\$4.58	\$5.02
P/E	16.2x	14.8x	13.5x

FINANCIAL DATA

FY	2015A	2016E	2017E
TBV/Share	\$40.35	\$44.29	\$48.06
		2Q16	
Assets		\$20,160.9	
ROAA		0.98%	
ROTE		12.0%	
NIM		3.61%	

OTHER DATA

	2Q16
T. Book Value/Share	\$42.53
Price/Tang. Book	1.59x
Dividends/share	1.36
Assets: \$ in Millions	

We Think 3Q16 Macro Trends Work to IBKC's Benefit: Raising PT to \$73 and Reiterating OP

Summary and Recommendation

As 3Q16 unfolds, we are raising our price target for IBKC to \$73 from \$70 and reiterating our Outperform rating. We believe broader macro trends are shaping up to provide a proverbial tailwind to IBKC's earnings in the second half of 2016. More specifically, we think crude oil prices above \$40/bbl are a positive for the energy provision outlook, we view strong nationwide mortgage loan origination volumes as a positive for mortgage banking income in 3Q16, and we do not think IBKC's commercial real estate (CRE) exposure is likely to become a disproportionate overhang to its share price valuations relative to peers. Further, given that it is highly asset sensitive, we think IBKC's share price is likely to benefit from any increased market anticipation of a rate rise by the Fed in 2H16.



Key Points

- **We think energy provision charges could subside in 2H16 if oil prices remain above \$40/bbl.** In 3Q16, oil prices have remained above \$40/bbl, having fluctuated from \$50/bbl to \$40/bbl, and are currently at \$44.83/bbl. On the company's 2Q16 earnings call, IBKC management indicated it expects total NPAs to rise incrementally in 2H16, but for energy-specific loss allowances to decline. Further, IBKC's current 2016 loan loss provisioning guidance is \$45M, based on oil prices below \$40/bbl. We estimate each \$1M reduction in provision adds roughly \$0.02/share to annual EPS.
- **We expect strong mortgage banking in 3Q16.** In 2Q16, IBKC's mortgage banking business benefited from seasonally strong origination volumes (\$709M vs. \$516M in 1Q16 and \$700M in 2Q15). Given the strong pace of mortgage originations nationwide during the first two months of 3Q16, we expect 3Q16 mortgage volumes to increase from 2Q16 levels. We project total mortgage origination volumes will increase to at least \$539B in 3Q16 (vs. \$510B in 2Q16). Mortgage banking has been a growing revenue source for IBKC, accounting for 10% of total revenue in 1Q16 and 12% in 2Q16 (vs. 10% in 2015).
- **IBKC share price a potential beneficiary if anticipation of Fed rate hike grows.** While we believe the Fed will likely raise the Fed Funds rate 25 bps in 2H16, we think the EPS benefit, if any, will be proportionally less given IBKC has rate floors for 15% of total loans and the long end of the yield curve seems to remain stubbornly flat regardless of what happens at the short end. That said, IBKC's share price could benefit from market anticipation ahead of any such rate change. We note that IBKC's 2Q16 10-Q estimates net interest income benefits 5.4% (or \$0.29/share) annually from a 100-bp parallel shift in the yield curve.
- **CRE exposure not likely an overhang to IBKC share price valuations.** In an industry note published August 16, 2016, by FBR analyst Bob Ramsey, titled "Banks & Commercial Real Estate: Who is Concentrated, What Regulators Care About, and Which Banks We Like," IBKC's total CRE and construction and development (C&D) loans at 2Q16 were 213% of total risk-based capital at the bank level, below the 300% threshold regulators have highlighted in guidelines. IBKC was 24th out of 53 banks FBR covers and in the top 40% of all publicly traded banks nationally. Given this, if exposure to CRE becomes an overhang for banks, we do not think IBKC is likely to be singled out.

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The Debate™

Debatable Point	Our Thoughts	Time Frame	Impact
Is IBKC an acquirer or a seller?	We believe that depends on the price. During the 2Q16 earnings conference call, management indicated that, although it remains open to a potential acquisition, it is comfortable with its current mix of markets, personnel, and products. Given discounted share price valuations, we believe IBKC could potentially be a willing seller at a roughly 25% premium to current share price valuations (approximately \$85/share), but we do not expect such an offer to materialize in the near term.	6 to 12 Months	
How do weakening energy prices affect IBKC's earnings outlook?	We believe that if oil prices remain above \$40/bbl, energy asset quality will remain manageable for IBKC. We believe that part of IBKC's share price discount reflects energy exposure concerns and that the stock will recover as the market gets more confident that the asset quality outlook for energy companies in general has stabilized.	12 Months	

Investment Thesis

We base our Outperform rating and 12-month price target primarily on our belief that IBKC's tangible book value per share will increase, and with it, IBKC's share price. We believe that IBKC's asset quality is solid and that its energy exposure will be less of an overhang to share price valuations as commodity oil prices remain at or above current levels.

Valuation

IBKC shares trade at 1.6x tangible book value of \$42.53 per share, below the 1.9x average for Southeast banks in our universe with market caps above \$2 billion. On a 2017 forward P/E basis, IBKC currently trades at 13.5x versus the 14.3x average for peer banks with market caps above \$2 billion. Our new \$73 price target is based on 14.5x our 2017 EPS estimate of \$5.02 and 1.6x our 2Q17 estimate for tangible book value of \$46.03 per share.

Risks

Macroeconomic risk. IBERIABANK is sensitive to the overall economic environment. A sudden change in market conditions or market liquidity could have an adverse impact on operations.

Interest rate risk. A rise in interest rates could negatively affect earnings because it could result in rising credit-related expenses.

Geographic concentration risk. IBERIABANK operates in select markets in Louisiana, Alabama, Arkansas, Florida, Tennessee, and Texas and, thus, is sensitive to the performance of the regional economy.

Competitor risk. IBERIABANK has substantial competition in its primary markets from state, national, and foreign banks, thrifts, and other firms providing financial services. Competition could adversely affect IBERIABANK's profitability through lower loan rates or deposit price increases.

Energy exposure risk. Given its geographic concentration in the Southeast U.S., a downturn in the energy sector could have an outsized negative impact on IBERIABANK's financial performance.

Regulatory risk. IBERIABANK is highly sensitive to the regulatory environment, and changes in the Dodd-Frank Act or the behavior of the Federal Reserve board and other regulatory agencies could limit future performance and growth.

Price target risk. Failure to generate shareholder returns could cause IBERIABANK to fail to meet our price target.

Company Profile

IBERIABANK Corporation is a Lafayette, Louisiana-based bank holding company founded in November 1994 that went public in April 1995. Since then, the company has grown organically and via small bank acquisitions. It is currently ranked fifth in deposit market share in Louisiana and 18th in Florida, according to data from SNL. At December 2015, IBERIABANK had 3,151 employees and a network of 218 branches centered along the Gulf Coast. The company's core markets are southern Louisiana and Houston, Texas, placing it in the heart of the nation's industrial energy belt. While it has exposure to the energy sector, it is a relatively small part of total loans and asset quality for the energy book, and the company overall has been solid. In addition to retail consumers, IBERIABANK also focuses on commercial customers, particularly those with revenues between \$5 million and \$100 million. The Federal Reserve is IBERIABANK's primary regulator.

Income Statement—IBERIABANK Corporation (IBKC)

In Millions \$, Except Per Share Data

	Fiscal 2012A	Fiscal 2013A	Fiscal 2014A	Fiscal 2015	1Q16	2Q16	3Q16E	4Q16E	Fiscal 2016E	1Q17E	2Q17E	3Q17E	4Q17E	Fiscal 2017E
Net interest income	\$ 381.7	\$ 390.2	\$ 460.1	\$ 587.8	161.4	162.8	164.4	164.8	\$ 653.4	160.4	163.6	166.0	167.4	\$ 657.4
Loan loss provision	20.7	5.1	19.1	30.9	14.9	11.9	9.5	10.2	46.5	10.8	10.5	8.8	4.8	34.9
Total fee income	173.5	167.0	172.9	218.8	55.6	63.1	61.6	60.6	241.0	60.9	63.3	61.3	62.3	247.8
Investment security gains/(losses)	3.7	2.3	0.8	1.6	0.2	1.8	0.4	0.4	2.8	0.1	0.7	0.7	0.7	2.2
Other	(1.2)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonrecurring income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fees and other income	578.4	169.0	173.6	220.4	55.8	64.9	62.0	61.0	243.8	61.0	64.0	62.0	63.0	250.0
Operating expenses	428.4	468.4	467.8	562.5	135.3	137.4	138.5	139.5	550.7	137.0	137.0	137.0	137.0	548.0
Intangible amortization	3.9	4.7	5.8	7.8	2.1	2.1	2.1	2.1	8.4	2.1	2.1	2.1	2.1	8.4
Nonrecurring expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	432.3	473.1	473.6	570.3	137.5	139.5	140.6	141.6	559.2	139.1	139.1	139.1	139.1	556.4
Pretax income	507.2	81.0	141.1	206.9	64.9	76.3	76.3	74.0	291.5	71.5	78.0	80.1	86.5	316.1
Provision for taxes	28.5	6.7	35.7	64.1	22.1	25.5	25.5	24.7	97.8	23.6	25.7	26.4	28.5	104.3
Effective tax rate	6%	8%	25%	31%	34%	33%	33%	33%	34%	33%	33%	33%	33%	33%
Net income	76.4	74.3	105.4	142.8	42.8	50.8	50.8	49.3	193.7	47.9	52.3	53.6	57.9	211.8
Minority interest income (loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings to unvested res. stock	(1.4)	(1.2)	(1.6)	(1.7)	(0.5)	(0.5)	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0	0.0
Preferred stock dividends	0.0	0.0	0.0	0.0	2.6	0.9	3.6	0.9	8.0	3.6	0.9	3.6	0.9	9.1
Income available to common	75.0	73.1	103.7	141.1	39.7	49.4	47.2	48.3	184.7	44.3	51.3	50.0	57.0	202.7
Operating income adjustments														
Gain on sale of investments	0.0	0.0	0.0	0.0	(0.2)	(1.8)	0.0	0.0	(2.0)	0.0	0.0	0.0	0.0	0.0
Merger-related expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Severance expenses	0.0	0.0	0.0	0.0	0.5	0.1	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Impairment of long-lived assets	0.0	0.0	0.0	0.0	1.0	(1.3)	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0
Other nonoperating noninterest expense	0.0	0.0	0.0	0.0	1.1	1.2	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0
Total Noninterest expense adjustments	0.0	0.0	0.0	0.0	2.6	0.1	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0
Tax adjustment	0.0	0.0	0.0	0.0	25.5	25.7	26.7	25.9	103.9	25.0	27.3	28.0	30.3	110.6
Operating income	75.0	73.1	103.7	141.1	41.8	48.8	49.6	48.1	188.3	46.5	50.7	52.0	56.2	205.4
Reported EPS (diluted)	\$2.60	\$2.51	\$3.30	\$3.68	\$0.97	\$1.21	\$1.15	\$1.18	\$4.52	\$1.08	\$1.25	\$1.22	\$1.39	\$4.95
Operating EPS (diluted)	\$2.59	\$2.20	\$3.72	\$4.18	\$1.01	\$1.18	\$1.21	\$1.18	\$4.58	\$1.14	\$1.24	\$1.27	\$1.37	\$5.02
Average shares outstanding - diluted	27.5	20.9	31.4	38.3	40.8	40.9	40.9	40.9	41.1	40.9	40.9	40.9	40.9	40.9
Period end shares outstanding	29.5	29.8	33.5	41.1	41.2	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0
Common dividend per share	\$1.36	\$1.36	\$1.36	\$1.36	\$0.34	\$0.34	\$0.34	\$0.34	\$1.36	\$0.34	\$0.34	\$0.34	\$0.34	\$1.36
Book value per share	\$51.88	\$51.38	\$55.37	\$58.87	\$59.93	\$61.05	\$65.17	\$66.03	\$66.03	\$66.83	\$67.77	\$68.73	\$69.80	\$69.80
Tangible book value per share	\$37.34	\$37.15	\$39.08	\$38.48	\$41.38	\$42.53	\$43.43	\$44.29	\$44.29	\$45.09	\$46.03	\$46.99	\$48.06	\$48.06

Source: FBR Research and Company Reports

*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

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Selling Uncovered Calls--Unlimited risk that investors may experience losses much greater than premium received.

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Rating	FBR Research Distribution ¹	FBR Banking Services in the past 12 months ¹
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HOLD [Market Perform]	33.41%	8.03%
SELL [Underperform]	2.44%	0.00%

(1) As of midnight on the business day immediately prior to the date of this publication.

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