

Comerica, Incorporated

Language to "Maintain Dividend" Taken Out of Updated Slide Deck - ALERT

Neutral

\$29.29 (intraday)

04 September 2008

- **Language to "Maintain Dividend" taken out of updated slide deck.** This morning Comerica filed an updated investor presentation. The most notable change that we came across was that on the slide that discusses optimizing capital, the bullet "Expect to Maintain Dividend" was removed from the most recent presentation. Given that management has strongly defended the dividend over the past few quarters, this could imply that management is no longer as comfortable with the \$0.66 quarterly dividend as it had been as recent as the second quarter.
- **Dividend payout ratio is very high and a cut would further alleviate pressure on capital ratios.** In the back half of 2008, we forecast that earnings will not cover the \$0.66 quarterly dividend and that the company will need to tap into capital to partially pay the dividend. Looking into 2009, we forecast a dividend payout ratio of 83%, which seems very high to us in an environment where capital is king. A 50% dividend cut would put the payout ratio at just above 40% in 2009 and reposition the company to start more meaningfully bolstering its equity capital position.
- **Current dividend yield is highest in the group; the market does not seem to believe that the current dividend is sustainable.** The company's current dividend yield is 9%, which is nearly double the peer average of 4.7%. It seems that the market is discounting a near 50% dividend cut.
- **The message from the remainder of the slide deck seemed consistent with prior commentary.** The credit outlook in today's 8-K remains consistent with commentary provided on the 2Q call. NCOs for the year are expected to remain stable. Provision is also expected to be in excess of charge-offs for the remainder of 2008, which is consistent with prior guidance. Today's slides also indicate that margin is likely to have bottomed and expected to expand in 2009. On the 2Q call, management indicated that we could see margin stabilization in the back half of the year.
- **We would view a dividend cut as a positive.** Although CMA shares may fall under near-term pressure tied to news of a dividend cut, we would view such a move as a long-term positive. In our view, given the credit cycle downturn, one of the most prudent actions management can take in the current environment is to shore up capital organically and reduce the potential for having to raise common equity in the public markets, which not only dilutes current shareholders but has acted as an invitation to short players to increase positions.

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Comerica, Incorporated (CMA) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Nov-05	UW	59.98	-
21-Feb-07	N	63.15	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 30, 2002 - Nov 26, 2003, and May 26, 2006 - Feb 21, 2007. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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