



Bank of America (BAC)

Updated July 16th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$30	5 Year CAGR Estimate: 12.5%	Volatility Percentile: 82.0%
Fair Value Price: \$34	5 Year Growth Estimate: 8.2%	Momentum Percentile: 77.4%
% Fair Value: 88%	5 Year Valuation Multiple Estimate: 2.6%	Valuation Percentile: 78.8%
Dividend Yield: 1.7%	5 Year Price Target: \$50	Total Return Percentile: 79.7%

Overview & Current Events

Bank of America provides all the traditional banking services as well as non-banking financial services. Its operations include Consumer Banking, Wealth & Investment Management and Global Banking & Markets. Bank of America was founded in 1904, is headquartered in Charlotte, NC, and is currently valued at \$291 billion, making it one of the biggest financial companies in the world.

Bank of America's most recent quarterly results were released on July 16. The bank reported earnings-per-share of \$0.63, an increase of 43% year over year. Adjusted revenues, which totaled \$22.6 billion, were up 3% year over year.

In June, when CCAR results were announced, Bank of America has stated that the FED approved \$17.6 billion of buybacks, about 10% of the company's market capitalization, and a dividend increase to \$0.15 quarterly.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.55	-	-	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.50	\$3.71
DPS	\$2.24	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.52	\$1.25

Bank of America's earnings and dividend history over the last decade does not look compelling at first sight. Both earnings and dividends were decimated during the last financial crisis, which made the share price drop substantially, whilst at the same time income investors' dividend stream all but stopped flowing. The last financial crisis was not a regular recession, though, thus a hit to Bank of America's profitability of that dimension is something very unusual.

Bank of America's profits have recovered nicely over the last couple of years, although the impact of the last financial crisis was clearly visible up to 2014. Going forward Bank of America should be able to remain on growth track, although the 38% earnings per share growth rate we have seen in the last quarter will not be the new standard.

In the coming years a couple of factors should provide earnings growth for Bank of America. The first is that the bank's loan portfolio keeps growing. During Q2 the bank was able to grow its average loan balances across its businesses by 5%. The average loan balance during the quarter was \$872 billion. Loan balances were up in the consumer segment as well as in Bank of America's commercial business. Despite a decline in the spread between short-and-long-term interest rates that could be observed in treasuries, Bank of America was able to grow its net interest margin slightly, which is why net interest income grew by 6% during the second quarter.

Bank of America is also, like other banks, focused on minimizing expenses. The bank has been able to lower its efficiency ratio to 59% during Q2, down from 61% one year earlier. Last but not least, Bank of America has made meaningful progress in reducing its share count in recent years, a trend which is likely to continue moving forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	---	---	---	---	---	15.0	---	12.6	10.3	13.5	11.9	13.5
Avg. Yld.	7.3%	0.3%	0.3%	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	1.7%	2.5%

Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.

During the last financial crisis Bank of America operated at a loss. This makes it difficult to put Bank of America's current valuation in a historic context (as its median PE ratio is 37). With a solid growth outlook and a healthy balance sheet it seems likely that shares will be valued at a low-teens earnings multiple.

Bank of America's dividend yield isn't very high right now, but the dividend growth rate has been quite high over the last couple of years, which is why the dividend yield will likely continue to rise going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	90.1%	89.7%	90.3%	89.2%	89.1%	89.0%	88.6%	88.3%	87.7%	88.2%	87.9%	87.5%
Payout	---	---	---	---	16.0%	4.4%	33.3%	15.3%	16.7%	21.3%	20.8%	33.7%
Std. Dev.	70.4%	127%	31.6%	36.5%	45.5%	19.9%	18.8%	22.4%	21.7%	19.3%	21.0%	23.0%

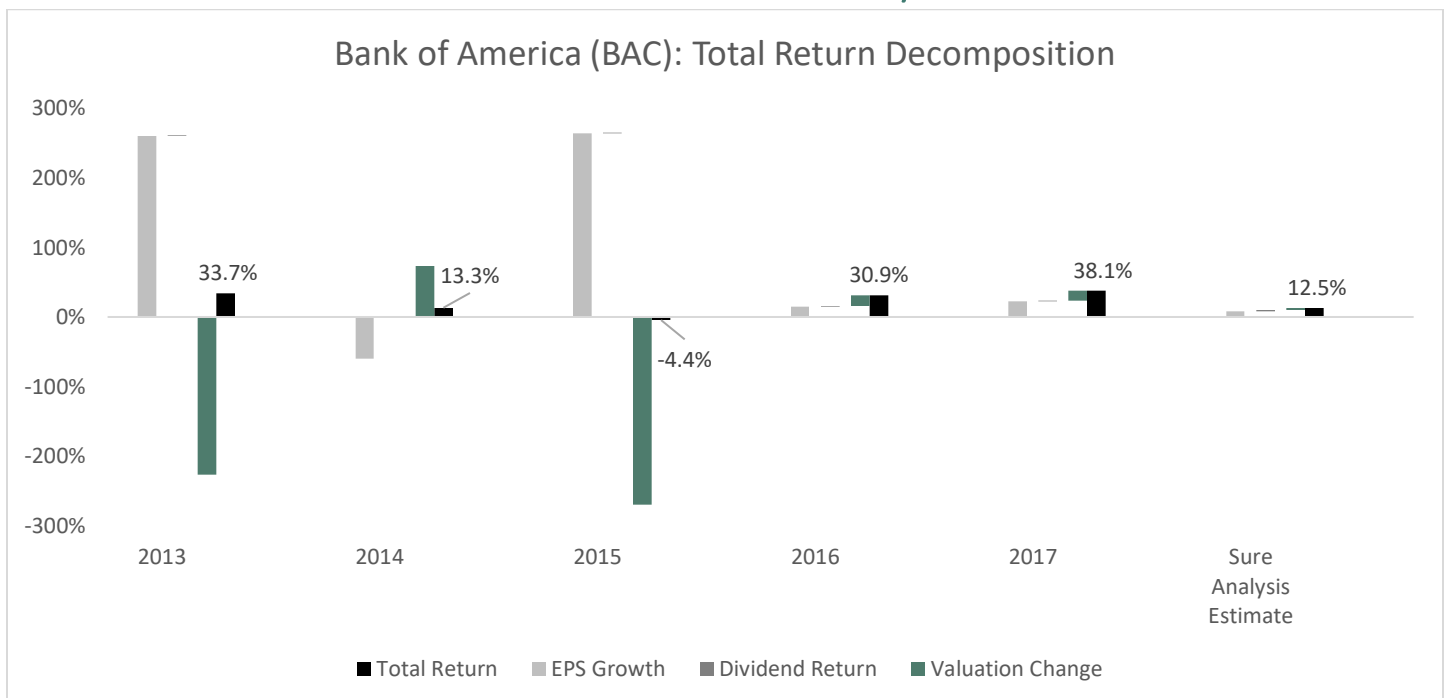
In the above table we see that Bank of America's assets are financed via debt primarily, which is no surprise. Borrowing money and lending it to someone else at a higher rate is a financial institution's primary function. Bank of America's equity ratio has grown somewhat over the last decade, from 10% to 12%, which is a solid number for a bank. The risk for another financial crisis is low, and credit quality at Bank of America is strong as well, as the net charge-off ratio remained quite low at 0.43% during Q2 of 2018. The ratio of non-performing assets, now 0.66%, declined further during Q2.

Bank of America competes with the biggest banks of the United States. Wells Fargo's (WFC) scandals that were uncovered over the last couple of years are a tailwind for Bank of America, as some customers are moving their accounts to Bank of America because of that (which explains why Bank of America's loan and deposits growth is faster than that of Wells Fargo). Bank of America also is the leader in online banking with more than 35 million active digital banking users and strong growth rates across its digital payments solutions.

Final Thoughts & Recommendation

During the last financial crisis Bank of America suffered greatly. With that said, the company has recovered. Bank of America looks quite strong now. The balance sheet is healthy, growth is solid and the company has amped up its shareholder returns. Bank of America could be a buy for investors looking for exposure to large US banks. Keep in mind that despite the bank's attractive total return potential, its stock will likely perform poorly during recessions.

Total Return Breakdown by Year



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