



U.S. Bancorp (USB)

Updated October 19th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$52	5 Year CAGR Estimate:	11.2%	Volatility Percentile:	14.8%
Fair Value Price:	\$57	5 Year Growth Estimate:	6.5%	Momentum Percentile:	45.2%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Growth Percentile:	58.7%
Dividend Yield:	2.8%	5 Year Price Target	\$79	Valuation Percentile:	65.6%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	64.9%

Overview & Current Events

U.S. Bancorp traces its lineage back to 1863 when the First National Bank of Cincinnati opened for business. It has since grown to 73,000 employees, an \$85 billion market capitalization, and \$23 billion in annual revenue.

The bank reported Q3 earnings on 10/17/18 and results beat expectations. Earnings-per-share rose 21% to a new record of \$1.06. The bank saw its return on assets rise to 1.58% as its efficiency ratio fell to 53.5%. Net charge-offs were virtually flat year-over-year and its average loan balance rose slightly despite lower deposits. It continues to take advantage of strong economic fundamentals and higher interest rates. Earnings growth remains robust and we reiterate our estimate of \$4.05 in earnings-per-share for this year. The dividend was also raised to \$1.48 annually per share.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.61	\$0.97	\$1.73	\$2.46	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.05	\$5.55
DPS	\$1.70	\$0.20	\$0.20	\$0.50	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.48	\$2.05
Shares	1755	1913	1921	1910	1869	1825	1786	1745	1697	1656	1600	1475

U.S. Bancorp's earnings-per-share history has been strong since the crisis ended as it is one of very few banks to grow earnings every year since 2009. We expect U.S. Bancorp to see 6.5% annual earnings growth in the coming years.

It will achieve this by accruing the benefits of several tailwinds. First, it is seeing a much lower tax rate from recent legislation. Second, it continues to grow its loan book at low single digit rates. Third, net interest income continues to rise as rates move higher, but U.S. Bancorp is slow to pass that benefit on to its depositors. Its rate on interest-bearing liabilities is rising with short-term rates but it is rising more slowly than U.S. Bancorp is increasing its average loan rate, boosting margins, as we saw again in Q3. Fourth, it buys back a small number of shares and we can expect a low single digit tailwind annually in additional growth from the buyback. Overall, U.S. Bancorp's earnings outlook appears to be much like it has in the past several years; this is a very well-run bank with moderate growth prospects.

U.S. Bancorp's payout ratio is in line with its peers and we expect growth in the payout to keep pace with earnings-per-share, growing to \$2.05 in five years. That would keep the payout ratio under 40% of earnings and in line with the bank's capital return strategy, affording it the opportunity to continue to buy back shares.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.2	19.8	14.0	10.3	11.1	12.0	13.7	13.7	13.2	15.0	12.9	14.2
Avg. Yld.	5.5%	1.0%	0.8%	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.8%	2.6%

U.S. Bancorp's price-to-earnings ratio has moved up in recent years as the bank has become more highly valued by investors than its competitors due to its outstanding profitability metrics. The valuation remains relatively low at 12.9 earnings, however, and we expect it will move up to its historical average at 14.2, providing a small 1.9% tailwind to total returns in the process. The combination of rising earnings and a higher valuation should send the yield back down slightly to 2.6% over time, but keep U.S. Bancorp roughly in line with its large bank peers on that metric.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
ROA	1.11%	0.80%	1.08%	1.43%	1.60%	1.60%	1.45%	1.41%	1.32%	1.35%	1.50%	1.50%
Debt/A	90%	91%	90%	90%	89%	89%	89%	89%	89%	89%	89%	89%
Int. Cov.	2.5	3.7	4.3	4.6	5.5	6.4	7.3	7.5	6.8	5.2	5.0	4.8
Payout	106%	34%	14%	22%	30%	32%	34%	34%	36%	36%	37%	37%
Std. Dev.	35.9%	72.6%	25.5%	24.2%	16.2%	10.2%	14.5%	14.5%	18.3%	12.8%	17.0%	20.0%

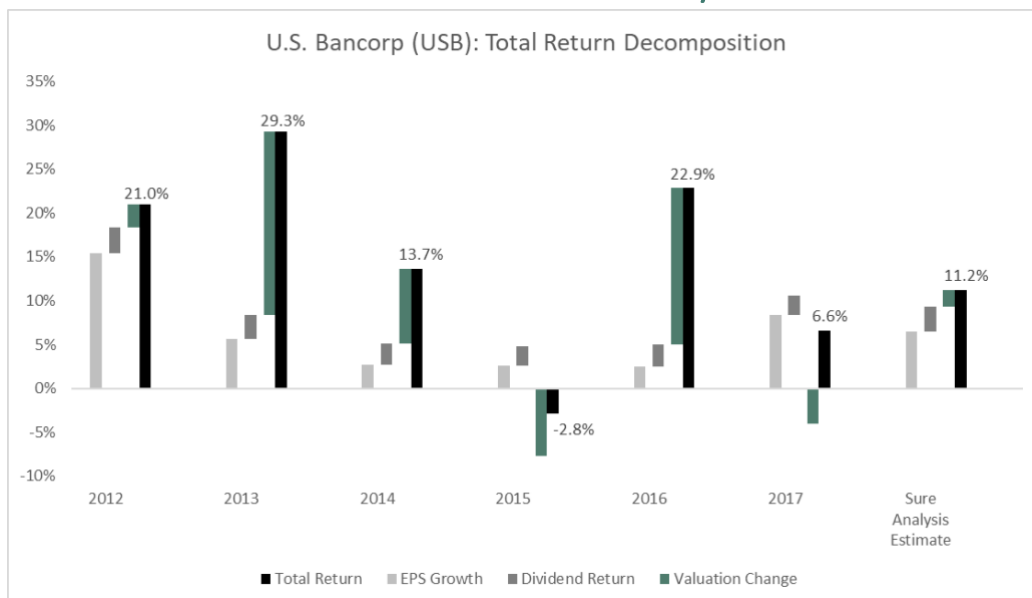
U.S. Bancorp's quality metrics have been largely stagnant for a long time but given how strong these numbers are, that's a good thing. We expect return on assets to stay right where it is as well as its balance sheet leverage, which has not budged for a decade. Interest coverage may decline slightly depending upon what happens with short and long-term rates but as of now, there is no danger of U.S. Bancorp seeing any sort of meaningful impact from that. We expect the payout ratio to remain under 40% of earnings, although if earnings-per-share growth exceeds our expectations, we may see a bit more growth. All things considered, U.S. Bancorp is in terrific shape financially, which combined with its above-average yield allows it to earn C ratings for both Dividend Safety and Retirement Suitability.

U.S. Bancorp's competitive advantage is in its stellar operating history and world-class management team. It operates as a regional bank but on a massive scale and as a result, it has been stronger through recessions than its larger peers. Indeed, earnings were not even cut in half in 2009 when many banks were struggling just to stay in business, and U.S. Bancorp came out of the recession in better shape in relation to its competitors than it was before the crisis.

Final Thoughts & Recommendation

U.S. Bancorp looks like a well-priced way to accumulate some exposure to large banks. We are expecting robust 11.2% annual returns moving forward. U.S. Bancorp posted disappointing returns in 2017 but if history is a guide, the stock is at a nice entry point for longer term investors. The company's focus on efficiency and industry-leading operating metrics makes it a buy for those seeking safe, moderate levels of growth as well as value. In addition, the current yield is better than the broader market and will reward shareholders while they wait for the valuation to return to normalized levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	13380	15186	17939	18883	20064	19378	19939	20093	21105	21852
SG&A Exp.	3848	4375	5878	6316	6778	7026	7137	7524	8032	8774
D&A Exp.	573	607	596	565	561	520	501	481	470	468
Net Profit	2946	2205	3317	4872	5647	5836	5851	5879	5888	6218
Net Margin	22.0%	14.5%	18.5%	25.8%	28.1%	30.1%	29.3%	29.3%	27.9%	28.5%
Free Cash Flow	5307	7600	5241	9820	7958	11446	5332	8782	5336	6472
Income Tax	1087	395	935	1841	2236	2032	2087	2097	2161	1264

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	265.91	281.18	307.79	340.12	353.86	364.02	402.53	421.85	445.96	462.04
Cash & Eq.	6859	6206	14487	13962	8252	8477	10654	11147	15705	19505
Goodwill & Int.	11405	12417	12167	11663	11849	12734	12551	12711	12647	12662
Total Liab. (\$B)	238.88	254.52	277.46	305.15	313.59	322.21	358.36	375.04	398.03	412.37
Long-Term Debt	72342	63892	64094	50740	42637	44276	59522	58216	46038	47855
Total Equity	18369	24463	27589	31372	34229	36357	38723	40630	41797	43621
D/E Ratio	2.75	2.46	2.17	1.49	1.09	1.08	1.37	1.26	0.97	0.98

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.2%	0.8%	1.1%	1.5%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%
Return on Equity	15.3%	10.3%	12.7%	16.5%	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%
ROIC	3.0%	2.3%	3.6%	5.4%	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%
Shares Out.	1755	1913	1921	1910	1869	1825	1786	1745	1697	1656
Revenue/Share	7.62	8.17	9.34	9.82	10.58	10.48	11.00	11.34	12.24	12.98
FCF/Share	3.02	4.09	2.73	5.11	4.20	6.19	2.94	4.96	3.10	3.85

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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