



Bank of America Corp. (BAC)

Updated January 17th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	15.9%	Volatility Percentile:	75.9%
Fair Value Price:	\$37	5 Year Growth Estimate:	8.2%	Momentum Percentile:	51.0%
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Growth Percentile:	80.2%
Dividend Yield:	2.1%	5 Year Price Target	\$54	Valuation Percentile:	82.6%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	84.1%

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 currently trades with a market capitalization of \$280 billion, making it one of the largest financial companies in the world.

Bank of America reported its fourth quarter and fiscal 2018 earnings results on January 16. The company was able to grow its revenues by 11.3% during the fourth quarter compared to the prior year's Q4. Revenues totaled \$22.7 billion. Growth drivers for higher revenues included a larger loan portfolio, as average loans rose 3% year over year, primarily due to higher consumer loans. Bank of America also was able to grow its net interest margin to 3.03% versus 2.89% during the previous year's quarter. The combination of a larger loan book and higher net interest margins allowed for compelling net interest income growth, which was the primary contributing factor for Bank of America's higher revenues. The company was also able to grow in other segments. Global Markets revenues, for example, were up as well. Due to a combination of higher revenues and lower expenses Bank of America was able to grow its net income by 39% year over year, while earnings-per-share rose by an even better 49% to \$0.70 during the fourth quarter.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-	-	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.82	\$4.18
DPS	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.70	\$1.42
Shares	8.7	10.1	10.5	10.8	10.6	10.5	10.4	10.1	10.3	9.7	9.4	8.5

Bank of America's earnings and dividend history over the last decade do not look compelling at first sight. Both earnings and dividends were decimated during the last financial crisis, which made the share price drop substantially, while 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 tremendous earnings-per-share growth rate we have seen during fiscal 2018 will not be the new standard. In the coming years a couple of factors should provide earnings growth for Bank of America. The first one is that the bank's loan portfolio keeps growing. During fiscal 2018 the bank was able to grow its average loan balances across its businesses by 6%. 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 growth outpaced the growth rate of Bank of America's loan balances. Bank of America is also focused on minimizing expenses. The bank lowered its efficiency ratio to 58.5% during fiscal 2018, down from 62.7% one year earlier. More broadly, Bank of America lowered its operating expenses by 1% during the last fiscal year, despite growing its revenues. If this trend continues, Bank of America's earnings growth will remain higher than the company's revenue growth rate. Bank of America also continues to buy back shares, which is a tailwind for the bank's earnings-per-share growth rate.

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



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	15.0	---	12.6	10.3	13.5	8.7	9.9	13.0
Avg. Yld.	0.3%	0.3%	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.1%	2.4%

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 we believe it is likely that Bank of America's valuation will expand to 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	16.0%	4.4%	33.3%	15.3%	16.7%	21.3%	21.3%	24.8%	34.0%

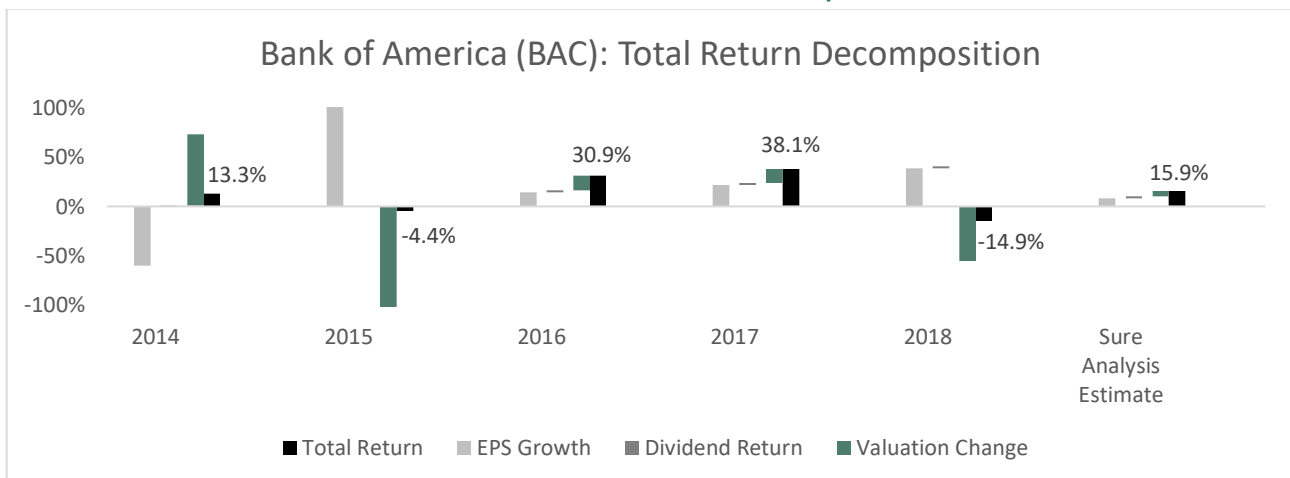
Bank of America has started to raise its dividend payout ratio a couple of years ago, but the company still only pays out a small amount of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but that does not mean that the dividend is endangered.

Bank of America competes with the biggest banks of the United States. Bank of America is the leader in online banking with more than 35 million active digital banking users and strong growth rates across its digital payments solutions. During the last financial crisis Bank of America was hit hard, but a major financial crisis such as the one around 2009 is not a common thing. During a regular recession Bank of America will likely perform better than its 2007-2009 history would suggest.

Final Thoughts & Recommendation

Bank of America is in a solid position right now, as its earnings are growing, its dividend experiences a strong growth rate, and its balance sheet looks healthy. Shares trade below our fair value estimate, and due to the strong expected total returns over the coming years we rate Bank of America a buy for those that seek exposure to the banking industry. Importantly, we note that its performance during the last financial crisis shows that Bank of America's dividend is not as safe as that of companies in other industries.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	112465	105.0B	86094	81264	86041	85894	82965	83701	87352	91247
SG&A Exp.	52372	57294	64474	60416	58623	65863	49221	47270	47154	45911
D&A Exp.	4314	3912	3485	3038	2683	2522	2389	2241	2103	N/A
Net Profit	6276	-2238	1446	4188	11431	5520	15910	17822	18232	28147
Net Margin	5.6%	-2.1%	1.7%	5.2%	13.3%	6.4%	19.2%	21.3%	20.9%	30.8%
Free Cash Flow	127491	81554	63141	-16.1B	92817	30795	28397	18361	10403	N/A
Income Tax	-1916	915	-1676	-1116	4741	2443	6277	7199	10981	6437

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	2230.2	2264.9	2129.0	2210.0	2102.3	2104.5	2144.3	2188.1	2281.2	2354.5
Cash & Eq. (\$B)	145.54	134.86	146.11	129.45	142.86	146.10	167.10	157.60	168.59	184.90
Acc. Receivable	81996	85704	66999	71467	59448	61845	58312	58759	61623	65814
Goodwill & Int.	118114	98961	85498	82511	80470	77919	76616	71716	71253	68951
Total Liab. (\$B)	1998.8	2036.7	1898.9	1973.0	1869.6	1861.1	1888.1	1921.9	2014.1	2089.2
LT Debt (\$B)	508.05	508.39	407.96	306.32	295.67	274.31	264.86	240.77	260.07	249.53
Total Equity (\$B)	194.24	211.69	211.70	218.19	219.33	224.16	233.90	240.98	244.82	243.00
D/E Ratio	2.20	2.23	1.77	1.29	1.27	1.13	1.03	0.90	0.97	0.94

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.3%	-0.1%	0.1%	0.2%	0.5%	0.3%	0.7%	0.8%	0.8%	1.2%
Return on Equity	3.8%	-1.1%	0.7%	1.9%	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%
ROIC	0.9%	-0.3%	0.2%	0.7%	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%
Shares Out.	8.7	10.1	10.5	10.8	10.6	10.5	10.4	10.1	10.3	9.7
Revenue/Share	14.55	10.72	8.40	7.50	7.49	8.12	7.38	7.58	8.10	8.91
FCF/Share	16.50	8.33	6.16	-1.48	8.08	2.91	2.53	1.66	0.97	N/A

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

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