



# U.S. Bancorp (USB)

Updated January 18<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$50	<b>5 Year CAGR Estimate:</b>	12.1%	<b>Volatility Percentile:</b>	17.8%
<b>Fair Value Price:</b>	\$57	<b>5 Year Growth Estimate:</b>	6.5%	<b>Momentum Percentile:</b>	42.4%
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Growth Percentile:</b>	60.3%
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$77	<b>Valuation Percentile:</b>	70.1%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	67.5%

## 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 \$80 billion market capitalization, and \$23 billion in annual revenue. The bank has grown from a regional player to a national powerhouse in recent years, becoming the fifth-largest bank by assets in the US. It competes mostly in traditional banking activities, but also offers wealth management, payment and investment services.

U.S. Bancorp reported Q4 earnings on 1/16/19 and results were characteristically strong. Net interest income rose 3.2% year-over-year thanks to a marginally higher loan balance. Noninterest income rose 5.4% against the year-ago quarter driven by payments revenue and trust investment fees. Curiously, U.S. Bancorp seemed unable to take advantage of higher rates against the comparable period last year as net interest margin was flat at 3.15%. That's a very high level, so gains will be tougher to come by. However, we would have expected some measure of margin expansion in Q4.

On the plus side, U.S. Bancorp saw some operating leverage once again in Q4 as its adjusted noninterest expense rose 2.7%, putting its Q4 efficiency ratio at 56.3%. That's also a strong number as U.S. Bancorp has been an efficient operator for many years and continues to be so. That helped drive return on assets of 1.59% in Q4, up from 1.46% in last year's Q4. U.S. Bancorp is consistently at the top among large banks in ROA and Q4 was certainly no different.

The bank's credit quality metrics were mixed, but roughly flat against the year-ago period. Net charge-offs rose 3bps to 49bps in Q4, nonperforming assets fell 9bps to 34bps, and provisions for credit losses fell 3bps to 155bps in Q4. U.S. Bancorp maintains a very strong capital base that affords it the ability to return lots of capital to shareholders via the 3% dividend and ample buyback, which saw the float decline by nearly 50 million shares in 2018. We're out with an initial estimate of \$4.35 in earnings-per-share for 2019, reflecting a slightly tougher revenue growth environment.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.97	\$1.73	\$2.46	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	<b>\$4.35</b>	<b>\$5.96</b>
<b>DPS</b>	\$0.20	\$0.20	\$0.50	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	<b>\$1.48</b>	<b>\$2.00</b>
<b>Shares</b>	1,913	1,921	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	<b>1,560</b>	<b>1,350</b>

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 continues to grow its loan book at low single digit rates. Second, 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 over time (although as noted, that was not the case in Q4). Third, it consistently repurchases its own stock and we expect a low single digit tailwind annually from buybacks.

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 \$2.00 in five years. That would keep the payout ratio around 35% of earnings and in line with the bank's capital return strategy, affording it the opportunity to continue to buy back shares. With revenue and margin growth becoming tougher this late in the cycle, the buyback will take on increasing importance in the coming years.

*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.*



# U.S. Bancorp (USB)

Updated January 18<sup>th</sup>, 2019 by Josh Arnold

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.8	14.0	10.3	11.1	12.0	13.7	13.7	13.2	15.0	12.7	11.4	13.0
Avg. Yld.	1.0%	0.8%	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	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 11.4 earnings, however, and we expect it will move up to 13 over time, providing a 2.6% tailwind to total returns in the process. We've slightly downgraded our estimate of fair value from 14.2 times earnings given investors have begun to price in the risk of a slowdown and less growth in interest margins in the near-term.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	34%	14%	22%	30%	32%	34%	34%	36%	36%	32%	34%	34%

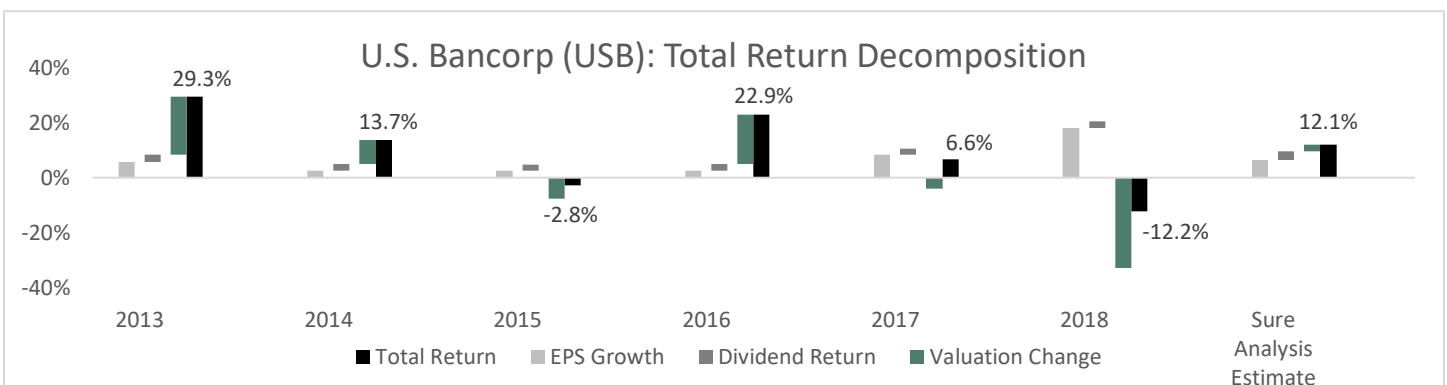
U.S. Bancorp's quality metrics have been largely stagnant for a long time but given how strong these numbers are, that's a good thing. We expect return on assets to stay right where it is as well as its balance sheet leverage, which has not budged for a decade. Interest coverage may decline slightly 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 around 35% 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 B 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 12.1% annual returns moving forward. U.S. Bancorp posted disappointing returns in 2018 but if history is a guide, the stock is at a nice entry point for longer term investors. We see returns accruing from 6.5% earnings growth, the 3% current yield and a 2.6% tailwind from a rising valuation. Even with the lower estimate of fair value, U.S. Bancorp looks attractive for a variety of investors. We continue to rate the stock a buy as we see a very favorable outlook.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# U.S. Bancorp (USB)

Updated January 18<sup>th</sup>, 2019 by Josh Arnold

## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	15186	17939	18883	20064	19378	19939	20093	21105	21852	22521
<b>SG&amp;A Exp.</b>	4375	5878	6316	6778	7026	7137	7524	8032	8774	9124
<b>D&amp;A Exp.</b>	607	596	565	561	520	501	481	470	468	N/A
<b>Net Profit</b>	2205	3317	4872	5647	5836	5851	5879	5888	6218	7096
<b>Net Margin</b>	14.5%	18.5%	25.8%	28.1%	30.1%	29.3%	29.3%	27.9%	28.5%	31.5%
<b>Free Cash Flow</b>	7600	5241	9820	7958	11446	5332	8782	5336	6472	N/A
<b>Income Tax</b>	395	935	1841	2236	2032	2087	2097	2161	1264	1554

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	281.18	307.79	340.12	353.86	364.02	402.53	421.85	445.96	462.04	467.37
<b>Cash &amp; Equivalents</b>	6206	14487	13962	8252	8477	10654	11147	15705	19505	21453
<b>Goodwill &amp; Int.</b>	12417	12167	11663	11849	12734	12551	12711	12647	12662	12761
<b>Total Liab. (\$B)</b>	254.52	277.46	305.15	313.59	322.21	358.36	375.04	398.03	412.37	415.72
<b>Long-Term Debt</b>	63892	64094	50740	42637	44276	59522	58216	46038	47855	55479
<b>Total Equity</b>	24463	27589	31372	34229	36357	38723	40630	41797	43621	45045
<b>D/E Ratio</b>	2.46	2.17	1.49	1.09	1.08	1.37	1.26	0.97	0.98	1.09

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	0.8%	1.1%	1.5%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%
<b>Return on Equity</b>	10.3%	12.7%	16.5%	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%
<b>ROIC</b>	2.3%	3.6%	5.4%	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	6.9%
<b>Shares Out.</b>	1,913	1,921	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608
<b>Revenue/Share</b>	8.17	9.34	9.82	10.58	10.48	11.00	11.34	12.24	12.98	13.75
<b>FCF/Share</b>	4.09	2.73	5.11	4.20	6.19	2.94	4.96	3.10	3.85	N/A

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.