



Bank of America Corp. (BAC)

Updated April 17th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	12.7%	Volatility Percentile:	76.9%
Fair Value Price:	\$34	5 Year Growth Estimate:	8.0%	Momentum Percentile:	41.0%
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.7%	Growth Percentile:	84.0%
Dividend Yield:	2.0%	5 Year Price Target	\$50	Valuation Percentile:	75.8%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	80.6%

Overview & Current Events

Bank of America provides traditional banking services, as well as non-banking financial services to customers all over the world. 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 \$288 billion, making it one of the largest financial companies in the world.

Bank of America reported Q1 earnings on 4/16/19 and results were better than consensus expectations. Revenue was essentially flat, falling fractionally from \$23.1 billion in last year's Q1 to \$23 billion this year. However, the bank saw its 17th consecutive quarter of positive operating leverage as noninterest expense fell 4% year-over-year. In the process, Bank of America's efficiency ratio improved to 57%, which is in line with its mega-banking peers; its efficiency ratio in Q1 of last year was 60%. This helped drive earnings-per-share 13% higher against the year-ago period to a record 70 cents.

Net interest yield rose 9bps to 2.51%, a strong result given that the yield curve has flattened significantly in the past year. The Consumer Banking segment produced very strong results in Q1 as average loans were up 5% and deposits rose 3%. Commercial loans also rose 4%, helping to drive net interest yield higher and boosting margins in the process.

Bank of America's profitability metrics continue to move in the right direction as return on assets rose 5bps to 1.26% year-over-year. The bank's capital returns continue to accrue to shareholders by the billions of dollars as Bank of America returned 112% of its net income in Q1. Returns were comprised of \$1.5 billion in dividends and another \$6.3 billion in share repurchases.

After a strong Q1 report, we've moved our estimate for earnings-per-share in 2019 up slightly to \$2.85 as we continue to like Bank of America's operating leverage and share repurchases as earnings drivers.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-\$0.29	-\$0.37	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.85	\$4.19
DPS	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.60	\$1.42
Shares	8,650	10,085	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	9,400	8,500

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.

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 track, although the tremendous earnings-per-share growth rate seen in 2018 will not be repeatable.

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 Q1, the bank was able to grow its average loan balances across its businesses by 4% on top of strong growth in 2018. Loan balances were once again higher in the consumer segment as well as in Bank of America's commercial business. Bank of America is also focused on minimizing expenses. The bank lowered its efficiency ratio to 57% during Q1, down from 60% a year earlier. More broadly, Bank of America lowered its

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operating expenses by 4% during the Q1, continuing to accrue cost savings after years of similar results. 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 its earnings-per-share growth rate.

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	10.5	12.0
Avg. Yld.	0.3%	0.3%	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.0%	2.8%

During the last financial crisis Bank of America operated at a loss. This makes it difficult to put Bank of America's long-term average valuation into context. 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 double-digits earnings multiple, in line with its peers. The target multiple of 12 is a slight reduction from our previous target of 13, which appears to be too ambitious at this point. Bank of America's dividend yield isn't very high right now, but the dividend growth rate has been quite good over the last couple of years, and we expect the payout to grow in excess of earnings growth in the coming years.

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%	21.1%	33.9%

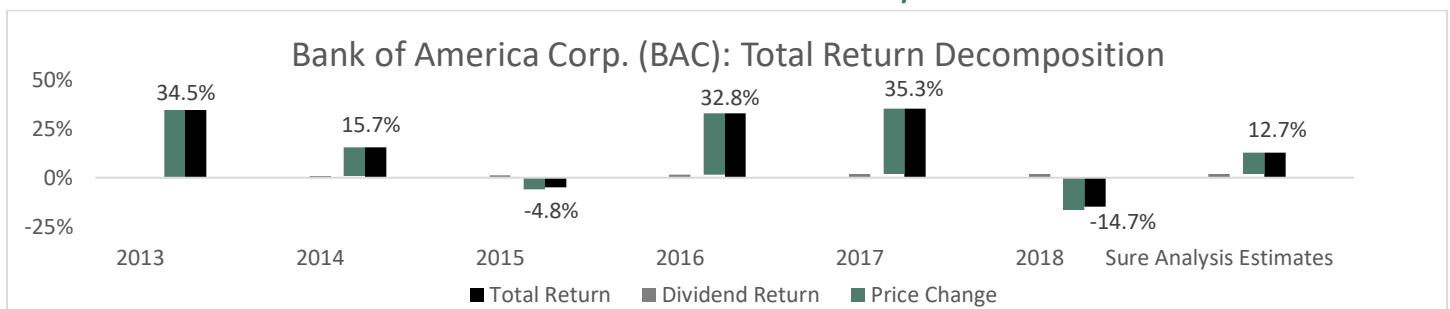
Bank of America started to raise its dividend payout ratio in earnest a couple of years ago, but the company still only pays out a small amount of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe.

Bank of America competes with the biggest banks of the United States. Bank of America is a 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 major financial crises such as the one around 2009 are not common occurrences. During a normal recession, Bank of America will likely perform better than its 2007-2009 history would suggest.

Final Thoughts & Recommendation

Bank of America is in a strong 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 continue to 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 should another strong downturn strike.

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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