JPMorgan & Chase Co. (JPM)

Updated April 14th, 2019 by Josh Arnold

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	7.6%	**Volatility Percentile:**	32.5%
Fair Value Price:	$107	**5 Year Growth Estimate:**	5.5%	**Momentum Percentile:**	37.1%
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Growth Percentile:**	49.3%
Dividend Yield:	2.9%	**5 Year Price Target**	$139	**Valuation Percentile:**	49.3%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	43.2%

Overview & Current Events

JPMorgan was founded in 1799 as one of the first commercial banks in the US. Since then it has merged or acquired more than 1,200 different institutions, creating a global banking behemoth with a $361 billion market capitalization and $114 billion in annual revenue. JPMorgan competes in every major segment of financial services, including consumer banking, commercial banking, home lending, credit cards, asset management and investment banking.

JPMorgan reported Q1 earnings on 4/12/19 and results beat expectations, sending shares higher on the day. Revenue came in at $29.1 billion, a new record for the top line. The bank showed strength across all of its major reporting segments as JPMorgan's immense size and diversification paid off once again. Earnings-per-share came in at $2.65 in Q1 compared to $2.37 in the year-ago period.

Total revenue was up 5% as total firmwide loans rose by the same amount. Noninterest expense rose just 2% in Q1, driving margin expansion thanks to leverage on operating costs. Book value rose 6% year-over-year to $71.78, including tangible book value of $57.62 at the end of Q1.

Credit quality remains outstanding as charge-offs are low, helping to keep earnings moving higher. In addition, JPMorgan's balance sheet is robust despite high levels of capital returns. The bank's common equity tier 1 capital ratio stands at 12.1% and its supplementary leverage ratio is 6.4%. Both of these are well in excess of required minimums. This, despite the bank returning another $7.4 billion in the first quarter through a combination of the $0.80 quarterly dividend and $4.7 billion of share repurchases.

The interest rate expansion story appears to be over for JPMorgan, however, as its interest rate spread has been around 2.25% for the past five quarters with very little movement. This will make it more difficult for JPMorgan to grow earnings in the near-term, which we've reflected in our revised estimate for earnings-per-share in 2019. Indeed, we've removed a quarter from estimates, moving our number down from $9.95 to $9.70 to reflect this.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.24	$3.96	$4.48	$5.20	$4.35	$5.29	$6.00	$6.19	$6.87	$9.00	***$9.70***	***$12.68***
DPS	$0.20	$0.20	$1.00	$1.20	$1.44	$1.58	$1.72	$1.88	$2.12	$2.48	***$3.20***	***$4.00***
Shares	3,942	3,910	3,772	3,804	3,756	3,714	3,664	3,561	3,425	3,340	***3,250***	***2,900***

We see JPMorgan achieving 5.5% average annual growth in the years to come, although growth will be stronger in 2019, even with the reworked estimate. The bank will achieve this with low single digit revenue growth, continued net interest income growth, as well as a meaningful tailwind from the ongoing share buyback program. JPMorgan's balance sheet and earnings potential are more than sufficient to produce a nice tailwind from repurchases indefinitely, but its leverage to the credit card market – which is seeing loss rates continue to rise from historical lows – as well as the flattening yield curve may keep a lid on profitability going forward. Indeed, some of these forces were in play once again in the Q1 report, to the bank's detriment.

Recent years have seen double digit payout growth and we see that continuing, given that JPMorgan's payout ratio is still very low. We forecast the dividend being around $4.00 per share in five years as the bank continues to expand the payout with earnings growth. This projected payout growth is a strong reason to consider the stock for income investors. In addition, the most recent dividend increase was sizable and the payout is now $3.20 per share.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.8	10.2	8.8	7.5	11.9	11.0	10.6	10.6	13.4	12.3	***11.5***	***11.0***
Avg. Yld.	0.6%	0.5%	2.5%	3.1%	2.8%	2.7%	2.7%	2.9%	2.3%	2.2%	***2.9%***	***2.9%***

JPMorgan's price-to-earnings ratio has moved meaningfully higher in recent weeks, sitting at 11.5 today. That is very near our estimate for fair value at 11 times earnings, but does imply a 0.8% headwind to total returns annually. The yield should remain around 3% for the foreseeable future as the dividend roughly keeps pace with earnings growth and share price appreciation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	18%	9%	25%	25%	36%	33%	33%	34%	35%	28%	***33%***	***32%***

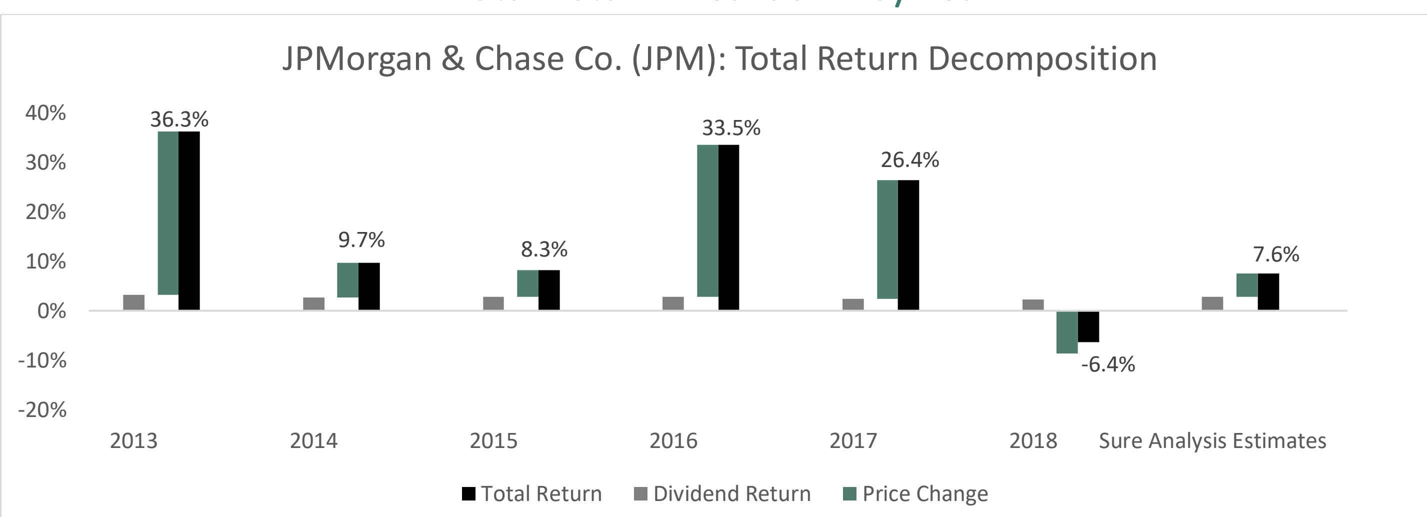
We see the payout ratio remaining in the low-30% range following the recent dividend increase. JPMorgan is spending heavily on buybacks but is still able to increase the dividend at fairly high rates. We see the payout as very safe and as a good choice for income investors given strong earnings growth, and a willingness to return that capital to shareholders.

JPMorgan's competitive advantages include its enormous scale, diversified revenue streams and world class reputation. However, it is susceptible to recessions, just like any other bank, and earnings will suffer during the next downturn.

Final Thoughts & Recommendation

Overall, we see JPMorgan as a strong franchise with reasonable growth ahead of it, and a fair valuation. However, the total return outlook has deteriorated given the recent rally in the stock, and we now expect 7.6% total annual returns to shareholders. Returns could accrue from 5.5% earnings growth, the 2.9% yield and a 0.8% headwind from the valuation. While JPMorgan is certainly seeing weakness in some of its businesses, its core consumer banking segment grew strongly again in Q1 and we see cause for optimism for the future. However, the reduction in the total return outlook has us moving our rating down from buy to hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	100.4	102.7	97.2	97.0	97.4	95.1	93.5	96.6	100.7	109.0
SG&A Exp.	33329	35254	37127	38386	38735	38514	38651	39953	41823	45209
D&A Exp.	4358	4965	5105	5147	5306	4759	4940	5478	6179	7791
Net Profit	11728	17370	18976	21284	17886	21745	24442	24733	24441	32474
Net Margin	11.7%	16.9%	19.5%	21.9%	18.4%	22.9%	26.1%	25.6%	24.3%	29.8%
Free Cash Fl. ($B)	122797	-3752	95932	25079	108B	36593	73466	21884	-10.8B	14187
Income Tax	4415	7489	7773	7633	8789	8954	6260	9803	11459	8290

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	2032	2118	2266	2359	2416	2572	2352	2491	2534	2623
Cash & Eq. ($B)	89	49	145	176	356	512	361	390	431	279
Acc. Receivable	N/A	N/A	61478	60933	65160	70079	46605	52330	67729	73200
Goodwill	68509	66542	58618	58024	59313	56275	54948	54246	54392	54349
Total Liab. ($B)	1867	1941	2082	2155	2205	2341	2104	2237	2278	2366
Acc. Payable ($B)	163	170	203	195	194	207	178	110	103	115
LT Debt ($B)	364	340	308	304	326	343	304	307	336	351
Total Equity ($B)	157	168	176	195	200	212	222	228	230	230
D/E Ratio	2.20	1.93	1.68	1.49	1.54	1.48	1.23	1.21	1.31	1.37

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.6%	0.8%	0.9%	0.9%	0.7%	0.9%	1.0%	1.0%	1.0%	1.3%
Return on Equity	8.0%	10.7%	11.0%	11.5%	9.1%	10.6%	11.3%	11.0%	10.7%	14.1%
ROIC	2.3%	3.3%	3.8%	4.3%	3.4%	3.9%	4.3%	4.4%	4.2%	5.4%
Shares Out.	3,942	3,910	3,772	3,804	3,756	3,714	3,664	3,561	3,425	3,340
Revenue/Share	25.89	25.82	24.80	25.39	25.52	25.05	24.79	26.17	28.16	31.94
FCF/Share	31.65	-0.94	24.47	6.56	28.30	9.64	19.47	5.93	-3.03	4.16

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