



# U.S. Bancorp (USB)

Updated April 17<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$51	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Volatility Percentile:</b>	11.6%
<b>Fair Value Price:</b>	\$57	<b>5 Year Growth Estimate:</b>	6.5%	<b>Momentum Percentile:</b>	24.3%
<b>% Fair Value:</b>	90%	<b>5 Year Valuation Multiple Estimate:</b>	2.2%	<b>Growth Percentile:</b>	42.2%
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$77	<b>Valuation Percentile:</b>	63.4%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	73.1%

## 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 Q1 earnings on 4/17/19 and results were in line with analyst expectations. Earnings-per-share rose from 96 cents in last year's Q1 to \$1.00 this quarter. This, however, was lower against \$1.10 in earnings-per-share in Q4 of 2018.

Net interest income rose 2.8% against last year's Q1, thanks mostly to higher loan balances. Average loans grew 2.4% year-over-year, but 3.7% when adjusting for the sales of small portions of the loan portfolio last year. Net interest margin also rose fractionally, gaining 3bps year-over-year to 3.16%. U.S. Bancorp continues to enjoy industry-leading net interest margins as its focus on traditional lending continues to pay off. This is even more impressive given that the yield curve has flattened in the past twelve months, but U.S. Bancorp preserved its margin profile. Helping the cause of preserving margins was the bank's efficiency ratio, which improved fractionally in Q1, falling from 55.9% in last year's Q1 to 55.4% this quarter.

Like many other large banks, provisions for credit losses rose year-over-year, adding 11% against last year's Q1. Historically low provisions and actual losses in recent quarters have proven collectively unsustainable for large banks and U.S. Bancorp certainly fits that bill with its Q1 results. Provisions for credit losses reduce earnings for a bank.

U.S. Bancorp is one of the most expensive banks on a price-to-book value basis, and that continues after Q1. Book value at the end of the quarter was under \$29 per share against a current share price of \$51.

After a Q1 report that was largely as expected, we're reiterating our 2019 earnings estimate of \$4.35 per share.

## 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, as it did again in Q1. 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. This was the case in Q1 despite the flattening of the yield curve. Third, it consistently repurchases its own stock, and we expect a low single digit tailwind annually from buybacks.

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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.

## 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	<b>11.6</b>	<b>13.0</b>
Avg. Yld.	1.0%	0.8%	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	<b>2.9%</b>	<b>2.6%</b>

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 11.6 earnings, however, and we expect it will move up to 13 over time, providing a 2.2% tailwind to total returns in the process.

## 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%	<b>34%</b>	<b>34%</b>

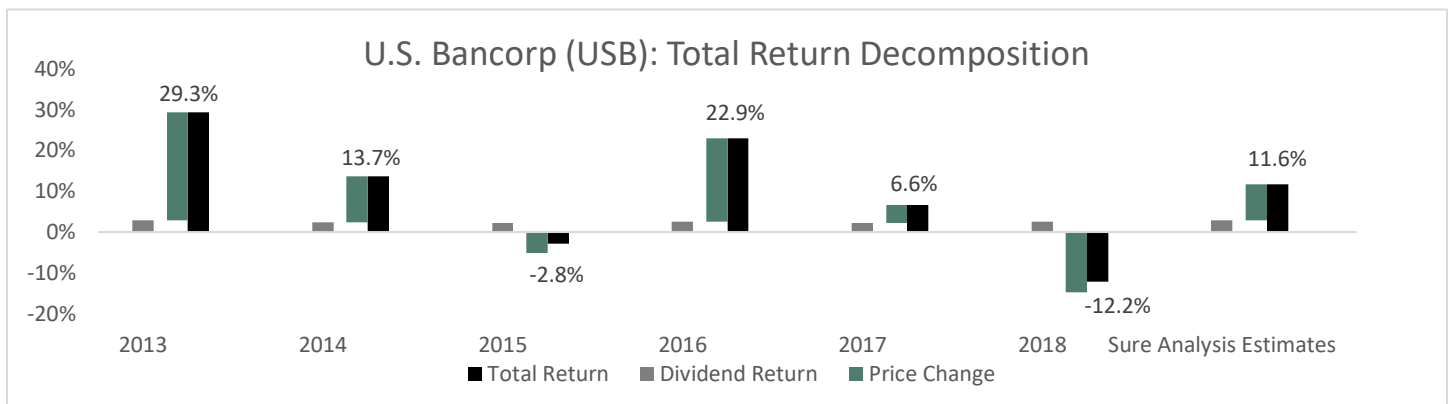
We see the payout remaining around one-third of earnings in the coming years, consistent with past years. U.S. Bancorp's dividend is very safe and we see no risk of a cut at this point. We see future growth in the payout as being roughly congruent with earnings expansion.

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 11.6% 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 2.9% current yield and a 2.2% tailwind from a rising valuation. U.S. Bancorp continues to look attractive for a variety of investors. We reiterate the stock as a buy as we see a very favorable outlook.

## Total Return Breakdown by Year



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## 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.

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