



# Bank of America Corp. (BAC)

Updated October 21<sup>st</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	8.0%	<b>Volatility Percentile:</b>	77.6%
<b>Fair Value Price:</b>	\$30	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	58.8%
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-0.5%	<b>Growth Percentile:</b>	57.3%
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$40	<b>Valuation Percentile:</b>	58.8%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	56.1%

## 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 \$277 billion, making it one of the largest financial companies in the world.

Bank of America reported Q3 earnings on 10/16/2019 and results were better than estimates. Earnings-per-share came in at \$0.75, well in excess of estimates at \$0.68, and up from \$0.66 in the year-ago quarter.

Net interest income was \$12.2 billion in Q3, up slightly from the year-ago period, and equal with Q2. Net interest yield came to 2.41%, which was a small decline against the year-ago period.

Consumer banking net income was up 5% to \$3.3 billion as loans increased 7% to \$304 billion, while deposits were up 3% to \$709 billion. Global wealth and investment management net income was up 8% year-over-year to \$1.1 billion as loans increased 5%, more than offset by a 7% increase in deposits. Global banking net income rose 3% to \$2.1 billion as loans were up 7%, and deposits rose by the same amount. Finally, global markets income fell 8% year-over-year to \$0.8 billion as equities revenue was a bright spot, but sales and trading weakness more than offset it.

In total, revenue net of interest expense was up slightly to \$22.8 billion. Provisions for credit losses came to \$779 million and adjusted noninterest expense was essentially flat at \$13.1 billion. Net charge-offs came to 0.34%, compared to 0.40% in last year's Q3 as credit quality continues to improve.

Average loans and leases were up 6% while deposits rose 4% in total to \$1.4 trillion. Book value per share was up 11% to \$26.96, while tangible book value is now \$19.26 per share. The bank returned \$9.3 billion to shareholders during the quarter through a combination of dividends and share repurchases.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	-\$0.29	-\$0.37	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	<b>\$2.70</b>	<b>\$3.61</b>
<b>DPS</b>	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	<b>\$0.72</b>	<b>\$1.27</b>
<b>Shares<sup>1</sup></b>	8,650	10,085	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	<b>9,100</b>	<b>8,200</b>

Bank of America's earnings and dividend history over the last decade do not look compelling at first glance. Both earnings and dividends were decimated during the last financial crisis and the share price dropped substantially. Moreover, investors' dividend stream all but stopped for many years.

However, 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, consistent with Q3 results. Bank of America is also focused on minimizing expenses.

<sup>1</sup> Share count in millions

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The bank's efficiency ratio remained at 57% in Q3 after spending years in the mid-60s or higher. 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 as the float shrinks.

## 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	<b>11.3</b>	<b>11.0</b>
Avg. Yld.	0.3%	0.3%	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	<b>2.4%</b>	<b>3.2%</b>

During the last financial crisis Bank of America operated at a loss, which makes it difficult to put the company'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 settle on a low double-digits earnings multiple, in line with its peers. The target multiple of 11 is very near where shares trade today.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	16%	4%	33%	15%	17%	21%	21%	<b>27%</b>	<b>35%</b>

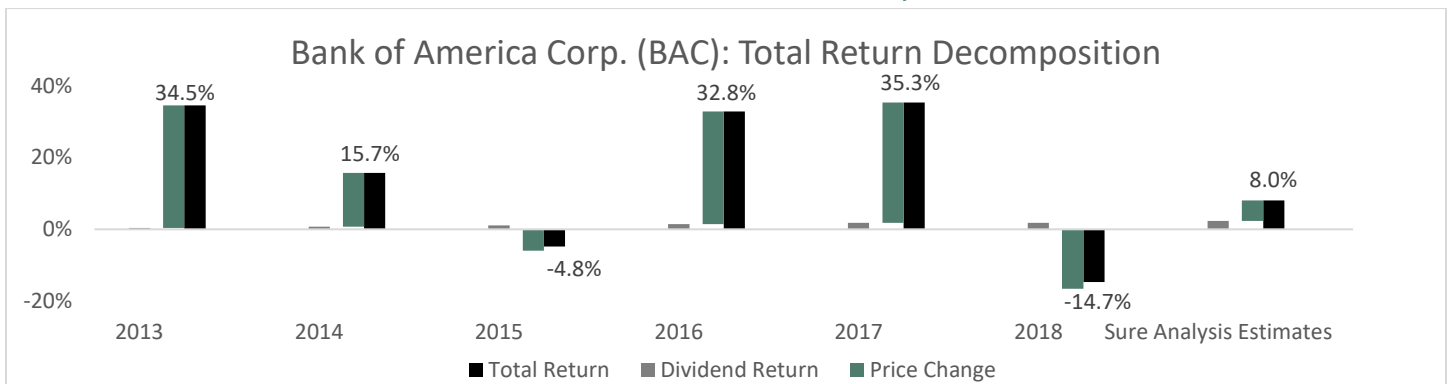
Bank of America started to raise its dividend payout ratio in earnest a couple of years ago, but the company still only pays out a small amount of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe.

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 may perform better than its 2007-2009 history would suggest.

## Final Thoughts & Recommendation

Bank of America is in a strong position now as its earnings are growing, its dividend experiences a strong growth rate, and its balance sheet looks very healthy. Shares trade near our fair value estimate, and due to average expected total returns over the coming years, we rate Bank of America as a hold 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
<b>Revenue</b>	112465	105.0B	86094	81264	86041	85894	82965	83701	87352	91247
<b>SG&amp;A Exp.</b>	52372	57294	64474	60416	58623	65863	49221	47270	47154	45911
<b>D&amp;A Exp.</b>	4314	3912	3485	3038	2683	2522	2389	2241	2103	N/A
<b>Net Profit</b>	6276	-2238	1446	4188	11431	5520	15910	17822	18232	28147
<b>Net Margin</b>	5.6%	-2.1%	1.7%	5.2%	13.3%	6.4%	19.2%	21.3%	20.9%	30.8%
<b>Free Cash Flow</b>	127491	81554	63141	-16.1B	92817	30795	28397	18361	10403	N/A
<b>Income Tax</b>	-1916	915	-1676	-1116	4741	2443	6277	7199	10981	6437

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets (\$B)</b>	2230.2	2264.9	2129.0	2210.0	2102.3	2104.5	2144.3	2188.1	2281.2	2354.5
<b>Cash &amp; Eq. (\$B)</b>	145.54	134.86	146.11	129.45	142.86	146.10	167.10	157.60	168.59	184.90
<b>Acc. Receivable</b>	81996	85704	66999	71467	59448	61845	58312	58759	61623	65814
<b>Goodwill &amp; Int.</b>	118114	98961	85498	82511	80470	77919	76616	71716	71253	68951
<b>Total Liab. (\$B)</b>	1998.8	2036.7	1898.9	1973.0	1869.6	1861.1	1888.1	1921.9	2014.1	2089.2
<b>LT Debt (\$B)</b>	508.05	508.39	407.96	306.32	295.67	274.31	264.86	240.77	260.07	249.53
<b>Total Equity (\$B)</b>	194.24	211.69	211.70	218.19	219.33	224.16	233.90	240.98	244.82	243.00
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.3%	-0.1%	0.1%	0.2%	0.5%	0.3%	0.7%	0.8%	0.8%	1.2%
<b>Return on Equity</b>	3.8%	-1.1%	0.7%	1.9%	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%
<b>ROIC</b>	0.9%	-0.3%	0.2%	0.7%	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%
<b>Shares Out.</b>	8.7	10.1	10.5	10.8	10.6	10.5	10.4	10.1	10.3	9.7
<b>Revenue/Share</b>	14.55	10.72	8.40	7.50	7.49	8.12	7.38	7.58	8.10	8.91
<b>FCF/Share</b>	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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