



Bank of America Corp. (BAC)

Updated January 18th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	7.1%	Market Cap:	\$307B
Fair Value Price:	\$33	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/28/2020 ¹
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	03/29/2020 ²
Dividend Yield:	2.1%	5 Year Price Target	\$44	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	20.0%

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 \$307 billion, making it one of the largest financial companies in the world.

Bank of America reported Q4 and full-year earnings on January 15th and results were strong once again, capping a terrific 2019. Revenue was down -1% during the quarter as net interest income declined -3%. The decline in NII was driven by lower interest rates, as loan and deposit growth helped offset lower lending margins. Noninterest income was flat against the year-ago period, limiting the damage to total revenue.

Noninterest expense was up fractionally year-over-year but the bank's efficiency ratio was 59% in Q4, which is quite good for a money center bank. Bank of America's efficiency ratio spent years in the 70%+ area so huge progress has been made in terms of rightsizing expenses and growing revenue.

Average loan and lease balances rose 6% to \$936 billion in Q4, driven by strength in both Consumer and Commercial loans, respectively. Average deposit balances rose 5% to \$1.4 trillion, putting the bank's loan-to-deposit ratio at just 67%. That very low leverage will allow a long runway for loan growth in the future as a third of the bank's deposits are sitting essentially idle on the balance sheet.

Provisions for credit losses rose 4% in Q4 as the bank takes reserves against future losses. Combined with the other factors discussed above, earnings came in at \$0.74 per share, up from \$0.70 in the prior Q4. We see earnings-per-share at \$3.00 for 2020 given the strong momentum Bank of America is exhibiting and long runway for loan growth.

Bank of America returned a staggering \$34 billion to shareholders in 2019 through dividends and share repurchases. Book value per share is now up to \$27.32, a 9% gain for 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	-\$0.37	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$3.00	\$4.01
DPS	\$0.04	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$1.16
Shares³	10,085	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,400	7,000

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,

¹ Estimated date

² Estimated date

³ Share count in millions

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although the tremendous earnings-per-share growth rate seen in 2018 will not be repeatable thanks to the one-time gains accrued from tax reform.

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 Q4 results. Bank of America is also focused on minimizing expenses, as evidenced by its low efficiency ratio. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	---	---	---	15.0	---	12.6	10.3	13.5	8.7	10.7	11.6	11.0
Avg. Yld.	0.3%	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.1%	2.6%

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 near where shares trade today, so the impact on total returns from the valuation should be slight.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	16%	4%	33%	15%	17%	21%	21%	24%	24%	29%

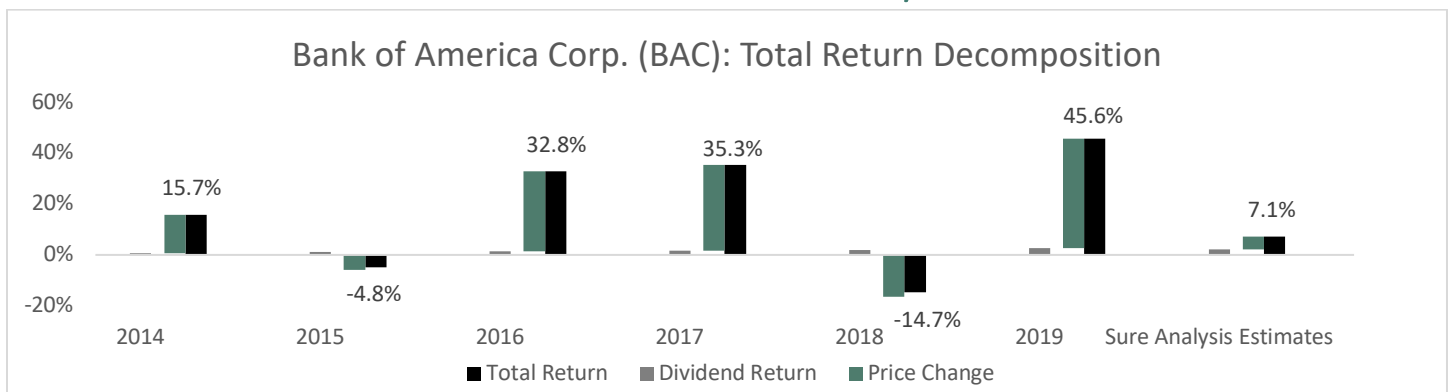
Bank of America started to raise its dividend payout ratio in earnest a couple of years ago, but the company still only pays out a small amount of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe.

Bank of America competes with the largest banks in the U.S. The company 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 is seeing a strong growth rate, and its balance sheet looks very healthy. Shares trade just over 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.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	105.0B	86094	81264	86041	85894	82965	83701	87352	91247	
SG&A Exp.	57294	64474	60416	58623	65863	49221	47270	47154	45911	
D&A Exp.	3912	3485	3038	2683	2522	2389	2241	2103	N/A	
Net Profit	-2238	1446	4188	11431	5520	15910	17822	18232	28147	
Net Margin	-2.1%	1.7%	5.2%	13.3%	6.4%	19.2%	21.3%	20.9%	30.8%	
Free Cash Flow	81554	63141	-16.1B	92817	30795	28397	18361	10403	N/A	
Income Tax	915	-1676	-1116	4741	2443	6277	7199	10981	6437	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	2264.9	2129.0	2210.0	2102.3	2104.5	2144.3	2188.1	2281.2	2354.5	
Cash & Eq. (\$B)	134.86	146.11	129.45	142.86	146.10	167.10	157.60	168.59	184.90	
Acc. Receivable	85704	66999	71467	59448	61845	58312	58759	61623	65814	
Goodwill & Int.	98961	85498	82511	80470	77919	76616	71716	71253	68951	
Total Liab. (\$B)	2036.7	1898.9	1973.0	1869.6	1861.1	1888.1	1921.9	2014.1	2089.2	
LT Debt (\$B)	508.39	407.96	306.32	295.67	274.31	264.86	240.77	260.07	249.53	
Total Equity (\$B)	211.69	211.70	218.19	219.33	224.16	233.90	240.98	244.82	243.00	
D/E Ratio	2.23	1.77	1.29	1.27	1.13	1.03	0.90	0.97	0.94	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-0.1%	0.1%	0.2%	0.5%	0.3%	0.7%	0.8%	0.8%	1.2%	
Return on Equity	-1.1%	0.7%	1.9%	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%	
ROIC	-0.3%	0.2%	0.7%	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%	
Shares Out.	10.1	10.5	10.8	10.6	10.5	10.4	10.1	10.3	9.7	
Revenue/Share	10.72	8.40	7.50	7.49	8.12	7.38	7.58	8.10	8.91	
FCF/Share	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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