



# JPMorgan & Chase Co. (JPM)

Updated January 17<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$137	<b>5 Year CAGR Estimate:</b>	5.8%	<b>Market Cap:</b>	\$378B
<b>Fair Value Price:</b>	\$120	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	01/03/20
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Dividend Payment Date:</b>	01/31/20
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$160	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	12.5%

## 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 \$378 billion market capitalization and \$115 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 Q4 and full-year earnings on January 14<sup>th</sup> and results beat top and bottom line expectations. Total revenue came to \$29.2 billion in Q4, up 9% against the year-ago period. Net interest income was \$14.2 billion, down from \$14.4 billion in last year's Q4 as the firm saw lower total loans outstanding and grappled with low interest rates.

Revenue in the Consumer and Community Business segment was up 3% year-over-year to \$14 billion. Consumer and Business Banking revenue was down -2%, Home Lending revenue fell -5%, Asset Management revenue rose 8%, while Card and Auto revenue rose 9%. Commercial Banking revenue was down -3%, and Corporate and Investment Banking revenue was up 31% year-over-year thanks to very strong fixed income revenue, which tends to be much more volatile than the bank's other, more traditional segments.

Noninterest expense was up 4% and provisions for credit losses fell -8% year-over-year, so JPMorgan's 9% increase in revenue – combined with leveraging down of expenses – was good enough for a 21% increase in earnings on a dollar basis. The share count was also down -6% year-over-year, combining to produce a 30% gain in earnings-per-share year-over-year, coming in at \$2.57 in Q4.

Given home loan divestitures and stubbornly low interest rates, we see growth moderating this year and our initial estimate is \$10.90 in earnings-per-share. JPMorgan has produced torrid earnings growth in the past two years, and we see some of the factors that drove that as moderating, with the bank returning to a more normalized growth path.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$3.96	\$4.48	\$5.20	\$4.35	\$5.29	\$6.00	\$6.19	\$6.87	\$9.00	\$10.72	<b>\$10.90</b>	<b>\$14.59</b>
<b>DPS</b>	\$0.20	\$1.00	\$1.20	\$1.44	\$1.58	\$1.72	\$1.88	\$2.12	\$2.48	\$3.30	<b>\$3.60</b>	<b>\$4.82</b>
<b>Shares<sup>1</sup></b>	3,910	3,772	3,804	3,756	3,714	3,664	3,561	3,425	3,340	3,084	<b>2,800</b>	<b>2,300</b>

We see JPMorgan achieving 6% average annual growth in the years to come after an outstanding 2019. The bank can achieve this with low single-digit revenue growth, leveraging down of noninterest expenses, 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. JPMorgan has been able to skillfully navigate a tricky rate environment and produce strong returns, and we expect that will continue indefinitely. However, we also caution that the huge gains produced from the fixed income business, for instance, are transitory as the investment banking business tends to be very volatile.

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

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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 \$4.82 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 \$3.60 per share.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.2	8.8	7.5	11.9	11.0	10.6	10.6	13.4	12.3	10.6	12.6	11.0
Avg. Yld.	0.5%	2.5%	3.1%	2.8%	2.7%	2.7%	2.9%	2.3%	2.2%	2.9%	2.6%	3.0%

JPMorgan's price-to-earnings ratio is up from our last report after a strong rally, sitting at 12.6 today. That is in excess of our fair value estimate of 11 times earnings, implying a -2.7% headwind to total returns annually. With the stock making new all-time highs, we are cautious on the valuation. 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

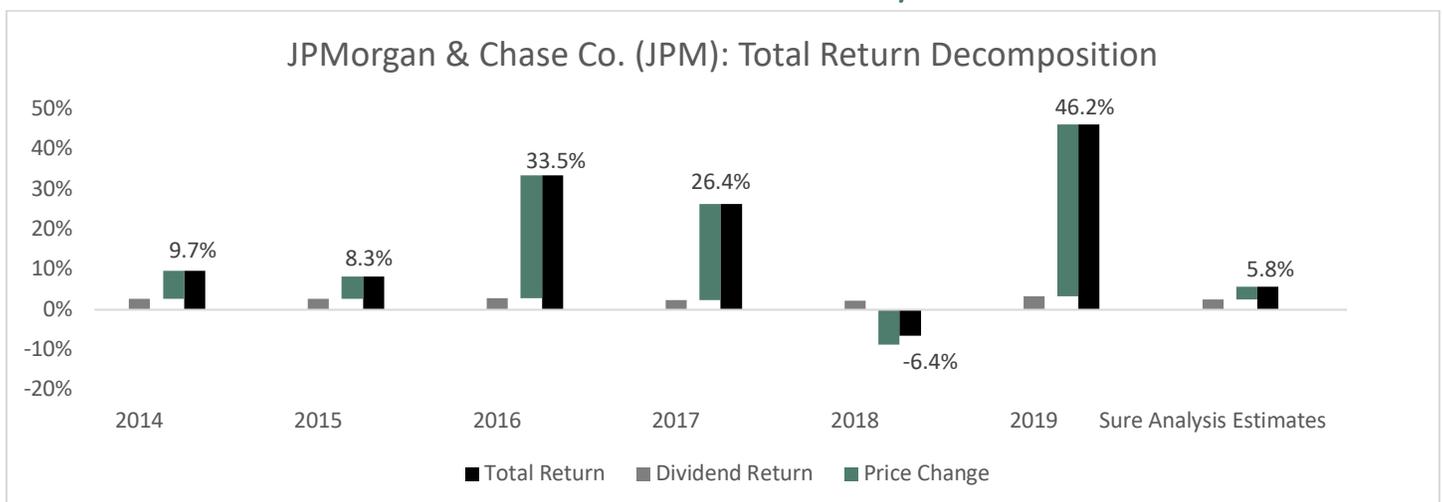
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	9%	25%	25%	36%	33%	33%	34%	35%	28%	31%	33%	33%

We see the payout ratio remaining in the mid-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, but a somewhat expensive valuation. The total return outlook has deteriorated again given the recent rally in the stock, and we now expect 5.8% total annual returns to shareholders. We like JPMorgan for its continued strong performance and enormous capital return program. However, mid-single-digit total expected returns have us reiterating our hold rating despite another strong earnings report.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue (\$B)</b>	102.7	97.2	97.0	97.4	95.1	93.5	96.6	100.7	109.0	115.6
<b>SG&amp;A Exp.</b>	35254	37127	38386	38735	38514	38651	39953	41823	45209	47,555
<b>D&amp;A Exp.</b>	4965	5105	5147	5306	4759	4940	5478	6179	7791	
<b>Net Profit</b>	17370	18976	21284	17886	21745	24442	24733	24441	32474	36,431
<b>Net Margin</b>	16.9%	19.5%	21.9%	18.4%	22.9%	26.1%	25.6%	24.3%	29.8%	31.5%
<b>Free Cash Fl. (\$B)</b>	-3752	95932	25079	108B	36593	73466	21884	-10.8B	14187	
<b>Income Tax</b>	7489	7773	7633	8789	8954	6260	9803	11459	8290	8,114

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets (\$B)</b>	2118	2266	2359	2416	2572	2352	2491	2534	2623	2687
<b>Cash &amp; Eq. (\$B)</b>	49	145	176	356	512	361	390	431	279	264
<b>Acc. Receivable</b>	N/A	61478	60933	65160	70079	46605	52330	67729	73200	72861
<b>Goodwill</b>	66542	58618	58024	59313	56275	54948	54246	54392	54349	53341
<b>Total Liab. (\$B)</b>	1941	2082	2155	2205	2341	2104	2237	2278	2366	2426
<b>Acc. Payable (\$B)</b>	170	203	195	194	207	178	110	103	115	210
<b>LT Debt (\$B)</b>	340	308	304	326	343	304	307	336	351	332
<b>Total Equity (\$B)</b>	168	176	195	200	212	222	228	230	230	234
<b>D/E Ratio</b>	1.93	1.68	1.49	1.54	1.48	1.23	1.21	1.31	1.37	1.27

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	0.8%	0.9%	0.9%	0.7%	0.9%	1.0%	1.0%	1.0%	1.3%	1.4%
<b>Return on Equity</b>	10.7%	11.0%	11.5%	9.1%	10.6%	11.3%	11.0%	10.7%	14.1%	15.7%
<b>ROIC</b>	3.3%	3.8%	4.3%	3.4%	3.9%	4.3%	4.4%	4.2%	5.4%	6.1%
<b>Shares Out.</b>	3,910	3,772	3,804	3,756	3,714	3,664	3,561	3,425	3,340	3,084
<b>Revenue/Share</b>	25.82	24.80	25.39	25.52	25.05	24.79	26.17	28.16	31.94	35.79
<b>FCF/Share</b>	-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.

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