



Bank of America Corp. (BAC)

Updated April 18th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	16.0%	Market Cap:	\$202B
Fair Value Price:	\$33	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/05/2020 ¹
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.2%	Dividend Payment Date:	06/26/2020 ²
Dividend Yield:	3.1%	5 Year Price Target	\$44	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	D	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 \$202 billion, making it one of the largest financial companies in the world.

Bank of America reported Q1 earnings on April 15th, and results were better than expectations on the top line but missed on profits. Q1 net income fell from \$7.3 billion in the year-ago quarter to just \$4 billion in this year's Q1, thanks to a \$3.8 billion loan loss reserve build as the bank tries to estimate the impact of COVID-19 on its results.

Q1 net interest income was down only slightly against the year-ago period, coming in at \$12.1 billion, down from \$12.4 billion. Q1 net interest income was essentially flat to Q4 2019 results. Noninterest income was \$10.6 billion, flat year-over-year, and up from \$10.2 billion in Q4 of 2019.

Provisions for credit losses soared from \$1 billion in last year's Q1, to \$4.8 billion in this year's Q1 on the COVID-19 build. Net charge-offs came to 0.46% of loans, up from 0.39% in Q4 of 2019.

Average deposits continued their years-long streak of gains, this time adding 6% year-over-year to \$1.4 trillion. Average loan and lease balances also gained 6% to \$954 billion, putting Bank of America's loan-to-deposit ratio at 68%, which is still quite low, as it has been for years.

We've cut our estimate in half for this year, and our earnings-per-share forecast now stands at \$1.50. We think Bank of America will see significant impairments from direct COVID-19 losses, but also decreased economic activity.

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	\$1.50	\$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, 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

¹ Estimated date

² Estimated date

³ Share count in millions

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bank's loan portfolio keeps growing, consistent with Q1 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 buys back shares (although they have temporarily been suspended) which is a tailwind for its earnings-per-share growth rate in the intermediate-term as the float shrinks.

We estimate Bank of America's normalized earnings power at \$3 per share, which is what we've used to calculate fair value and the valuation, instead of the temporarily depressed earnings estimate from above.

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	7.8	11.0
Avg. Yld.	0.3%	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	3.1%	3.1%

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 Bank of America's valuation could settle on a low double-digits earnings multiple, in line with its peers. The target multiple of 11 is much higher than where it trades today on our earnings power estimate of \$3 per share, so we see a ~7% annual tailwind to total returns from the valuation in the coming years.

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%

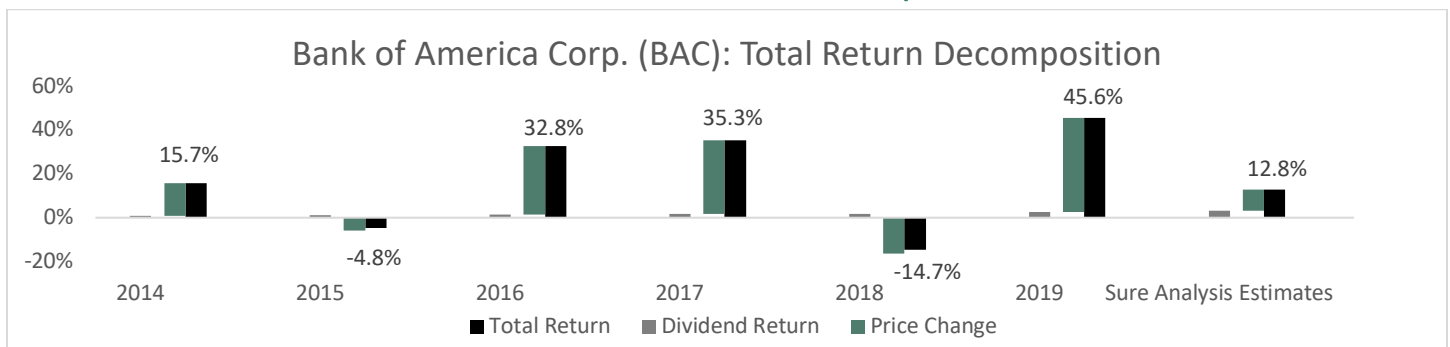
Bank of America started to raise its dividend payout ratio in earnest a couple of years ago, but the company still only pays out a small amount of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe, even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

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 despite the COVID-19 situation, as its long-term earnings power is intact, its dividend is seeing a strong growth rate, and its balance sheet looks very healthy. Shares trade well under our fair value estimate when using normalized earnings power, and due to high expected total returns over the coming years, we rate Bank of America as a buy 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	104,960	86,094	81,264	86,041	85,894	82,965	83,701	87,126	91,020	91,244
SG&A Exp.	57,294	64,474	60,416	58,623	65,863	49,221	47,270	46,365	45,075	46,715
D&A Exp.	3,912	3,485	3,038	2,683	2,522	2,389	2,241	2,103	2,063	1,729
Net Profit	-2238	1446	4188	11431	5520	15910	17822	18232	28147	27,430
Net Margin	-2.1%	1.7%	5.2%	13.3%	6.4%	19.2%	21.3%	20.9%	30.9%	30.1%
Free Cash Flow	81,554	63,141	-16,056	92,817	30,795	28,397	17,277	9,864	39,520	61,777
Income Tax	915	-1,676	-1,116	4,741	2,443	6,277	7,199	10,981	6,437	5,324

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	2434.1
Cash & Eq. (\$B)	134.86	146.11	129.45	142.86	146.10	167.10	157.60	168.59	184.90	168.7
Acc. Receivable	85704	66999	71467	59448	61845	58312	58759	61623	65814	55937
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	2169.3
LT Debt (\$B)	508.39	407.96	306.32	295.67	274.31	264.86	240.77	260.07	249.53	265.1
Total Equity (\$B)	211.69	211.70	218.19	219.33	224.16	233.90	240.98	244.82	243.00	241.4
D/E Ratio	2.23	1.77	1.29	1.27	1.13	1.03	0.90	0.97	0.94	1.00

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%	1.1%
Return on Equity	-1.1%	0.7%	1.9%	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%	11.3%
ROIC	-0.3%	0.2%	0.7%	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%	5.3%
Shares Out.	10.1	10.5	10.8	10.6	10.5	10.4	10.1	10.3	9.7	8.8
Revenue/Share	10.72	8.40	7.50	7.49	8.12	7.38	7.58	8.10	8.91	8.66
FCF/Share	8.33	6.16	-1.48	8.08	2.91	2.53	1.66	0.97	3.86	6.54

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

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