



U.S. Bancorp (USB)

Updated April 19th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	16.8%	Market Cap:	\$53B
Fair Value Price:	\$49	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/30/20 ¹
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.1%	Dividend Payment Date:	07/15/20 ²
Dividend Yield:	4.8%	5 Year Price Target	\$66	Years Of Dividend Growth:	10
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	13.5%

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 \$53 billion market capitalization, and \$22 billion in annual revenue. The bank has expanded 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 April 15th and results were mixed, beating revenue estimates but missing on the bottom line. Earnings-per-share came to 72 cents, widely missing consensus estimates of 81 cents. Like other major banks, U.S. Bancorp boosted its credit loss provisions, with that number nearly tripling year-over-year from \$395 million to \$993 million.

Net interest income was \$3.2 billion in Q1, down -1.1% from the year-ago period. Net interest margins fell meaningfully year-over-year as the yield curve has not only flattened, but been lowered as well across maturity ranges. The damage for U.S. Bancorp was NIM falling from 3.16% to 2.91% year-over-year. That's still quite high for a major bank, but lower lending margins took their toll on profitability in Q1.

Noninterest income was a bright spot, rising 10% year-over-year to \$2.5 billion. Noninterest expense rose 7.4% to \$3.3 billion, however, offsetting some of that gain.

Average loans in Q1 were up slightly to \$298 billion, while average deposits rose slightly quicker, hitting \$363 billion in Q1. That puts the bank's loan-to-deposit ratio at 82%, which is very high among U.S. Bancorp's peers, and we think that has the potential to limit loan growth moving forward.

Due to the sizable loan loss reserve build and general economic uncertainty surrounding the COVID-19 situation, we've slashed our estimate for earnings for 2020 from \$4.30 to \$2.60 per share.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.73	\$2.46	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$2.60	\$5.75
DPS	\$0.20	\$0.50	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$2.25
Shares³	1,921	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,500	1,425

U.S. Bancorp's earnings-per-share history has been strong since the financial crisis ended, as it is one of very few banks to grow earnings every year since 2009, although that streak will certainly end in 2020. We expect U.S. Bancorp to see 6% annual earnings growth in the coming years off of its normalized earnings power base of \$4.30 per share. This is the number we've used for our fair value and valuation calculations, and not the temporarily depressed figure of \$2.60.

It could achieve this growth by accruing the benefits of several tailwinds. First, it continues to grow its loan book at low single-digit rates. Second, net interest income continues to rise despite unfavorable rate movements, as U.S. Bancorp is

¹ Estimated date

² Estimated date

³ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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slow to pass that benefit on to its depositors. Q1 saw a deviation from this, but we believe long-term margins are intact as yield curve inversions generally don't last very long. Third, it consistently repurchases its own stock, and we expect a low single-digit tailwind annually from buybacks. We note buybacks have been temporarily suspended, but should be restarted at some point this year.

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 \$2.25 in five years. That would keep the payout ratio under 40% of earnings and in line with the bank's capital return strategy, affording it the opportunity to continue to buy back shares.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.0	10.3	11.1	12.0	13.7	13.7	13.2	15.0	12.7	12.8	8.2	11.5
Avg. Yld.	0.8%	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.8%	3.4%

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 is well below our estimate of fair value at 11.5 earnings, so we see a sizable tailwind from the valuation in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019	2024
Payout	14%	22%	30%	32%	34%	34%	36%	36%	32%	38%	39%	39%

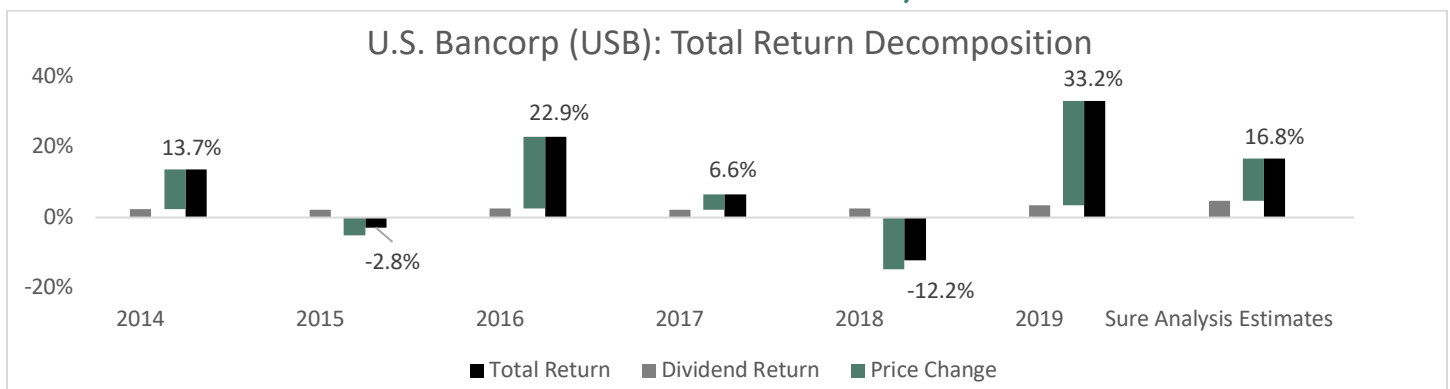
We see the payout remaining around 40% of earnings in the coming years after the recent increase, consistent with past years. U.S. Bancorp's dividend is very safe and we see no risk of a cut at this point. We forecast future growth in the payout as being roughly congruent with earnings expansion.

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

While U.S. Bancorp's fundamentals have deteriorated somewhat, we still view it as one of the strongest large banks in the US. With the valuation improving significantly thanks to the selloff, we are now expecting 16.8% annual returns moving forward. U.S. Bancorp continues to look attractive for a variety of investors, and we're moving our rating from hold to buy on the improved valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	17939	18883	20064	19378	19939	20093	21105	21852	22521	22883
SG&A Exp.	5878	6316	6778	7026	7137	7524	8032	8774	9124	9422
D&A Exp.	596	565	561	520	501	481	470	468	467	502
Net Profit	3317	4872	5647	5836	5851	5879	5888	6218	7096	6914
Net Margin	18.5%	25.8%	28.1%	30.1%	29.3%	29.3%	27.9%	28.5%	31.5%	30.2%
Free Cash Flow	5241	9820	7958	11446	5332	8782	5336	6472	10564	4889
Income Tax	935	1841	2236	2032	2087	2097	2161	1264	1554	1648

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	307.79	340.12	353.86	364.02	402.53	421.85	445.96	462.04	467.37	495.43
Cash & Equivalents	14487	13962	8252	8477	10654	11147	15705	19505	21453	22405
Goodwill & Int.	12167	11663	11849	12734	12551	12711	12647	12662	12761	12878
Total Liab. (\$B)	277.46	305.15	313.59	322.21	358.36	375.04	398.03	412.37	415.72	442.94
Long-Term Debt	64094	50740	42637	44276	59522	58216	46038	47855	52439	63890
Total Equity	27589	31372	34229	36357	38723	40630	41797	43621	45045	45869
D/E Ratio	2.17	1.49	1.09	1.08	1.37	1.26	0.97	0.98	1.03	1.23

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.1%	1.5%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%
Return on Equity	12.7%	16.5%	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%
ROIC	3.6%	5.4%	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%
Shares Out.	1,921	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534
Revenue/Share	9.34	9.82	10.58	10.48	11.00	11.34	12.24	12.98	13.75	14.46
FCF/Share	2.73	5.11	4.20	6.19	2.94	4.96	3.10	3.85	6.45	3.09

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

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