



U.S. Bancorp (USB)

Updated July 16th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	10.3%	Market Cap:	\$57 B
Fair Value Price:	\$40	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	09/29/20 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	10/15/20 ²
Dividend Yield:	4.5%	5 Year Price Target	\$51	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, a \$57 billion market capitalization, and \$23 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 U.S. It competes mostly in traditional banking activities, but also offers wealth management, payment and investment services.

U.S. Bancorp reported second quarter earnings on July 15th, with both revenue and earnings coming in ahead of previously-lowered expectations. Revenue was essentially flat year-over-year, but that was ahead of expectations that called for a mid-single-digit decline.

Net interest income came to \$3.22 billion, flat with Q1 and down somewhat from last year's Q2 value of \$3.33 billion. Net interest margin was 2.62%, down from 2.91% in Q1 and 3.13% as U.S. Bancorp has continued to see a rapid decline in its lending margins. Indeed, the bank used to be an industry-leader in NIM, but those days have gone, and we believe it will become more challenging for U.S. Bancorp to grow in the coming years due to a flattened yield curve.

Noninterest income was up 5% year-over-year to \$2.61 billion, helping to offset some of the weakness in lending margins. U.S. Bancorp took a provision for credit losses of \$1.74 billion in Q2, nearly double its value from Q1 of \$993 million. Like the other large banks, U.S. Bancorp sees a very challenging credit risk environment ahead, and is provisioning accordingly.

Average total loans were \$318 billion in Q2, up 6.9% from Q1 and 10% from the year-ago period. Total average deposits were \$403 billion, up 11% from Q1 and a staggering 17% year-over-year.

Earnings-per-share came to \$0.41, down sharply from Q1's \$0.72 and last year's Q2 value of \$1.09. It has become very clear U.S. Bancorp's margins and revenue generation aren't nearly enough to offset loan losses, and we've moved our earnings-per-share estimate down again to \$2.40.

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	\$2.40	\$4.47
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 5% annual earnings growth in the coming years off of its normalized earnings power base of \$3.50 per share. This is the number we've used for our fair value and valuation calculations, and not the temporarily depressed figure of \$2.40.

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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The company 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 slow to pass that benefit on to its depositors. Q2 saw a deviation from this, but we believe long-term margins have the potential to reflate 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.

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 near 50% 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	10.8	11.5
Avg. Yld.	0.8%	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.5%	4.4%

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 somewhat below our estimate of fair value at 11.5 earnings, so we see a small 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%	48%	50%

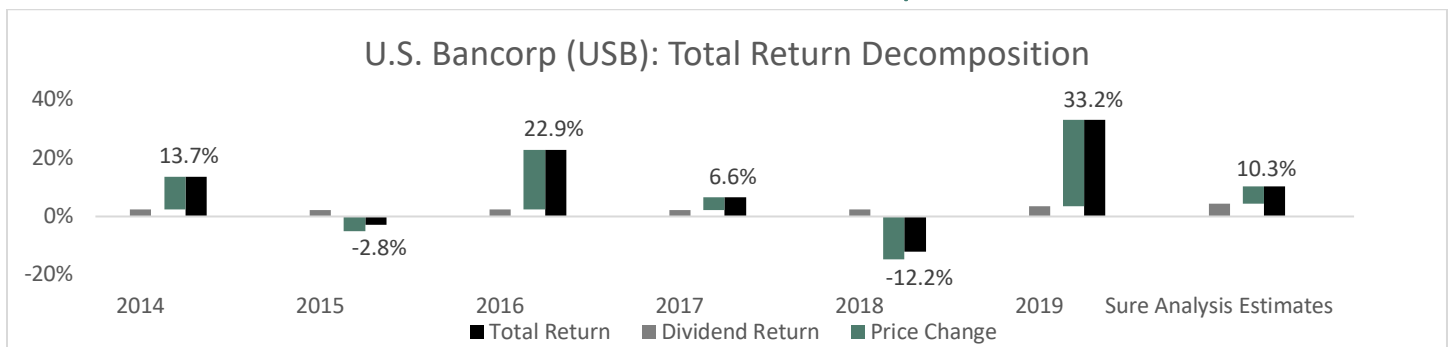
We see the payout remaining around 50% of earnings in the coming years after the recent increase, consistent with past years. U.S. Bancorp's dividend is very safe and we see no risk of a cut at this point. We forecast future growth in the payout as being roughly congruent with earnings expansion.

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 U.S. With the valuation deteriorating due to a rally in the stock, we are now expecting 10.3% annual returns moving forward. We're reiterating our buy rating on U.S. Bancorp on a strong total return outlook.

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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