



# U.S. Bancorp (USB)

Updated October 18<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	6.7%	<b>Market Cap:</b>	\$59 B
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	12/29/20 <sup>1</sup>
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.5%	<b>Dividend Payment Date:</b>	01/15/21 <sup>2</sup>
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 70,000 employees, a \$59 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 third quarter earnings on October 14<sup>th</sup>, with earnings and revenue both coming in ahead of lowered expectations. The bank reported earnings of \$0.99 per share in Q3, up from 41 cents in Q2, but down from \$1.15 in the same period a year ago. Consensus estimates were for 89 cents per share in earnings.

Net interest income came to \$5.96 billion, beating consensus by nearly \$300 million, and rising both quarter-over-quarter and year-over-year. Net interest margin held up reasonably well considering the state of the yield curve, coming in at 2.67% against 3.02% a year ago.

Noninterest income was \$2.71 billion, up about 4% against this year's Q2 and last year's Q3. Provision for credit losses was \$635 million, below consensus and about one-third of the level seen in Q2.

Average loans were up more than 6% year-over-year to \$311 billion, while deposits were up 16% to \$406 billion. Earnings-per-share could come to \$3.00 for this year, and we've updated our estimate accordingly.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$1.73	\$2.46	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	<b>\$3.00</b>	<b>\$3.83</b>
<b>DPS</b>	\$0.20	\$0.50	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	<b>\$1.68</b>	<b>\$2.25</b>
<b>Shares<sup>3</sup></b>	1,921	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	<b>1,500</b>	<b>1,425</b>

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.

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 stay elevated despite unfavorable rate movements, as U.S. Bancorp is slow to pass that benefit on to its depositors. 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, particularly as earnings have been better than feared for 2020.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> Share count in millions

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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 at less than 60% 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	13.0	11.5
Avg. Yld.	0.8%	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.3%	5.1%

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 current valuation is somewhat above our estimate of fair value at 11.5 earnings, so we see a small headwind 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%	56%	59%

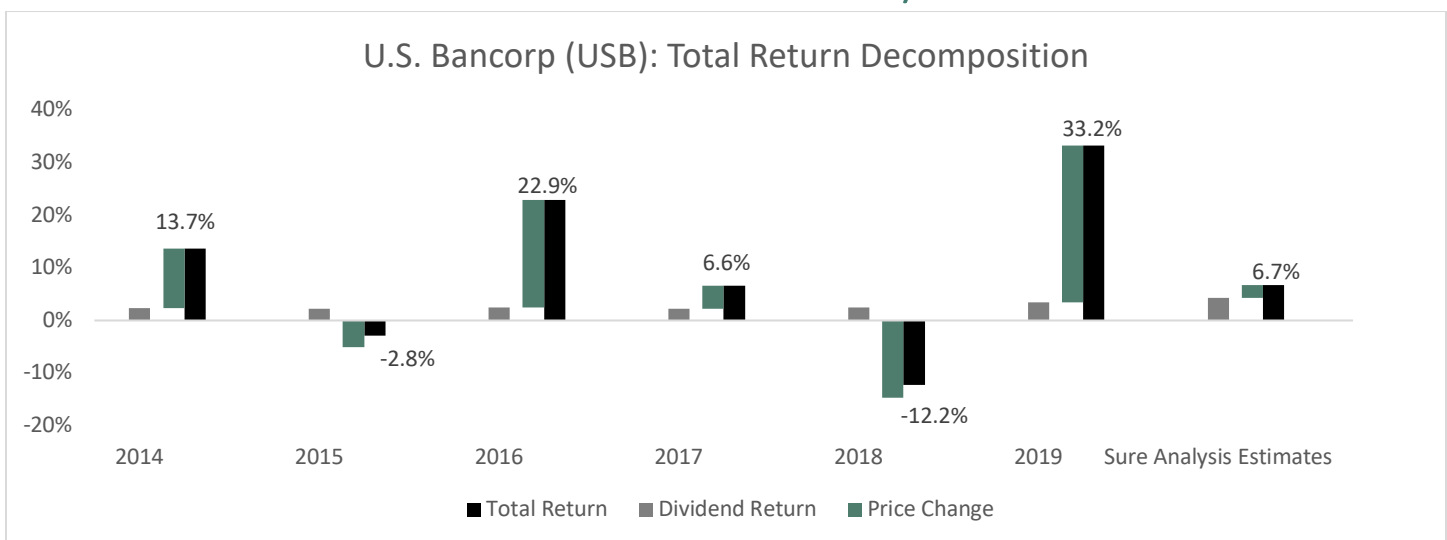
We see the payout remaining around 60% of earnings in the coming years after the recent increase, which is somewhat higher than recent history. The combination of falling earnings and a rising payout has the payout ratio higher than it otherwise would be. U.S. Bancorp's dividend appears safe, and we 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 increasing due to a rally in the stock and relatively low earnings, we are now expecting 6.7% annual returns moving forward. We're moving U.S. Bancorp from buy to hold on lower projected returns.

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

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	307.79	340.12	353.86	364.02	402.53	421.85	445.96	462.04	467.37	495.43
<b>Cash &amp; Equivalents</b>	14487	13962	8252	8477	10654	11147	15705	19505	21453	22405
<b>Goodwill &amp; Int.</b>	12167	11663	11849	12734	12551	12711	12647	12662	12761	12878
<b>Total Liab. (\$B)</b>	277.46	305.15	313.59	322.21	358.36	375.04	398.03	412.37	415.72	442.94
<b>Long-Term Debt</b>	64094	50740	42637	44276	59522	58216	46038	47855	52439	63890
<b>Total Equity</b>	27589	31372	34229	36357	38723	40630	41797	43621	45045	45869
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	1.1%	1.5%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%
<b>Return on Equity</b>	12.7%	16.5%	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%
<b>ROIC</b>	3.6%	5.4%	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%
<b>Shares Out.</b>	1,921	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534
<b>Revenue/Share</b>	9.34	9.82	10.58	10.48	11.00	11.34	12.24	12.98	13.75	14.46
<b>FCF/Share</b>	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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