



Bank of America Corp. (BAC)

Updated January 19th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	3.8%	Market Cap:	\$286 B
Fair Value Price:	\$25	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	03/04/2021 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	03/22/2021 ²
Dividend Yield:	2.2%	5 Year Price Target	\$35	Years Of Dividend Growth:	7
Dividend Risk Score:	D	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 \$286 billion, making it one of the largest financial companies in the world.

Bank of America reported fourth quarter and full year earnings on January 19th, 2021 with results coming in mixed, capping a very tumultuous year for one of the world's largest banks. The company saw strong consumer spending, normalizing loan demand, and strong equity and fixed income markets. Earnings-per-share came to \$0.59, beating consensus of \$0.54 and Q3 actual results of \$0.51. The number was down from \$0.74 in the same period a year ago.

Net interest income was \$10.3 billion, up slightly against Q3, but down -16% year-over-year thanks primarily to lower prevailing lending rates. Deposits soared 23% year-over-year to \$1.7 trillion, while loan and lease balances were down -2% against the same period a year ago to \$913 billion. The bank's loan-to-deposit ratio remains historically low.

Provisions for loan losses fell \$53 million, which reflected just under \$800 million of new provisions that were more than offset by \$828 million in prior reserve releases. This occurs when actual loss rates on loans are lower than projected, so this is a sign of strengthening credit quality.

Bank of America once again declared an 18-cent quarterly dividend, but was permitted to resume buybacks, and said it would buy \$2.9 billion in shares through March 31st, 2021 plus an additional \$0.3 billion to offset dilution from employee compensation. The bank noted its capital buffer is at an all-time high, ~\$36 billion in excess of the required level.

Our initial estimate is \$2.25 in earnings-per-share for 2021 as Bank of America continues to try and recover from a difficult 2020. We note this would still be less than the bank earned in 2018 by a meaningful margin.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$1.87	\$2.25	\$3.16
DPS	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$0.72	\$1.16
Shares³	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,450	8,000

The damage from the financial crisis to Bank of America's earnings and dividend was massive. The company lost huge sums of money during the crisis, but since 2011, has produced an annual profit each year. Earnings growth has been robust but 2020 was certainly a setback. With the rebound beginning in 2021 from relatively low levels, we see outsized growth at 7% annually in the coming years.

Bank of America remains highly focused on reducing spending where possible, but its loan book has been stagnant to lower for the past few quarters. The company has hundreds of billions of deposits it has not lent out, but lending rates

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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remain extremely low, so Bank of America seems apprehensive to go after new business. Even so, we see strong growth from this relatively low level of earnings-per-share aided by substantial share repurchases.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	15.0	---	12.6	10.3	13.5	8.7	10.7	14.1	14.6	11.0
Avg. Yld.	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	2.2%	3.3%

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 massive rally in the stock since our last update has caused the valuation to move from undervalued to overvalued, and we see a sizable headwind as a result. Shares go for 14.6 times earnings, well in excess of our fair value estimate of 11 times earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	16%	4%	33%	15%	17%	21%	21%	24%	39%	32%	37%

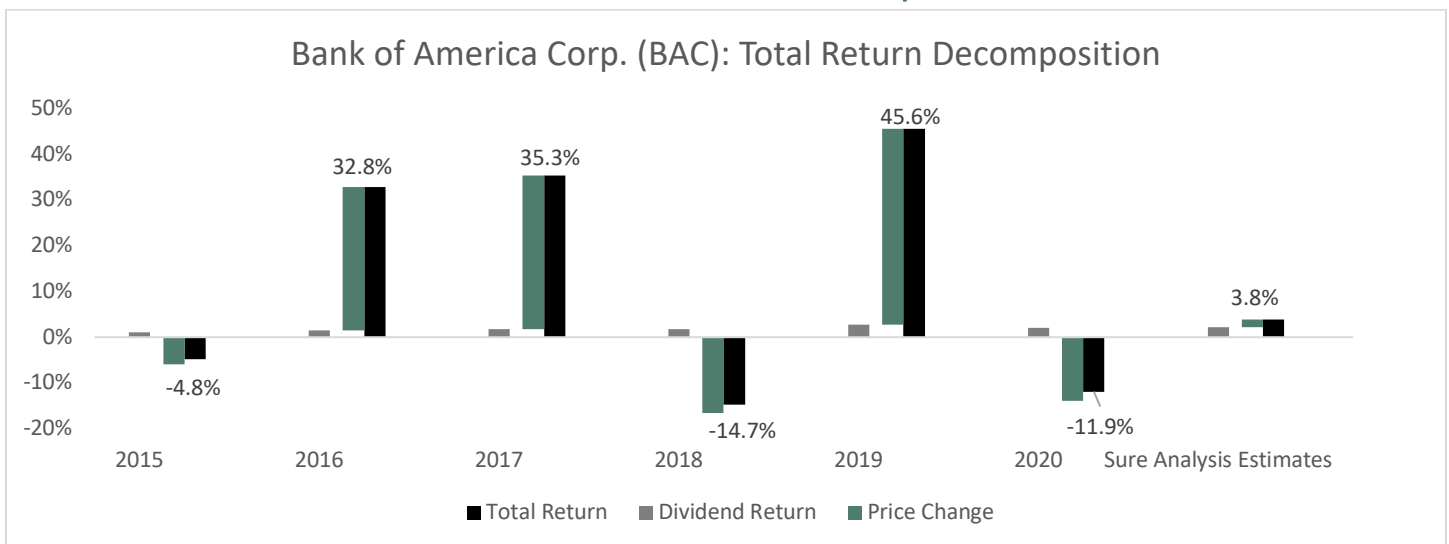
Bank of America started to raise its dividend payout ratio in earnest a couple of years ago, but the company still only pays out only about a third of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe,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

Bank of America competes with the largest banks in the U.S. The company is a leader in online banking with tens of millions of 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. Thus far, the recession is taking a toll on earnings, but nowhere near the extent of 2008.

Final Thoughts & Recommendation

Bank of America is in a strong position despite the COVID-19 pandemic, as its long-term earnings power is intact, its dividend is seeing a strong growth rate, and its balance sheet looks very healthy. Shares are overvalued in our view, however, so we are giving Bank of America a two-notch downgrade from buy to sell following a massive rally.

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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