



U.S. Bancorp (USB)

Updated January 21st, 2021 by Josh Arnold

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	6.7%	Market Cap:	\$69 B
Fair Value Price:	\$42	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/29/21 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	04/15/21 ²
Dividend Yield:	3.7%	5 Year Price Target	\$54	Years Of Dividend Growth:	10
Dividend Risk Score:	D	Retirement Suitability Score:	C	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 70,000 employees, a \$69 billion market capitalization, and about \$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 fourth quarter and full-year earnings on January 20th, 2021 with results on the top and bottom lines roughly in line with estimates. Total revenue was up 1.4% year-over-year to \$5.8 billion but missed estimates by about 1%. Revenue also fell quarter-over-quarter from \$5.96 billion. Net interest income was \$3.2 billion, down fractionally from Q3, while noninterest income was \$2.55 billion, also down from Q3, but up on a year-over-year basis from \$2.44 billion. U.S. Bancorp suffered from lower lending spreads, as well as higher provisions for credit losses. Those provisions came to \$441 million in Q4, down from Q3, but still quite elevated by historical standards. Noninterest expense was flat year-over-year at \$3.4 billion.

Average loans were \$302 billion, down ~3% from Q3. With average deposits at \$422 billion, which was up about five percent from Q3, the bank's loan-to-deposit ratio remains moderate at 72%. Earnings-per-share came to 95 cents in Q4, down from 99 cents in Q3, but up from 90 cents in the year-ago period. Adjusting for restructuring charges in last year's Q4, this year's Q4 earnings would have fallen 13 cents per share.

We see a beginning to a return to normal for U.S. Bancorp in 2021, and our initial estimate of earnings-per-share is \$3.65 following a tough 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.46	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$3.06	\$3.65	\$4.66
DPS	\$0.50	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$1.68	\$2.25
Shares³	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,475	1,325

U.S. Bancorp's earnings-per-share history has been strong since the financial crisis ended, as it was one of very few banks to grow earnings every year since 2009, although that streak ended in 2020 due to the COVID-19 pandemic. We expect U.S. Bancorp to see 5% annual earnings growth in the coming years from its 2021 base.

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 also 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

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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stock, and we expect a low single-digit tailwind annually from buybacks. Repurchasing of stock has been allowed to resume, and we expect the company to take full advantage in 2021.

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 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.3	11.1	12.0	13.7	13.7	13.2	15.0	12.7	12.8	13.3	12.6	11.5
Avg. Yld.	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	3.7%	4.2%

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	22%	30%	32%	34%	34%	36%	36%	32%	38%	55%	46%	48%

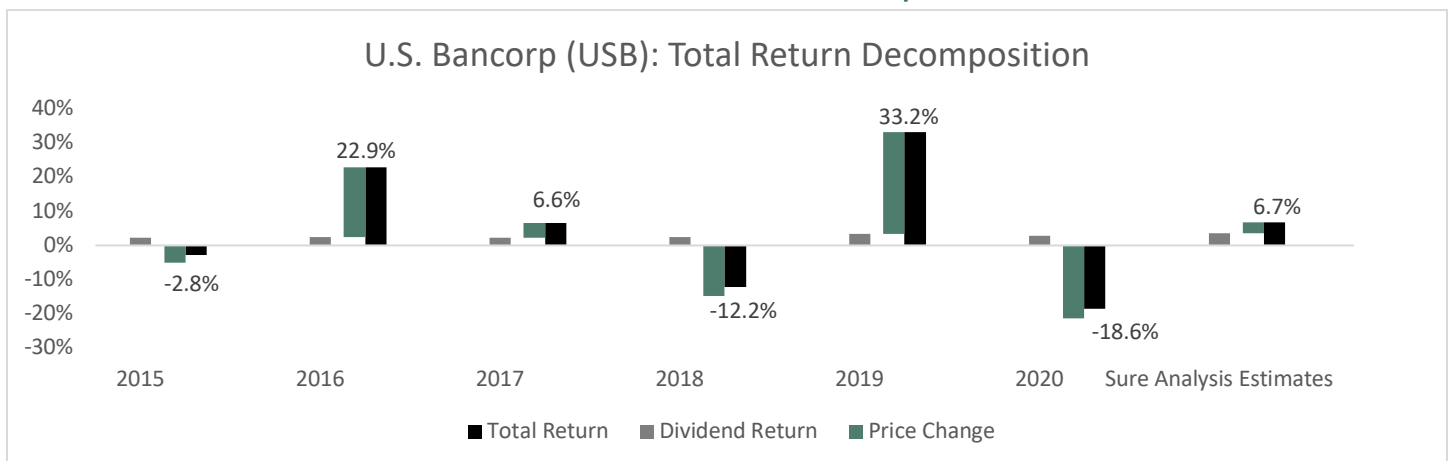
We see the payout remaining around 50% of earnings in the coming years, which is somewhat higher than recent history, excluding the unusual 2020. The combination of falling earnings and a rising payout has the payout ratio higher than it otherwise would be. U.S. Bancorp's dividend appears safe, and we 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 remaining elevated, we continue to expect 6.7% annual returns moving forward. Given this, we are reiterating the stock at a hold rating.

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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