



# Bank of America Corp. (BAC)

Updated April 19<sup>th</sup>, 2021 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	5.2%	<b>Market Cap:</b>	\$336 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	06/04/2021 <sup>1</sup>
<b>% Fair Value:</b>	115%	<b>5 Year Valuation Multiple Estimate:</b>	-2.7%	<b>Dividend Payment Date:</b>	06/22/2021 <sup>1</sup>
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$45	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	20.0%

## Overview & Current Events

Bank of America, headquartered in Charlotte, NC, 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, trades with a market capitalization of \$336 billion, and should produce about \$87 billion in revenue this year, making it one of the largest financial companies in the world.

Bank of America posted Q1 earnings on April 15<sup>th</sup>, 2021 with results coming in better than expected on the top and bottom lines. Total revenue was flat year-over-year at \$22.8 billion, but earnings came in well ahead of expectations thanks to a massive loan loss reserve release.

The consumer banking segment saw earnings rise from \$1.79 billion to \$2.68 billion year-over-year, while global wealth and investment management's net income was \$881 million, up slightly from last year's Q1. Global banking net income was \$2.17 billion, up from just \$138 million a year ago, and was a big driver of profit improvement for this year. Finally, global markets saw net income rise from \$1.48 billion to \$2.06 billion.

Net interest income was \$10.2 billion, down from \$12.1 billion, which reflected lower interest rates. The bank's net interest yield was just 1.68% in Q1. Loan and lease balances were \$887 billion, down -7% year-over-year primarily on declines in commercial loans and lower card balances. Average deposits soared once again from \$1.4 trillion to \$1.8 trillion.

The big earnings driver in Q1 was a \$2.7 billion credit loss reserve release as the bank sees an improved outlook for loan losses. Provisions for credit losses were \$4.8 billion in last year's Q1, but this year, thanks to the release, were -\$1.9B.

Bank of America produced earnings-per-share of 86 cents in Q1, and we've boosted our forecast for this year to \$2.95 following very strong results. The bank also authorized \$25 billion in common share repurchases, and stated it had \$35 billion of excess capital over and above regulatory requirements.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$0.01	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$1.87	<b>\$2.95</b>	<b>\$3.95</b>
<b>DPS</b>	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	<b>\$0.72</b>	<b>\$1.16</b>
<b>Shares<sup>2</sup></b>	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	<b>8,450</b>	<b>8,000</b>

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 robust growth at 6% 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

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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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	<b>13.2</b>	<b>11.5</b>
Avg. Yld.	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	<b>1.8%</b>	<b>2.6%</b>

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 stock remains elevated, as does the valuation. Shares go for 13.2 times earnings, well in excess of our fair value estimate of 11.5 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%	<b>24%</b>	<b>29%</b>

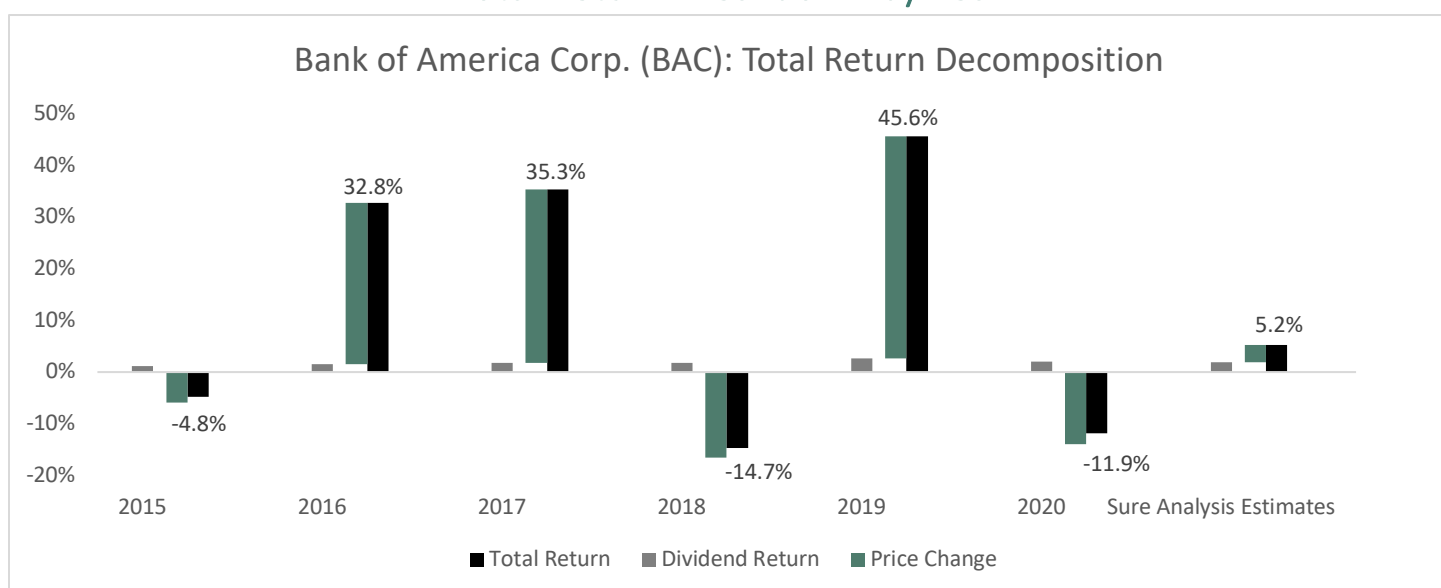
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out only about a quarter of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe, even if earnings were to decline precipitously.

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. The impacts from the 2020 recession appear to be over, and the bank is moving forward with resumed growth.

## 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, but the total return outlook of 5.2% annually is good enough for an upgrade from sell to hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	86,094	81,264	86,041	85,894	82,965	83,701	87,126	91,020	91,244	86,266
SG&A Exp.	64,474	60,416	58,623	65,863	49,221	47,270	41,835	40,520	42,069	41,156
D&A Exp.	3,485	3,038	2,683	2,522	2,389	2,241	2,103	2,063	1,729	1,843
Net Profit	1446	4188	11431	5520	15910	17822	18232	28147	27,430	17,894
Net Margin	1.7%	5.2%	13.3%	6.4%	19.2%	21.3%	20.9%	30.9%	30.1%	20.7%
Free Cash Flow	63,141	-16,056	92,817	30,795	28,397	17,277	9,864	39,520	61,777	37,993
Income Tax	-1,676	-1,116	4,741	2,443	6,277	7,199	10,981	6,437	5,324	1,101

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	2129.0	2210.0	2102.3	2104.5	2144.3	2188.1	2281.2	2354.5	2434.1	2819.6
Cash & Eq. (\$B)	146.11	129.45	142.86	146.10	167.10	157.60	168.59	184.90	168.7	387.0
Acc. Receivable	66999	71467	59448	61845	58312	58759	61623	65814	55937	64221
Goodwill & Int.	85498	82511	80470	77919	76616	71716	71253	68951	68951	68951
Total Liab. (\$B)	1898.9	1973.0	1869.6	1861.1	1888.1	1921.9	2014.1	2089.2	2169.3	2546.7
LT Debt (\$B)	407.96	306.32	295.67	274.31	264.86	240.77	260.07	249.53	265.1	282.3
Total Equity (\$B)	211.70	218.19	219.33	224.16	233.90	240.98	244.82	243.00	241.4	248.4
D/E Ratio	1.77	1.29	1.27	1.13	1.03	0.90	0.97	0.94	1.00	1.03

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.1%	0.2%	0.5%	0.3%	0.7%	0.8%	0.8%	1.2%	1.1%	0.7%
Return on Equity	0.7%	1.9%	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%	11.3%	7.3%
ROIC	0.2%	0.7%	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%	5.3%	3.3%
Shares Out.	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650
Revenue/Share	8.40	7.50	7.49	8.12	7.38	7.58	8.10	8.91	8.66	9.81
FCF/Share	6.16	-1.48	8.08	2.91	2.53	1.66	0.97	3.86	6.54	4.32

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

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