



U.S. Bancorp (USB)

Updated April 20th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	2.6%	Market Cap:	\$86 B
Fair Value Price:	\$56	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	06/30/21 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	07/15/21 ¹
Dividend Yield:	2.9%	5 Year Price Target	\$56	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, an \$86 billion market capitalization, and about \$22 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 released Q1 earnings on April 15th, 2021 with results coming in much better than expected on the top and bottom lines. The bank saw earnings-per-share soar to \$1.45 in Q1, which handily beat consensus of 96 cents. In addition, it was double the level of the year-ago period, which saw 72 cents per share in earnings.

U.S. Bancorp benefited from a release in credit loss reserves that were taken last year during the pandemic, as worst-case scenarios of credit weakness never came to fruition. Like other banks, however, U.S. Bancorp suffered from lower interest rates and a flatter yield curve.

Revenue was \$5.5 billion in Q1, which was down about -5% both against Q4, and last year's Q1. Net interest income was \$3.1 billion, down from \$3.2 billion in the year-ago period, as net interest margin was 2.50% against 2.91% in last year's first quarter. Noninterest income was \$2.4 billion, also down against last year's comparable quarter, which was \$2.5 billion. Average total loans were \$294 billion, down from \$302 billion in Q4, while average total deposits were \$426 billion, up slightly from \$422 billion in Q4.

U.S. Bancorp saw provisions for credit losses at -\$827 million, down about \$1.8 billion from the \$993 million provision it took in last year's Q1. This translates almost directly to earnings, which is why we've bolstered our estimate of earnings-per-share for this year, up to \$4.65.

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	\$4.65	\$4.65
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
Shares²	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 previously expected robust growth from 2021 levels of earnings but given the massive move up forecast for this year, we're moving to 0% projected growth from 2021's now very high base.

We think the combined headwinds of low net interest margin, and a lack of loan growth, combined with somewhat lower levels of share repurchases will keep a lid on earnings growth in the coming years. In addition, the bank's forecast 2021 earnings level is about 50% higher than last year, and we see this as U.S. Bancorp pulling further earnings growth forward, rather than creating incremental earnings growth potential.

¹ Estimated date

² 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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U.S. Bancorp's payout ratio is in line with its peers, and we expect growth in the payout to continue, 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	12.5	12.0
Avg. Yld.	2.0%	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	2.9%	4.0%

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 slightly above our estimate of fair value at 12 earnings, so we see a small headwind from the valuation in the coming years. We note that with the big gains in the share price recently, the stock is trading very near our 2026 price target.

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%	36%	48%

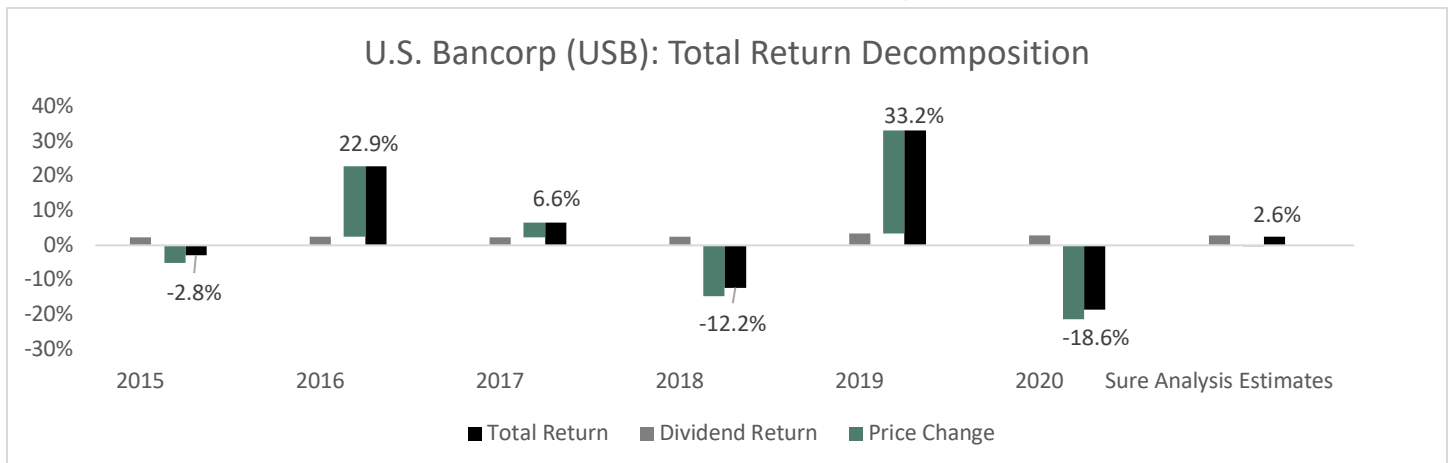
We see the payout remaining around 50% of earnings in the coming years, which is somewhat higher than recent history, excluding the unusual 2020. The combination of falling earnings and a rising payout has the payout ratio higher than it otherwise would be. U.S. Bancorp's dividend appears safe, and we see no risk of a cut at this point. We think U.S. Bancorp will continue to produce mid-single digit dividend increases.

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. The combination of a much higher share price, as well as a much higher base of earnings from which we think U.S. Bancorp may struggle to grow has us much more cautious on the stock. With just 2.6% annual total returns forecast, we're moving the stock from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	18,883	20,064	19,378	19,939	19,969	20,956	21,697	22,521	22,883	23,226
SG&A Exp.	5,255	5,653	5,868	5,946	6,142	6,655	7,422	7,822	8,037	8,256
D&A Exp.	565	561	520	501	481	470	468	467	502	527
Net Profit	4,872	5,647	5,836	5,851	5,879	5,888	6,218	7,096	6,914	4,959
Net Margin	25.8%	28.1%	30.1%	29.3%	29.4%	28.1%	28.7%	31.5%	30.2%	21.4%
Free Cash Flow	9,820	7,958	11,446	5,332	8,782	5,336	6,472	10,564	4,889	3,716
Income Tax	1,841	2,236	2,032	2,087	2,097	2,161	1,264	1,554	1,648	1,066

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	340.12	353.86	364.02	402.53	421.85	445.96	462.04	467.37	495.43	\$553.9
Cash & Equivalents	13,962	8,252	8,477	10,654	11,147	15,705	19,505	21,453	22,405	62,580
Goodwill & Int.	11,663	11,849	12,734	12,551	12,711	12,647	12,662	12,761	12,878	12,782
Total Liab. (\$B)	305.15	313.59	322.21	358.36	375.04	398.03	412.37	415.72	442.94	500.18
Long-Term Debt	50,740	42,637	44,276	59,522	58,216	46,038	47,855	52,439	61,897	50,856
Total Equity	31,372	34,229	36,357	38,723	40,630	41,797	43,621	45,045	45,869	47,112
D/E Ratio	1.49	1.09	1.08	1.37	1.26	0.97	0.98	1.03	1.19	0.96

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.5%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%	0.9%
Return on Equity	16.5%	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%	10.7%
ROIC	5.4%	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%	4.5%
Shares Out.	1,910	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507
Revenue/Share	9.82	10.58	10.48	11.00	11.34	12.24	12.98	13.75	14.46	15.38
FCF/Share	5.11	4.20	6.19	2.94	4.96	3.10	3.85	6.45	3.09	2.46

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

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