PNC Financial Services (PNC)

Published May 31st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$195	**5 Year CAGR Estimate:**	5.0%	**Market Cap:**	$82.7 B
Fair Value Price:	$165	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	7/15/2021[1]
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	8/4/2021
Dividend Yield:	2.4%	**5 Year Price Target**	$221	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	9.5%

Overview & Current Events

PNC Financial Services is headquartered in Pittsburgh, Pennsylvania, and it is one of the largest diversified financial services companies in the U.S. It is engaged in retail banking as well as corporate and institutional banking and asset management. Its retail network is located primarily in markets across the Mid-Atlantic, Midwest and Southeast. PNC currently has a market capitalization of $82.7 billion.

On November 16th, 2020, PNC agreed to acquire BBVA USA Bancshares from the Spanish financial group BBVA for $11.6 billion in cash. It will acquire more than 600 branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico and will become the fifth largest bank in assets, with presence in 29 of the 30 largest U.S. markets. The transaction is expected to close in early June.

In mid-April, PNC reported (4/16/21) financial results for the first quarter of fiscal 2021. Net interest income fell -3% due to a decrease in outstanding loans and lower yields but non-interest income grew 5% thanks to higher private equity revenue. More importantly, PNC reduced its provisions for loan losses by $551 million thanks to great improvement in the economy and lower loans outstanding. As a result, its earnings-per-share from continuing operations grew 26% sequentially, from $3.26 to $4.10, and exceeded the analysts' consensus by an impressive $1.38. Given the positive surprise in the first quarter, we have raised our earnings-per-share forecast for the full year from $10.20 to $13.10.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.64	$5.30	$7.39	$7.30	$7.39	$7.30	$10.36	$10.71	$9.57	$6.36	***$13.10***	***$17.53***
DPS	$1.15	$1.55	$1.72	$1.88	$2.01	$2.12	$2.60	$3.40	$4.20	$4.60	***$4.65***	***$6.20***
Shares[2]	526	529	532	537	521	500	486	470	448	426	***426***	***380***

PNC was significantly affected by the pandemic last year, but the bank is recovering strongly this year. PNC has consistently pursued growth by expanding into attractive markets, growing its loan base organically and acquiring other banks. The acquisition of BBVA USA is likely to be a significant growth driver in the upcoming years while we also expect a tailwind from an increase in the loan/deposit ratio of the bank. If PNC meets our earnings-per-share forecast of $13.10 this year, it will have grown its earnings-per-share at an 8.8% average annual rate in the last decade and at a 12.4% average annual rate in the last five years. As we have assumed a strong recovery this year, which will form a somewhat high comparison base, we expect the bank to grow its earnings-per-share at a 6.0% average annual rate over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/E	10.1	11.5	9.6	11.6	12.6	12.4	12.3	13.3	14.2	18.7	***14.9***	***12.6***
Avg. Yld.	2.0%	2.6%	2.4%	2.2%	2.2%	2.3%	2.0%	2.4%	3.1%	3.9%	***2.4%***	***2.8%***

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[1] Estimated date.

[2] In millions.

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The stock of PNC has nearly doubled in about ten months and it is now trading at new all-time highs, at a price-to-earnings ratio of 14.9. The stock has traded at an average price-to-earnings ratio of 12.6 over the last decade. If it reverts to its average valuation level over the next five years, it will incur a -3.3% annualized drag in its returns due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	20.4%	29.2%	23.3%	25.8%	27.2%	29.0%	25.1%	31.7%	43.9%	72.3%	***35.5%***	***35.4%***

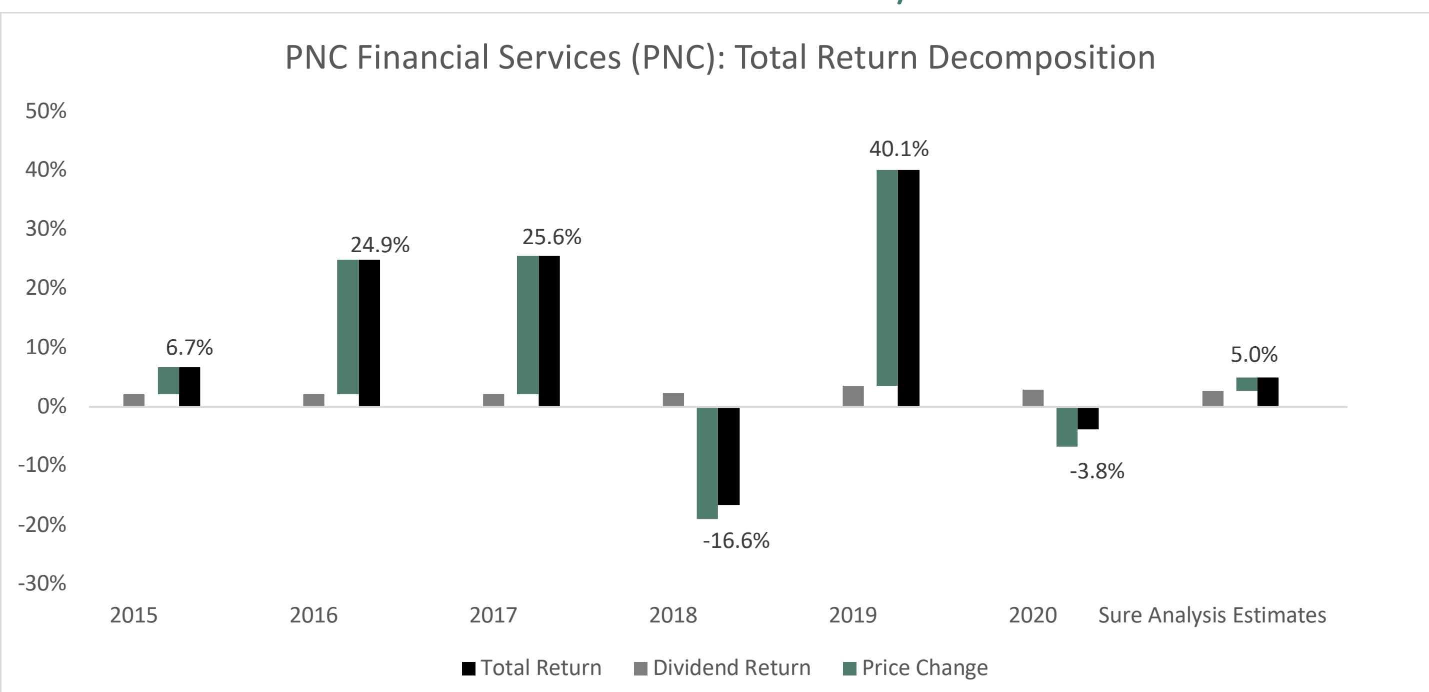
PNC has raised its dividend for 10 consecutive years but it is currently facing a headwind from the pandemic and thus it has paid the same dividend for 8 consecutive quarters. However, thanks to a healthy payout ratio of 36%, the dividend should be considered safe in the absence of a prolonged pandemic. In addition, the bank has reduced its share count by -18% in the last five years and is likely to resume repurchasing its shares after its major acquisition.

On the other hand, investors should be aware that PNC is vulnerable to recessions. In the Great Recession, PNC cut its dividend by -85% while in the coronavirus crisis it saw its earnings-per-share fall -34%. Therefore, in the scenario of a prolonged pandemic, the stock of PNC could come under great pressure, just like it did at the outbreak of the virus, when it plunged nearly -50% in just five weeks. Only the investors who can tolerate such a high stock price volatility should consider PNC.

Final Thoughts & Recommendation

Thanks to the massive distribution of vaccines worldwide, PNC is poised to recover strongly this year. However, the market has already priced a strong recovery in the stock. As a result, we expect PNC to offer just a 5.0% average annual return over the next five years, primarily thanks to 6.0% earnings-per-share growth and its 2.4% dividend, which could be partly offset by a -3.3% annualized contraction of the valuation level. We thus rate PNC as a 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	14,326	15,512	16,012	15,375	15,225	15,162	16,329	17,132	17,827	16,901
SG&A Exp.	4,215	4,896	4,989	4,864	5,080	5,120	5,512	5,756	5,948	5,909
D&A Exp.	1,140	1,159	1,146	988	1,088	1,193	1,117	1,129	1,315	---
Net Profit	3,056	3,001	4,201	4,184	4,106	3,903	5,338	5,301	5,369	7,517
Net Margin	21.3%	19.3%	26.2%	27.2%	27.0%	25.7%	32.7%	30.9%	30.1%	44.5%
Free Cash Flow	6,033	6,809	5,555	5,585	5,525	3,500	5,579	7,840	7,363	---

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	271.2	305.1	320.2	345.1	358.5	366.4	380.8	382.3	410.3	466.7
Cash & Equivalents	5,274	9,204	16,178	36,139	34,611	30,590	33,844	16,501	28,474	92,190
Goodwill	10,144	10,869	11,290	10,947	10,692	10,861	11,005	11,201	10,877	10,475
Total Liabilities ($B)	234.0	263.3	276.2	299.0	312.5	319.5	333.2	334.5	361.0	412.6
Long-Term Debt	33,720	37,580	41,816	53,258	54,532	52,706	59,088	57,419	60,263	37,195
Shareholder's Equity	34,053	39,003	42,334	44,551	44,710	45,699	47,513	47,728	49,314	54,010
D/E Ratio	0.99	0.96	0.99	1.20	1.22	1.15	1.24	1.20	1.22	0.69

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	1.0%	1.3%	1.3%	1.2%	1.1%	1.4%	1.4%	1.4%	1.7%
Return on Equity	9.5%	8.2%	10.3%	9.6%	9.2%	8.6%	11.5%	11.1%	11.1%	14.6%
ROIC	4.4%	4.0%	5.1%	4.5%	4.1%	3.9%	5.2%	5.0%	5.0%	7.5%
Shares Out.	526	529	532	537	521	500	486	470	448	426
Revenue/Share	27.24	29.32	30.10	28.63	29.22	30.32	33.60	36.45	39.79	39.58
FCF/Share	11.47	12.87	10.44	10.40	10.60	7.00	11.48	16.68	16.44	---

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