



Bank of America Corp. (BAC)

Updated July 18th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	5.2%	Market Cap:	\$322 B
Fair Value Price:	\$36	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	09/04/2021 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	09/22/2021 ¹
Dividend Yield:	2.2%	5 Year Price Target	\$43	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	16.7%

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 \$322 billion, and should produce about \$88 billion in revenue this year, making it one of the largest financial companies in the world.

Bank of America reported second quarter earnings on July 14th, 2021, and results were mixed, missing expectations on revenue, but coming in ahead for earnings. Revenue, net of interest expense, fell -4% year-over-year to \$21.5 billion.

Net interest income was off -6% to \$10.2 billion, which was driven primarily by lower interest rates on loans.

Noninterest income was down -2% to \$11.2 billion, which was driven by lower sales and trading revenue, and the absence of a \$0.7 billion benefit that occurred in the year-ago period from the sale of securities. On the plus side, Consumer and Wealth Management revenues were higher year-over-year as consumers continue to recover from COVID-19. The bank's net interest yield was 1.61%, down from 1.68% in Q1. In addition, expenses rose relative to revenue, as Bank of America's efficiency ratio was 69.7% in Q2, up from 67.7% in Q1.

The bank took a benefit of \$1.6 billion from provisions for credit losses, a \$6.7 billion reduction from last year's Q2. Bank of America released \$2.2 billion of prior reserves in Q2 and posted very low net new provisions.

Deposits rose to \$1.91 trillion at the end of Q2, and loan and lease balances hit \$889 billion, implying Bank of America's loan-to-deposit ratio is well under 50%.

Earnings-per-share came to \$1.03 in Q2, up from just 37 cents in the year-ago period. We've boosted our estimate for this year to \$3.10 following another very strong quarter but note that comparables become more difficult in Q3 and Q4.

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	\$3.10	\$3.77
DPS	\$0.04	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$0.84	\$1.35
Shares²	10,536	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,487	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 relatively modest growth at 4% 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 remain extremely low, so Bank of America seems apprehensive to go after new business. Even so, we see reasonable growth from this relatively low level of earnings-per-share aided by substantial share repurchases.

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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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	12.3	11.5
Avg. Yld.	0.4%	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	2.2%	3.1%

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 12.3 times earnings, slightly higher than our fair value estimate of 11.5 times earnings. We forecast a small headwind to total returns as a result.

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%	27%	36%

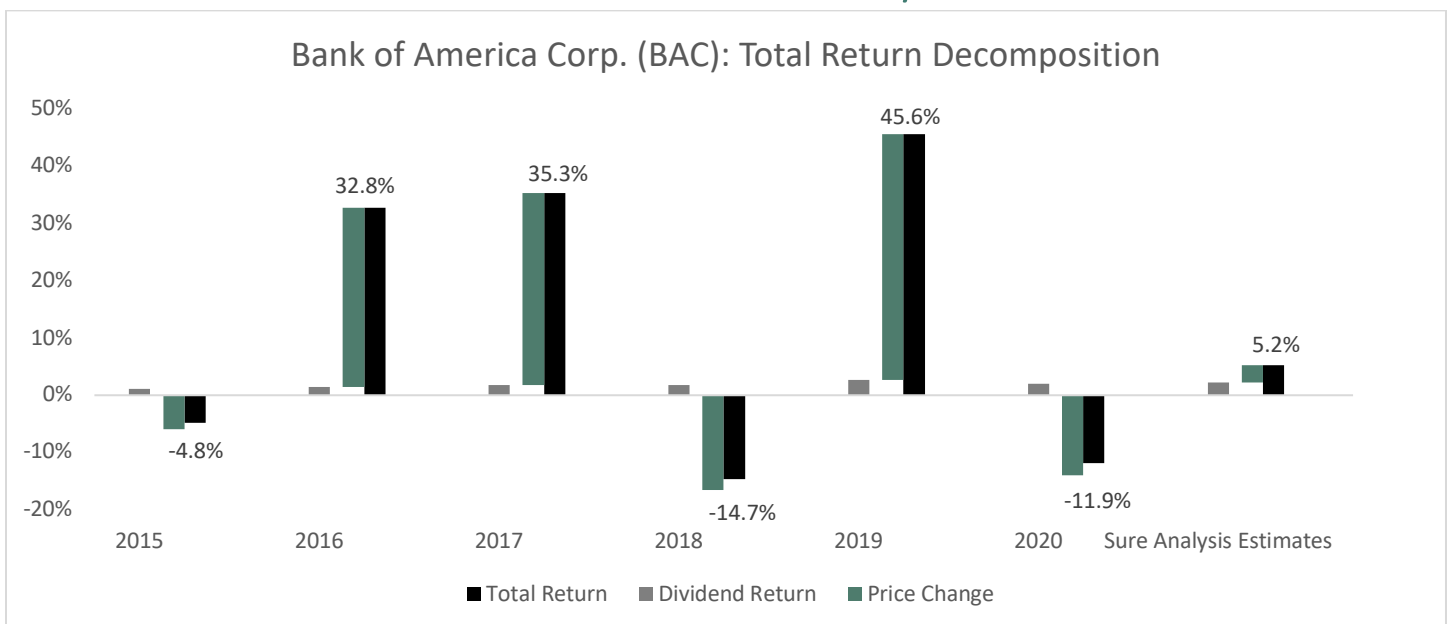
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out about a quarter of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe, even if earnings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

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 extremely healthy. Shares are slightly overvalued in our view, however, but the total return outlook of 4.9% annually is good enough for a reiteration of a hold rating.

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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