



PNC Financial Services (PNC)

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Key Metrics

Current Price:	\$190	5 Year CAGR Estimate:	6.4%	Market Cap:	\$80.4 B
Fair Value Price:	\$180	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	7/15/2021
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	8/5/2021
Dividend Yield:	2.5%	5 Year Price Target	\$230	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	8.7%

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 \$80.4 billion.

On June 1st, 2021, PNC completed its acquisition of BBVA USA Bancshares from the Spanish financial group BBVA for \$11.6 billion in cash. It acquired more than 600 branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico and thus became the fifth largest bank in assets, with a presence in 29 of the 30 largest U.S. markets.

In mid-July, PNC reported (7/14/21) financial results for the second quarter of fiscal 2021. Net interest income grew 10% over last year's quarter thanks to the acquisition of interest-earning assets of BBVA USA and higher securities balances. PNC increased its provisions for loan losses by \$304 million, as an improvement in the economy was more than offset by high initial provisions for loan losses in the assets of BBVA USA. Nevertheless, the acquisition of BBVA USA had a positive effect in total and led PNC to grow its adjusted earnings per share 20%, from \$4.10 in last year's quarter to \$4.50, and exceed the analysts' consensus by an impressive \$2.02. Given the positive surprise, we have raised our earnings-per-share forecast for the full year from \$13.10 to \$14.30. The bank also raised its dividend by 8.7%.

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	\$14.30	\$18.25
DPS	\$1.15	\$1.55	\$1.72	\$1.88	\$2.01	\$2.12	\$2.60	\$3.40	\$4.20	\$4.60	\$4.80	\$6.40
Shares¹	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 \$14.30 this year, it will have grown its earnings-per-share at a 9.8% average annual rate in the last decade and at a 14.4% 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 5.0% 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	13.3	12.6
Avg. Yld.	2.0%	2.6%	2.4%	2.2%	2.2%	2.3%	2.0%	2.4%	3.1%	3.9%	2.5%	2.8%

¹ In millions.

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PNC's stock price has nearly doubled in the last 12 months, and it is now trading at a price-to-earnings ratio of 13.3. 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 -1.1% annualized drag in its returns.

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%	33.6%	35.1%

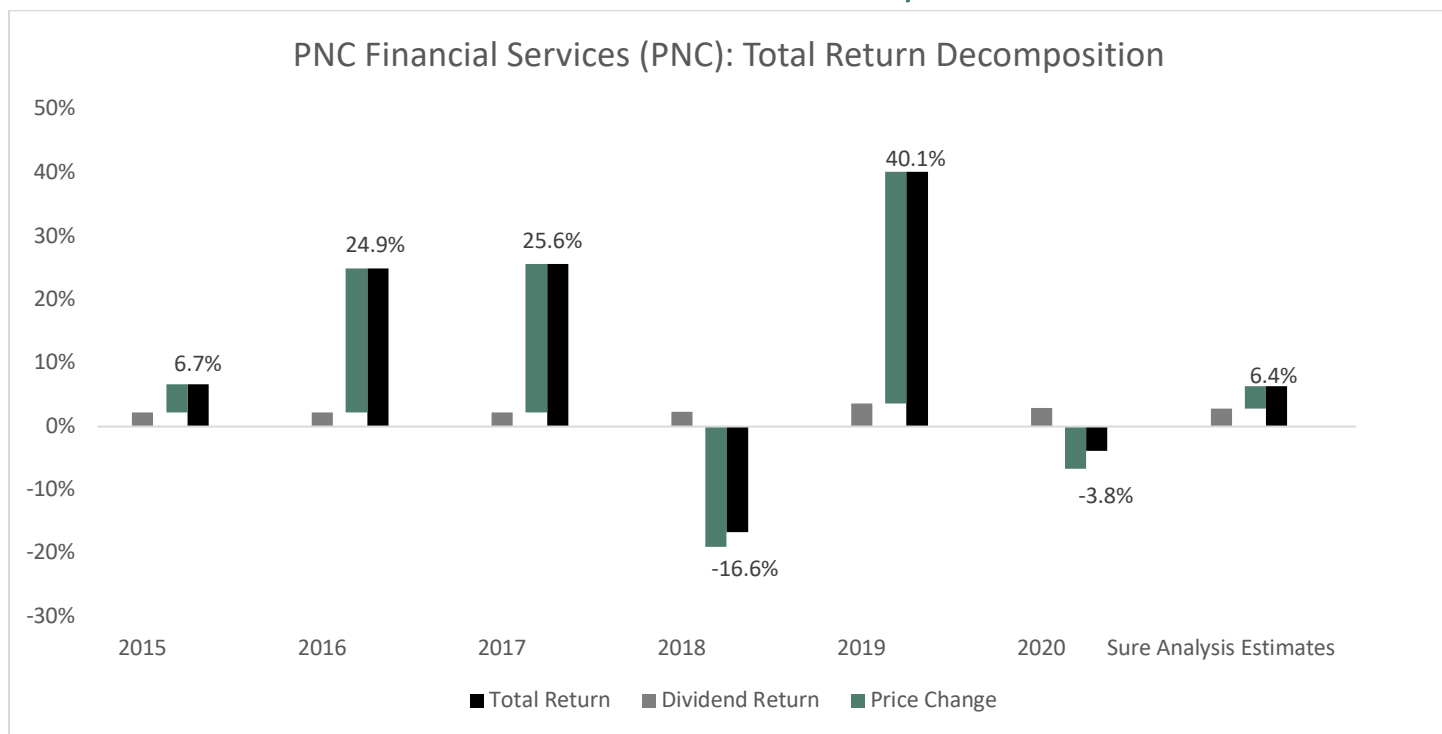
PNC has raised its dividend for 11 consecutive years. It froze its dividend for 8 consecutive quarters due to the pandemic but it just resumed raising its dividend thanks to its ongoing recovery from the pandemic. Thanks to a healthy payout ratio of 34%, the dividend should be considered safe. In addition, 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 has begun to recover strongly this year. However, the market has already priced part of a strong recovery in the stock. As a result, we expect PNC to offer a 6.4% average annual return over the next five years, primarily thanks to 5.0% earnings-per-share growth and its 2.5% dividend, which could be partly offset by a -1.1% 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.

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