Fifth Third Bancorp (FITB)

Updated October 19th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	2.1%	**Market Cap:**	$30 billion
Fair Value Price:	$36	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/30/2021[1]
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Dividend Payment Date:**	1/14/2022
Dividend Yield:	2.7%	**5 Year Price Target**	$42	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10%

Overview & Current Events

Fifth Third Bancorp owns and operates banks in 12 midwestern and southern U.S. states, including Georgia, Florida, Michigan and Ohio. The company has nearly 1,100 offices. Fifth Third Bancorp has a market capitalization of $30 billion and generates annual revenues of $7.9 billion.

On 9/13/2021, Fifth Third Bancorp announced a 10% dividend increase for the 10/15/2021 payment date, extending the company's dividend growth streak to 11 years.

Fifth Third Bancorp reported earnings results for the third quarter on 10/19/2021. Revenue improved 6.8% to $2 billion, beating estimates by $40 million. GAAP earnings-per-share of $0.97 compared very favorably to GAAP earnings-per-share of $0.78 in the prior quarter and was $0.06 above estimates.

Average portfolio loans were down 4.8% from the prior year and down marginally from Q2 2021. Average deposits were flat sequentially, but up more than 4% from the prior year. The non-performing asset ratio of 0.52% was an improvement compared to both Q2 2021 and Q3 2020. Net interest income grew 1.6% year-over-year, but fell 1.6% quarter-over-quarter. Net-interest-margin decreased 4 basis points to 2.59% from the second quarter of the year, but improved 1 basis point from the same period in 2020. Fifth Third Bancorp had return on average tangible common equity, return on average common equity and return on average assets of 16.9%, 13% and 1.36%, respectively. All three figures were up versus the prior year and flat or higher on a sequential basis. The company also repurchased $550 million worth of shares during the second quarter. Leadership reiterated their goal to repurchase $850 million, or 2.8% of the current market capitalization, during the second half of the year.

Fifth Third Bancorp is expected to earn $3.64 per share in 2021. We have updated our earnings-per-share forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	$1.18	$1.66	$2.02	$1.66	$2.01	$1.93	$2.65	$2.55	$2.77	$2.16	***$3.64***	***$4.22***
DPS	$0.28	$0.36	$0.47	$0.51	$0.52	$0.53	$0.60	$0.74	$0.94	$1.08	***$1.20***	***$1.39***
Shares[2]	920	882	855	824	785	750	694	647	709	713	***709***	***700***

Fifth Third Bancorp's earnings-per-share had a compound annual growth rate (CAGR) of 6.2% for the 2011-2020 period. However, the COVID-19 pandemic greatly impacted the banking sector in general and Fifth Third Bancorp in particular. The previous 10-year period saw a CAGR of almost 16%. That said, even this growth rate is deceiving as the bank was in the midst of a recovery from the 2007-2009 recession and started from a low base. We feel that a 3% earnings growth rate, which is close to its medium-term average, going forward is appropriate until Fifth Third Bancorp can prove that its business has recovered from the pandemic.

[1] Estimated ex-dividend date

[2] Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	10.6	8.5	8.9	12.6	9.9	10.0	10.1	11.7	10.0	10.3	***12.1***	***10.0***
Avg. Yld.	2.2%	2.5%	2.6%	2.4%	2.6%	2.7%	2.2%	2.5%	3.4%	4.9%	***2.7%***	***3.3%***

Shares of Fifth Third Bancorp are flat since our 10/6/2021 report. The stock has traded with an incredibly consistent valuation range over the last decade, rarely dropping below a price-to-earnings ratio of 8 and rarely climbing above 12. We have a five-year target multiple of 10 times earnings, as we feel that this valuation reflects the company's business prospects and reflects the medium- and long-term average price-to-earnings ratios. With shares trading with a price-to-earnings ratio of 12.1, this implies a 3.7% annual headwind from multiple reversion through 2026.

Shares yield roughly twice that of the S&P 500 index and the dividend has a 10-year CAGR of almost 15%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

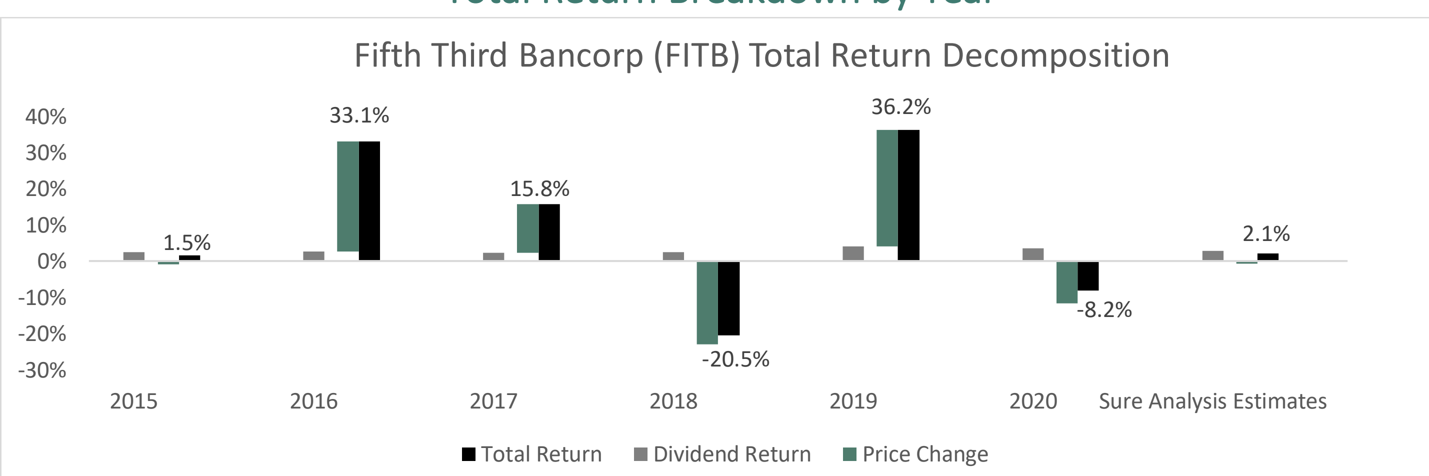
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	24%	22%	23%	31%	26%	27%	23%	29%	34%	50%	***33%***	***33%***

Along with much of the banking sector, Fifth Third Bancorp suffered significant losses during the last recession. Earnings-per-share totaled $1.70, -$3.94 and $0.67 for 2007, 2008 and 2009 respectively. At the same time, the dividend was cut twice for a total reduction of 98%. It took the company until 2013 to establish a new earnings-per-share high and the dividend still has not recovered from its pre-Great Recession levels. Growth since has been mixed, even without the impact of the COVID-19 pandemic. Therefore, we do not believe that Fifth Third Bancorp is a recession-proof name. We also don't believe that Fifth Third Bancorp possess any significant advantages to its peers. The company does have a presence in certain growing states, such as Florida, but much of its core business is in the Midwest, which has seen population decline in recent years.

Final Thoughts & Recommendation

Fifth Third Bancorp is expected produce annual returns 2.1% per year through 2026, matching our prior forecast. Our projected return stems from a 3% earnings growth rate and a starting yield of 2.7% that is offset by a low single-digit headwind from multiple reversion. Fifth Third Bancorp had another solid quarter, easily topping last year's results. Most of the company metrics were improved from the prior year as well. However, the stock trades well above our fair value estimate. We maintain our sell rating on the stock due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5,835	6,140	6,223	5,707	5,982	5,758	5,715	6,071	7,118	7,233
SG&A Exp.	2,221	2,309	2,279	2,081	2,181	2,319	2,364	2,426	2,703	2,848
D&A Exp.	455	531	507	414	441	453	341	360	472	492
Net Profit	1,297	1,576	1,836	1,481	1,712	1,547	2,180	2,193	2,512	1,427
Net Margin	22.2%	25.7%	29.5%	26.0%	28.6%	26.9%	38.1%	36.1%	35.3%	19.7%
Free Cash Flow	1,988	2,069	4,115	1,794	2,169	1,779	1,249	2,722	1,520	13
Income Tax	533	636	772	545	659	665	799	572	690	370

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	116967	121894	130443	138706	141048	142177	142081	146069	169369	204680
Cash & Equivalents	2663	2441	3178	3091	2540	2392	2514	2681	3278	3147
Acc. Receivable	1337	1524	1794	1764	1982	2508	2141	2401	2702	2607
Goodwill & Int.	3138	3140	3406	3289	3213	3169	3330	3456	5446	5053
Total Liabilities	103716	108130	115817	123041	125178	125945	125861	129819	148166	181569
Long-Term Debt	12546	13365	11013	14967	15810	16888	18029	14426	14970	15012
Total Equity	12803	13318	13555	14295	14508	14874	14869	14919	19433	20995
D/E Ratio	0.95	0.97	0.75	0.96	1.00	1.04	1.11	0.89	0.71	0.65

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	1.3%	1.5%	1.1%	1.2%	1.1%	1.5%	1.5%	1.6%	0.8%
Return on Equity	11.2%	12.1%	13.7%	10.6%	11.9%	10.5%	14.7%	14.7%	14.6%	7.1%
ROIC	5.1%	6.0%	7.0%	5.3%	5.5%	4.8%	6.5%	6.8%	7.5%	3.8%
Shares Out.	920	882	855	824	785	750	694	647	709	713
Revenue/Share	6.15	6.49	6.96	6.77	7.41	7.53	7.72	8.86	9.89	10.05
FCF/Share	2.09	2.19	4.60	2.13	2.69	2.33	1.69	3.97	2.11	0.02

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