



Bank of America Corp. (BAC)

Updated January 21st, 2022, by Josh Arnold

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	2.1%	Market Cap:	\$375 B
Fair Value Price:	\$37	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/04/2022 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	03/22/2022
Dividend Yield:	1.8%	5 Year Price Target	\$45	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 \$375 billion, and should produce about \$94 billion in revenue this year, making it one of the largest financial companies in the world.

Bank of America reported fourth quarter and full-year earnings on January 19th, 2022, and results were somewhat mixed. Earnings-per-share came to 82 cents, which was six cents better than expected. However, revenue of \$22.1 billion was \$130 million lower than estimated, despite a 10% year-over-year increase.

Net interest income was up \$1.2 billion, or 11%, to \$11.4 billion, which was attributable to strong deposit growth and excess liquidity investments. Noninterest income was up 8% to \$10.7 billion, which was due to record asset management fees and record investment banking revenue.

Provision for credit loss came to a benefit of \$489 million, a \$542 million improvement year-over-year. This was driven by improvement in economic conditions, which improved asset quality.

Average loan and lease balances rose slightly to \$945 billion, which was due to strong commercial loan growth and higher credit card balances. Average deposits were up \$280 billion, or 16%, to \$2.0 trillion.

The bank returned nearly \$32 billion to shareholders during the year through dividends and share repurchases.

Our initial estimate for 2022 is \$3.25 in earnings-per-share as extraordinary earnings from 2021 look unsustainable.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$1.87	\$3.57	\$3.25	\$3.95
DPS	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$0.78	\$0.84	\$1.35
Shares²	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,078	7,700	6,500

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 in 2021 from relatively low levels, we see relatively modest growth at 4% annually in the coming years from this year's more normalized \$3.25 per share.

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 more than a trillion dollars 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	15.0	---	12.6	10.3	13.5	8.7	10.7	14.1	11.3	14.2	11.5
Avg. Yld.	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	1.9%	1.8%	3.0%

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. Shares go for 14.2 times earnings, meaningfully higher than our fair value estimate of 11.5 times earnings. We forecast a modest headwind to total returns as a result and note that the stock is nearly as expensive as it has been in recent years. The recent rise in interest rates has produced above-trend valuations for many banks, Bank of America included, and we are somewhat cautious as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	16%	4%	33%	15%	17%	21%	21%	24%	39%	26%	26%	34%

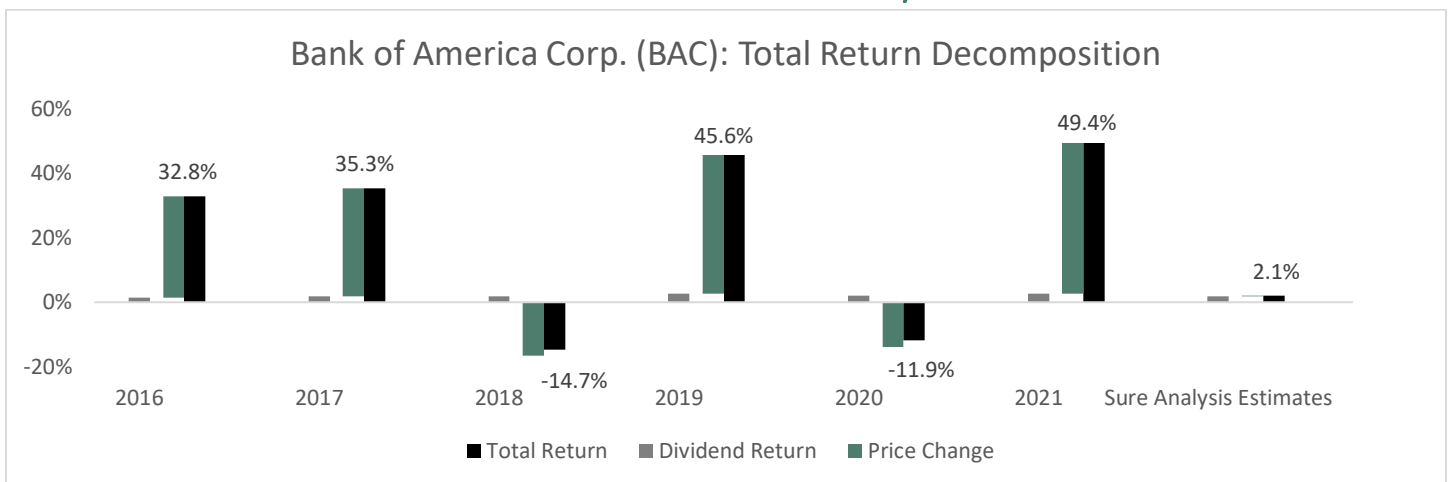
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out about a quarter of its profits in the form of dividends. The dividend payout ratio will likely continue to rise, but the dividend in its current state is still very safe, even if earnings 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. It also has advantages of scale given its massive branch footprint, its digital presence, and its balance sheet that puts it among the largest banks in the world. During the last financial crisis Bank of America was hit hard, but major financial crises such as the one in 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 overvalued in our view, however, and the total return outlook of just 2.1% annually has us reiterating the stock at a sell 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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