



# The Bank of New York Mellon Corp. (BK)

Updated January 20<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

|                             |      |  |       |                                  |          |
|-----------------------------|------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$59 | <b>5 Year CAGR Estimate:</b>               | 5.9%  | <b>Market Cap:</b>               | \$52 B   |
| <b>Fair Value Price:</b>    | \$58 | <b>5 Year Growth Estimate:</b>             | 4.0%  | <b>Ex-Dividend Date:</b>         | 01/28/22 |
| <b>% Fair Value:</b>        | 102% | <b>5 Year Valuation Multiple Estimate:</b> | -0.3% | <b>Dividend Payment Date:</b>    | 02/11/22 |
| <b>Dividend Yield:</b>      | 2.3% | <b>5 Year Price Target</b>                 | \$71  | <b>Years Of Dividend Growth:</b> | 11       |
| <b>Dividend Risk Score:</b> | C    | <b>Retirement Suitability Score:</b>       | D     | <b>Last Dividend Increase:</b>   | 9.7%     |

## Overview & Current Events

Bank of New York Mellon opened its doors in 1784 in the wake of the American Revolution, founded in part by Alexander Hamilton. The bank was the first ever to make a loan to the U.S. government and in the nearly 240 years since, has grown to nearly \$17 billion in annual revenue and a market capitalization of \$52 billion. The bank is present in 35 countries around the world and acts as more of an investment manager than a traditional bank. Indeed, BNY Mellon's stated goal is help its customers manage their assets throughout the investment lifecycle. As such, BNY Mellon's revenue is mostly derived from fees, not traditional interest income.

Bank of New York Mellon reported fourth quarter and full-year earnings on January 18<sup>th</sup>, 2022, and results were better than expected on both revenue and profits. Adjusted earnings-per-share came to \$1.04, which was up from 96 cents a year ago, and three cents better than estimates, capping a strong year.

Assets under management grew 10% year-over-year to \$2.4 trillion, which reflected net inflows and rising market values. Net interest revenue was \$681 million, up from \$644 million in Q3, but down fractionally from \$683 million in last year's Q4. Net interest margin was 0.71%, off slightly from 0.72% in last year's Q4.

Total fee revenue was \$3.23 billion, up from \$3.11 billion a year ago, but down slightly from Q3. Provisions for credit losses came to a benefit of \$17 million, down from a benefit of \$45 million in Q3, but better than a cost of \$15 million a year ago. Noninterest expense was up 1% year-over-year on a reported basis, but adjusted, expenses rose 6%. The increase was driven by higher investments in growth, infrastructure, and efficiency initiatives, as well as costs to produce revenue.

Management provided bullish guidance of double-digit earnings growth for this year, and accordingly, our initial estimate is \$4.65 per share.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$2.03 | \$1.74 | \$2.41 | \$2.85 | \$3.17 | \$3.31 | \$4.21 | \$4.02 | \$4.01 | \$4.18 | <b>\$4.65</b> | <b>\$5.66</b> |
| <b>DPS</b>                | \$0.52 | \$0.58 | \$0.66 | \$0.68 | \$0.72 | \$0.86 | \$1.04 | \$1.18 | \$1.24 | \$1.33 | <b>\$1.36</b> | <b>\$1.74</b> |
| <b>Shares<sup>1</sup></b> | 1,254  | 1,142  | 1,118  | 1,085  | 1,048  | 1,013  | 1,007  | 901    | 879    | 826    | <b>790</b>    | <b>700</b>    |

BNY Mellon's earnings-per-share were a bit underwhelming coming out of the financial crisis as they were roughly flat for six years. However, since 2013 BNY Mellon has fixed its efficiency issues, leading to better margins as it is now more prepared to take advantage of revenue increases. To that end, we are forecasting 4% earnings-per-share growth annually moving forward.

BNY Mellon can achieve this growth in a variety of ways. First, revenue continues to grow over time, something we expect to continue under normalized conditions. Its assets under custody and administration continue to grow as well, particularly during strong equity markets, which is a key driver of fee income. Its lending business is small but growing and continues to add to top line growth as well, although this was not the case in 2020. We note that issues with AUM and lending margins tend to move in cycles, so BNY Mellon should see some respite from its headwinds over time. We

<sup>1</sup> 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.



# The Bank of New York Mellon Corp. (BK)

Updated January 20<sup>th</sup>, 2022, by Josh Arnold

also see the bank continuing its share repurchases over time, resulting in a meaningful tailwind for earnings-per-share outside of revenue and company-wide earnings growth. Finally, we expect margins to continue to improve slightly over time as the bank realizes additional operating leverage from higher revenue outpacing expense growth. Expenses outpaced revenue in Q4, so that's something investors should watch in the quarters to come.

## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 11.2 | 17.2 | 15.1 | 14.5 | 12.7 | 15.1 | 12.6 | 11.9 | 9.6  | 12.2 | 12.7 | 12.5 |
| Avg. Yld. | 2.3% | 1.9% | 1.8% | 1.6% | 1.8% | 1.7% | 2.0% | 2.5% | 3.2% | 2.6% | 2.3% | 2.5% |

The stock's earnings multiple is now 12.7, essentially in line with what we assess as fair value at 12.5 times earnings.

Given this, we see essentially no impact on total returns from the valuation. We expect the dividend yield will be under 3% for the foreseeable future.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 25%  | 34%  | 28%  | 27%  | 25%  | 29%  | 25%  | 29%  | 31%  | 32%  | 29%  | 31%  |

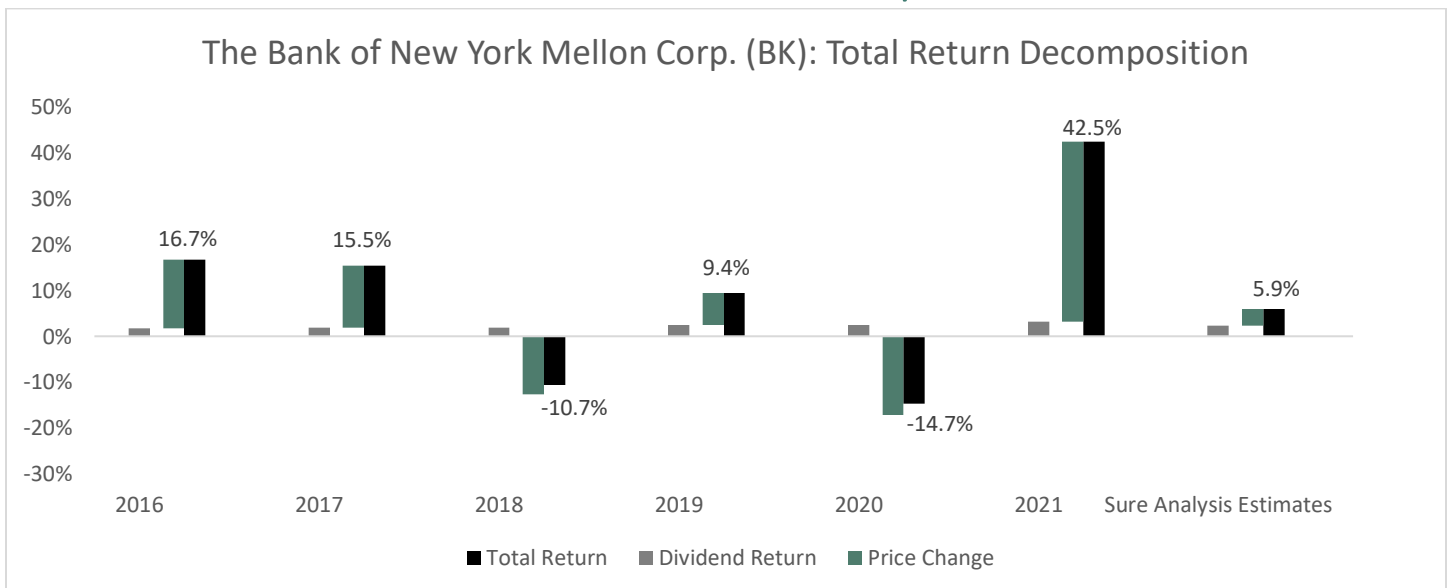
BNY Mellon's dividend is only about a third of its earnings, consistent with other large bank peers. That means the payout is very safe and we expect it to continue growing in the mid-single digits annually in the years to come.

BNY Mellon's competitive advantage is in its lack of reliance upon lending for revenue. This allows it to perform relatively well during recessions when other banks are struggling. While the company is not immune to downturns, its fee model is more resilient to such conditions than a bank that makes the majority of its revenue from interest income. Indeed, when many banks suffered in 2020, BNY Mellon saw essentially flat earnings year-over-year.

## Final Thoughts & Recommendation

Overall, BNY Mellon looks like a reasonably valued stock with modest growth potential. We are forecasting total annual returns of 5.9% going forward, given the valuation, 2.3% yield, and moderate earnings growth from what should be a fairly high base for 2022. We reiterate the stock at a hold rating following Q4 results.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# The Bank of New York Mellon Corp. (BK)

Updated January 20<sup>th</sup>, 2022, by Josh Arnold

## Income Statement Metrics

| Year                  | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>        | 14,314 | 14,189 | 14,613 | 15,264 | 14,656 | 14,213 | 14,426 | 15,295 | 15,434 | 14,803 |
| <b>SG&amp;A Exp.</b>  | 5,987  | 6,036  | 6,336  | 6,113  | 6,104  | 6,054  | 6,262  | 6,373  | 6,276  | 6,071  |
| <b>D&amp;A Exp.</b>   | 776    | 1,246  | 1,389  | 1,292  | 1,457  | 1,502  | 1,474  | 1,339  | 1,315  | 1,630  |
| <b>Net Profit</b>     | 2,516  | 2,437  | 2,104  | 2,567  | 3,158  | 3,547  | 4,090  | 4,266  | 4,441  | 3,617  |
| <b>Net Margin</b>     | 17.6%  | 17.2%  | 14.4%  | 16.8%  | 21.5%  | 25.0%  | 28.4%  | 27.9%  | 28.8%  | 24.4%  |
| <b>Free Cash Flow</b> | 1,569  | 977    | -1,251 | 3,693  | 3,526  | 5,442  | 3,470  | 4,888  | -1,114 | 3,816  |
| <b>Income Tax</b>     | 1,048  | 842    | 1,592  | 912    | 1,013  | 1,177  | 496    | 938    | 1,120  | 842    |

## Balance Sheet Metrics

| Year                        | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets (\$B)</b>   | 325.3  | 359.0  | 374.5  | 385.3  | 393.8  | 333.5  | 371.8  | 362.9  | 381.5  | 469.6  |
| <b>Cash &amp; Eq. (\$B)</b> | 130.7  | 138.7  | 146.1  | 123.1  | 134.9  | 77.9   | 108.8  | 88.0   | 114.7  | 165.3  |
| <b>Acc. Receivable</b>      | 4,868  | 4,848  | 4,100  | 4,773  | 4,097  | 4,628  | 5,200  | 4,363  | 4,426  | 510    |
| <b>Goodwill &amp; Int.</b>  | 24,042 | 24,001 | 23,776 | 23,328 | 22,815 | 22,365 | 22,474 | 22,222 | 22,083 | 20,508 |
| <b>Total Liab. (\$B)</b>    | 291.1  | 321.7  | 336.2  | 346.8  | 355.0  | 294.0  | 330.1  | 322.1  | 339.9  | 423.7  |
| <b>Long-Term Debt</b>       | 22,117 | 20,248 | 20,623 | 21,050 | 22,070 | 25,217 | 34,082 | 34,329 | 32,059 | 26,334 |
| <b>Total Equity</b>         | 33,417 | 35,363 | 35,935 | 35,879 | 35,485 | 35,269 | 37,709 | 37,096 | 37,941 | 41,260 |
| <b>D/E Ratio</b>            | 0.66   | 0.56   | 0.55   | 0.56   | 0.58   | 0.65   | 0.83   | 0.84   | 0.77   | 0.58   |

## Profitability & Per Share Metrics

| Year                    | 2011  | 2012  | 2013   | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 0.9%  | 0.7%  | 0.6%   | 0.7%  | 0.8%  | 1.0%  | 1.2%  | 1.2%  | 1.2%  | 0.8%  |
| <b>Return on Equity</b> | 7.7%  | 7.1%  | 5.9%   | 7.1%  | 8.9%  | 10.0% | 11.2% | 11.4% | 11.8% | 9.1%  |
| <b>ROIC</b>             | 4.6%  | 4.3%  | 3.6%   | 4.3%  | 5.2%  | 5.7%  | 5.8%  | 5.7%  | 6.0%  | 5.0%  |
| <b>Shares Out.</b>      | 1,249 | 1,254 | 1,142  | 1,118 | 1,085 | 1,048 | 1,013 | 1,007 | 901   | 879   |
| <b>Revenue/Share</b>    | 11.70 | 12.04 | 12.66  | 13.42 | 13.17 | 13.26 | 13.87 | 15.19 | 16.37 | 16.59 |
| <b>FCF/Share</b>        | 1.28  | 0.83  | (1.08) | 3.25  | 3.17  | 5.08  | 3.34  | 4.85  | -1.18 | 4.28  |

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.