



U.S. Bancorp (USB)

Updated January 23rd, 2022, by Josh Arnold

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	7.8%	Market Cap:	\$82 B
Fair Value Price:	\$52	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/30/22 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	04/15/22
Dividend Yield:	3.3%	5 Year Price Target	\$69	Years Of Dividend Growth:	10
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	9.5%

Overview & Current Events

U.S. Bancorp traces its lineage back to 1863 when the First National Bank of Cincinnati opened for business. It has since grown to 70,000 employees, a \$82 billion market capitalization, and about \$25 billion in annual revenue. The bank has expanded from a regional player to a national powerhouse in recent years, becoming the fifth-largest bank by assets in the U.S. It competes mostly in traditional banking activities, but also offers wealth management, payment, and investment services.

U.S. Bancorp reported fourth quarter and full-year earnings on January 19th, 2022, and results were below expectations on both the top and bottom lines. Earnings-per-share came to \$1.07, which missed estimates by three cents. Revenue was \$5.7 billion, declining -1.2% year-over-year, and missing expectations by \$60 million. The decline in revenue was due to lower mortgage banking revenue, which was offset partially by higher trust and investment management fees.

Q4 net interest income was \$3.15 billion, down fractionally year-over-year, as net interest margin came to 2.40%, down from 2.57% in last year's Q4. Provisions for credit losses came to a benefit of \$13 million, which was \$150 million better than the third quarter, but \$454 million worse than the year-ago period. Following 2021 results, we believe U.S. Bancorp will again see normalized credit loss provisions, rather than the massive releases that drove outperformance in earnings for 2021. Net charge-offs were 0.17% in the fourth quarter, down from 0.58% in the year-ago period, driven by continued credit quality improvement as worst-case scenarios never came to fruition.

We forecast \$4.30 in earnings-per-share for this year, and we believe it may be some time before the bank is able to match the outstanding earnings from 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$3.06	\$5.10	\$4.30	\$5.75
DPS	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$1.76	\$1.84	\$2.46
Shares²	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,460	1,350

U.S. Bancorp's earnings-per-share history has been strong since the financial crisis ended, as it was one of very few banks to grow earnings every year since 2009, although that streak ended in 2020 due to the COVID-19 pandemic. Following 2021 results that produced record earnings for U.S. Bancorp, we have a lower base of earnings forecast for this year, but also a much higher growth rate. We've moved from no growth to 6% annually as this year should be the start of normalized results, and therefore, normalized growth rates.

We think the combined headwinds of low net interest margin, and a lack of loan growth, combined with somewhat lower levels of share repurchases will keep a lid on earnings growth in the coming years. However, with lending rates on the rise, these headwinds could unwind starting in 2022, and drive our updated growth estimate.

U.S. Bancorp's payout ratio is in line with its peers, and we expect growth in the payout to continue, growing to \$2.46 in five years. That would keep the payout ratio at less than 50% of earnings and in line with the bank's capital return

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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strategy, affording it the opportunity to continue to buy back shares. U.S. Bancorp last raised the dividend 9.5% to an annualized payout to \$1.84.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.1	12.0	13.7	13.7	13.2	15.0	12.7	12.8	13.3	11.0	12.8	12.0
Avg. Yld.	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	3.1%	3.3%	3.6%

U.S. Bancorp's price-to-earnings ratio has moved up in recent years as the bank has become more highly valued by investors than its competitors due to its outstanding profitability metrics. The current valuation is slightly above our estimate of fair value at 12 earnings, so we see a small headwind from the valuation in the coming years. The stock has pulled back sharply recently, which has improved the valuation and dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	32%	34%	34%	36%	36%	32%	38%	55%	35%	43%	43%

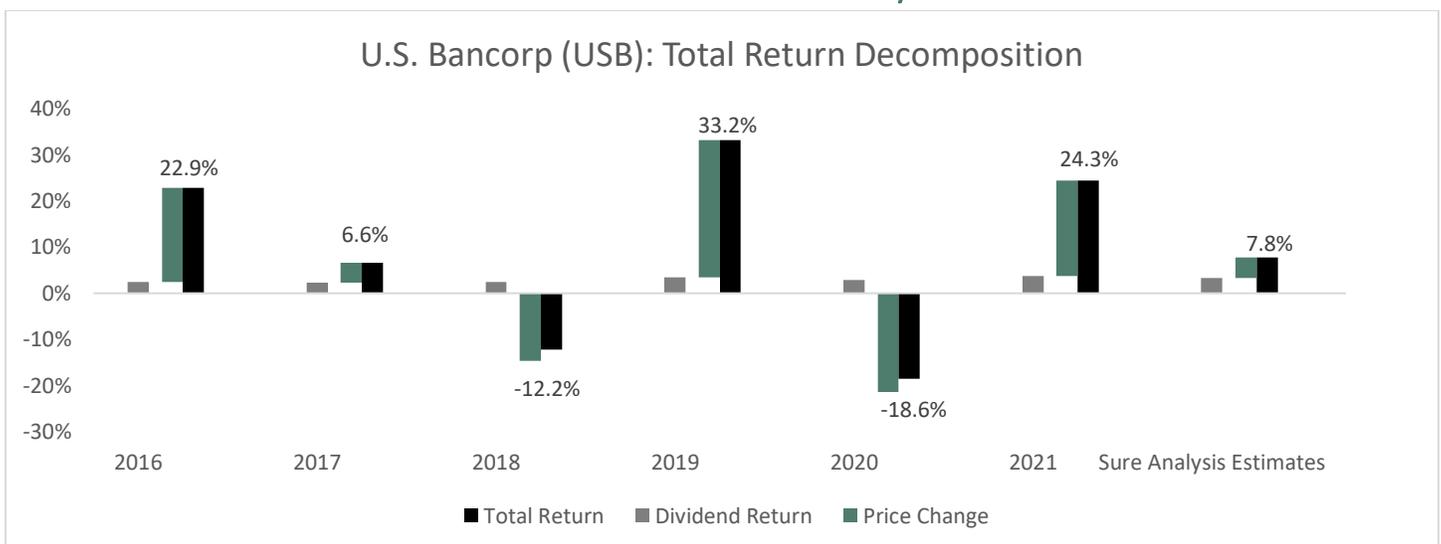
We see the payout remaining below 50% of earnings in the coming years, which is somewhat higher than recent history, excluding the unusual 2020. U.S. Bancorp's dividend appears safe, and we see no risk of a cut at this point. We think U.S. Bancorp will continue to produce mid-single digit dividend increases.

U.S. Bancorp's competitive advantage is in its stellar operating history and world-class management team. It operates as a regional bank, but on a massive scale, and as a result, it has been stronger through recessions than its larger peers. Indeed, earnings were not even cut in half in 2009 when many banks were struggling just to stay in business, and U.S. Bancorp came out of the recession in better shape in relation to its competitors than it was before the crisis.

Final Thoughts & Recommendation

While U.S. Bancorp's earnings will almost certainly decline meaningfully this year, we still view it as one of the strongest large banks in the U.S. The recent pullback in the stock, as well as our updated growth estimate have us reiterating the stock at a hold rating. We now forecast 7.8% total annual returns in the coming years, driven by the updated growth estimate and robust dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	20,064	19,378	19,939	19,969	20,956	21,697	22,521	22,883	23,226	22,721
SG&A Exp.	5,653	5,868	5,946	6,142	6,655	7,422	7,822	8,037	8,256	9,094
D&A Exp.	561	520	501	481	470	468	467	502	527	---
Net Profit	5,647	5,836	5,851	5,879	5,888	6,218	7,096	6,914	4,959	7,963
Net Margin	28.1%	30.1%	29.3%	29.4%	28.1%	28.7%	31.5%	30.2%	21.4%	35.0%
Free Cash Flow	7,958	11,446	5,332	8,782	5,336	6,472	10,564	4,889	3,716	---
Income Tax	2,236	2,032	2,087	2,097	2,161	1,264	1,554	1,648	1,066	2,181

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	353.86	364.02	402.53	421.85	445.96	462.04	467.37	495.43	553.9	573.3
Cash & Equivalents	8,252	8,477	10,654	11,147	15,705	19,505	21,453	22,405	62,580	28,905
Goodwill & Int.	11,849	12,734	12,551	12,711	12,647	12,662	12,761	12,878	12,782	14,000
Total Liab. (\$B)	313.59	322.21	358.36	375.04	398.03	412.37	415.72	442.94	500.18	517.9
Long-Term Debt	42,637	44,276	59,522	58,216	46,038	47,855	52,439	61,897	50,856	43,921
Total Equity	34,229	36,357	38,723	40,630	41,797	43,621	45,045	45,869	47,112	48,547
D/E Ratio	1.09	1.08	1.37	1.26	0.97	0.98	1.03	1.19	0.96	0.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%	0.9%	1.4%
Return on Equity	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%	10.7%	16.6%
ROIC	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%	4.5%	7.8%
Shares Out.	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484
Revenue/Share	10.58	10.48	11.00	11.34	12.24	12.98	13.75	14.46	15.38	15.25
FCF/Share	4.20	6.19	2.94	4.96	3.10	3.85	6.45	3.09	2.46	---

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

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