Fifth Third Bancorp (FITB)

Updated April 19th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	2.9%	**Market Cap:**	$27 billion
Fair Value Price:	$35	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	6/29/2022[1]
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	7/15/2022[2]
Dividend Yield:	2.9%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Sell

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 $27 billion and generates annual revenues of close to $8.5 billion.

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

On April 19th, 2022, Fifth Third Bancorp reported earnings results for the first quarter ending March 31st, 2022. Revenue declined 2.6% to $1.88 billion, which was $60 million below analysts' expectations. Adjusted earnings of $0.69 compared to adjusted earnings-per-share of $0.91 in the prior period, but was in-line with estimates.

Average portfolio loans and leases grew 4.1% to $113.5 billion year-over-year. The non-performing asset ratio of 0.47% matched the fourth-quarter's figure and was 25 basis point improvement from the previous year. Average deposits increased 6.2% from the same period a year ago. Net interest income grew 1.6% from the prior year and was flat on a sequential basis. Net-interest-margin of 2.59% was down 3 basis points year-over-year, but higher by 4 basis points quarter-over-quarter. Fifth Third Bancorp had return on average tangible common equity, return on average common equity, and return on average assets of 13.4%, 10.0%, and 0.96%, respectively. All three figures were down versus Q1 2021. Leadership also announced that that the minimum wage would be raised to $20 beginning July 4th, 2022.

Fifth Third Bancorp is now expected to earn $3.51 per share in 2022, up from $3.35 previously. We have updated our earnings-per-share forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	$1.66	$2.02	$1.66	$2.01	$1.93	$2.65	$2.55	$2.77	$2.16	$3.77	***$3.51***	***$4.07***
DPS	$0.36	$0.47	$0.51	$0.52	$0.53	$0.60	$0.74	$0.94	$1.08	$1.20	***$1.20***	***$1.39***
Shares[3]	882	855	824	785	750	694	647	709	713	698	***698***	***685***

Fifth Third Bancorp's earnings-per-share had a compound annual growth rate (CAGR) of 9.5% for the 2012-2021 period. However, the COVID-19 pandemic greatly impacted the banking sector in general and Fifth Third Bancorp in particular in 2020, setting up a very easy comparison for 2021. The previous 2010 to 2019 -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 going forward is appropriate until Fifth Third Bancorp can prove that its business has recovered from the pandemic.

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] 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	2022	2027
Avg. P/E	8.5	8.9	12.6	9.9	10.0	10.1	11.7	10.0	10.3	11.6	***11.7***	***10.0***
Avg. Yld.	2.5%	2.6%	2.4%	2.6%	2.7%	2.2%	2.5%	3.4%	4.9%	2.5%	***2.9%***	***3.4%***

Shares of Fifth Third Bancorp have declined by $7, or 14.6%, since last 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 11.7, this implies a 3.1% annual headwind to total returns from multiple reversion through 2027.

Shares yield roughly twice that of the S&P 500 index and the dividend has a 10-year CAGR of more than 14%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

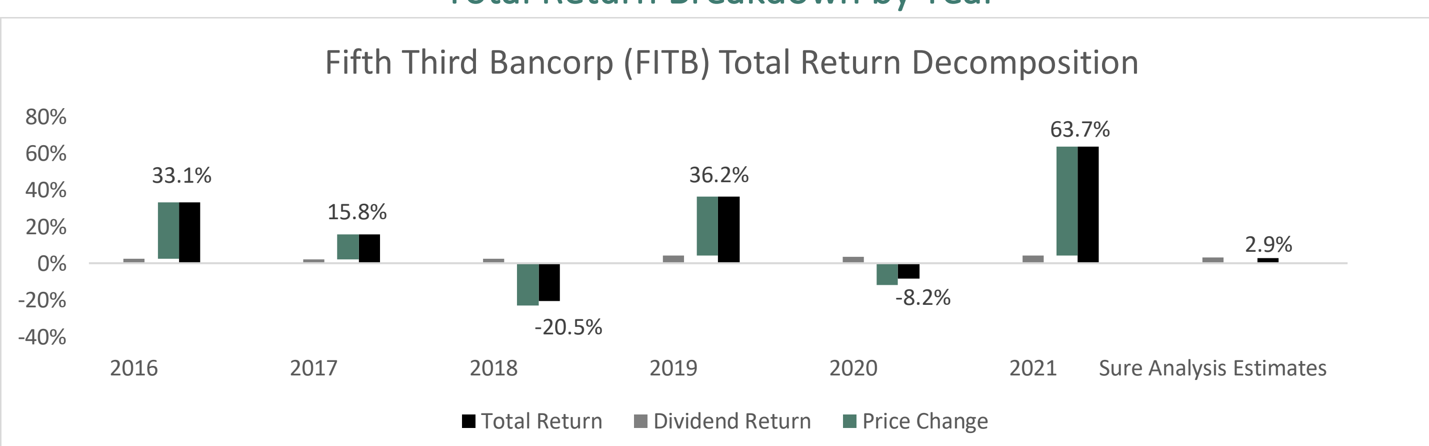
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	23%	31%	26%	27%	23%	29%	34%	50%	32%	***34%***	***34%***

Along with much of the banking sector, Fifth Third Bancorp suffered significant losses during the financial crisis 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 now expected return 2.9% annually through 2027, up from our prior forecast of a loss 1.1%. Our projected return stems from a 3% earnings growth rate and a starting yield of 2.9% that are partially offset by a low-single-digit headwind from multiple reversion. Fifth Third Bancorp continues to see solid loan and deposit growth. Shares still trade at a premium to our target valuation even after a mid-double-digit share decline. We have raised our five-year price target $2 to $41, but maintain our sell rating on Fifth Third Bancorp due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,140	6,223	5,707	5,982	5,758	5,715	6,071	7,118	7,233	7,646
SG&A Exp.	2,309	2,279	2,081	2,181	2,319	2,364	2,426	2,703	2,848	3,022
D&A Exp.	531	507	414	441	453	341	360	472	492	349
Net Profit	1,576	1,836	1,481	1,712	1,547	2,180	2,193	2,512	1,427	2,770
Net Margin	25.7%	29.5%	26.0%	28.6%	26.9%	38.1%	36.1%	35.3%	19.7%	36.2%
Free Cash Flow	2,069	4,115	1,794	2,169	1,779	1,249	2,722	1,520	13	2,395
Income Tax	636	772	545	659	665	799	572	690	370	747

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	121894	130443	138706	141048	142177	142081	146069	169369	204680	211116
Cash & Equivalents	2441	3178	3091	2540	2392	2514	2681	3278	3147	2994
Acc. Receivable	1524	1794	1764	1982	2508	2141	2401	2702	2607	3025
Goodwill & Int.	3140	3406	3289	3213	3169	3330	3456	5446	5053	5791
Total Liabilities	108130	115817	123041	125178	125945	125861	129819	148166	181569	188906
Long-Term Debt	13365	11013	14967	15810	16888	18029	14426	14970	15012	11821
Total Equity	13318	13555	14295	14508	14874	14869	14919	19433	20995	20094
LTD/E Ratio	0.97	0.75	0.96	1.00	1.04	1.11	0.89	0.71	0.65	0.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.3%	1.5%	1.1%	1.2%	1.1%	1.5%	1.5%	1.6%	0.8%	1.3%
Return on Equity	12.1%	13.7%	10.6%	11.9%	10.5%	14.7%	14.7%	14.6%	7.1%	13.5%
ROIC	6.0%	7.0%	5.3%	5.5%	4.8%	6.5%	6.8%	7.5%	3.8%	7.7%
Shares Out.	882	855	824	785	750	694	647	709	713	698
Revenue/Share	6.49	6.96	6.77	7.41	7.53	7.72	8.86	9.89	10.05	10.75
FCF/Share	2.19	4.60	2.13	2.69	2.33	1.69	3.97	2.11	0.02	3.37

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