



JPMorgan & Chase Co. (JPM)

Updated April 14th, 2022, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$128 | 5 Year CAGR Estimate: | 10.4% | Market Cap: | \$387 B |
| Fair Value Price: | \$139 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 04/05/22 |
| % Fair Value: | 92% | 5 Year Valuation Multiple Estimate: | 1.7% | Dividend Payment Date: | 04/30/22 |
| Dividend Yield: | 3.1% | 5 Year Price Target | \$187 | Years Of Dividend Growth: | 11 |
| Dividend Risk Score: | C | Retirement Suitability Score: | C | Rating: | Buy |

Overview & Current Events

JPMorgan was founded in 1799 as one of the first commercial banks in the U.S. Since then, it has merged or acquired more than 1,200 different institutions, creating a global banking behemoth with a \$387 billion market capitalization and about \$124 billion in annual revenue. JPMorgan competes in every major segment of financial services, including consumer banking, commercial banking, home lending, credit cards, asset management and investment banking.

JPMorgan Chase reported first quarter earnings on April 13th, 2022, and results were somewhat mixed, with revenue coming in ahead of expectations, while earnings missed the mark. The company also said it sees downside risks for the economy in 2022, and it is adjusting exposure to Russia in light of the war with Ukraine. Shares declined more than 3% on the day as investors digested less-than-bullish sentiment from management.

Earnings-per-share came to \$2.63 in Q1, which was seven cents less than expected. In addition, earnings declined from \$3.33 in Q4 of 2021, and from \$4.50 in Q1 of 2021. Total revenue was down 5% year-over-year to \$30.7 billion, but did beat expectations by \$170 million. Provisions for credit losses were \$1.46 billion, versus a benefit of \$1.29 billion in Q4, and a benefit of \$4.16 billion in the year-ago period.

Total loans ended the period at \$1.07 trillion, essentially flat with the prior quarter. Total deposits were \$2.56 trillion, up from \$2.46 trillion as the company continues to take deposits without lending them. We see the loan-to-deposit ratio near 40% as a clear sign of management's caution into the next few quarters.

Management approved a new buyback authorization of \$30 billion, starting on May 1st, 2022, making it one of the largest such programs in the US. At the current share price, such a buyback would retire about 8% of the company's outstanding shares.

We've updated our estimate of earnings-per-share for this year to \$11.15 following Q1 results.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|----------------|----------------|
| EPS | \$5.20 | \$4.35 | \$5.29 | \$6.00 | \$6.19 | \$6.87 | \$9.00 | \$10.72 | \$8.88 | \$15.25 | \$11.15 | \$14.92 |
| DPS | \$1.20 | \$1.44 | \$1.58 | \$1.72 | \$1.88 | \$2.12 | \$2.48 | \$3.30 | \$3.60 | \$3.70 | \$4.00 | \$5.11 |
| Shares¹ | 3,804 | 3,756 | 3,714 | 3,664 | 3,561 | 3,425 | 3,340 | 3,084 | 3,087 | 2,944 | 2,750 | 2,500 |

We see JPMorgan achieving 6% average annual growth on a normalized basis in the years to come after record earnings in 2021 that were the result of unsustainable credit loss reserve releases. The bank could achieve this with low single-digit revenue growth, as well as a meaningful tailwind from the sizable share buyback program. JPMorgan's balance sheet and earnings potential are more than sufficient to produce a tailwind from repurchases indefinitely, but its leverage to the credit card market as well as the flattened and lowered yield curve may keep a lid on profitability going forward, in addition to new guidance for rising expenses. We see normalized earnings growth off what is now a much lower base for 2022, given substantially all of the excess credit loss reserve releases should have been baked into 2021 earnings. Indeed, Q1 results showed a credit loss provision build for the first time in several quarters.

¹ 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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JPMorgan has been able to navigate a tricky rate environment and produce strong returns, and we expect that will continue indefinitely. However, we also caution that the huge gains produced in the past from the fixed income and equity businesses, for instance, are transitory as the investment banking business tends to be very volatile.

Recent years have seen double-digit payout growth and we see growth continuing, given that JPMorgan's payout ratio is still very low. We forecast the dividend being \$5.11 per share in five years as the bank continues to expand the payout with earnings growth.

Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 7.5 | 11.9 | 11.0 | 10.6 | 10.6 | 13.4 | 12.3 | 10.6 | 12.0 | 10.2 | 11.5 | 12.5 |
| Avg. Yld. | 3.1% | 2.8% | 2.7% | 2.7% | 2.9% | 2.3% | 2.2% | 2.9% | 3.4% | 2.4% | 3.1% | 2.7% |

JPMorgan's price-to-earnings ratio is down from our last report at 11.5 times earnings. That is now under our fair value estimate of 12.5 times earnings, implying a modest tailwind to total returns. The yield could rise over time from the rising valuation, from 3.1% to 2.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 25% | 36% | 33% | 33% | 34% | 35% | 28% | 31% | 41% | 24% | 36% | 34% |

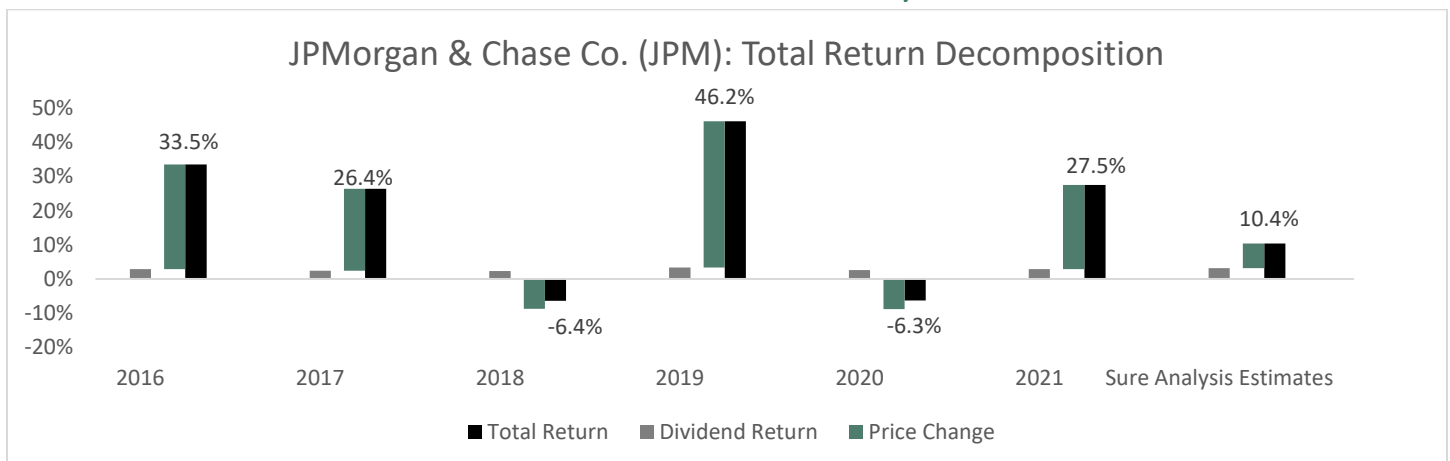
We see the payout ratio remaining under 40% for the foreseeable future. JPMorgan has been spending heavily on buybacks but is still able to increase the dividend meaningfully. We see the payout as very safe and a good choice for income investors given strong earnings growth and a willingness to return that capital to shareholders.

JPMorgan's competitive advantages include its enormous scale, diversified revenue streams and world class reputation. However, it is susceptible to recessions, just like any other bank, and earnings suffered during the downturn, although not to the extent previously feared, and the rebound was swift.

Final Thoughts & Recommendation

Overall, we see JPMorgan as a strong franchise with reasonable growth ahead of it, but we note management's cautious tone after Q1 results. We're now estimating 10.4% total annual returns, consisting of 6% projected earnings growth, the ample dividend yield, and a tailwind from the valuation. Given the move higher in expected returns, we're upgrading JPMorgan Chase after Q1 earnings from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------|--------|---------|--------|--------|--------|---------|--------|--------|---------|--------|
| Revenue (\$B) | 97.0 | 97.4 | 95.1 | 93.5 | 96.6 | 100.7 | 109.0 | 115.6 | 119.5 | 121.7 |
| SG&A Exp. | 38386 | 38735 | 38514 | 38651 | 39953 | 41823 | 45209 | 47,555 | 47,802 | 41,603 |
| D&A Exp. | 5147 | 5306 | 4759 | 4940 | 5478 | 6179 | 7791 | 8368 | 8,614 | 7,932 |
| Net Profit | 21,284 | 17,886 | 21,745 | 24,442 | 24,733 | 24,441 | 32,474 | 36,431 | 29,131 | 48,334 |
| Net Margin | 21.9% | 18.4% | 22.9% | 26.1% | 25.6% | 24.3% | 29.9% | 31.6% | 24.4% | 39.7% |
| Free Cash | 25,079 | 107,953 | 36,593 | 73,466 | 21,884 | -10,827 | 15,614 | 4,092 | -79,910 | 78,084 |
| Income Tax | 7,633 | 8,789 | 8,954 | 6,260 | 9,803 | 11,459 | 8,290 | 8,114 | 6,276 | 11,228 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets (\$B) | 2359 | 2416 | 2572 | 2352 | 2491 | 2534 | 2623 | 2687 | 3386 | 3744 |
| Cash & Eq. (\$B) | 176 | 356 | 512 | 361 | 390 | 431 | 279 | 264 | 528 | 741 |
| Acc. Receivable | 60933 | 65160 | 70079 | 46605 | 52330 | 67729 | 73200 | 72861 | 90503 | 10257 |
| Goodwill | 58024 | 59313 | 56275 | 54948 | 54246 | 54392 | 54349 | 53341 | 53428 | 56691 |
| Total Liab. (\$B) | 2155 | 2205 | 2341 | 2104 | 2237 | 2278 | 2366 | 2426 | 3107 | 3450 |
| Acc. Payable (\$B) | 195 | 194 | 134 | 107 | 110 | 103 | 115 | 118 | 140 | 169 |
| LT Debt (\$B) | 392 | 434 | 455 | 399 | 417 | 422 | 454 | 408 | 426 | 469 |
| Total Equity (\$B) | 195 | 200 | 212 | 222 | 228 | 230 | 230 | 234 | 249 | 259 |
| LTD/E Ratio | 1.92 | 2.06 | 1.96 | 1.61 | 1.64 | 1.65 | 1.77 | 1.56 | 1.53 | 1.60 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|
| Return on Assets | 0.9% | 0.7% | 0.9% | 1.0% | 1.0% | 1.0% | 1.3% | 1.4% | 1.0% | 1.4% |
| Return on Equity | 11.5% | 9.1% | 10.6% | 11.3% | 11.0% | 10.7% | 14.1% | 15.7% | 12.0% | 19.0% |
| ROIC | 3.6% | 2.9% | 3.3% | 3.7% | 3.8% | 3.6% | 4.7% | 5.3% | 4.2% | 6.6% |
| Shares Out. | 3,804 | 3,756 | 3,714 | 3,664 | 3,561 | 3,425 | 3,340 | 3,084 | 3,087 | 3,027 |
| Revenue/Share | 25.39 | 25.52 | 25.05 | 24.79 | 26.17 | 28.16 | 31.86 | 35.72 | 38.72 | 40.21 |
| FCF/Share | 6.56 | 28.30 | 9.64 | 19.47 | 5.93 | -3.03 | 4.57 | 1.27 | -25.88 | 25.80 |

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

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