PNC Financial Services (PNC)

Published April 15th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$175	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$75.2 B
Fair Value Price:	$185	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	4/12/2022
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	5/5/2022
Dividend Yield:	3.4%	**5 Year Price Target**	$248	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

PNC Financial Services is headquartered in Pittsburgh, Pennsylvania, and it is one of the largest diversified financial services companies in the U.S. It is engaged in retail banking as well as corporate and institutional banking and asset management. Its retail network is located primarily in markets across the Mid-Atlantic, Midwest and Southeast. PNC currently has a market capitalization of $75.2 billion.

On June 1st, 2021, PNC completed its acquisition of BBVA USA Bancshares from the Spanish financial group BBVA for $11.6 billion in cash. It acquired more than 600 branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico and became the fifth largest bank in assets, with a presence in 29 of the 30 largest U.S. markets.

In mid-April, PNC reported (4/14/22) financial results for the first quarter of fiscal 2022. Net interest income and net interest margin remained essentially flat sequentially. PNC reduced its provisions for loan losses by $208 million thanks to improved economic conditions, which rendered some previously considered risky loans as viable. However, its revenue dipped -8%, primarily due to lower activity in capital markets. As a result, its adjusted earnings-per-share dipped -11%, from $3.68 in the fourth quarter to $3.29. Nevertheless, thanks to a material decrease in operating expenses, the bank beat the analysts' consensus by an eye-opening $0.51. It also raised the quarterly dividend by 20%, from $1.25 to $1.50. Due to the fading tailwind from the acquisition of BBVA USA Bancshares, we expect modest growth this year but we still believe in the promising future prospects of this high-quality company.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.30	$7.39	$7.30	$7.39	$7.30	$10.36	$10.71	$9.57	$6.36	$14.18	***$14.70***	***$19.67***
DPS	$1.55	$1.72	$1.88	$2.01	$2.12	$2.60	$3.40	$4.20	$4.60	$4.80	***$6.00***	***$8.00***
Shares[1]	529	532	537	521	500	486	470	448	426	424	***415***	***380***

PNC was significantly affected by the pandemic in 2020, but the bank has recovered strongly. PNC has consistently pursued growth by expanding into attractive markets, growing its loan base organically and acquiring other banks. The acquisition of BBVA USA is likely to be a significant growth driver in the upcoming years while we also expect a tailwind from an increase in the loan/deposit ratio of the bank. PNC has grown its earnings-per-share at a 9.7% average annual rate in the last decade and at a 14.2% average annual rate in the last five years. Due to the somewhat high comparison base formed by the record earnings expected this year, we expect the bank to grow its earnings-per-share at a 6.0% average annual rate over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg P/E	11.5	9.6	11.6	12.6	12.4	12.3	13.3	14.2	18.7	13.2	***11.9***	***12.6***
Avg. Yld.	2.6%	2.4%	2.2%	2.2%	2.3%	2.0%	2.4%	3.1%	3.9%	2.6%	***3.4%***	***3.2%***

[1] In millions.

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PNC is currently trading at a price-to-earnings ratio of 11.9. The stock has traded at an average price-to-earnings ratio of 12.6 over the last decade. If it reverts to its average valuation level over the next five years, it will enjoy a 1.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29.2%	23.3%	25.8%	27.2%	29.0%	25.1%	31.7%	43.9%	72.3%	33.9%	***40.8%***	***40.7%***

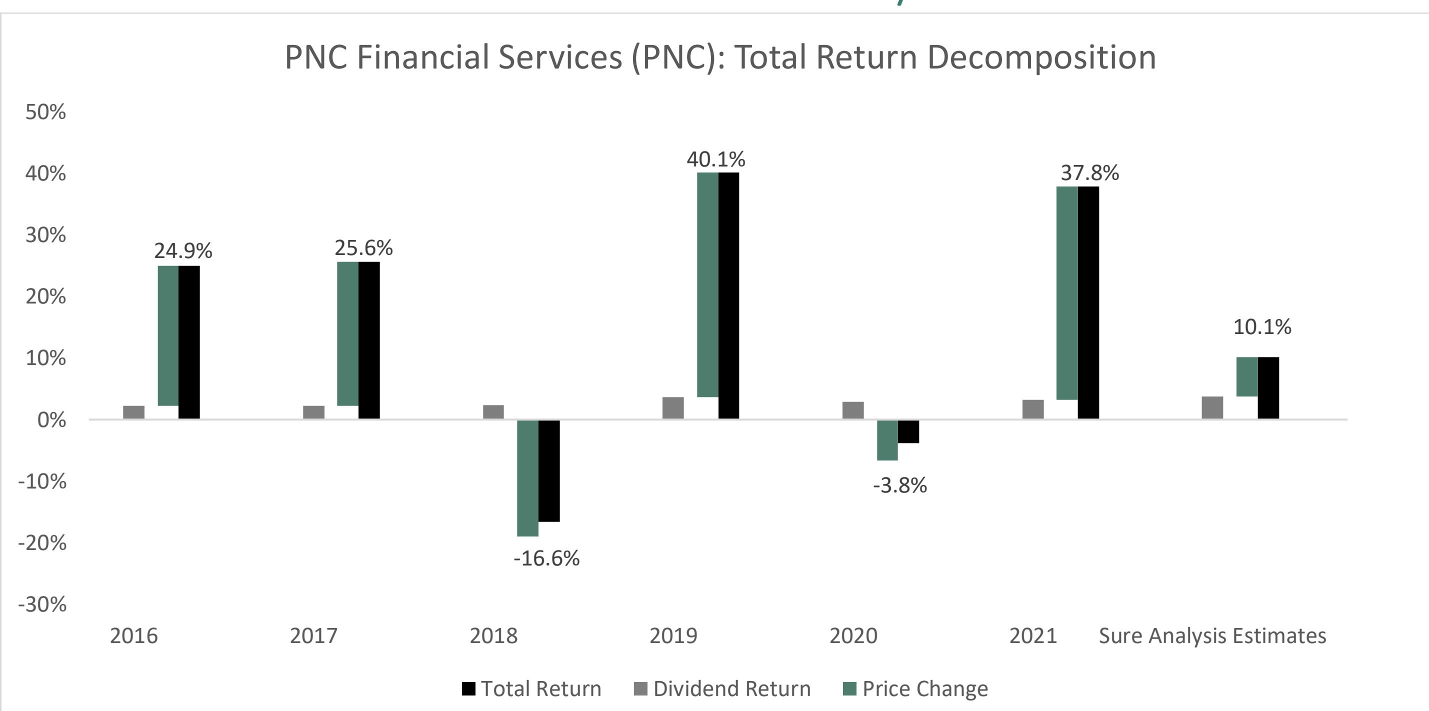
PNC has raised its dividend for 12 consecutive years. It froze its dividend for 8 consecutive quarters due to the pandemic, but it has resumed raising its dividend thanks to its ongoing recovery. Due to a healthy payout ratio of 41%, the dividend should be considered safe. In addition, the bank has reduced its share count by -19% in the last six years and has resumed repurchasing its shares after its major acquisition.

On the other hand, investors should be aware that PNC is vulnerable to recessions. In the Great Recession, PNC cut its dividend by -85% while in the coronavirus crisis it saw its earnings-per-share fall -34%. Therefore, in the scenario of a another recession, the stock of PNC could come under great pressure, just like it did at the outbreak of the virus, when it plunged nearly -50% in just five weeks. Only the investors who can tolerate such a high stock price volatility should consider PNC.

Final Thoughts & Recommendation

Due to the invasion of Russia in Ukraine and the aggressive interest rate hikes of the Fed, the market fears that a recession may occur at some point by the end of 2023. It has thus punished the stock of PNC with a -23% decline in the last three months. We view the correction of the stock as an opportunity and expect it to offer a 10.1% average annual return over the next five years thanks to 6.0% earnings-per-share growth, its 3.4% dividend and a 1.1% annualized expansion of the valuation level. Shares earn a buy rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	15,512	16,012	15,281	15,225	15,162	16,329	16,190	16,839	16,798	19,135
SG&A Exp.	4,896	4,989	4,864	5,080	5,120	5,512	5,756	5,948	5,909	7,460
D&A Exp.	1,159	1,146	988	1,088	1,193	1,117	1,129	1,315	1,497	1,773
Net Profit	3,001	4,201	4,184	4,106	3,903	5,338	5,301	5,369	7,517	5,674
Net Margin	19.3%	26.2%	27.4%	27.0%	25.7%	32.7%	32.7%	31.9%	44.7%	29.7%
Free Cash Flow	6,809	5,555	5,585	5,525	3,500	5,579	7,840	7,363	4,659	7,214

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	305.1	320.2	345.1	358.5	366.4	380.8	382.3	410.3	466.7	557.2
Cash & Equivalents	9,204	16,178	36,139	34,611	30,590	33,844	16,501	28,474	92,190	82,254
Goodwill	10,869	11,290	10,947	10,692	10,861	11,005	11,201	10,877	10,475	12,734
Total Liabilities ($B)	263.3	276.2	299.0	312.5	319.5	333.2	334.5	361.0	412.6	501.5
Long-Term Debt	37,580	41,816	53,258	54,532	52,706	59,088	57,419	60,263	37,195	30,784
Shareholder's Equity	39,003	42,334	44,551	44,710	45,699	47,513	47,728	49,314	54,010	55,465
LTD/E Ratio	0.96	0.99	1.20	1.22	1.15	1.24	1.20	1.22	0.69	0.55

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.0%	1.3%	1.3%	1.2%	1.1%	1.4%	1.4%	1.4%	1.7%	1.1%
Return on Equity	8.2%	10.3%	9.6%	9.2%	8.6%	11.5%	11.1%	11.1%	14.6%	10.3%
ROIC	4.0%	5.1%	4.5%	4.1%	3.9%	5.2%	5.0%	5.0%	7.5%	6.4%
Shares Out.	529	532	537	521	500	486	470	448	426	424
Revenue/Share	29.32	30.10	28.63	29.22	30.32	33.60	36.45	39.79	39.58	44.92
FCF/Share	12.87	10.44	10.40	10.60	7.00	11.48	16.68	16.44	10.91	16.93

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