



Wells Fargo & Company (WFC)

Updated April 15th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	9.0%	Market Cap:	\$184 B
Fair Value Price:	\$47	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/07/2022 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	06/01/2022
Dividend Yield:	2.2%	5 Year Price Target	\$63	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Wells Fargo was founded in 1852 and provides banking, investments, mortgages, as well as commercial financing products through roughly 7,000 locations in 30+ countries. The company's 248,000 employees help Wells Fargo invest its nearly \$2 trillion in assets to produce about \$73 billion in annual revenue. The bank has relationships with one-third of U.S. consumers through its vast network of offerings. Wells Fargo's market capitalization is \$184 billion.

Wells Fargo reported first quarter earnings on April 14th, 2022, and results were somewhat mixed. Revenue was down 2.6% year-over-year to \$17.6 billion, which also missed estimates by \$230 million. However, earnings-per-share were better than expected, beating estimates by seven cents at 88 cents.

Noninterest revenue fell 28% from the fourth quarter, and 14% from the year-ago period, as a combination of low loan growth and lower prevailing lending rates crimped revenue. The management team said loan growth picked up a bit towards the end of the quarter, and that credit quality remains strong. However, it also said that the risk of higher credit losses from a potential recession may hurt loan performance in the quarters to come.

Noninterest expense rose \$700 million from Q4 to \$13.9 billion, but that was still slightly lower than the year-ago period. Loan balances ended the quarter at \$898 billion, up from \$875 billion at the end of Q4. Deposits were essentially flat at \$1.46 trillion.

Net interest margin was 2.16%, up from 2.11% in the prior quarter, and up from 2.05% in the year-ago period. Provisions for credit losses came to a benefit of \$787 million, down from a benefit of \$875 million in Q4, and a benefit of \$1.05 billion in last year's Q1.

We've updated our estimate of earnings-per-share for this year to \$4.10 following Q1 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.36	\$3.89	\$4.10	\$4.15	\$4.06	\$4.10	\$4.28	\$4.05	\$1.06	\$4.87	\$4.10	\$5.49
DPS	\$0.88	\$1.15	\$1.35	\$1.48	\$1.52	\$1.54	\$1.64	\$1.92	\$1.22	\$0.60	\$1.00	\$2.01
Shares²	5,266	5,257	5,170	5,092	5,016	4,892	4,838	4,100	4,134	3,935	4,000	3,800

Wells Fargo's earnings-per-share were greatly diminished during the Great Recession, but the company did manage to stay profitable. Growth stagnated long before COVID hit, and while we see the bank's growth rate at 6% annually, that is due to the fact that its earnings have been depressed and haven't recovered in the same way its competitors have. We see revenue as a headwind for the foreseeable future, but strong buyback allotments should help over time. We note lower estimates for 2022 are based upon a lack of massive credit loss reserve releases, and not a deterioration of performance. Management also noted reduced buybacks in 2022, striking a cautious tone.

Wells Fargo is highly leveraged to the mortgage market, meaning it is more sensitive to the slope of the yield curve than the other money center banks, in addition to general housing market weakness. This is a negative if the yield curve is flat or inverted and/or if housing prices begin to decline. However, Wells Fargo remains profitable and reducing the share

¹ Estimate

² Share count in millions

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count could produce the bulk of its earnings-per-share growth. We note that the bank has shown signs of struggling with low rates, although rates have moved up in recent months.

The bank doubled its dividend in 2021, and we see continued strong growth in the payout in the coming years, as Wells Fargo plays catch-up on its dividend after cutting it 2020.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.8	10.3	12.3	13.3	12.3	13.3	12.9	12.1	28.3	9.0	11.2	11.5
Avg. Yld.	2.7%	2.9%	2.7%	2.7%	3.1%	2.8%	3.0%	3.9%	4.1%	1.4%	2.2%	3.2%

Wells Fargo's price-to-earnings ratio is 11.2 times our 2022 earnings estimate. Our fair value estimate is 11.5 times earnings given Wells Fargo is very clearly the weakest of the mega banks, and its recovery is taking longer, but progress is accruing in the recovery. The bank is also beholden to a rate curve that remains low, so we see investors as unwilling to pay a premium for this stock when there are better choices. With the stock nearly back in line with fair value, we see a very small impact on total returns from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	32%	36%	39%	41%	38%	38%	47%	115%	12%	24%	37%

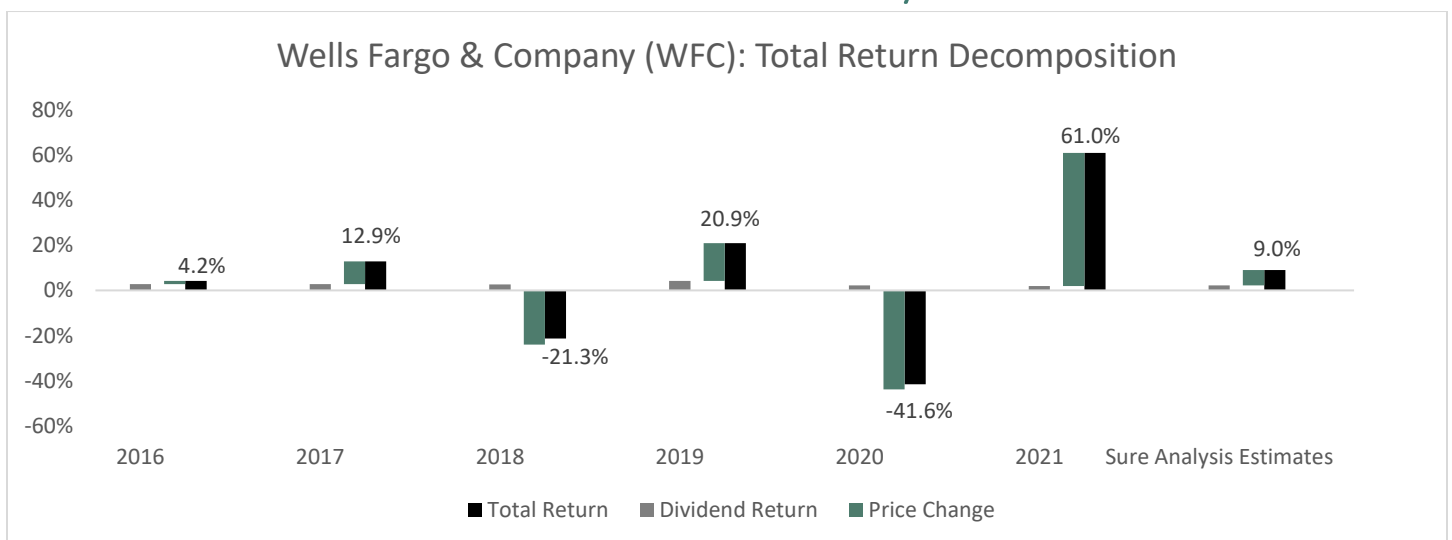
We see the payout ratio as quite manageable following the dividend cut.

Wells Fargo's competitive advantages include its scale that can rival any bank in the world, as well as its entrenched position in the consumer loan market. Its brand was once an advantage and likely will be again, but that has diminished with scandal after scandal in recent years. It is one of the stronger banks in recessions although it is far from immune, but it is well on its way to recovery from the pandemic.

Final Thoughts & Recommendation

We see Wells Fargo as slightly undervalued after the first quarter report, with earnings estimates more normalized now that the pandemic rebound is nearing its end. As a result, we forecast 9.0% total annual returns in the coming years. We are upgrading the stock as a result, moving it from sell to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	84601	82308	81967	83827	87164	86610	84893	85063	72340	78492
SG&A Expense	30160	31097	30870	31654	33061	34658	34134	35610	35411	36141
D&A Expense	2807	3293	2515	3288	4970	5406	5593	7075	8736	7890
Net Profit	18897	21878	23057	22894	21938	22183	22393	19549	3301	21548
Net Margin	22.3%	26.6%	28.1%	27.3%	25.2%	25.6%	26.4%	23.0%	4.6%	27.5%
Free Cash Flow	58540	57641	17529	15904	1008	18619	36073	6730	2051	-11525
Income Taxes	9103	10405	10307	10365	10075	4917	5662	4157	-3005	5578

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	1423	1524	1687	1788	1930	1952	1896	1927	1955	1948
Cash & Eq. (\$B)	21.86	19.92	19.57	19.11	20.73	215.95	173.29	141.25	264.6	234.2
Acc. Receivable	30834	26441	32022	31316	36395	44815	40365	34720	42737	22781
Goodwill & Int.	45602	48204	44103	42405	43767	43246	43055	39760	34157	33580
Total Liab. (\$B)	1264	1352	1502	1594	1730	1744	1699	1736	1769	1758
LT Debt (\$B)	149.6	170.6	196.4	214.1	273.7	239.6	242.4	240.3	225.6	173.9
Total Equity (\$B)	144.67	153.88	165.18	170.78	175.03	181.58	172.95	165.60	163.75	167.5
LTD/E Ratio	0.95	1.00	1.07	1.11	1.37	1.16	1.24	1.28	1.22	0.93

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	1.5%	1.4%	1.3%	1.2%	1.1%	1.2%	1.0%	0.2%	1.1%
Return on Equity	13.8%	14.7%	14.5%	13.6%	12.7%	12.4%	12.6%	11.5%	2.0%	13.0%
ROIC	6.4%	6.7%	6.4%	5.8%	5.0%	4.8%	5.0%	4.5%	0.8%	5.6%
Shares Out.	5,266	5,257	5,170	5,092	5,016	4,892	4,838	4,425	4,675	4,096
Revenue/Share	15.81	15.32	15.39	16.09	17.06	17.26	17.55	19.22	17.50	19.16
FCF/Share	10.94	10.73	3.29	3.05	0.20	3.71	7.46	1.52	0.50	-2.81

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

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