



Bank of America Corp. (BAC)

Updated July 22nd, 2022, by Josh Arnold

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	11.0%	Market Cap:	\$270 B
Fair Value Price:	\$35	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	09/01/2022
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	09/30/2022
Dividend Yield:	2.6%	5 Year Price Target	\$52	Years Of Dividend Growth:	10
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Bank of America, headquartered in Charlotte, NC, provides traditional banking services, as well as non-banking financial services to customers all over the world. Its operations include Consumer Banking, Wealth & Investment Management and Global Banking & Markets. Bank of America was founded in 1904, trades with a market capitalization of \$270 billion, and should produce about \$94 billion in revenue this year, making it one of the largest financial companies in the world on both measures.

Bank of America reported second quarter earnings on July 18th, 2022, and results were worse than expected on both revenue and profits. The company reported earnings-per-share of 73 cents, which was two cents less than expected. Revenue was up almost 6% year-over-year at \$22.7 billion, but missed estimates by \$90 million.

Net interest income was up \$2.2 billion, or 22%, to \$12.4 billion. The gain was driven by higher interest rates, lower premium amortization, and loan growth. Noninterest income fell by almost a billion dollars, or 9%, to \$10.2 billion. This reflected weaker capital markets, primarily.

Provisions for credit losses were \$523 million, while net charge-offs came to \$571 million.

Average loans and leases were \$107 billion higher, or 12%, to \$1.0 trillion. Commercial loan growth and higher consumer balances helped drive the gain, and helped offset declines from the Paycheck Protection Program.

Average deposits were up \$123 billion, or 7%, to \$2.0 trillion.

The bank returned \$2.7 billion during the quarter through the combination of dividends and share repurchases.

Subsequent to the earnings report, Bank of America boosted its dividend by 5% to a new payout of 22 cents per quarter.

Book value ended the quarter essentially flat at \$29.87 per share, while tangible book value per share was up fractionally at \$21.13. We now see \$3.20 in earnings-per-share for this year following a weaker-than-expected second quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.25	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$1.87	\$3.57	\$3.20	\$4.70
DPS	\$0.04	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$0.78	\$0.88	\$1.29
Shares¹	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,078	7,700	6,500

The damage from the financial crisis to Bank of America's earnings and dividend was massive. The company lost huge sums of money during the crisis, but since 2011, has produced an annual profit each year. Earnings growth has been robust but 2020 was certainly a setback. With the rebound in 2021 from relatively low levels, we see growth at 8% annually in the coming years from this year's more normalized \$3.20 per share.

Bank of America remains highly focused on reducing spending where possible, but its loan book has been stagnant to lower for the past few quarters. The company has about one trillion dollars of deposits it has not lent out, but lending rates remain extremely low, so Bank of America seems apprehensive to go after new business. Even so, we see

¹ Share count in millions

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reasonable growth from this relatively low level of earnings-per-share aided by substantial share repurchases. In addition, commentary from management suggests the time to lend those surplus deposits is near.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	15.0	---	12.6	10.3	13.5	8.7	10.7	14.1	11.3	10.6	11.0
Avg. Yld.	0.5%	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	1.9%	2.6%	2.5%

With a solid growth outlook and a healthy balance sheet, we believe Bank of America's valuation could settle on a low double-digits earnings multiple, in line with its peers. Shares go for 10.6 times earnings today, lower than our fair value estimate of 11 times earnings. We forecast a small tailwind to total returns as a result. We see the yield remaining about where it is today in the mid-2s.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	16%	4%	33%	15%	17%	21%	21%	24%	39%	26%	28%	28%

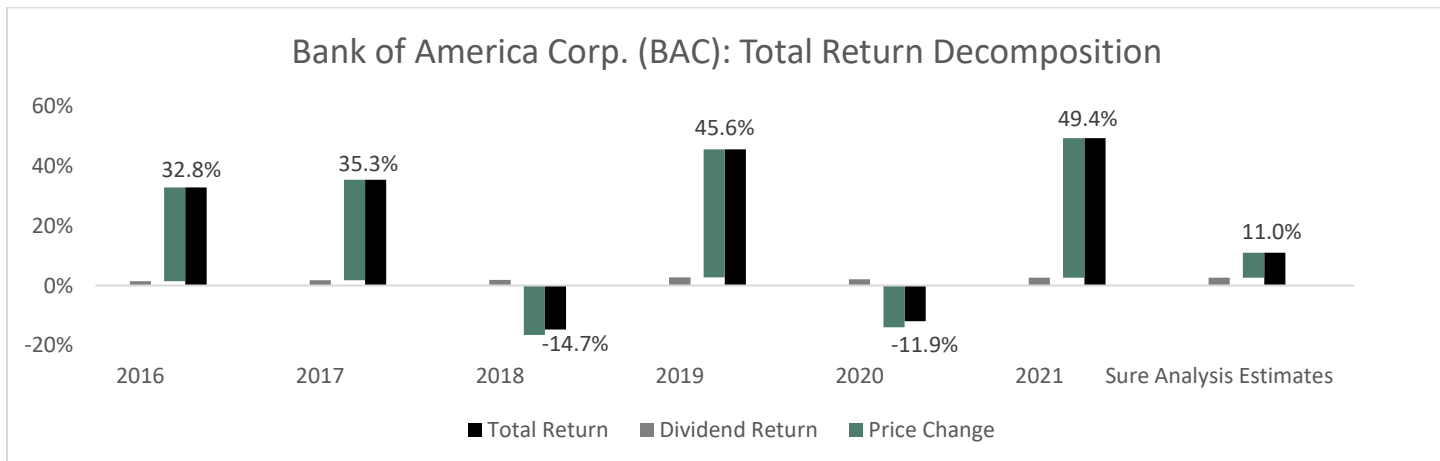
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out about a quarter of its profits in the form of dividends. The dividend in its current state is still very safe, even if earnings were to decline precipitously.

Bank of America competes with the largest banks in the U.S. The company is a leader in online banking with tens of millions of active digital banking users and strong growth rates across its digital payments solutions. It also has advantages of scale given its massive branch footprint, its digital presence, and its balance sheet that puts it among the largest banks in the world. During the last financial crisis, Bank of America was hit hard, but major financial crises such as the one in 2009 are not common occurrences. During a normal recession, Bank of America should perform better than its 2007-2009 history would suggest. The impacts from the 2020 recession are a thing of the past, and the bank is moving forward with growth plans.

Final Thoughts & Recommendation

Bank of America is in a strong position, as its long-term earnings power is intact, its dividend is seeing a strong growth rate, and its balance sheet looks extremely healthy. Shares are slightly undervalued in our view, and the total return outlook of 11% annually has us upgrading the stock 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	81,264	86,041	85,894	82,965	83,701	87,126	91,020	91,244	86,266	89,113
SG&A Exp.	60,416	58,623	65,863	49,221	47,270	41,835	40,520	42,069	41,156	45,049
D&A Exp.	3,038	2,683	2,522	2,389	2,241	2,103	2,063	1,729	1,843	1,898
Net Profit	4188	11431	5520	15910	17822	18232	28147	27,430	17,894	31,978
Net Margin	5.2%	13.3%	6.4%	19.2%	21.3%	20.9%	30.9%	30.1%	20.7%	35.9%
Free Cash Flow	-16,056	92,817	30,795	28,397	17,277	9,864	39,520	61,777	37,993	-7,193
Income Tax	-1,116	4,741	2,443	6,277	7,199	10,981	6,437	5,324	1,101	1,998

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	2210.0	2102.3	2104.5	2144.3	2188.1	2281.2	2354.5	2434.1	2819.6	3169.5
Cash & Eq. (\$B)	129.45	142.86	146.10	167.10	157.60	168.59	184.90	168.7	387.0	355.4
Acc. Receivable	71467	59448	61845	58312	58759	61623	65814	55937	64221	72263
Goodwill & Int.	82511	80470	77919	76616	71716	71253	68951	68951	68951	69022
Total Liab. (\$B)	1973.0	1869.6	1861.1	1888.1	1921.9	2014.1	2089.2	2169.3	2546.7	2899.4
LT Debt (\$B)	306.32	295.67	274.31	264.86	240.77	260.07	249.53	265.1	282.3	303.9
Total Equity (\$B)	218.19	219.33	224.16	233.90	240.98	244.82	243.00	241.4	248.4	245.4
LTD/E Ratio	1.29	1.27	1.13	1.03	0.90	0.97	0.94	1.00	1.03	1.13

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.2%	0.5%	0.3%	0.7%	0.8%	0.8%	1.2%	1.1%	0.7%	1.1%
Return on Equity	1.9%	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%	11.3%	7.3%	13.0%
ROIC	0.7%	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%	5.3%	3.3%	5.7%
Shares Out.	10,778	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,558
Revenue/Share	7.50	7.49	8.12	7.38	7.58	8.10	8.91	8.66	9.81	10.41
FCF/Share	-1.48	8.08	2.91	2.53	1.66	0.97	3.86	6.54	4.32	-0.84

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

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