



Bank of America Corp. (BAC)

Updated October 19th, 2022, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-------------------------|
| Current Price: | \$35 | 5 Year CAGR Estimate: | 10.4% | Market Cap: | \$270 B |
| Fair Value Price: | \$35 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 12/01/2022 ¹ |
| % Fair Value: | 99% | 5 Year Valuation Multiple Estimate: | 0.1% | Dividend Payment Date: | 12/30/2022 |
| Dividend Yield: | 2.5% | 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 \$95 billion in revenue this year, making it one of the largest financial companies in the world on both measures.

Bank of America posted third quarter earnings on October 17th, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share were 81 cents, three cents ahead of estimates. Revenue was up 8% to \$24.5 billion, \$1.04 billion than estimates. The bank noted strong performances from Global Markets, fixed income, currencies, and commodities. These were partially offset by declines in equities sales and trading revenue.

Net interest revenue was \$13.8 billion, up from \$12.4 billion in Q2 and up from \$11.1 billion in last year's Q3. Net interest margin was 2.06%, which was up from 1.86% in Q2 and 1.68% in the year-ago period.

Noninterest income was \$10.7 billion, up from \$10.2 billion in Q2, and down from \$11.7 billion in last year's Q3. Average loan and lease balances of \$1.03 trillion were flat to Q2. Average deposits were \$1.96 trillion, down from \$2.01 trillion in the prior quarter.

Noninterest expense was \$15.3 billion, flat to the prior quarter, but up from \$14.4 billion in the year-ago period.

Provisions for credit losses came to \$898 million, which included a \$378 million reserve build. These were worse than the \$523 million provision in the prior quarter, and the \$48 million reserve release in the prior quarter.

We reiterate our estimate of \$3.20 in earnings-per-share for this year.

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 |
| Shares² | 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 Estimated date

² 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 | 10.9 | 11.0 |
| Avg. Yld. | 0.5% | 0.3% | 0.7% | 1.2% | 1.6% | 1.6% | 2.3% | 2.2% | 2.7% | 1.9% | 2.5% | 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 10.9 times earnings today, essentially in line with 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% |

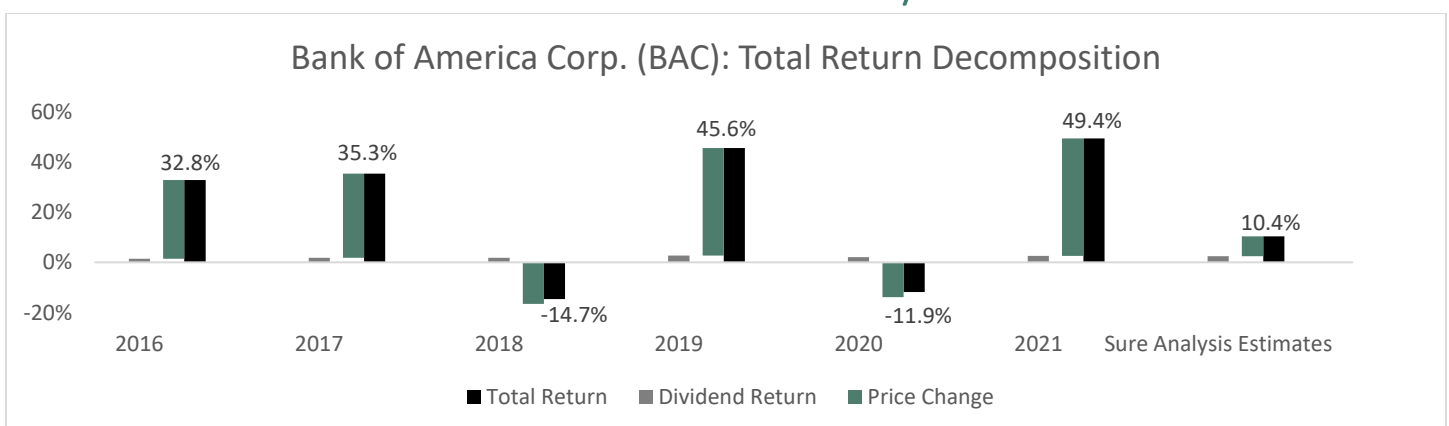
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out about a quarter of its profits in the form of dividends. The dividend in its current state is still very safe, even if earnings were to decline precipitously.

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 essentially fairly valued in our view, and the total return outlook of 10.4% annually has us reiterating the stock at a buy rating. We see returns accruing from 8% earnings growth, the 2.5% yield, and essentially no impact from the valuation.

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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