



Fifth Third Bancorp (FITB)

Updated October 20th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	9.2%	Market Cap:	\$21 billion
Fair Value Price:	\$35	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/29/2022 ¹
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	1/18/2023 ²
Dividend Yield:	4.3%	5 Year Price Target	\$41	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Fifth Third Bancorp owns and operates banks in 12 midwestern and southern U.S. states, including Georgia, Florida, Michigan and Ohio. The company has nearly 1,100 offices. Fifth Third Bancorp has a market capitalization of \$21 billion and generates annual revenues of close to \$8.5 billion.

On September 12th, 2022, Fifth Third Bancorp announced a 10% dividend increase to a quarterly payment of \$0.33 for the October 17th, 2022 payment date, extending the company's dividend growth streak to 12 years.

On October 20th, 2022, Fifth Third Bancorp reported third quarter earnings results for the period ending September 30th, 2022. Revenue grew 6.9% to \$2.17 billion, but was \$40 million less than anticipated. Earnings-per-share of \$0.91 compared unfavorably to \$0.98 in the prior year and was \$0.05 lower than expected.

Average portfolio loans and leases improved 10.8% year-over-year to \$119.6 billion. Provisions for credit losses was \$158 million in the third quarter, compared to a benefit of \$42 million in the prior year. The non-performing asset ratio of 0.46% was a 1 basis point improvement from the second quarter of the 2022 and 6 basis points below the same period a year ago. Average deposits declined 2% from the same period a year ago. Net interest income grew 11.9% sequentially and 26% year-over-year. Net-interest-margin of 3.22% was higher by 30 basis points quarter-over-quarter and was up 63 basis points year-over-year. Compared to the prior year, Fifth Third Bancorp had return on average tangible common equity 21.9% versus 16.9%, return on average common equity of 14.9% versus 13.0%, and return on average assets of 1.25% versus 1.36%.

Fifth Third Bancorp is now expected to earn \$3.53 per share in 2022, compared to \$3.64, \$3.51, and \$3.35 previously. We have updated our earnings-per-share forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$1.66	\$2.02	\$1.66	\$2.01	\$1.93	\$2.65	\$2.55	\$2.77	\$2.16	\$3.77	\$3.53	\$4.09
DPS	\$0.36	\$0.47	\$0.51	\$0.52	\$0.53	\$0.60	\$0.74	\$0.94	\$1.08	\$1.20	\$1.32	\$1.53
Shares³	882	855	824	785	750	694	647	709	713	698	695	685

Fifth Third Bancorp's earnings-per-share had a compound annual growth rate (CAGR) of 9.5% for the 2012-2021 period. However, the COVID-19 pandemic greatly impacted the banking sector in general and Fifth Third Bancorp in particular in 2020, setting up a very easy comparison for 2021. The previous 2010 to 2019 -year period saw a CAGR of almost 16%. That said, even this growth rate is deceiving as the bank was in the midst of a recovery from the 2007-2009 recession and started from a low base. We feel that a 3% earnings growth rate going forward is appropriate until Fifth Third Bancorp can prove that its business has recovered from the pandemic.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	8.5	8.9	12.6	9.9	10.0	10.1	11.7	10.0	10.3	11.6	8.8	10.0
Avg. Yld.	2.5%	2.6%	2.4%	2.6%	2.7%	2.2%	2.5%	3.4%	4.9%	2.5%	4.3%	3.7%

Shares of Fifth Third Bancorp have decreased \$3, or 8.8%, since last report. The stock has traded with an incredibly consistent valuation range over the last decade, rarely dropping below a price-to-earnings ratio of 8 and rarely climbing above 12. We have a five-year target multiple of 10 times earnings, as we feel that this valuation reflects the company's business prospects and reflects the medium- and long-term average price-to-earnings ratios. With shares trading with a price-to-earnings ratio of 8.8, this implies a 2.6% annual tailwind to total returns from multiple expansion through 2027.

Shares yield more than twice that of the S&P 500 index and the dividend has a 10-year CAGR of more than 14%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

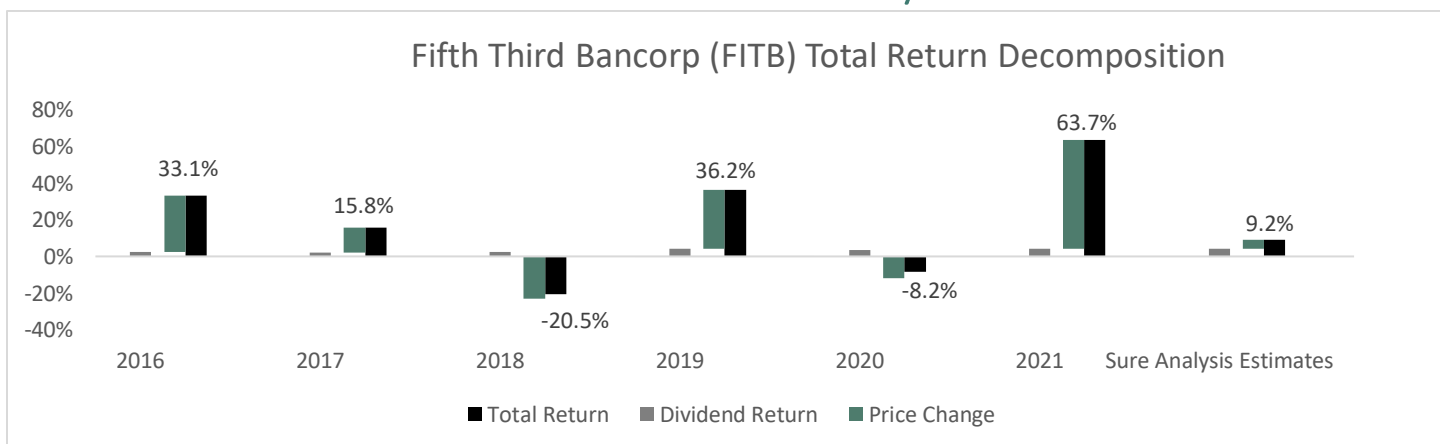
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	22%	23%	31%	26%	27%	23%	29%	34%	50%	32%	37%	37%

Along with much of the banking sector, Fifth Third Bancorp suffered significant losses during the financial crisis recession. Earnings-per-share totaled \$1.70, -\$3.94, and \$0.67 for 2007, 2008 and 2009 respectively. At the same time, the dividend was cut twice for a total reduction of 98%. It took the company until 2013 to establish a new earnings-per-share high and the dividend still has not recovered from its pre-Great Recession levels. Growth since has been mixed, even without the impact of the COVID-19 pandemic. Therefore, we do not believe that Fifth Third Bancorp is a recession-proof name. We also don't believe that Fifth Third Bancorp possess any significant advantages to its peers. The company does have a presence in certain growing states, such as Florida, but much of its core business is in the Midwest, which has seen population decline in recent years.

Final Thoughts & Recommendation

Fifth Third Bancorp is now expected return 9.2% annually through 2027, up from our prior forecast of 7.5%. Our projected return stems from a 3% earnings growth rate, a starting yield of 4.3%, and a small contribution from multiple expansion. Fifth Third Bancorp continues to see solid loan growth and the continued improvement in net interest income has been a welcomed sign. The company did see another increase in PCLs and should be something to monitor going forward. We have lowered our five-year price target \$1 to \$41 to reflect earnings estimates, but continue to view shares of Fifth Third Bancorp as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,140	6,223	5,707	5,982	5,758	5,715	6,071	7,118	7,233	7,646
SG&A Exp.	2,309	2,279	2,081	2,181	2,319	2,364	2,426	2,703	2,848	3,022
D&A Exp.	531	507	414	441	453	341	360	472	492	349
Net Profit	1,576	1,836	1,481	1,712	1,547	2,180	2,193	2,512	1,427	2,770
Net Margin	25.7%	29.5%	26.0%	28.6%	26.9%	38.1%	36.1%	35.3%	19.7%	36.2%
Free Cash Flow	2,069	4,115	1,794	2,169	1,779	1,249	2,722	1,520	13	2,395
Income Tax	636	772	545	659	665	799	572	690	370	747

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	121894	130443	138706	141048	142177	142081	146069	169369	204680	211116
Cash & Equivalents	2441	3178	3091	2540	2392	2514	2681	3278	3147	2994
Acc. Receivable	1524	1794	1764	1982	2508	2141	2401	2702	2607	3025
Goodwill & Int.	3140	3406	3289	3213	3169	3330	3456	5446	5053	5791
Total Liabilities	108130	115817	123041	125178	125945	125861	129819	148166	181569	188906
Long-Term Debt	13365	11013	14967	15810	16888	18029	14426	14970	15012	11821
Total Equity	13318	13555	14295	14508	14874	14869	14919	19433	20995	20094
LTD/E Ratio	0.97	0.75	0.96	1.00	1.04	1.11	0.89	0.71	0.65	0.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.3%	1.5%	1.1%	1.2%	1.1%	1.5%	1.5%	1.6%	0.8%	1.3%
Return on Equity	12.1%	13.7%	10.6%	11.9%	10.5%	14.7%	14.7%	14.6%	7.1%	13.5%
ROIC	6.0%	7.0%	5.3%	5.5%	4.8%	6.5%	6.8%	7.5%	3.8%	7.7%
Shares Out.	882	855	824	785	750	694	647	709	713	698
Revenue/Share	6.49	6.96	6.77	7.41	7.53	7.72	8.86	9.89	10.05	10.75
FCF/Share	2.19	4.60	2.13	2.69	2.33	1.69	3.97	2.11	0.02	3.37

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

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