



U.S. Bancorp (USB)

Updated October 17th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	11.9%	Market Cap:	\$63 B
Fair Value Price:	\$50	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/29/22 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	01/15/23
Dividend Yield:	4.5%	5 Year Price Target	\$64	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

U.S. Bancorp traces its lineage back to 1863 when the First National Bank of Cincinnati opened for business. It has since grown to 69,000 employees, a \$63 billion market capitalization, and about \$24 billion in annual revenue. The bank has expanded from a regional player to a national powerhouse in recent years, becoming the fifth-largest bank by assets in the U.S. It competes mostly in traditional banking activities, but also offers wealth management, payment, and investment services.

U.S. Bancorp posted third quarter results on October 14th, 2022, and earnings were better than expected. Adjusted earnings-per-share came to \$1.18, which was two cents ahead of estimates. On revenue, the bank beat by \$130 million at \$6.33 billion. That was up 7.5% year-over-year.

Net interest income was \$3.86 billion, up from \$3.5 billion in the prior quarter, but down from \$4.2 billion in the same period a year ago. Net interest margin was 2.83%, up from 2.59% in Q2, and up from 2.53% in the comparable period a year ago. Noninterest income was down from \$2.7 billion a year ago to \$2.5 billion.

Average loans were \$337 billion, up 3.9% from Q2. Average deposits were \$457 billion, essentially flat.

Provisions for credit losses came to \$362 million, up from \$311 million in Q2, and sharply worse than the \$163 million benefit in the year-ago period.

We've updated our estimate of earnings-per-share for this year to \$4.35.

The bank also boosted its dividend for the 11th consecutive year, this time adding 4.3% to a new annualized payout of \$1.92 per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.84	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$3.06	\$5.10	\$4.35	\$5.55
DPS	\$0.78	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$1.76	\$1.92	\$2.57
Shares²	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,460	1,350

U.S. Bancorp's earnings-per-share history has been strong since the financial crisis ended, as it was one of very few banks to grow earnings every year since 2009, although that streak ended in 2020 due to the COVID-19 pandemic. Following 2021 results that produced record earnings for U.S. Bancorp, we have a lower base of earnings forecast for this year, but also a much higher growth rate. We expect growth of 5% annually as this year should be the start of normalized results, and therefore, normalized growth rates.

We think the combined headwinds of relatively low net interest margin, and a lack of loan growth, combined with somewhat lower levels of share repurchases will keep a lid on earnings growth in the coming years. However, with lending rates on the rise, these headwinds could unwind starting in 2022, and drive our updated growth estimate.

¹ Estimated date

² 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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U.S. Bancorp's payout ratio is in line with its peers, and we expect growth in the payout to continue, growing to \$2.57 in five years. That would keep the payout ratio at less than 50% of earnings and in line with the bank's capital return strategy, affording it the opportunity to continue to buy back shares.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.1	12.0	13.7	13.7	13.2	15.0	12.7	12.8	13.3	11.0	9.9	11.5
Avg. Yld.	2.5%	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	3.1%	4.5%	4.0%

U.S. Bancorp's price-to-earnings ratio has moved up in recent years as the bank has become more highly valued by investors than its competitors due to its outstanding profitability metrics. The current valuation is slightly below our estimate of fair value at 11.5 earnings, so we see a small tailwind from the valuation in the coming years. The stock has pulled back sharply recently, which has improved the valuation and dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	32%	34%	34%	36%	36%	32%	38%	55%	35%	44%	46%

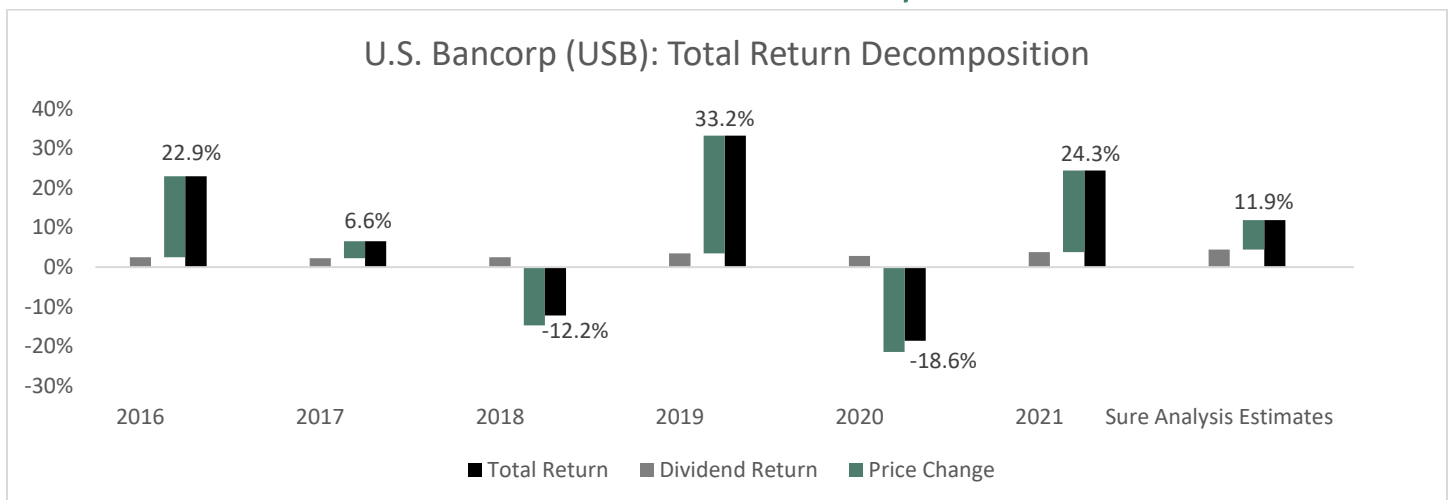
We see the payout remaining below 50% of earnings in the coming years, which is somewhat higher than recent history, excluding the unusual 2020. U.S. Bancorp's dividend appears safe, and we see no risk of a cut at this point. We think U.S. Bancorp will continue to produce mid-single digit dividend increases.

U.S. Bancorp's competitive advantage is in its stellar operating history and world-class management team. It operates as a regional bank, but on a massive scale, and as a result, it has been stronger through recessions than its larger peers. Indeed, earnings were not even cut in half in 2009 when many banks were struggling just to stay in business, and U.S. Bancorp came out of the recession in better shape in relation to its competitors than it was before the crisis.

Final Thoughts & Recommendation

While U.S. Bancorp's earnings will almost certainly decline meaningfully this year, we still view it as one of the strongest large banks in the U.S. Given the pullback in the stock, and resulting higher projected total returns, we are reiterating U.S. Bancorp at a buy rating. We now forecast 11.9% total annual returns in the coming years from a combination of an increased valuation (+3.1%), earnings growth (5%), and the robust dividend yield (4.5%).

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	20,064	19,378	19,939	19,969	20,956	21,697	22,521	22,883	23,226	22,721
SG&A Exp.	5,653	5,868	5,946	6,142	6,655	7,422	7,822	8,037	8,256	9,094
D&A Exp.	561	520	501	481	470	468	467	502	527	497
Net Profit	5,647	5,836	5,851	5,879	5,888	6,218	7,096	6,914	4,959	7,963
Net Margin	28.1%	30.1%	29.3%	29.4%	28.1%	28.7%	31.5%	30.2%	21.4%	35.0%
Free Cash Flow	7,958	11,446	5,332	8,782	5,336	6,472	10,564	4,889	3,716	9,870
Income Tax	2,236	2,032	2,087	2,097	2,161	1,264	1,554	1,648	1,066	2,181

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	353.86	364.02	402.53	421.85	445.96	462.04	467.37	495.43	553.9	573.3
Cash & Equivalents	8,252	8,477	10,654	11,147	15,705	19,505	21,453	22,405	62,580	28,905
Goodwill & Int.	11,849	12,734	12,551	12,711	12,647	12,662	12,761	12,878	12,782	14,000
Total Liab. (\$B)	313.59	322.21	358.36	375.04	398.03	412.37	415.72	442.94	500.18	517.9
Long-Term Debt	42,637	44,276	59,522	58,216	46,038	47,855	52,439	61,897	50,856	43,921
Total Equity	34,229	36,357	38,723	40,630	41,797	43,621	45,045	45,869	47,112	48,547
LTD/E Ratio	1.09	1.08	1.37	1.26	0.97	0.98	1.03	1.19	0.96	0.80

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%	0.9%	1.4%
Return on Equity	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%	10.7%	16.6%
ROIC	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%	4.5%	7.8%
Shares Out.	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484
Revenue/Share	10.58	10.48	11.00	11.34	12.24	12.98	13.75	14.46	15.38	15.25
FCF/Share	4.20	6.19	2.94	4.96	3.10	3.85	6.45	3.09	2.46	6.62

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

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