



# Fifth Third Bancorp (FITB)

Updated January 21<sup>st</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	8.0%	<b>Market Cap:</b>	\$24 billion
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	03/29/2023 <sup>1</sup>
<b>% Fair Value:</b>	92%	<b>5 Year Valuation Multiple Estimate:</b>	1.8%	<b>Dividend Payment Date:</b>	04/18/2023 <sup>2</sup>
<b>Dividend Yield:</b>	3.8%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$24 billion and generates annual revenues of close to \$9.3 billion.

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

On January 19<sup>th</sup>, 2023, Fifth Third Bancorp reported fourth quarter and full year earnings results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue grew 14.3% to \$2.32 billion, which was \$20 million less than expected. Earnings-per-share of \$1.01 compared favorably to \$0.91 in the prior year and was \$0.01 above estimates. For 2022, revenue grew 4.8% to \$8.32 billion while earnings-per-share of \$3.41 compared to \$3.77 in the previous year.

Average portfolio loans and leases improved 10.9% year-over-year to \$121.4 billion. Provisions for credit losses was \$180 million in the third quarter, compared to a benefit of \$47 million in the prior year. The non-performing asset ratio of 0.44% was a 2 basis point improvement from the third quarter of the 2022 and a 3 basis points below the same period a year ago. Average deposits declined 3.9% from the same period a year ago. Net interest income grew 5.3% sequentially and 32% year-over-year. Net-interest-margin of 3.35% was higher by 13 basis points quarter-over-quarter and was up 80 basis points year-over-year. Compared to the prior year, Fifth Third Bancorp had return on average tangible common equity of 29.2% versus 16.1%, return on average common equity of 18.8% versus 12.2%, and return on average assets of 1.42% versus 1.25%.

Fifth Third Bancorp is now expected to earn \$3.82 per share in 2023. We have initiated our earnings-per-share forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO</b>	\$2.02	\$1.66	\$2.01	\$1.93	\$2.65	\$2.55	\$2.77	\$2.16	\$3.77	\$3.41	<b>\$3.82</b>	<b>\$4.43</b>
<b>DPS</b>	\$0.47	\$0.51	\$0.52	\$0.53	\$0.60	\$0.74	\$0.94	\$1.08	\$1.20	\$1.26	<b>\$1.32</b>	<b>\$1.53</b>
<b>Shares<sup>3</sup></b>	855	824	785	750	694	647	709	713	698	694	<b>694</b>	<b>685</b>

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.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Avg. P/E</b>	8.9	12.6	9.9	10.0	10.1	11.7	10.0	10.3	11.6	9.6	<b>9.2</b>	<b>10.0</b>
<b>Avg. Yld.</b>	2.6%	2.4%	2.6%	2.7%	2.2%	2.5%	3.4%	4.9%	2.5%	3.8%	<b>3.8%</b>	<b>3.5%</b>

Shares of Fifth Third Bancorp have increased \$4, or 12.9%, since our 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 9.2, this implies a 1.8% annual tailwind to total returns from multiple expansion through 2028. 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

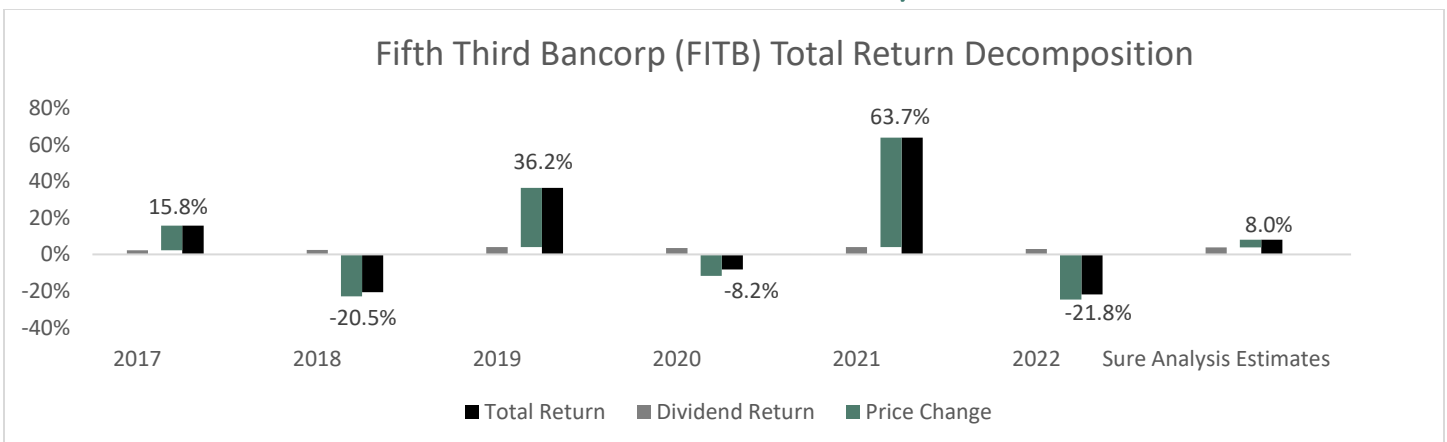
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	23%	31%	26%	27%	23%	29%	34%	50%	32%	37%	<b>35%</b>	<b>35%</b>

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 8.0% annually through 2028, down from our prior forecast of 9.2%. Our projected return stems from a 3% earnings growth rate, a starting yield of 3.8%, 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 as expected. The company did see another increase in PCLs, which is something to monitor going forward. We have raised our five-year price target \$3 to \$44 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	6,223	5,707	5,982	5,758	5,715	6,071	7,118	7,233	7,646	8,295
<b>SG&amp;A Exp.</b>	2,279	2,081	2,181	2,319	2,364	2,426	2,703	2,848	3,022	2,803
<b>D&amp;A Exp.</b>	507	414	441	453	341	360	472	492	349	
<b>Net Profit</b>	1,836	1,481	1,712	1,547	2,180	2,193	2,512	1,427	2,770	2,446
<b>Net Margin</b>	29.5%	26.0%	28.6%	26.9%	38.1%	36.1%	35.3%	19.7%	36.2%	29.5%
<b>Free Cash Flow</b>	4,115	1,794	2,169	1,779	1,249	2,722	1,520	13	2,395	
<b>Income Tax</b>	772	545	659	665	799	572	690	370	747	647

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	130443	138706	141048	142177	142081	146069	169369	204680	211116	207452
<b>Cash &amp; Equivalents</b>	3178	3091	2540	2392	2514	2681	3278	3147	2994	3466
<b>Acc. Receivable</b>	1794	1764	1982	2508	2141	2401	2702	2607	3025	
<b>Goodwill &amp; Int.</b>	3406	3289	3213	3169	3330	3456	5446	5053	5791	6830
<b>Total Liabilities</b>	115817	123041	125178	125945	125861	129819	148166	181569	188906	190125
<b>Long-Term Debt</b>	11013	14967	15810	16888	18029	14426	14970	15012	11821	18552
<b>Total Equity</b>	13555	14295	14508	14874	14869	14919	19433	20995	20094	15211
<b>LTD/E Ratio</b>	0.75	0.96	1.00	1.04	1.11	0.89	0.71	0.65	0.53	1.07

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.5%	1.1%	1.2%	1.1%	1.5%	1.5%	1.6%	0.8%	1.3%	1.2%
<b>Return on Equity</b>	13.7%	10.6%	11.9%	10.5%	14.7%	14.7%	14.6%	7.1%	13.5%	13.9%
<b>ROIC</b>	7.0%	5.3%	5.5%	4.8%	6.5%	6.8%	7.5%	3.8%	7.7%	7.0%
<b>Shares Out.</b>	855	824	785	750	694	647	709	713	698	694
<b>Revenue/Share</b>	6.96	6.77	7.41	7.53	7.72	8.86	9.89	10.05	10.75	11.94
<b>FCF/Share</b>	4.60	2.13	2.69	2.33	1.69	3.97	2.11	0.02	3.37	1.2%

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

### Disclaimer

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