



JPMorgan & Chase Co. (JPM)

Updated January 15th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$143	5 Year CAGR Estimate:	5.9%	Market Cap:	\$419 B
Fair Value Price:	\$144	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	01/05/23
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	01/31/23
Dividend Yield:	2.8%	5 Year Price Target	\$167	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

JPMorgan was founded in 1799 as one of the first commercial banks in the U.S. Since then, it has merged or acquired more than 1,200 different institutions, creating a global banking behemoth with a \$419 billion market capitalization and about \$139 billion in annual revenue. JPMorgan competes in every major segment of financial services, including consumer banking, commercial banking, home lending, credit cards, asset management and investment banking.

JPMorgan reported fourth quarter and full-year earnings on January 13th, 2023, and results were better than expected on both the top and bottom lines. The company's adjusted earnings-per-share blew away expectations, coming in at \$3.56. That was 46 cents ahead of estimates. Revenue soared 18% year-over-year to \$34.5 billion, which beat expectations by \$270 million.

The company noted cost of credit was \$2.3 billion, which included \$1.4 billion for a net reserve build, and \$887 million for net charge-offs. Provisions for credit losses were \$2.29 billion, up from \$1.54 billion in Q3, and nearly double the \$1.29 billion from last year's Q4.

Q4 noninterest expense was \$19 billion, down from \$19.2 billion in the third quarter, but up from \$17.9 billion in the year-ago period.

Q4 net interest income was \$20.3 billion, up from \$17.5 billion in Q3, and \$13.6 billion in last year's Q4. Noninterest revenue was \$14.4 billion, down from \$15.2 billion in Q3 and \$15.7 billion in Q4 2021.

Total loans were \$1.14 trillion at the end of the year, up from \$1.11 trillion at the end of September. Total deposits were \$2.34 trillion, down from \$2.41 trillion in September.

The company noted it would target \$12 billion in share repurchases this year, helping to drive our initial estimate of \$12.00 in earnings-per-share for 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.35	\$5.29	\$6.00	\$6.19	\$6.87	\$9.00	\$10.72	\$8.88	\$15.25	\$12.09	\$12.00	\$13.91
DPS	\$1.44	\$1.58	\$1.72	\$1.88	\$2.12	\$2.48	\$3.30	\$3.60	\$3.70	\$4.00	\$4.00	\$5.11
Shares¹	3,756	3,714	3,664	3,561	3,425	3,340	3,084	3,087	2,944	3,075	3,000	2,750

We see JPMorgan achieving 3% average annual growth on a normalized basis in the years to come after record earnings in 2021 gave way to more normalized results in 2022. The bank could achieve this with low single-digit revenue growth, as well as a meaningful tailwind from the sizable share buyback program, which has been restarted following a temporary suspension in 2022. JPMorgan's balance sheet and earnings potential are more than sufficient to produce a tailwind from repurchases indefinitely, but its leverage to the credit card market may keep a lid on profitability going forward, in addition to rising expenses. Credit costs have begun rising in a meaningful way, which is another headwind to earnings in the quarters to come.

¹ 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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JPMorgan has been able to navigate a tricky rate environment and produce strong returns, and we expect that will continue indefinitely. However, we also caution that the huge gains produced in the past from the fixed income and equity businesses, for instance, are transitory as the investment banking business tends to be very volatile.

Recent years have seen double-digit payout growth and we see growth continuing, given that JPMorgan's payout ratio is still very low. We forecast the dividend being \$5.11 per share in five years as the bank continues to expand the payout with earnings growth.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.9	11.0	10.6	10.6	13.4	12.3	10.6	12.0	10.2	11.0	11.9	12.0
Avg. Yld.	2.8%	2.7%	2.7%	2.9%	2.3%	2.2%	2.9%	3.4%	2.4%	3.0%	2.8%	3.1%

JPMorgan's price-to-earnings ratio is up sharply from our last report at 11.9 times earnings, as the stock has rallied enormously. That puts the stock almost even with our fair value estimate of 12 times earnings, implying essentially no impact from the valuation on total returns. We therefore see the yield rising from 2.8% to 3.1% in the years to come as dividend growth could outpace that of earnings, and therefore, the share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	36%	33%	33%	34%	35%	28%	31%	41%	24%	33%	33%	37%

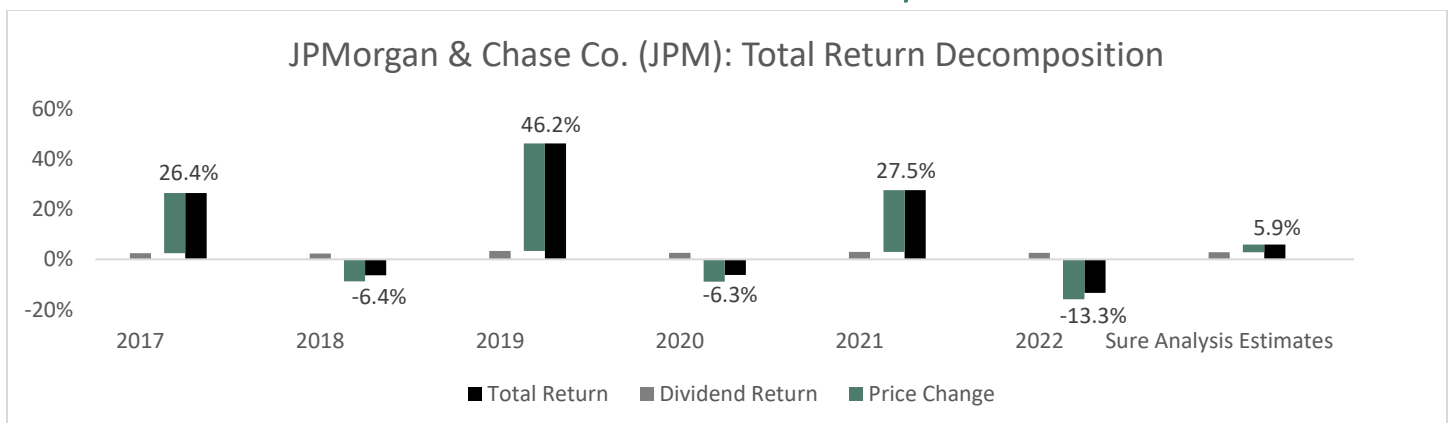
We see the payout ratio remaining under 40% for the foreseeable future. JPMorgan has been spending heavily on buybacks but is still able to increase the dividend meaningfully. We see the payout as very safe and a good choice for income investors given strong earnings growth and a willingness to return that capital to shareholders.

JPMorgan's competitive advantages include its enormous scale, diversified revenue streams and world class reputation. However, it is susceptible to recessions, just like any other bank, and earnings suffered during the downturn, although not to the extent previously feared, and the rebound was swift.

Final Thoughts & Recommendation

Overall, we see JPMorgan as a strong franchise with reasonable growth ahead of it, and while management is still striking a cautious tone on the economy, buybacks have been restarted. We're now estimating 5.9% total annual returns, consisting of 3% projected earnings growth, the 2.8% dividend yield, and a 0.1% tailwind from the valuation. Given the move lower in expected returns, we're moving JPMorgan from buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	97.4	95.1	93.5	96.6	100.7	109.0	115.6	119.5	121.7	128.7
SG&A Exp.	38735	38514	38651	39953	41823	45209	47,555	47,802	41,603	45,547
D&A Exp.	5306	4759	4940	5478	6179	7791	8368	8,614	7,932	
Net Profit	17,886	21,745	24,442	24,733	24,441	32,474	36,431	29,131	48,334	37,676
Net Margin	18.4%	22.9%	26.1%	25.6%	24.3%	29.9%	31.6%	24.4%	39.7%	29.3%
Free Cash	107,953	36,593	73,466	21,884	-10,827	15,614	4,092	-79,910	78,084	
Income Tax	8,789	8,954	6,260	9,803	11,459	8,290	8,114	6,276	11,228	8,490

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	2416	2572	2352	2491	2534	2623	2687	3386	3744	3666
Cash & Eq. (\$B)	356	512	361	390	431	279	264	528	741	567
Acc. Receivable	65160	70079	46605	52330	67729	73200	72861	90503	10257	12519
Goodwill	59313	56275	54948	54246	54392	54349	53341	53428	56691	60859
Total Liab. (\$B)	2205	2341	2104	2237	2278	2366	2426	3107	3450	3373
Acc. Payable (\$B)	194	134	107	110	103	115	118	140	169	300
LT Debt (\$B)	434	455	399	417	422	454	408	426	469	467
Total Equity (\$B)	200	212	222	228	230	230	234	249	259	265
LTD/E Ratio	2.06	1.96	1.61	1.64	1.65	1.77	1.56	1.53	1.60	1.60

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.7%	0.9%	1.0%	1.0%	1.0%	1.3%	1.4%	1.0%	1.4%	1.0%
Return on Equity	9.1%	10.6%	11.3%	11.0%	10.7%	14.1%	15.7%	12.0%	19.0%	14.4%
ROIC	2.9%	3.3%	3.7%	3.8%	3.6%	4.7%	5.3%	4.2%	6.6%	5.4%
Shares Out.	3,756	3,714	3,664	3,561	3,425	3,340	3,084	3,087	3,027	2,970
Revenue/Share	25.52	25.05	24.79	26.17	28.16	31.86	35.72	38.72	40.21	43.33
FCF/Share	28.30	9.64	19.47	5.93	-3.03	4.57	1.27	-25.88	25.80	

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

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