



# U.S. Bancorp (USB)

Updated January 26<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$49	<b>5 Year CAGR Estimate:</b>	11.8%	<b>Market Cap:</b>	\$75 B
<b>Fair Value Price:</b>	\$58	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	03/29/23 <sup>1</sup>
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.5%	<b>Dividend Payment Date:</b>	04/15/23
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$74	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$75 billion market capitalization, and about \$30 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 reported fourth quarter and full-year earnings on January 25<sup>th</sup>, 2023, and results were somewhat mixed, although the stock rallied strongly on the day. Adjusted earnings-per-share were \$1.20, which was ahead of estimates by six cents. Revenue was light of expectations, however, rising 12% to \$6.37 billion against expectations of \$6.49 billion.

For the full year, earnings were driven by strong net interest income, growing net interest margin from higher interest rates, and strong operating leverage. U.S. Bancorp completed its acquisition of MUFG Union Bank in December, and said it would add 8% to 9% to earnings-per-share for 2023.

Net interest margin is expected to rise between 5 and 10 basis points in 2023 from 2022's level of 3.01%. Average earning assets are expected to grow from 2022's level of \$573 billion to ~\$615 billion.

Provisions for credit losses were \$1.19 billion in Q4, including \$662 million that were taken on the MUFG acquisition, and the loan growth associated with it.

Adjusted noninterest income was \$2.44 billion in Q4, down from \$2.53 billion in the year-ago period. Average total loans were \$359.8 billion, up from \$336.8 billion in Q3. Average deposits rose from \$456.8 billion in Q3 to \$481.8 billion at the end of 2022.

We see the MUFG acquisition as helping to drive \$5.05 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
<b>EPS</b>	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$3.06	\$5.10	\$3.69	<b>\$5.05</b>	<b>\$6.45</b>
<b>DPS</b>	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$1.76	\$1.88	<b>\$1.92</b>	<b>\$2.57</b>
<b>Shares<sup>2</sup></b>	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,485	<b>1,450</b>	<b>1,375</b>

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 2022 results that produced much lower earnings for U.S. Bancorp, we have a higher expected growth rate. We expect growth of 5% annually as this year should be better considering the MUFG acquisition, as well as low base for 2022.

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

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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lending rates on the rise, these headwinds could unwind starting in 2023 so long as any potential recession isn't too harsh, and drive our updated growth estimate.

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 well under 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.0	13.7	13.7	13.2	15.0	12.7	12.8	13.3	11.0	11.8	9.7	11.5
Avg. Yld.	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	3.1%	4.3%	3.9%	3.5%

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 well below our estimate of fair value at 11.5 earnings, so we see a modest tailwind from the valuation in the coming years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	34%	34%	36%	36%	32%	38%	55%	35%	51%	38%	40%

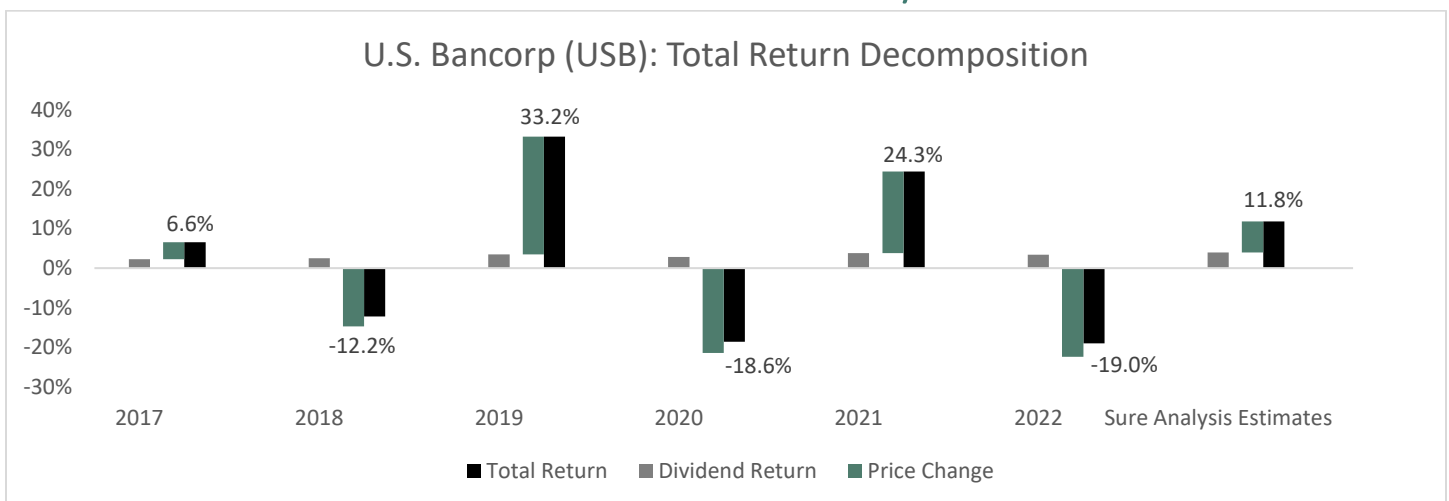
We see the payout remaining well below 50% of earnings in the coming years, and back in line with historical norms. U.S. Bancorp's dividend appears safe, and we see no risk of a cut at this point. We think U.S. Bancorp will continue to produce mid-single digit dividend increases.

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

We see earnings as producing a strong rebound this year off of last year's low base. We now forecast 11.8% total annual returns in the coming years from a combination of an increased valuation (+3.5%), earnings growth (5%), and the robust dividend yield (3.9%).

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	20,064	19,378	19,939	19,969	20,956	21,697	22,521	22,883	23,226	22,721
<b>SG&amp;A Exp.</b>	5,653	5,868	5,946	6,142	6,655	7,422	7,822	8,037	8,256	9,094
<b>D&amp;A Exp.</b>	561	520	501	481	470	468	467	502	527	497
<b>Net Profit</b>	5,647	5,836	5,851	5,879	5,888	6,218	7,096	6,914	4,959	7,963
<b>Net Margin</b>	28.1%	30.1%	29.3%	29.4%	28.1%	28.7%	31.5%	30.2%	21.4%	35.0%
<b>Free Cash Flow</b>	7,958	11,446	5,332	8,782	5,336	6,472	10,564	4,889	3,716	9,870
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	353.86	364.02	402.53	421.85	445.96	462.04	467.37	495.43	553.9	573.3
<b>Cash &amp; Equivalents</b>	8,252	8,477	10,654	11,147	15,705	19,505	21,453	22,405	62,580	28,905
<b>Goodwill &amp; Int.</b>	11,849	12,734	12,551	12,711	12,647	12,662	12,761	12,878	12,782	14,000
<b>Total Liab. (\$B)</b>	313.59	322.21	358.36	375.04	398.03	412.37	415.72	442.94	500.18	517.9
<b>Long-Term Debt</b>	42,637	44,276	59,522	58,216	46,038	47,855	52,439	61,897	50,856	43,921
<b>Total Equity</b>	34,229	36,357	38,723	40,630	41,797	43,621	45,045	45,869	47,112	48,547
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%	0.9%	1.4%
<b>Return on Equity</b>	17.2%	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%	10.7%	16.6%
<b>ROIC</b>	6.7%	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%	4.5%	7.8%
<b>Shares Out.</b>	1,869	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484
<b>Revenue/Share</b>	10.58	10.48	11.00	11.34	12.24	12.98	13.75	14.46	15.38	15.25
<b>FCF/Share</b>	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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