



U.S. Bancorp (USB)

Updated April 23rd, 2023, by Josh Arnold

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	16.8%	Market Cap:	\$51 B
Fair Value Price:	\$49	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/29/23 ¹
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.5%	Dividend Payment Date:	07/15/23
Dividend Yield:	5.6%	5 Year Price Target	\$62	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	B	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 77,000 employees, a \$51 billion market capitalization, and about \$29 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 first quarter earnings on April 19th, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.16, which was four cents ahead of expectations. Revenue was up 28% year-over-year to \$7.18 billion, which was \$50 million better than estimates. Revenue included \$4.7 billion in net interest income and \$2.5 billion in noninterest income.

Net interest margin was 3.10%, which was an increase of nine basis points from the fourth quarter, driven by the favorable impact of earning asset mix and loan yields.

Average total loan growth was 23.6% year-over-year, while average total deposits grew 23.6% year-over-year.

Provisions for credit losses declined from \$1.19 billion in Q4 to \$427 million. However, year-over-year, provisions nearly quadrupled from \$112 million.

We now see \$4.65 in earnings-per-share for this year following Q1 results. We think provisions may be an issue if the US slides into a recession, and yields appear to have topped.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.00	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$3.06	\$5.10	\$3.69	\$4.65	\$5.93
DPS	\$0.89	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$1.76	\$1.88	\$1.92	\$2.57
Shares²	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,485	1,450	1,375

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 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.

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 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	7.3	10.5
Avg. Yld.	2.5%	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	3.1%	4.3%	5.6%	4.1%

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 10.5 earnings, so we see a sizable 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%	41%	43%

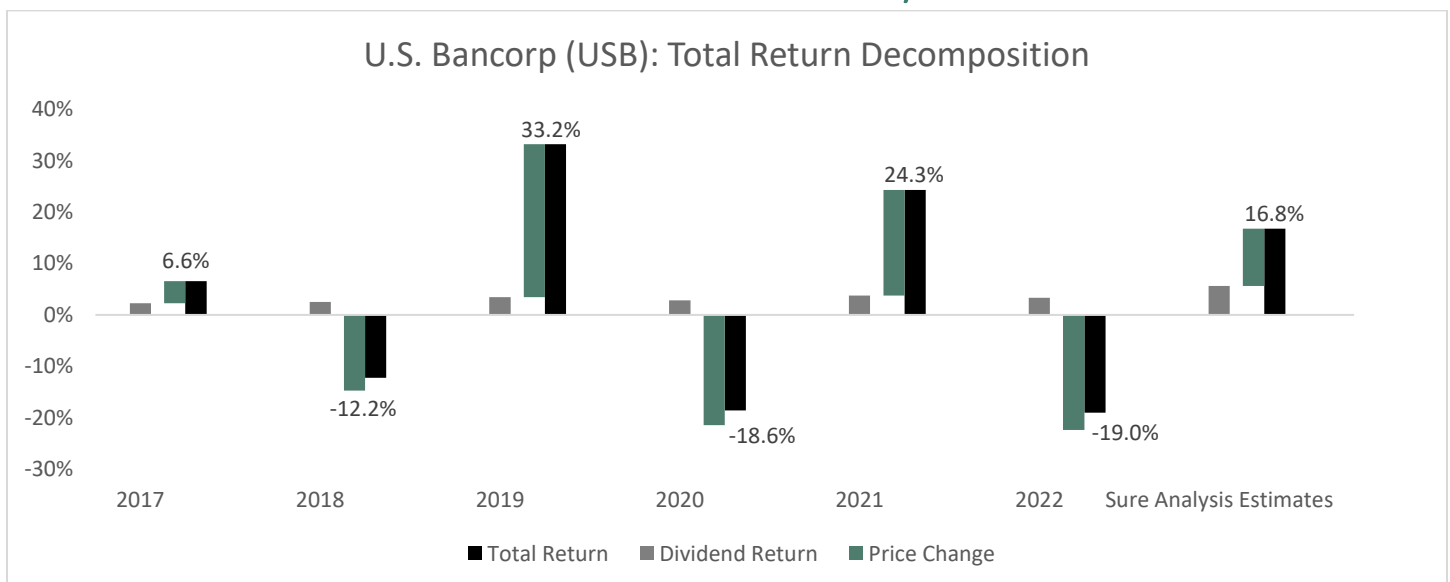
We see the payout remaining well below 50% of earnings in the coming years, and back in line with historical norms. U.S. Bancorp's dividend appears safe, and we see no risk of a cut at this point. We think U.S. Bancorp will continue to produce mid-single digit dividend increases.

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 16.8% total annual returns in the coming years from a combination of an increased valuation (+7.5%), earnings growth (5%), and the robust dividend yield (5.6%).

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	19,378	19,939	19,969	20,956	21,697	22,521	22,883	23,226	22,721	24,184
SG&A Exp.	5,868	5,946	6,142	6,655	7,422	7,822	8,037	8,256	9,094	9,613
D&A Exp.	520	501	481	470	468	467	502	527	497	560
Net Profit	5,836	5,851	5,879	5,888	6,218	7,096	6,914	4,959	7,963	5,825
Net Margin	30.1%	29.3%	29.4%	28.1%	28.7%	31.5%	30.2%	21.4%	35.0%	24.1%
Free Cash Flow	11,446	5,332	8,782	5,336	6,472	10,564	4,889	3,716	9,870	21,119
Income Tax	2,032	2,087	2,097	2,161	1,264	1,554	1,648	1,066	2,181	1,463

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	364.02	402.53	421.85	445.96	462.04	467.37	495.43	553.9	573.3	674.8
Cash & Equivalents	8,477	10,654	11,147	15,705	19,505	21,453	22,405	62,580	28,905	53,542
Goodwill & Int.	12,734	12,551	12,711	12,647	12,662	12,761	12,878	12,782	14,000	19,528
Total Liab. (\$B)	322.21	358.36	375.04	398.03	412.37	415.72	442.94	500.18	517.9	623.6
Long-Term Debt	44,276	59,522	58,216	46,038	47,855	52,439	61,897	50,856	43,921	69,388
Total Equity	36,357	38,723	40,630	41,797	43,621	45,045	45,869	47,112	48,547	43,958
LTD/E Ratio	1.08	1.37	1.26	0.97	0.98	1.03	1.19	0.96	0.80	1.37

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%	0.9%	1.4%	0.9%
Return on Equity	16.5%	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%	10.7%	16.6%	12.6%
ROIC	6.9%	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%	4.5%	7.8%	5.4%
Shares Out.	1,825	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,490
Revenue/Share	10.48	11.00	11.34	12.24	12.98	13.75	14.46	15.38	15.25	16.23
FCF/Share	6.19	2.94	4.96	3.10	3.85	6.45	3.09	2.46	6.62	14.17

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

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