PNC Financial Services (PNC)

Published July 18th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$123	**5 Year CAGR Estimate:**	16.6%	**Market Cap:**	$48.7 B
Fair Value Price:	$178	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	7/14/2023
% Fair Value:	69%	**5 Year Valuation Multiple Estimate:**	7.7%	**Dividend Payment Date:**	8/5/2023
Dividend Yield:	5.0%	**5 Year Price Target**	$228	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

PNC Financial Services is headquartered in Pittsburgh, Pennsylvania, and it is one of the largest diversified financial services companies in the U.S. It is engaged in retail banking as well as corporate and institutional banking and asset management. Its retail network is located primarily in markets across the Mid-Atlantic, Midwest and Southeast. PNC currently has a market capitalization of $48.7 billion.

On June 1st, 2021, PNC completed its acquisition of BBVA USA Bancshares from the Spanish financial group BBVA for $11.6 billion in cash. It acquired more than 600 branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico and became the fifth largest bank in assets, with a presence in 29 of the 30 largest U.S. markets.

In mid-July, PNC reported (7/18/23) financial results for the second quarter of fiscal 2023. Net interest income slipped -2% sequentially due to higher funding costs, which more than offset higher yields. Net interest margin shrank from 2.84% to 2.79% due to higher funding costs and non-interest income decreased -12%. As a result, although the bank reduced its loan loss provisions from $235 million to $146 million, its earnings-per-share dipped -16% sequentially, from $3.98 to $3.36, though they exceeded the analysts' consensus by $0.08. The stock has declined -23% this year due to the sell-off of the entire financial sector after the collapse of Silicon Valley Bank. We have lowered our forecast for earnings-per-share this year from $15.00 to $14.50 due to high deposit costs but we remain confident in the prospects of PNC. We also note that PNC has exceeded the analysts' earnings-per-share estimates in 10 of the last 12 quarters.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$7.39	$7.30	$7.39	$7.30	$10.36	$10.71	$9.57	$6.36	$14.18	$13.96	***$14.50***	***$18.51***
DPS	$1.72	$1.88	$2.01	$2.12	$2.60	$3.40	$4.20	$4.60	$4.80	$5.75	***$6.20***	***$8.28***
Shares[1]	532	537	521	500	486	470	448	426	424	404	***395***	***370***

PNC was significantly affected by the pandemic in 2020, but the bank has recovered strongly. PNC has consistently pursued growth by expanding into attractive markets, growing its loan base organically and acquiring other banks. The acquisition of BBVA USA is likely to be a significant growth driver in the short run while we also expect a tailwind from an increase in the loan/deposit ratio of the bank and the interest rate hikes of the Fed, which are likely to enhance the net interest margin of banks. PNC has grown its earnings-per-share at a 7.3% average annual rate in the last decade and at a 6.1% average annual rate in the last five years. Due to the somewhat high comparison base formed by the record earnings expected this year, we expect the bank to grow its earnings-per-share at a 5.0% average annual rate over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg P/E	9.6	11.6	12.6	12.4	12.3	13.3	14.2	18.7	13.2	12.3	***8.5***	***12.3***
Avg. Yld.	2.4%	2.2%	2.2%	2.3%	2.0%	2.4%	3.1%	3.9%	2.6%	3.3%	***5.0%***	***3.6%***

[1] In millions.

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PNC is currently trading at a nearly 10-year low price-to-earnings ratio of 8.5 due to the impact of inflation on the present value of future earnings and the sell-off of the entire financial sector after the collapse of Silicon Valley Bank and Credit Suisse. PNC has traded at an average price-to-earnings ratio of 12.3 over the last decade. If it reverts to its average valuation level over the next five years, it will enjoy a 7.7% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23.3%	25.8%	27.2%	29.0%	25.1%	31.7%	43.9%	72.3%	33.9%	41.2%	***42.8%***	***44.7%***

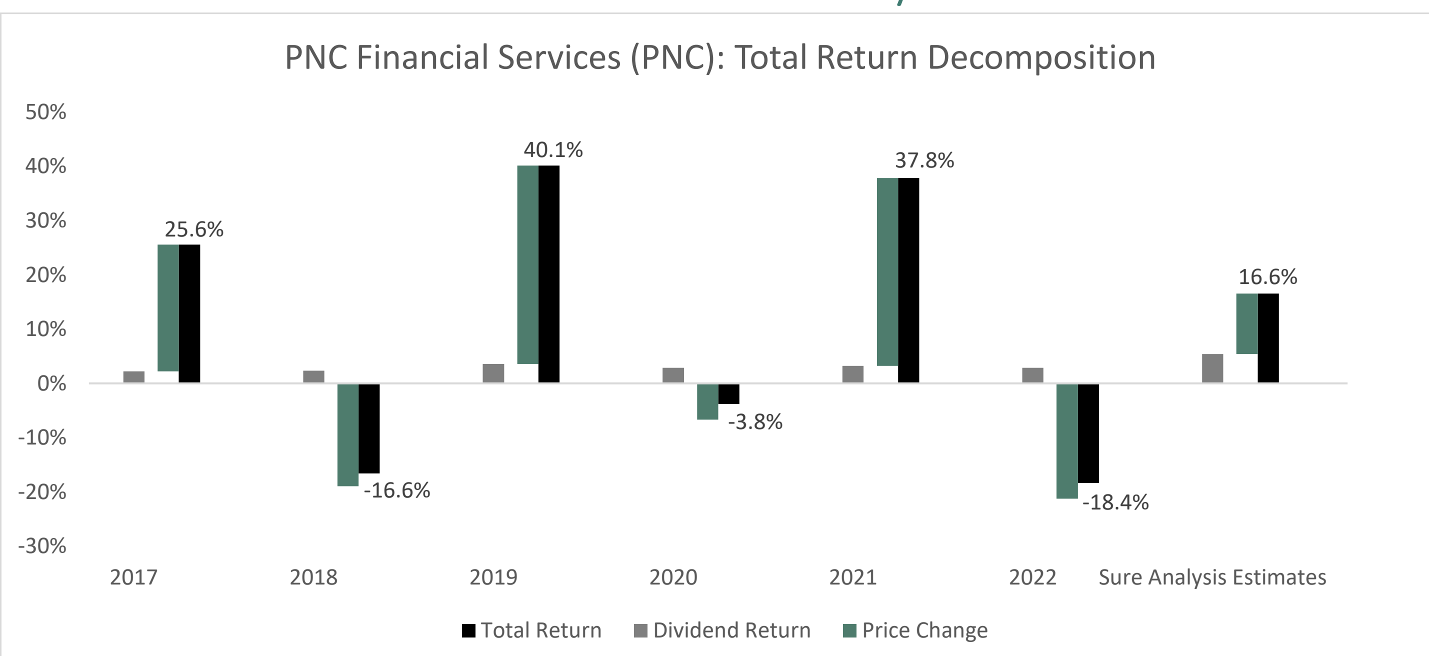
PNC just raised its dividend by 3% and thus it has raised its dividend for 13 consecutive years. It froze its dividend for 8 consecutive quarters due to the pandemic, but it has resumed raising its dividend thanks to its ongoing recovery. Thanks to a healthy payout ratio of 43%, the dividend should be considered safe. In addition, the bank has reduced its share count by -19% in the last six years and has resumed repurchasing its shares after its major acquisition.

On the other hand, investors should be aware that PNC is vulnerable to recessions. In the Great Recession, PNC cut its dividend by -85% while in the coronavirus crisis it saw its earnings-per-share fall -34%. Therefore, in the scenario of another recession, the stock of PNC could come under great pressure, just like it did at the outbreak of the virus, when it plunged nearly -50% in just five weeks. Only the investors who can tolerate such a high stock price volatility should consider PNC.

Final Thoughts & Recommendation

Due to the aggressive interest rate hikes of the Fed, the market fears that a recession may occur at some point in 2023. In addition, high inflation has compressed the valuation of PNC due to its impact on the present value of future earnings. Moreover, the financial sector is under pressure due to the collapse of Silicon Valley Bank and Credit Suisse. As a result, the stock of PNC has shed -23% this year. We view the correction of the stock as a great opportunity and expect it to offer a 16.6% average annual return over the next five years thanks to 5.0% earnings-per-share growth, its 5.0% dividend and a 7.7% annualized expansion of the valuation level. PNC maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	16,012	15,281	15,225	15,162	16,329	16,190	16,839	16,798	19,135	21,114
SG&A Exp.	4,989	4,864	5,080	5,120	5,512	5,756	5,948	5,909	7,460	7,599
D&A Exp.	1,146	988	1,088	1,193	1,117	1,129	1,315	1,497	1,773	651
Net Profit	4,201	4,184	4,106	3,903	5,338	5,301	5,369	7,517	5,674	6,041
Net Margin	26.2%	27.4%	27.0%	25.7%	32.7%	32.7%	31.9%	44.7%	29.7%	28.6%
Free Cash Flow	5,555	5,585	5,525	3,500	5,579	7,840	7,363	4,659	7,214	9,083

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	320.2	345.1	358.5	366.4	380.8	382.3	410.3	466.7	557.2	557.3
Cash & Equivalents	16,178	36,139	34,611	30,590	33,844	16,501	28,474	92,190	82,254	34,363
Goodwill	11,290	10,947	10,692	10,861	11,005	11,201	10,877	10,475	12,734	14,410
Total Liabilities ($B)	276.2	299.0	312.5	319.5	333.2	334.5	361.0	412.6	501.5	511.5
Long-Term Debt	41,816	53,258	54,532	52,706	59,088	57,419	60,263	37,195	30,784	58,713
Shareholder's Equity	42,334	44,551	44,710	45,699	47,513	47,728	49,314	54,010	55,465	45,774
LTD/E Ratio	0.99	1.20	1.22	1.15	1.24	1.20	1.22	0.69	0.55	1.28

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.3%	1.3%	1.2%	1.1%	1.4%	1.4%	1.4%	1.7%	1.1%	1.1%
Return on Equity	10.3%	9.6%	9.2%	8.6%	11.5%	11.1%	11.1%	14.6%	10.3%	11.9%
ROIC	5.1%	4.5%	4.1%	3.9%	5.2%	5.0%	5.0%	7.5%	6.4%	6.3%
Shares Out.	532	537	521	500	486	470	448	426	424	412
Revenue/Share	30.10	28.63	29.22	30.32	33.60	36.45	39.79	39.58	44.92	51.25
FCF/Share	10.44	10.40	10.60	7.00	11.48	16.68	16.44	10.91	16.93	22.05

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