



Bank of America Corp. (BAC)

Updated October 20th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	17.0%	Market Cap:	\$214 B
Fair Value Price:	\$36	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	12/01/2023
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date:	12/29/2023
Dividend Yield:	3.6%	5 Year Price Target	\$53	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Bank of America, headquartered in Charlotte, NC, provides traditional banking services, as well as non-banking financial services to customers all over the world. Its operations include Consumer Banking, Wealth & Investment Management and Global Banking & Markets. Bank of America was founded in 1904, trades with a market capitalization of \$214 billion, and should produce about \$100 billion in revenue this year, making it one of the largest financial companies in the world on both measures.

Bank of America posted third quarter earnings on October 17th, 2023, and results were better than expected on both the top and bottom lines. Earnings-per-share came to 90 cents, which was eight cents better than expected. Revenue was also up 2.9% year-over-year to \$25.2 billion, which was \$130 million ahead of estimates.

Net interest income was \$614 million higher, or 4%, to \$14.4 billion. This was primarily driven by higher interest rates and loan growth. Noninterest income was \$10.8 billion, up \$51 million, as higher sales and trading revenue, as well as asset management fees, more than offset lower other income.

Provisions for credit losses were \$1.2 billion, up \$336 million. This was due to a net reserve build of \$303 million in Q3 versus a net reserve build of \$378 million a year ago. Net charge-offs were \$931 million.

Noninterest expense was \$15.8 billion, down from \$16 billion in the previous quarter, and up from \$15.3 billion a year ago.

We have updated our estimate of earnings-per-share for this year to \$3.45 following strong Q3 results. We note that credit losses are the wildcard moving forward, but that BAC's operating metrics look good.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.90	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$1.87	\$3.57	\$3.19	\$3.45	\$5.07
DPS	\$0.04	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$0.78	\$0.86	\$0.96	\$1.41
Shares¹	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,078	7,997	7,900	7,600

The damage from the financial crisis to Bank of America's earnings and dividend was massive. The company lost huge sums of money during the crisis, but since 2011, has produced an annual profit each year. Earnings growth has been robust but 2020 was certainly a setback. With the rebound in 2021 from relatively low levels, we see growth at 8% annually in the coming years from this year's more normalized \$3.45 per share.

Bank of America remains highly focused on reducing spending where possible, and it has finally begun building its loan book. The company has almost one trillion dollars of deposits it has not lent out, but rates are moving higher, and the bank is beginning to lend a bit more aggressively. The bank has also aggressively bought back shares in the past, which will help boost earnings-per-share. We encourage investors to keep an eye on credit quality in the coming quarters.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.0	---	12.6	10.3	13.5	8.7	10.7	14.1	11.3	10.4	7.8	10.5
Avg. Yld.	0.3%	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	1.9%	2.6%	3.6%	2.7%

With a solid growth outlook and a healthy balance sheet, we believe Bank of America's valuation could settle on a low double-digits earnings multiple, in line with its peers. Shares go for just 7.8 times earnings today, somewhat below our fair value estimate of 10.5 times earnings. We forecast a large tailwind to total returns as a result. We see the yield potentially declining slightly over time as the valuation could rise to meet fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	4%	33%	15%	17%	21%	21%	24%	39%	26%	27%	28%	28%

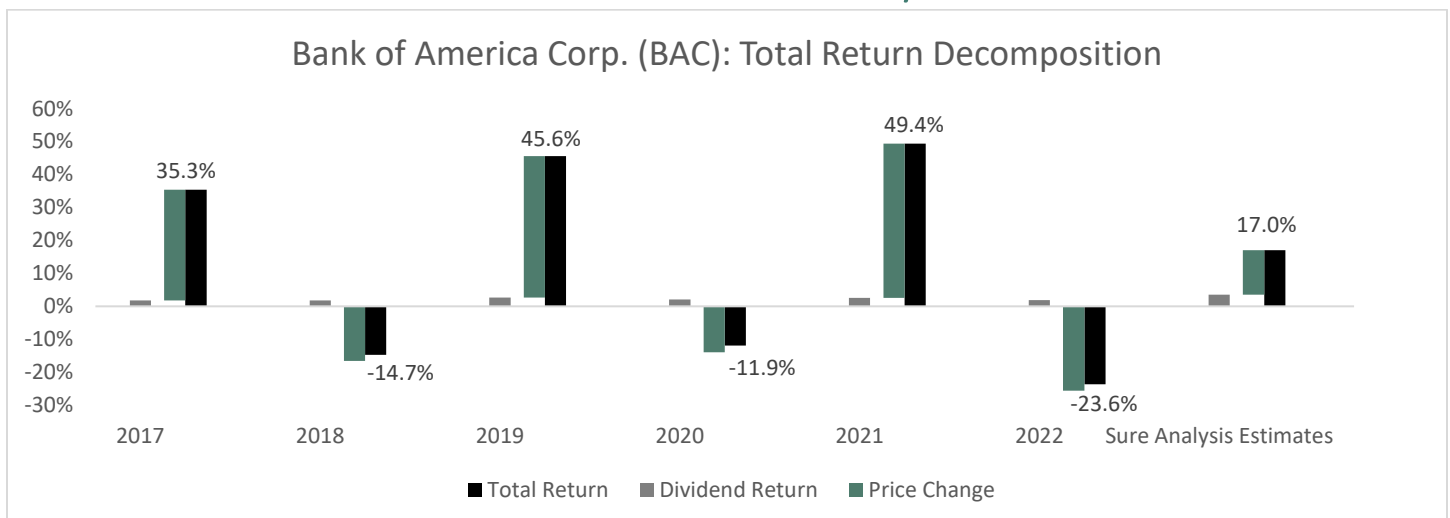
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out less than a third of its profits in the form of dividends. The dividend in its current state is still very safe, even if earnings were to decline precipitously.

Bank of America competes with the largest banks in the U.S. The company is a leader in online banking with tens of millions of active digital banking users and strong growth rates across its digital payments solutions. It also has advantages of scale given its massive branch footprint, its digital presence, and its balance sheet that puts it among the largest banks in the world. During the last financial crisis, Bank of America was hit hard, but major financial crises such as the one in 2009 are not common occurrences. During a normal recession, Bank of America should perform better than its 2007-2009 history would suggest. The impacts from the 2020 recession are a thing of the past, and the bank is moving forward with growth plans.

Final Thoughts & Recommendation

Bank of America is in a strong position, as its long-term earnings power is intact, its dividend is seeing a strong growth rate, and its balance sheet looks extremely healthy. Shares are quite undervalued in our view, and the total return outlook of 17% annually has us reiterating the stock at a buy rating. We see returns accruing from 8% earnings growth, the 3.6% yield, and a 6.1% tailwind from the rising valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	86,041	85,894	82,965	83,701	87,126	91,020	91,244	86,266	89,113	94,950
SG&A Exp.	58,623	65,863	49,221	47,270	41,835	40,520	42,069	41,156	45,049	45,946
D&A Exp.	2,683	2,522	2,389	2,241	2,103	2,063	1,729	1,843	1,898	1,978
Net Profit	11431	5520	15910	17822	18232	28147	27,430	17,894	31,978	27,528
Net Margin	13.3%	6.4%	19.2%	21.3%	20.9%	30.9%	30.1%	20.7%	35.9%	29.0%
Free Cash Flow	92,817	30,795	28,397	17,277	9,864	39,520	61,777	37,993	-7,193	-6,327
Income Tax	4,741	2,443	6,277	7,199	10,981	6,437	5,324	1,101	1,998	3,441

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	2102.3	2104.5	2144.3	2188.1	2281.2	2354.5	2434.1	2819.6	3169.5	3050.7
Cash & Eq. (\$B)	142.86	146.10	167.10	157.60	168.59	184.90	168.7	387.0	355.4	237.5
Acc. Receivable	59448	61845	58312	58759	61623	65814	55937	64221	72263	67429
Goodwill & Int.	80470	77919	76616	71716	71253	68951	68951	68951	69022	69022
Total Liab. (\$B)	1869.6	1861.1	1888.1	1921.9	2014.1	2089.2	2169.3	2546.7	2899.4	2777.5
LT Debt (\$B)	295.67	274.31	264.86	240.77	260.07	249.53	265.1	282.3	303.9	302.9
Total Equity (\$B)	219.33	224.16	233.90	240.98	244.82	243.00	241.4	248.4	245.4	244.8
LTD/E Ratio	1.27	1.13	1.03	0.90	0.97	0.94	1.00	1.03	1.13	1.11

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	0.3%	0.7%	0.8%	0.8%	1.2%	1.1%	0.7%	1.1%	0.9%
Return on Equity	5.2%	2.5%	6.9%	7.5%	7.5%	11.5%	11.3%	7.3%	13.0%	11.2%
ROIC	2.1%	1.1%	3.1%	3.5%	3.5%	5.4%	5.3%	3.3%	5.7%	4.8%
Shares Out.	10,592	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,558	8,168
Revenue/Share	7.49	8.12	7.38	7.58	8.10	8.91	8.66	9.81	10.41	11.63
FCF/Share	8.08	2.91	2.53	1.66	0.97	3.86	6.54	4.32	-0.84	-0.77

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

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