Fifth Third Bancorp (FITB)

Updated October 19th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	13.1%	**Market Cap:**	$17 billion
Fair Value Price:	$33	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/29/2023[1]
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	5.9%	**Dividend Payment Date:**	01/17/2024[2]
Dividend Yield:	5.6%	**5 Year Price Target**	$39	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Fifth Third Bancorp owns and operates banks in 12 midwestern and southern U.S. states, including Georgia, Florida, Michigan and Ohio. The company has nearly 1,100 offices. Fifth Third Bancorp has a market capitalization of about $17 billion and generates annual revenues of just under $9 billion.

On September 11th, 2023, Fifth Third Bancorp announced that it was increasing its quarterly dividend 6.1% to $0.35 for the October 16th, 2023 payment date, extending the company's dividend growth streak to 13 years.

On October 19th, 2023, Fifth Third Bancorp reported third quarter earnings results for the period ending September 30th, 2023. For the quarter, revenue fell 0.5% to $2.16 billion, which was in-line with estimates. Earnings-per-share of $0.91 matched the prior year's result, but was $0.09 better than expected.

Average portfolio loans and leases grew 1.7% year-over-year to $121.6 billion, though loans and leases were down slightly from the second quarter of 2023. Provisions for credit losses was $119 million compared to $158 million a year ago and $177 million for the preceding quarter. The non-performing asset ratio of 0.51% was higher by 5 basis points compared to the prior year's period, but lower by 3 basis points from the second quarter of 2023. Average deposits of $165.6 billion represented growth of 3.9% year-over-year and 3% quarter-over-quarter. Net interest income fell 4% from the prior year and 1.3% from the prior quarter. Net interest margin of 2.98% was down 24 basis points year-over-year and 12 basis points quarter-over-quarter. Compared to the prior year, Fifth Third Bancorp had return on average tangible common equity of 24.7% versus 21.9%, return on average common equity of 16.3% versus 14.9%, and return on average assets of 1.26% versus 1.25%.

Fifth Third Bancorp is now expected to earn $3.33 in 2023, compared to $3.25, $3.48, and $3.82 previously. We have updated our earnings-per-share forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$2.02	$1.66	$2.01	$1.93	$2.65	$2.55	$2.77	$2.16	$3.77	$3.41	***$3.33***	***$3.86***
DPS	$0.47	$0.51	$0.52	$0.53	$0.60	$0.74	$0.94	$1.08	$1.20	$1.26	***$1.40***	***$1.62***
Shares[3]	855	824	785	750	694	647	709	713	698	694	***687***	***670***

Fifth Third Bancorp's earnings-per-share had a compound annual growth rate (CAGR) of 9.5% for the 2012-2021 period. However, the COVID-19 pandemic greatly impacted the banking sector in general and Fifth Third Bancorp in particular in 2020, setting up a very easy comparison for 2021. The previous 2010 to 2019 -year period saw a CAGR of almost 16%. That said, even this growth rate is deceiving as the bank was in the midst of a recovery from the 2007-2009 recession and started from a low base. We feel that a 3% earnings growth rate going forward is appropriate until Fifth Third Bancorp can prove that its business has recovered from the pandemic.

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[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	8.9	12.6	9.9	10.0	10.1	11.7	10.0	10.3	11.6	9.6	***7.5***	***10.0***
Avg. Yld.	2.6%	2.4%	2.6%	2.7%	2.2%	2.5%	3.4%	4.9%	2.5%	3.8%	***5.6%***	***4.2%***

Shares of Fifth Third Bancorp have decreased $4, or 13.8%, since our July 22nd, 2023 report. The stock has traded with an incredibly consistent valuation range over the last decade, rarely dropping below a price-to-earnings ratio of 8 and rarely climbing above 12. We have a five-year target multiple of 10 times earnings, as we feel that this valuation reflects the company's business prospects and reflects the medium- and long-term average price-to-earnings ratios. With shares trading with a price-to-earnings ratio of 7.5, this implies a 5.9% annual tailwind to total returns from multiple expansion through 2028.

Shares yield nearly four times that of the S&P 500 index and the dividend has a 10-year CAGR of nearly 12%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

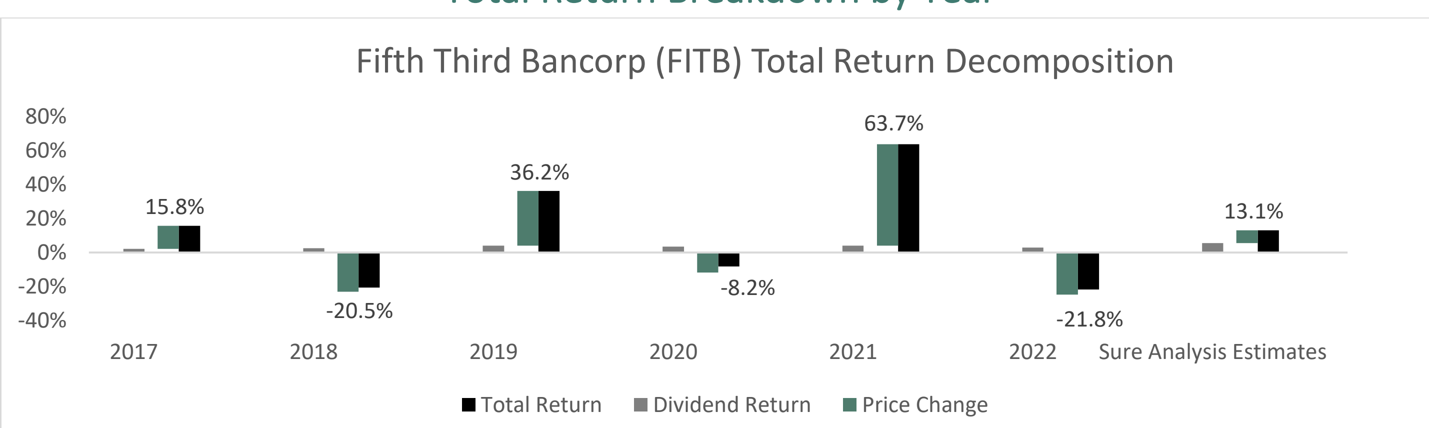
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23%	31%	26%	27%	23%	29%	34%	50%	32%	37%	***42%***	***42%***

Along with much of the banking sector, Fifth Third Bancorp suffered significant losses during the financial crisis recession. Earnings-per-share totaled $1.70, -$3.94, and $0.67 for 2007, 2008 and 2009 respectively. At the same time, the dividend was cut twice for a total reduction of 98%. It took the company until 2013 to establish a new earnings-per-share high and the dividend still has not recovered from its pre-Great Recession levels. Growth since has been mixed, even without the impact of the COVID-19 pandemic. Therefore, we do not believe that Fifth Third Bancorp is a recession-proof name. We also do not find that Fifth Third Bancorp possess any significant advantages to its peers. The company does have a presence in certain growing states, such as Florida, but much of its core business is in the Midwest, which has seen population decline in recent years.

Final Thoughts & Recommendation

Fifth Third Bancorp is now expected to return 13.1% annually through 2028, up from our prior forecast of 9.1%. Our projected return stems from a 3% earnings growth rate, a starting yield of 5.6%, and a mid-single-digit contribution from multiple expansion. Loan growth remains in positive territory, but the net interest margin continues to decline sequentially. PCLs appear reasonable as well. We have raised our five-year price target $1 to $39 to reflect revised earnings estimates. We now view shares of Fifth Third Bancorp as a buy due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,223	5,707	5,982	5,758	5,715	6,071	7,118	7,233	7,646	8,295
SG&A Exp.	2,279	2,081	2,181	2,319	2,364	2,426	2,703	2,848	3,022	2,803
D&A Exp.	507	414	441	453	341	360	472	492	349	
Net Profit	1,836	1,481	1,712	1,547	2,180	2,193	2,512	1,427	2,770	2,446
Net Margin	29.5%	26.0%	28.6%	26.9%	38.1%	36.1%	35.3%	19.7%	36.2%	29.5%
Free Cash Flow	4,115	1,794	2,169	1,779	1,249	2,722	1,520	13	2,395	
Income Tax	772	545	659	665	799	572	690	370	747	647

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	130443	138706	141048	142177	142081	146069	169369	204680	211116	207452
Cash & Equivalents	3178	3091	2540	2392	2514	2681	3278	3147	2994	3466
Acc. Receivable	1794	1764	1982	2508	2141	2401	2702	2607	3025	
Goodwill & Int.	3406	3289	3213	3169	3330	3456	5446	5053	5791	6830
Total Liabilities	115817	123041	125178	125945	125861	129819	148166	181569	188906	190125
Long-Term Debt	11013	14967	15810	16888	18029	14426	14970	15012	11821	18552
Total Equity	13555	14295	14508	14874	14869	14919	19433	20995	20094	15211
LTD/E Ratio	0.75	0.96	1.00	1.04	1.11	0.89	0.71	0.65	0.53	1.07

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.5%	1.1%	1.2%	1.1%	1.5%	1.5%	1.6%	0.8%	1.3%	1.2%
Return on Equity	13.7%	10.6%	11.9%	10.5%	14.7%	14.7%	14.6%	7.1%	13.5%	13.9%
ROIC	7.0%	5.3%	5.5%	4.8%	6.5%	6.8%	7.5%	3.8%	7.7%	7.0%
Shares Out.	855	824	785	750	694	647	709	713	698	694
Revenue/Share	6.96	6.77	7.41	7.53	7.72	8.86	9.89	10.05	10.75	11.94
FCF/Share	4.60	2.13	2.69	2.33	1.69	3.97	2.11	0.02	3.37	1.2%

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