



# JPMorgan & Chase Co. (JPM)

Updated October 17<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$148	<b>5 Year CAGR Estimate:</b>	5.8%	<b>Market Cap:</b>	\$430 B
<b>Fair Value Price:</b>	\$190	<b>5 Year Growth Estimate:</b>	-2.0%	<b>Ex-Dividend Date:</b>	01/05/24 <sup>1</sup>
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.1%	<b>Dividend Payment Date:</b>	01/30/24
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$172	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

JPMorgan was founded in 1799 as one of the first commercial banks in the U.S. Since then, it has merged or acquired more than 1,200 different institutions, creating a global banking behemoth with a \$430 billion market capitalization and about \$159 billion in annual revenue. JPMorgan competes in every major segment of financial services, including consumer banking, commercial banking, home lending, credit cards, asset management and investment banking.

JPMorgan posted third quarter earnings on October 13<sup>th</sup>, 2023, and results were much better than expected on both the top and bottom lines. Earnings-per-share came to \$4.33, which was an impressive 39 cents better than estimates. Revenue soared 22% year-over-year to \$39.9 billion, which beat consensus by almost half a billion dollars.

Bumper earnings accrued despite almost \$700 million of net investment securities losses, as well as nearly \$700 million in companywide legal expense. Still, the company saw better than expected net interest income and lower than expected provisions for credit losses. Management said both factors would normalize over time, implying the earnings we're seeing in 2023 aren't necessarily sustainable.

Provisions for credit losses were \$1.38 billion, well off the estimate of \$2.52 billion, and down sharply from \$2.90 billion in the second quarter. Net interest income was \$22.7 billion, ~\$400 million better than expected, and up from \$17.5 billion a year ago. Total loans were \$1.31 trillion, essentially flat from the June quarter. Deposits were \$2.38 trillion, again essentially flat from Q2.

We've boosted our estimate for this year to \$16.50 with one quarter to go after an outstanding Q3.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$4.35	\$5.29	\$6.00	\$6.19	\$6.87	\$9.00	\$10.72	\$8.88	\$15.25	\$12.09	<b>\$16.50</b>	<b>\$14.91</b>
<b>DPS</b>	\$1.44	\$1.58	\$1.72	\$1.88	\$2.12	\$2.48	\$3.30	\$3.60	\$3.70	\$4.00	<b>\$4.20</b>	<b>\$5.36</b>
<b>Shares<sup>2</sup></b>	3,756	3,714	3,664	3,561	3,425	3,340	3,084	3,087	2,944	3,075	<b>3,000</b>	<b>2,750</b>

We see JPMorgan struggling to grow from this year's estimates, and have moved our growth forecast to -2% average annual growth. We see revenue growth as challenging from here, but offset by a meaningful tailwind from the sizable share buyback program, which has been restarted following a temporary suspension in 2022. JPMorgan's balance sheet and earnings potential are more than sufficient to produce a tailwind from repurchases indefinitely, but its leverage to the credit card market may keep a lid on profitability going forward, in addition to rising expenses. Credit costs have begun rising in a meaningful way, which is another headwind to earnings in the quarters to come, but reversed in Q3.

JPMorgan has been able to navigate a tricky rate environment and produce strong returns, and we expect that will continue indefinitely. However, we also caution that the huge gains produced in the past from the fixed income and equity businesses, for instance, are transitory as the investment banking business tends to be very volatile. The bank has pulled back on lending, which is crimping its ability to grow earnings, and we think 2023 may mark an intermediate top in earnings for that reason.

<sup>1</sup> Estimated date

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

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Recent years have seen double-digit payout growth and we see growth continuing, given that JPMorgan's payout ratio is still very low. We forecast the dividend to be \$5.36 per share in five years as the bank continues to expand the payout with earnings growth.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.9	11.0	10.6	10.6	13.4	12.3	10.6	12.0	10.2	11.0	9.0	11.5
Avg. Yld.	2.8%	2.7%	2.7%	2.9%	2.3%	2.2%	2.9%	3.4%	2.4%	3.0%	2.8%	3.1%

JPMorgan's price-to-earnings ratio is down from our last report at 9 times earnings, as earnings estimates are now much higher. That puts the stock well below our fair value estimate of 11.5 times earnings, implying a strong positive impact from the valuation on total returns. We therefore see the yield rising from 2.8% to 3.1% in the years to come as dividend growth could outpace that of earnings, but the valuation could drive a lower yield, all else equal.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	36%	33%	33%	34%	35%	28%	31%	41%	24%	33%	26%	36%

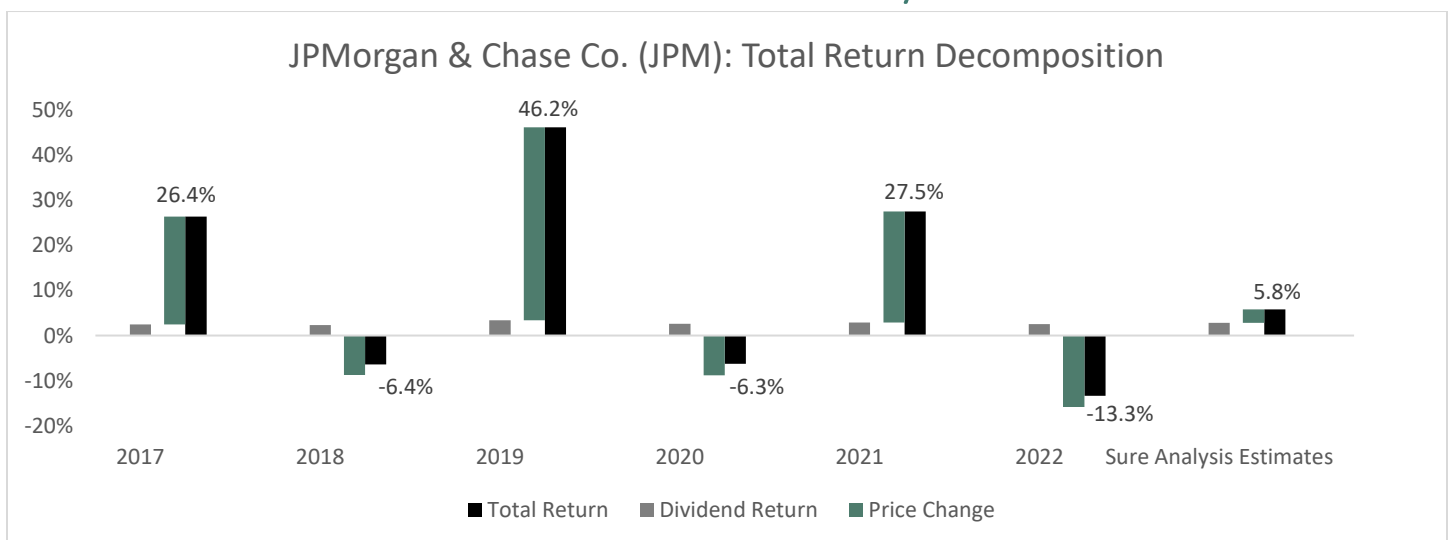
We see the payout ratio remaining under 40% for the foreseeable future. JPMorgan has been spending heavily on buybacks but is still able to increase the dividend meaningfully. We see the payout as very safe and a good choice for income investors given strong earnings growth and a willingness to return that capital to shareholders.

JPMorgan's competitive advantages include its enormous scale, diversified revenue streams and world class reputation. However, it is susceptible to recessions, just like any other bank, and earnings suffered during the downturn, although not to the extent previously feared, and the rebound was swift.

## Final Thoughts & Recommendation

Overall, we see JPMorgan as a strong franchise with reasonable growth ahead of it, and while management is still striking a cautious tone on the economy, it remains very well positioned. We're now estimating 5.8% total annual returns, consisting of -2% projected earnings growth, the 2.8% dividend yield, and a 5.1% tailwind from the valuation. We're reiterating the stock at a hold rating following Q3 results.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue (\$B)</b>	97.4	95.1	93.5	96.6	100.7	109.0	115.6	119.5	121.7	128.7
<b>SG&amp;A Exp.</b>	38735	38514	38651	39953	41823	45209	47,555	47,802	41,603	45,547
<b>D&amp;A Exp.</b>	5306	4759	4940	5478	6179	7791	8368	8,614	7,932	7,051
<b>Net Profit</b>	17,886	21,745	24,442	24,733	24,441	32,474	36,431	29,131	48,334	37,676
<b>Net Margin</b>	18.4%	22.9%	26.1%	25.6%	24.3%	29.9%	31.6%	24.4%	39.7%	29.3%
<b>Free Cash</b>	107,953	36,593	73,466	21,884	-10,827	15,614	4,092	-79,910	78,084	107,119
<b>Income Tax</b>	8,789	8,954	6,260	9,803	11,459	8,290	8,114	6,276	11,228	8,490

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets (\$B)</b>	2416	2572	2352	2491	2534	2623	2687	3386	3744	3666
<b>Cash &amp; Eq. (\$B)</b>	356	512	361	390	431	279	264	528	741	567
<b>Acc. Receivable</b>	65160	70079	46605	52330	67729	73200	72861	90503	10257	12519
<b>Goodwill</b>	59313	56275	54948	54246	54392	54349	53341	53428	56691	60859
<b>Total Liab. (\$B)</b>	2205	2341	2104	2237	2278	2366	2426	3107	3450	3373
<b>Acc. Payable (\$B)</b>	194	134	107	110	103	115	118	140	169	300
<b>LT Debt (\$B)</b>	434	455	399	417	422	454	408	426	469	467
<b>Total Equity (\$B)</b>	200	212	222	228	230	230	234	249	259	265
<b>LTD/E Ratio</b>	2.06	1.96	1.61	1.64	1.65	1.77	1.56	1.53	1.60	1.60

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	0.7%	0.9%	1.0%	1.0%	1.0%	1.3%	1.4%	1.0%	1.4%	1.0%
<b>Return on Equity</b>	9.1%	10.6%	11.3%	11.0%	10.7%	14.1%	15.7%	12.0%	19.0%	14.4%
<b>ROIC</b>	2.9%	3.3%	3.7%	3.8%	3.6%	4.7%	5.3%	4.2%	6.6%	5.4%
<b>Shares Out.</b>	3,756	3,714	3,664	3,561	3,425	3,340	3,084	3,087	3,027	2,970
<b>Revenue/Share</b>	25.52	25.05	24.79	26.17	28.16	31.86	35.72	38.72	40.21	43.33
<b>FCF/Share</b>	28.30	9.64	19.47	5.93	-3.03	4.57	1.27	-25.88	25.80	36.07

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

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