The Bank of New York Mellon Corp. (BK)

Updated January 18th, 2024, by Josh Arnold

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$42 B
Fair Value Price:	$55	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	04/19/24[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	05/02/24
Dividend Yield:	3.1%	**5 Year Price Target**	$81	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Bank of New York Mellon opened its doors in 1784 in the wake of the American Revolution, founded in part by Alexander Hamilton. The bank was the first ever to make a loan to the U.S. government and in the nearly 240 years since, has grown to more than $17 billion in annual revenue and a market capitalization of $42 billion. The bank is present in 35 countries around the world and acts as more of an investment manager than a traditional bank. Indeed, BNY Mellon's stated goal is to help its customers manage their assets throughout the investment lifecycle. As such, BNY Mellon's revenue is mostly derived from fees, not traditional interest income.

BNY Mellon posted fourth quarter and full-year results on January 12th, 2024, and results were better than expected on both the top and bottom lines. The bank posted adjusted earnings-per-share of $1.28, which was 16 cents better than expected. Revenue was up 10% year-over-year to $4.31 billion, beating estimates fractionally.

Fee revenue was flat, which reflected lower forex volatility and volumes, as well as the mix of assets under management flows. These were partially offset by higher market values and the impact of a weaker US dollar. Investment and other revenue was up from the repositioning of its securities portfolio, partially offset by fair value reductions of certain assets from 2022 divestitures. Net interest revenue was up 4%, attributable to higher interest rates, but partially offset by changes in balance sheet size and mix.

Provisions for credit losses came to $84 million, driven primarily by reserve increases related to commercial real estate exposure, as the bank anticipates the potential for further losses there.

Noninterest expense was $3.87 billion, up from $3.09 billion in Q3, and up from $3.21 billion in last year's Q4. Average deposits were $273 billion, up from $262 billion in Q3. Average loans were $66 billion, up from $64 billion in Q3.

We start 2024 with an estimate of $5.25 in earnings-per-share, representing mid-single digit growth from 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.41	$2.85	$3.17	$3.31	$4.21	$4.02	$4.01	$4.18	$4.59	$5.05	***$5.25***	***$7.71***
DPS	$0.66	$0.68	$0.72	$0.86	$1.04	$1.18	$1.24	$1.33	$1.42	$1.58	***$1.68***	***$2.14***
Shares[2]	1,118	1,085	1,048	1,013	1,007	901	879	826	808	759	***745***	***700***

BNY Mellon's earnings-per-share were a bit underwhelming coming out of the financial crisis as they were roughly flat for six years. However, since 2013 BNY Mellon has fixed its efficiency issues, leading to better margins as it is now more prepared to take advantage of revenue increases. To that end, we are forecasting 8% earnings-per-share growth annually moving forward.

BNY Mellon can achieve this growth in a variety of ways. First, revenue continues to grow over time, something we expect to continue under normalized conditions. Its assets under custody and administration continue to grow as well, particularly during strong equity markets, which is a key driver of fee income. Its lending business is small but growing and continues to add to top line growth as well, although we caution against weakening economic prospects in this unit

[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.

for 2023. We note that issues with AUM and lending margins tend to move in cycles, so BNY Mellon should see some respite from its headwinds over time. We also see the bank continuing its share repurchases over time, resulting in a meaningful tailwind for earnings-per-share outside of revenue and earnings growth. Finally, we expect margins to continue to improve slightly over time as the bank realizes additional operating leverage from higher revenue outpacing expense growth. Investors would do well to continue to monitor expense growth against revenue growth for signs of margin deterioration. We note that higher equity prices are a direct benefit to BNY's margins, so higher stock market prices heading into 2024 should aid earnings for the foreseeable future.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.1	14.5	12.7	15.1	12.6	11.9	9.6	12.2	9.9	10.3	***10.5***	***10.5***
Avg. Yld.	1.8%	1.6%	1.8%	1.7%	2.0%	2.5%	3.2%	2.6%	3.1%	3.0%	***3.1%***	***2.6%***

The stock's earnings multiple is now 10.5, exactly equal to our estimate of fair value at 10.5 times earnings. Given this, we see no impact on total returns in the coming years from the valuation. We expect the dividend yield to return to about 2.6% in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	27%	25%	29%	25%	29%	31%	32%	31%	31%	***32%***	***28%***

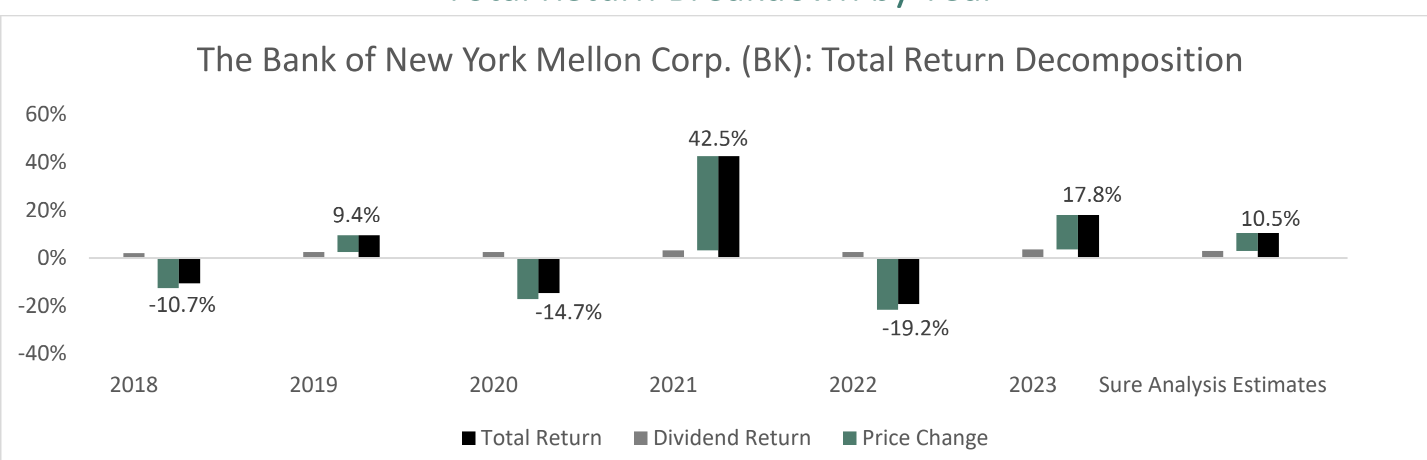
BNY Mellon's dividend is only about a third of its earnings, consistent with other large bank peers. That means the payout is very safe and we expect it to continue growing in the mid-single digits annually in the years to come.

BNY Mellon's competitive advantage is in its lack of reliance upon lending for revenue. This allows it to perform relatively well during recessions when other banks are struggling. While the company is not immune to downturns, its fee model is more resilient to such conditions than a bank that makes the majority of its revenue from interest income. Indeed, when many banks suffered in 2020, BNY Mellon saw essentially flat earnings year-over-year.

Final Thoughts & Recommendation

Overall, BNY Mellon looks like a fairly valued stock with good growth potential. We are forecasting total annual returns of 10.5% going forward, given no valuation impact, 3.1% yield, and 8% earnings growth. We are reiterating the stock at a buy rating following Q4 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	15,264	14,656	14,213	14,426	15,295	15,434	15,472	15,633	16,034	17,149
SG&A Exp.	6,113	6,104	6,054	6,262	6,373	6,276	5,966	6,337	6,800	7,095
D&A Exp.	1,292	1,457	1,502	1,474	1,339	1,315	1,630	1,867	1,636	---
Net Profit	2,567	3,158	3,547	4,090	4,266	4,441	3,617	3,759	2,573	3,383
Net Margin	16.8%	21.5%	25.0%	28.4%	27.9%	28.8%	23.4%	24.0%	16.0%	19.7%
Free Cash Flow	3,693	3,526	5,442	3,470	4,888	-1,114	3,816	1,623	13,722	---
Income Tax	912	1,013	1,177	496	938	1,120	842	877	768	830

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	385.3	393.8	333.5	371.8	362.9	381.5	469.6	444.4	405.8	410.0
Cash & Eq. ($B)	123.1	134.9	77.9	108.8	88.0	114.7	162.1	121.3	107.4	128.6
Acc. Receivable	4,773	4,097	4,628	5,200	4,363	4,426	4,129	4,635	5,782	1,150
Goodwill & Int.	23,328	22,815	22,365	22,474	22,222	22,083	22,392	22,599	21,311	19,115
Total Liab. ($B)	346.8	355.0	294.0	330.1	322.1	339.9	423.5	401.0	364.9	368.8
Long-Term Debt	21,050	22,070	25,217	34,082	34,329	32,059	26,334	26,680	30,855	31,736
Total Equity	35,879	35,485	35,269	37,709	37,096	37,941	41,260	38,196	35,896	36,628
LTD/E Ratio	0.56	0.58	0.65	0.83	0.84	0.77	0.58	0.62	0.76	0.77

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.8%	1.0%	1.2%	1.2%	1.2%	0.8%	0.8%	0.6%	0.8%
Return on Equity	7.1%	8.9%	10.0%	11.2%	11.4%	11.8%	9.1%	9.5%	6.9%	9.3%
ROIC	4.3%	5.2%	5.7%	5.8%	5.7%	6.0%	4.9%	5.3%	3.6%	4.7%
Shares Out.	1,118	1,085	1,048	1,013	1,007	901	892	856	815	788
Revenue/Share	13.42	13.17	13.26	13.87	15.19	16.37	17.34	18.26	19.68	21.77
FCF/Share	3.25	3.17	5.08	3.34	4.85	-1.18	4.28	1.90	16.84	---

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