Fifth Third Bancorp (FITB)

Updated January 24th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$24 billion
Fair Value Price:	$32	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/29/2024[1]
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	04/16/2024[2]
Dividend Yield:	4.0%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $24 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 January 19th, 2024, Fifth Third Bancorp announced fourth quarter and full year earnings results for the period ending December 31st, 2023. For the quarter, revenue decreased 6.5% to $2.17 billion, which was $10 million more than expected. Adjusted earnings-per-share of $0.99 compared to $1.01 in the prior year, but was $0.09 above estimates. For 2023, revenue grew 5% to $8.74 billion while adjusted earnings-per-share of $3.61 compared to $3.41 last year.

For the quarter, average portfolio loans and leases decreased 2.1% year-over-year to $118.9 billion. Provisions for credit losses was $55 million compared to $180 million a year ago and $119 million for the preceding quarter. The non-performing asset ratio of 0.59% was higher by 15 basis points compared to the prior year's period and 8 basis points from the third quarter of 2023. Average deposits of $169.5 billion represented growth of 5.2% year-over-year and 2.3% quarter-over-quarter. Net interest income grew 1.2% from the prior year and 4.2% from the prior quarter. Net interest margin of 2.86% was down 50 basis points year-over-year and 13 basis points quarter-over-quarter. Compared to the prior year, Fifth Third Bancorp had return on average tangible common equity of 19.8% versus 29.2%, return on average common equity of 12.9% versus 18.8%, and return on average assets of 0.98% versus 1.42%.

Fifth Third Bancorp is expected to earn $3.17 in 2024. We have initiated our earnings-per-share forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	$1.66	$2.01	$1.93	$2.65	$2.55	$2.77	$2.16	$3.77	$3.41	$3.61	***$3.17***	***$3.67***
DPS	$0.51	$0.52	$0.53	$0.60	$0.74	$0.94	$1.08	$1.20	$1.26	$1.34	***$1.40***	***$1.62***
Shares[3]	824	785	750	694	647	709	713	698	694	688	***688***	***680***

Fifth Third Bancorp's earnings-per-share had a compound annual growth rate (CAGR) of 9% for the 2014 to 2023 period. 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.

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

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.6	9.9	10.0	10.1	11.7	10.0	10.3	11.6	9.6	9.6	***11.0***	***10.0***
Avg. Yld.	2.4%	2.6%	2.7%	2.2%	2.5%	3.4%	4.9%	2.5%	3.8%	3.9%	***4.0%***	***4.4%***

Shares of Fifth Third Bancorp have increased $10, or 40%, since our October 19th, 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 11.0, this implies a 2.0% annual headwind to total returns from multiple compression through 2029.

Shares yield nearly three times the average yield of the S&P 500 index and the dividend has a 10-year CAGR of 11.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

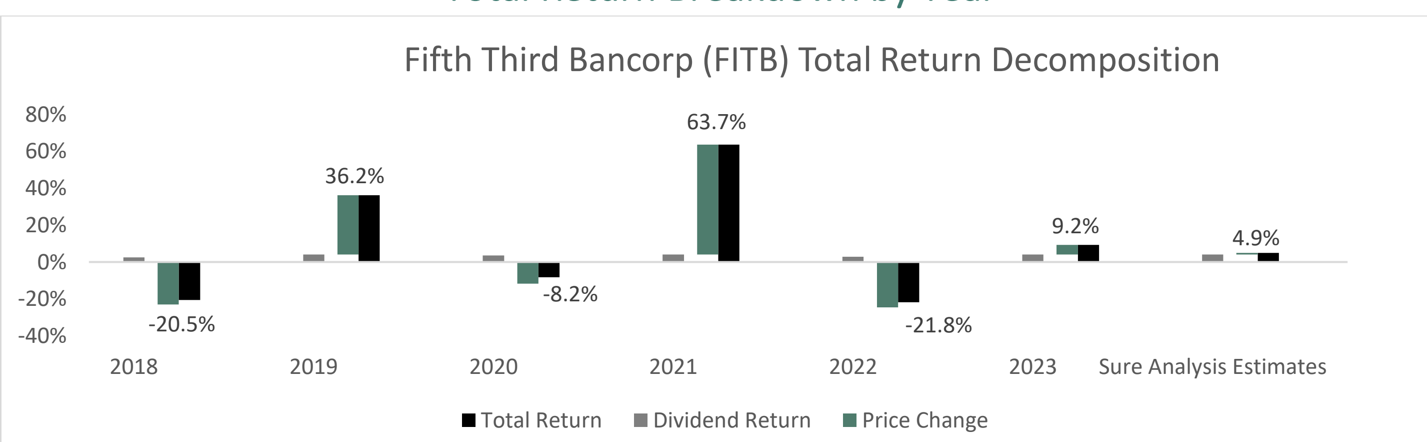
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	26%	27%	23%	29%	34%	50%	32%	37%	37%	***44%***	***44%***

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 4.9% annually through 2029, down from our prior forecast of 13.1%. Our projected return stems from a 3% earnings growth rate and a starting yield of 4.0% that are offset by a low single-digit headwind from valuation. Loan growth stalled slightly in the period, but the quality of the loan book remains very high. PCLs are declining as well. We have lowered our five-year price target $2 to $37 to reflect earnings estimates for 2024 and we now view shares of Fifth Third Bancorp as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,707	5,982	5,758	5,715	6,071	7,118	7,233	7,646	8,178	8,624
SG&A Exp.	2,081	2,181	2,319	2,364	2,426	2,703	2,848	3,022	2,935	2,941
D&A Exp.	414	441	453	341	360	472	492	349	436	
Net Profit	1,481	1,712	1,547	2,180	2,193	2,512	1,427	2,770	2,446	2,349
Net Margin	26.0%	28.6%	26.9%	38.1%	36.1%	35.3%	19.7%	36.2%	29.9%	27.2%
Free Cash Flow	1,794	2,169	1,779	1,249	2,722	1,520	13	2,395	5,956	
Income Tax	545	659	665	799	572	690	370	747	647	639

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	138706	141048	142177	142081	146069	169369	204680	211116	207452	214574
Cash & Equivalents	3091	2540	2392	2514	2681	3278	3147	2994	3466	3142
Acc. Receivable	1764	1982	2508	2141	2401	2702	2607	3025	3282	
Goodwill & Int.	3289	3213	3169	3330	3456	5446	5053	5791	6830	6781
Total Liabilities	123041	125178	125945	125861	129819	148166	181569	188906	190125	195402
Long-Term Debt	14967	15810	16888	18029	14426	14970	15012	11821	18040	19241
Total Equity	14295	14508	14874	14869	14919	19433	20995	20094	15211	17056
LTD/E Ratio	0.96	1.00	1.04	1.11	0.89	0.71	0.65	0.53	1.04	1.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	1.2%	1.1%	1.5%	1.5%	1.6%	0.8%	1.3%	1.2%	1.1%
Return on Equity	10.6%	11.9%	10.5%	14.7%	14.7%	14.6%	7.1%	13.5%	13.9%	14.6%
ROIC	5.3%	5.5%	4.8%	6.5%	6.8%	7.5%	3.8%	7.7%	7.0%	6.4%
Shares Out.	824	785	750	694	647	709	713	698	694	688
Revenue/Share	6.77	7.41	7.53	7.72	8.86	9.89	10.05	10.75	11.94	12.54
FCF/Share	2.13	2.69	2.33	1.69	3.97	2.11	0.02	3.37	1.2%	1.1%

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