



# U.S. Bancorp (USB)

Updated January 20<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$42	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Market Cap:</b>	\$65 B
<b>Fair Value Price:</b>	\$42	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	03/28/24 <sup>1</sup>
<b>% Fair Value:</b>	100%	<b>5 Year Valuation Multiple Estimate:</b>	0.0%	<b>Dividend Payment Date:</b>	04/15/24
<b>Dividend Yield:</b>	4.7%	<b>5 Year Price Target</b>	\$62	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

U.S. Bancorp traces its lineage back to 1863 when the First National Bank of Cincinnati opened for business. It has since grown to 70,000 employees, a \$65 billion market capitalization, and about \$28 billion in annual revenue. The bank has expanded from a regional player to a national powerhouse in recent years, becoming the fifth-largest bank by assets in the U.S. It competes mostly in traditional banking activities, but also offers wealth management, payment, and investment services.

U.S. Bancorp posted fourth quarter and full-year earnings on January 17<sup>th</sup>, 2024, and results were mixed. Adjusted earnings-per-share came to 99 cents, which was nine cents better than expected. Earnings declined from \$1.20 per share a year ago, and from \$1.05 in the third quarter. Revenue was up 6.1% year-over-year to \$6.76 billion, and missed estimates by \$110 million.

Earnings on an adjusted basis excludes \$116 million in optimization charges, \$171 million of merger charges related to MUFG Union, \$734 million from the special FDIC assessment, and \$110 million charitable donations. Had they been included, earnings would have been 49 cents per share, rather than 99 cents.

Provisions for credit losses declined to \$512 million from \$1.19 billion a year ago. Net interest income was \$4.14 billion, down from \$4.33 billion a year ago. Adjusted noninterest income came to \$2.74 billion, which was much better than the \$2.44 billion from a year ago. Adjusted noninterest expense came to \$4.2 billion, up from \$3.95 billion a year ago, but slightly better than the \$4.25 billion in Q3. Average deposits fell to \$503 billion from \$512 billion in Q3. Average total loans fell from \$377 billion to \$373 billion from Q3.

We start 2024 with an estimate of \$4 in earnings-per-share as expense savings could drive strong earnings growth.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.08	\$3.16	\$3.24	\$3.51	\$4.14	\$4.16	\$3.06	\$5.10	\$3.69	\$3.27	<b>\$4.00</b>	<b>\$5.88</b>
<b>DPS</b>	\$0.97	\$1.01	\$1.07	\$1.16	\$1.34	\$1.58	\$1.68	\$1.76	\$1.88	\$1.93	<b>\$1.96</b>	<b>\$2.38</b>
<b>Shares<sup>2</sup></b>	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,485	1,558	<b>1,550</b>	<b>1,600</b>

U.S. Bancorp's earnings-per-share history has been strong since the financial crisis ended, as it was one of very few banks to grow earnings every year since 2009, although that streak ended in 2020 due to the COVID-19 pandemic. Following 2022 results that produced much lower earnings for U.S. Bancorp, we have a higher expected growth rate. We expect growth of 8% annually, which is up from 3% prior.

We think the combined headwinds of relatively low net interest margin, and a lack of loan growth, combined with somewhat lower levels of share repurchases will keep a lid on earnings growth in the coming years. However, with lending rates on the rise, these headwinds could unwind in 2024, and drive our growth estimate.

<sup>1</sup> Estimated date

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

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U.S. Bancorp's payout ratio is in line with its peers, and we expect growth in the payout to continue, growing to \$2.38 in five years. That would keep the payout ratio below 50% of earnings and in line with the bank's capital return strategy, affording it the opportunity to continue to buy back shares and make acquisitions.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.7	13.7	13.2	15.0	12.7	12.8	13.3	11.0	11.8	13.2	10.5	10.5
Avg. Yld.	2.3%	2.3%	2.5%	2.2%	2.6%	3.0%	4.1%	3.1%	4.3%	4.5%	4.7%	3.9%

U.S. Bancorp's price-to-earnings ratio has moved up in recent years as the bank has become more highly valued by investors than its competitors due to its outstanding profitability metrics. The current valuation is now exactly in line with our estimate of fair value at 10.5 earnings, so we see no impact from the valuation going forward. The yield could decline from 4.7% to 3.9% given earnings growth is likely to outpace dividend payout growth.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	34%	36%	36%	32%	38%	55%	35%	51%	59%	49%	41%

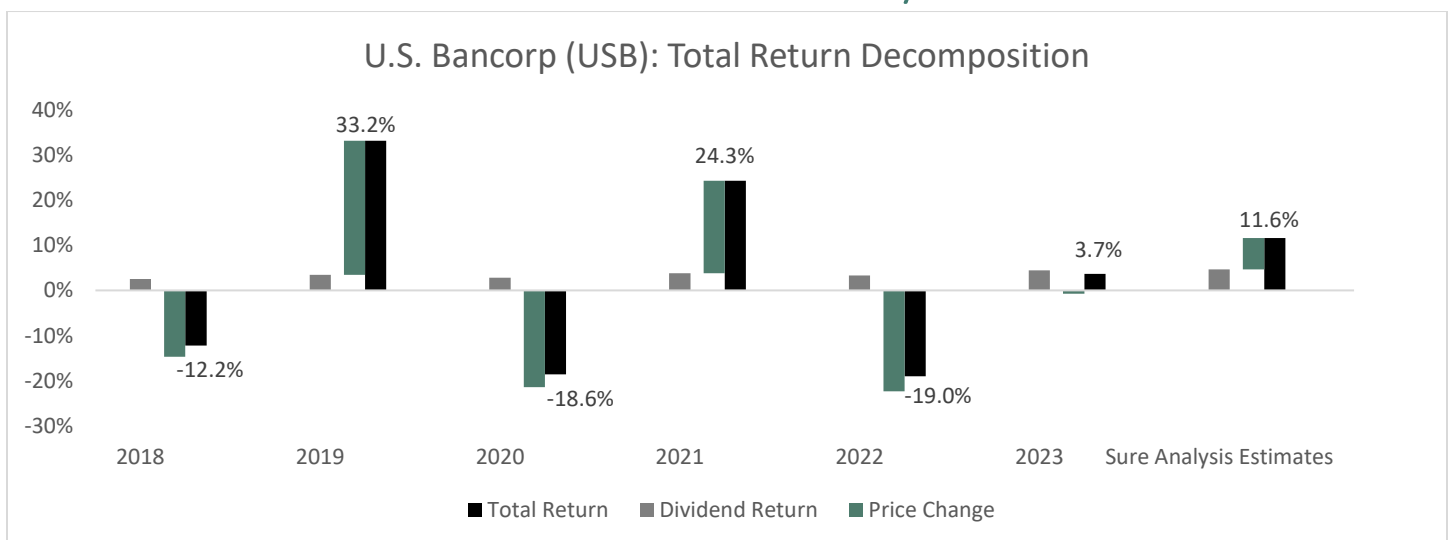
We see the payout remaining below 50% of earnings in the coming years, which is ahead of historical norms. U.S. Bancorp's dividend appears safe, and we see no risk of a cut at this point. We think U.S. Bancorp will continue to produce mid-single digit dividend increases.

U.S. Bancorp's competitive advantage is in its stellar operating history and world-class management team. It operates as a regional bank, but on a massive scale, and as a result, it has been stronger through recessions than its larger peers. Indeed, earnings were not even cut in half in 2009 when many banks were struggling just to stay in business, and U.S. Bancorp came out of the recession in better shape in relation to its competitors than it was before the crisis.

## Final Thoughts & Recommendation

We see earnings as producing a rebound this year off of last year's low base. We now forecast 11.6% total annual returns in the coming years from earnings growth (8%), and the robust dividend yield (4.7%), with no impact from the valuation. USB continues to earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	19,939	19,969	20,956	21,697	22,521	22,883	23,226	22,721	24,184	28,013
<b>SG&amp;A Exp.</b>	5,946	6,142	6,655	7,422	7,822	8,037	8,256	9,094	9,613	11,142
<b>D&amp;A Exp.</b>	501	481	470	468	467	502	527	497	560	---
<b>Net Profit</b>	5,851	5,879	5,888	6,218	7,096	6,914	4,959	7,963	5,825	5,429
<b>Net Margin</b>	29.3%	29.4%	28.1%	28.7%	31.5%	30.2%	21.4%	35.0%	24.1%	19.4%
<b>Free Cash Flow</b>	5,332	8,782	5,336	6,472	10,564	4,889	3,716	9,870	21,119	---
<b>Income Tax</b>	2,087	2,097	2,161	1,264	1,554	1,648	1,066	2,181	1,463	1,407

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets (\$B)</b>	402.53	421.85	445.96	462.04	467.37	495.43	553.9	573.3	674.8	663.5
<b>Cash &amp; Equivalents</b>	10,654	11,147	15,705	19,505	21,453	22,405	62,580	28,905	53,542	61,192
<b>Goodwill &amp; Int.</b>	12,551	12,711	12,647	12,662	12,761	12,878	12,782	14,000	19,528	18,573
<b>Total Liab. (\$B)</b>	358.36	375.04	398.03	412.37	415.72	442.94	500.18	517.9	623.6	607.7
<b>Long-Term Debt</b>	59,522	58,216	46,038	47,855	52,439	61,897	50,856	43,921	69,388	66,759
<b>Total Equity</b>	38,723	40,630	41,797	43,621	45,045	45,869	47,112	48,547	43,958	48,498
<b>LTD/E Ratio</b>	1.37	1.26	0.97	0.98	1.03	1.19	0.96	0.80	1.37	1.21

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	1.5%	1.4%	1.4%	1.4%	1.5%	1.4%	0.9%	1.4%	0.9%	0.8%
<b>Return on Equity</b>	15.6%	14.8%	14.3%	14.6%	16.0%	15.2%	10.7%	16.6%	12.6%	11.7%
<b>ROIC</b>	6.2%	5.6%	5.9%	6.5%	7.0%	6.3%	4.5%	7.8%	5.4%	4.5%
<b>Shares Out.</b>	1,786	1,745	1,697	1,656	1,608	1,534	1,507	1,484	1,490	1,543
<b>Revenue/Share</b>	11.00	11.34	12.24	12.98	13.75	14.46	15.38	15.25	16.23	18.15
<b>FCF/Share</b>	2.94	4.96	3.10	3.85	6.45	3.09	2.46	6.62	14.17	---

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

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