



Capital One Financial Corporation (COF)

Updated April 28th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$146	5 Year CAGR Estimate:	2.1%	Market Cap:	\$60 B
Fair Value Price:	\$135	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	05/13/24
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date¹:	05/27/24
Dividend Yield:	1.6%	5 Year Price Target	\$149	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Capital One Financial Corp. is one of the largest providers of MasterCard and Visa credit cards in the U.S. and provides various financial products and services in the United States, Canada, and the United Kingdom. It operates through three segments: Credit Card, Consumer Banking, and Commercial Banking. The company had \$351.0 billion in deposits and \$481.7 billion in assets under management as of March 31st, 2024, making it the 10th largest bank in the US. Capital One is a \$60 billion company and has about 53,600 employees.

On April 25th, 2024, Capital One released its first quarter 2024 results for the period ending March 31st, 2024. For the quarter, the company's net income for the first quarter of 2024 was \$1.3 billion, or \$3.13 per diluted common share, compared with net income of \$706 million, or \$1.67 per diluted common share, in the fourth quarter of 2023, and with net income of \$960 million, or \$3.21 per diluted common share in the fourth quarter of 2022.

Results were negatively impacted by higher expenses and a sequential decline in loan balances this quarter. However, an increase in net interest income and higher non-interest income, coupled with a decline in provisions, provided a boost to the results. Total net revenue slightly decreased by 1% to \$9.4 billion, while total non-interest expenses dropped by 10% to \$5.1 billion, reflecting decreased marketing and operating expenses. Capital One's financial results displayed varied performance across different business segments, revenue in the Credit Card segment surged by \$728 million or 12% year-over-year, while the Domestic Card segment also saw a significant increase of \$695 million or 12% over the same period. Conversely, the Consumer Banking segment faced a decline, with revenue dropping by \$325 million or 13% year-over-year. The Commercial Banking segment, experienced a modest uptick, with revenue increasing by \$18 million or 2% quarter-over-quarter. Capital One reported a Net Interest Income (NII) of \$7,488 million, which was flat compared to the previous quarter. The Net Interest Margin (NIM) for the same period was 6.69%, a decrease of 4 basis points from the preceding quarter, influenced by a lower number of days in the quarter. However, on a year-over-year basis, the NIM showed an increase of 9 basis points, driven by higher asset yields and growth in the credit card loan portfolio, although partially offset by higher rates paid on interest-bearing liabilities. Provision for credit losses was reduced by \$174 million to \$2.7 billion, with net charge-offs amounting to \$2.6 billion. The company also added \$91 million to its loan reserves. The efficiency ratio was 54.64%, down from 55.54% in the year-ago quarter. A decrease in the efficiency ratio indicates an increase in profitability. Capital One remains well-capitalized with a Common Equity Tier 1 ratio of 13.1%, up from 12.5% in the year-ago quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.58	\$7.00	\$6.93	\$7.38	\$11.86	\$11.05	\$5.18	\$26.94	\$17.91	\$11.95	\$13.50	\$14.91
DPS	\$1.20	\$1.50	\$1.60	\$1.60	\$1.60	\$1.60	\$1.00	\$2.00	\$2.40	\$2.40	\$2.40	\$2.78
Shares²	553	527	480	486	468	457	459	414	410	410	410	400

¹ Estimated date.

² 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.



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Capital One has grown earnings by 5.2% per year over the past decade and 4.1% over the past five years. Due to COVID-19, earnings-per-share plunged in 2020 to \$5.18 before recovering very strongly in 2021. We are forecasting a 2% increase in earnings-per-share over the next five years as a result.

The company has a long history of paying dividends. Due to COVID-19 and the Federal Reserve's cap on dividend payouts for banks, Capital One had to cut its dividend by 75% to \$0.10 per share in 2020. This was the company's first dividend cut since 2009. In June 2021, the quarterly dividend was raised by 50% from \$0.40 to \$0.60 per share and has remained there ever since. Over the last five years, the average annual dividend growth rate is 8.4%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.4	11.4	10.3	11.7	7.9	8.1	14.5	5.4	7.8	11.0	10.8	10.0
Avg. Yld.	1.9%	1.9%	2.3%	1.9%	1.7%	1.8%	1.3%	1.4%	1.6%	1.6%	1.6%	1.9%

During the past decade shares of Capital One have traded with an average price-to-earnings ratio of about 9.8 times earnings and today, it stands at 10.8. We are using 10 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 1.6% which is in line with the average yield over the past decade of 1.6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	16%	21%	23%	22%	13%	14%	19%	7%	13%	20%	18%	19%

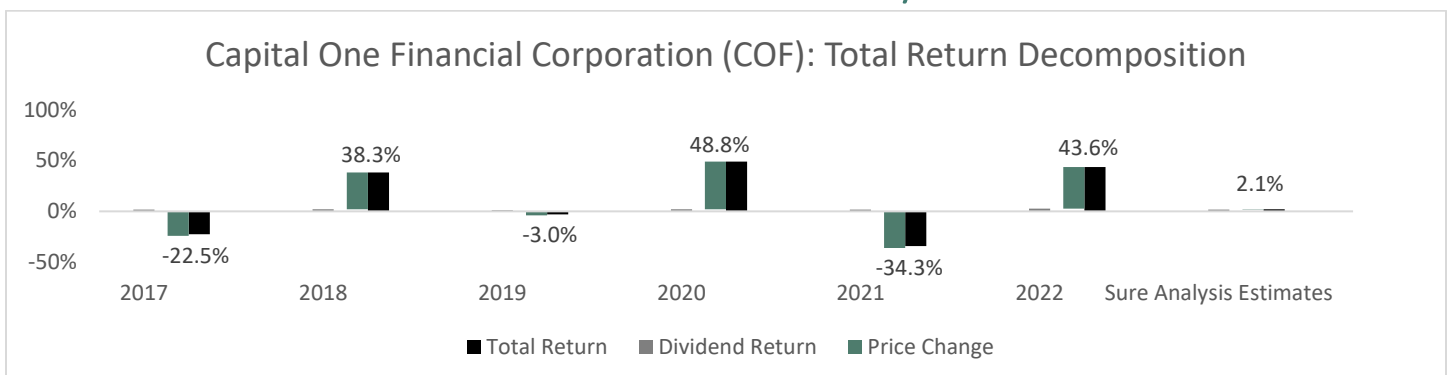
During the past five years, the company's dividend payout ratio has averaged around 14%. The company has a projected 2024 payout ratio of 20%, which should be a very sustainable level.

Capital One is one of the leading issuers of credit cards in the U.S. and about two-thirds of its revenue is coming from its credit card segment. Key elements to monitor for this stock are net interest income and net interest margin. Capital One's strategic acquisitions, increased demand for consumer loans, rising rates, and improved card business place it in a good position for long-term growth. However, increasing expenses and a worsening economic environment are major short-term concerns.

Final Thoughts & Recommendation

Capital One is the largest bank in the U.S. and strongly depends on its credit card business. Economic growth or a slowdown, interest rates hikes, and inflation will mainly dictate its earnings-per-share. After strong earnings in 2021, and a setback in 2022 and 2023, we expect that earnings will return to lower levels in the intermediate term. We estimate a total return potential of 2.1% per year for the next five years based on a 2% EPS growth, a 1.6% yield, and a valuation headwind. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	22,290	23,413	25,501	27,237	27,577	28,593	28,523	30,435	34,250	36,790
D&A Exp.	2,002	2,100	2,428	2,440	2,396	3,339	3,501	3,481	3,210	3,226
Net Profit	4,428	4,050	3,751	1,982	6,015	5,546	2,714	12,390	7,360	4,887
Net Margin	19.9%	17.3%	14.7%	7.3%	21.8%	19.4%	9.5%	40.7%	21.5%	13.3%
Free Cash Flow	8,802	9,595	11,077	13,164	12,104	15,752	15,989	11,612	12,880	19,610
Income Tax	2,146	1,869	1,714	3,375	1,293	1,341	486	3,415	1,880	1,158

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	308.2	334.0	357.0	365.7	372.5	390.4	421.6	432.4	455.3	478.5
Cash & Equivalents	7,242	8,023	9,976	14,040	13,186	13,407	40,509	21,746	30,860	43,300
Accounts Receivable	1,079	1,189	1,351	1,536	1,614	1,758	1,471	1,460	2,104	2,478
Goodwill & Int. Ass.	13,978	14,480	14,519	14,533	15,072	15,127	15,110	15,313	14,780	15,060
Total Liab (\$B)	263.1	286.8	309.5	317.0	320.9	332.4	361.4	371.4	402.7	420.4
Accounts Payable	254	299	327	413	458	439	352	281	527	649
Long-Term Debt	47,577	58,101	59,468	59,705	58,553	55,280	39,796	42,213	47,800	49,320
Shareholder's Equity	45,053	47,284	47,514	48,730	51,668	58,011	60,204	61,029	52,580	58,090
LTD/E Ratio	1.06	1.23	1.25	1.23	1.13	0.95	0.66	0.69	0.91	0.85

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.5%	1.3%	1.1%	0.5%	1.6%	1.5%	0.7%	2.9%	1.7%	1.1%
Return on Equity	10.2%	8.8%	7.9%	4.1%	12.0%	10.1%	4.6%	20.4%	13.0%	8.8%
ROIC	5.1%	4.1%	3.5%	1.8%	5.5%	5.0%	2.5%	12.2%	7.2%	4.7%
Shares Out.	553	527	480	486	468	457	459	414	393	383
Revenue/Share	38.98	42.72	50.02	55.75	57.08	60.85	62.16	68.52	87.11	95.95
FCF/Share	15.39	17.51	21.73	26.94	25.05	33.52	34.84	26.14	32.74	51.16

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

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