PNC Financial Services (PNC)

Published July 17th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$177	**5 Year CAGR Estimate:**	7.1%	**Market Cap:**	$67.3 B
Fair Value Price:	$157	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	7/15/2024
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	8/5/2024
Dividend Yield:	3.6%	**5 Year Price Target**	$211	**Years Of Dividend Growth:**	14
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

PNC Financial Services is headquartered in Pittsburgh, Pennsylvania, and it is one of the largest diversified financial services companies in the U.S. It is engaged in retail banking as well as corporate and institutional banking and asset management. Its retail network is located primarily in markets across the Mid-Atlantic, Midwest and Southeast. PNC currently has a market capitalization of $67.3 billion.

On June 1st, 2021, PNC completed its acquisition of BBVA USA Bancshares from the Spanish financial group BBVA for $11.6 billion in cash. It acquired more than 600 branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico and became the fifth largest bank in assets, with a presence in 29 of the 30 largest U.S. markets.

In mid-July, PNC reported (7/16/24) financial results for the second quarter of fiscal 2024. Net interest income edged up 1% sequentially, as net interest margin expanded from 2.57% to 2.60%. Non-interest income grew 12%, mostly thanks to the monetization of Visa shares of the bank. As a result, earnings-per-share grew 6% sequentially, from $3.10 to $3.39, though they missed the analysts' consensus by $0.29. PNC has exceeded the analysts' earnings-per-share estimates in 13 of the last 16 quarters. Inflation has proved somewhat sticky but we still expect interest rates to moderate this or next year and thus mitigate the cost of deposits. The bank improved its net interest margin for the first time in four quarters and expects record net interest income in 2025. Thanks to the improvement of net interest margin, we have raised our forecast for annual earnings-per-share from $12.40 to $12.80.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$7.30	$7.39	$7.30	$10.36	$10.71	$9.57	$6.36	$14.18	$13.96	$14.10	***$12.80***	***$17.13***
DPS	$1.88	$2.01	$2.12	$2.60	$3.40	$4.20	$4.60	$4.80	$5.75	$6.10	***$6.40***	***$8.54***
Shares[1]	537	521	500	486	470	448	426	424	404	401	***395***	***370***

PNC was significantly affected by the pandemic in 2020, but the bank has recovered strongly. PNC has consistently pursued growth by expanding into attractive markets, growing its loan base organically and acquiring other banks. The acquisition of BBVA USA is likely to be a significant growth driver in the short run while we also expect a tailwind from an increase in the loan/deposit ratio of the bank and a tailwind from a lower cost of deposits in the upcoming years. PNC has grown its earnings-per-share at a 7.6% average annual rate in the last decade and at a 5.7% average annual rate in the last five years. We expect the bank to grow its earnings-per-share at a 6.0% average annual rate over the next five years, roughly in line with its historical growth rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/E	11.6	12.6	12.4	12.3	13.3	14.2	18.7	13.2	12.3	9.4	***13.8***	***12.3***
Avg. Yld.	2.2%	2.2%	2.3%	2.0%	2.4%	3.1%	3.9%	2.6%	3.3%	4.6%	***3.6%***	***4.1%***

[1] In millions.

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PNC has rallied 39% in the last 12 months and thus it is currently trading at a price-to-earnings ratio of 13.8. The stock has traded at an average price-to-earnings ratio of 12.3 over the last decade. If it trades at its average valuation level in five years, it will incur a -2.3% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25.8%	27.2%	29.0%	25.1%	31.7%	43.9%	72.3%	33.9%	41.2%	43.3%	***50.0%***	***49.9%***

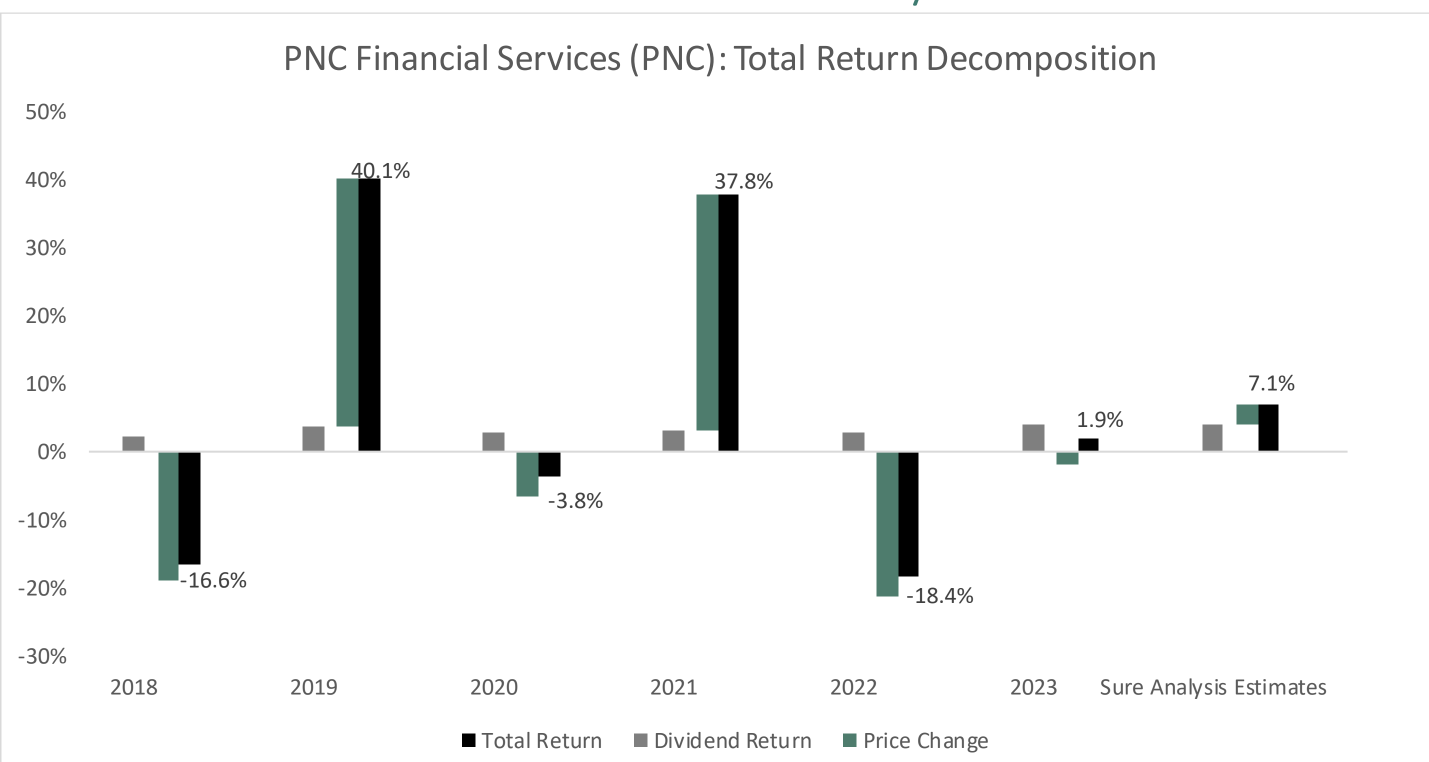
PNC just raised its dividend by 3% and thus it has raised its dividend for 14 consecutive years. It froze its dividend for 8 consecutive quarters due to the pandemic, but it has resumed raising its dividend thanks to its ongoing recovery. Thanks to a healthy payout ratio of 50%, the dividend should be considered safe. In addition, the bank has reduced its share count by -20% in the last seven years and has resumed repurchasing its shares after its major acquisition.

On the other hand, investors should be aware that PNC is vulnerable to recessions. In the Great Recession, PNC cut its dividend by -85% while in the coronavirus crisis it saw its earnings-per-share fall -34%. Therefore, in the scenario of another recession, the stock of PNC could come under great pressure, just like it did at the outbreak of the virus, when it plunged nearly -50% in just five weeks. Only the investors who can tolerate such a high stock price volatility should consider PNC.

Final Thoughts & Recommendation

PNC saw its net interest margin expand for the first time after four consecutive quarters and expects record net interest income in 2025. The Fed, which is expected to begin reducing interest rates later this year, is likely to provide a tailwind to the bank. As a result, the stock of PNC has rallied 61% off its bottom in October. The stock could still offer a 7.1% average annual return over the next five years thanks to 6.0% earnings-per-share growth and its 3.6% dividend, partly offset by a -2.3% annualized contraction of the valuation level. We lower our rating from “buy” to “hold”.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	15,281	15,225	15,162	16,329	16,190	16,839	16,798	19,135	21,114	21,509
SG&A Exp.	4,864	5,080	5,120	5,512	5,756	5,948	5,909	7,460	7,599	7,778
D&A Exp.	988	1,088	1,193	1,117	1,129	1,315	1,497	1,773	651	217
Net Profit	4,184	4,106	3,903	5,338	5,301	5,369	7,517	5,674	6,041	5,578
Net Margin	27.4%	27.0%	25.7%	32.7%	32.7%	31.9%	44.7%	29.7%	28.6%	25.9%
Free Cash Flow	5,585	5,525	3,500	5,579	7,840	7,363	4,659	7,214	9,083	10,111

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	345.1	358.5	366.4	380.8	382.3	410.3	466.7	557.2	557.3	561.6
Cash & Equivalents	36,139	34,611	30,590	33,844	16,501	28,474	92,190	82,254	34,363	50,725
Goodwill	10,947	10,692	10,861	11,005	11,201	10,877	10,475	12,734	14,410	14,618
Total Liabilities ($B)	299.0	312.5	319.5	333.2	334.5	361.0	412.6	501.5	511.5	510.4
Long-Term Debt	53,258	54,532	52,706	59,088	57,419	60,263	37,195	30,784	58,713	72,737
Shareholder's Equity	44,551	44,710	45,699	47,513	47,728	49,314	54,010	55,465	45,774	51,105
LTD/E Ratio	1.20	1.22	1.15	1.24	1.20	1.22	0.69	0.55	1.28	1.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.2%	1.1%	1.4%	1.4%	1.4%	1.7%	1.1%	1.1%	1.0%
Return on Equity	9.6%	9.2%	8.6%	11.5%	11.1%	11.1%	14.6%	10.3%	11.9%	11.5%
ROIC	4.5%	4.1%	3.9%	5.2%	5.0%	5.0%	7.5%	6.4%	6.3%	4.9%
Shares Out.	537	521	500	486	470	448	426	424	412	401
Revenue/Share	28.63	29.22	30.32	33.60	36.45	39.79	39.58	44.92	51.25	53.63
FCF/Share	10.40	10.60	7.00	11.48	16.68	16.44	10.91	16.93	22.05	25.21

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