



The Bank of New York Mellon Corp. (BK)

Updated January 19th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$83	5 Year CAGR Estimate:	12.4%	Market Cap:	\$60 B
Fair Value Price:	\$82	5 Year Growth Estimate:	11.0%	Ex-Dividend Date:	01/27/25
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Dividend Payment Date:	02/07/25
Dividend Yield:	2.3%	5 Year Price Target	\$139	Years Of Dividend Growth:	14
Dividend Risk Score:	C	Retirement Suitability Score:	D	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 \$19 billion in annual revenue and a market capitalization of \$60 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 posted fourth quarter and full-year earnings on January 15th, 2025, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.72, which was 15 cents better than expected. Revenue was also up 11% year-over-year to \$4.85 billion, beating estimates by \$190 million.

Net interest income was \$1.19 billion in Q4, up from \$1.05 billion in Q3, and up from \$1.1 in the year-ago period. Fee revenue was \$3.51 billion, up from \$3.4 billion in Q4 and \$3.21 billion a year ago.

Provisions for credit losses were just \$20 million in Q4, down from \$84 million a year ago. Credit losses are generally minimal for BNY as the bank is far less focused on lending than other banks.

Average deposits were up 1% quarter-over-quarter to \$287 billion, while loans were unchanged at \$69 billion. Assets under custody/administration rose 9% year-over-year to \$52.1 trillion.

We start 2025 with an estimate of \$6.85 in adjusted earnings-per-share as macro factors are quite supportive of higher bank earnings this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.85	\$3.17	\$3.31	\$4.21	\$4.02	\$4.01	\$4.18	\$4.59	\$5.05	\$6.03	\$6.85	\$11.54
DPS	\$0.68	\$0.72	\$0.86	\$1.04	\$1.18	\$1.24	\$1.33	\$1.42	\$1.58	\$1.78	\$1.88	\$2.29
Shares¹	1,085	1,048	1,013	1,007	901	879	826	808	759	718	690	650

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 11% 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, particularly with early 2025 guidance being bullish. 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. 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

¹ Share count in millions

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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 2025 should aid earnings for the foreseeable future, as they did in 2024.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.5	12.7	15.1	12.6	11.9	9.6	12.2	9.9	10.3	12.7	12.1	12.0
Avg. Yld.	1.6%	1.8%	1.7%	2.0%	2.5%	3.2%	2.6%	3.1%	3.0%	2.3%	2.3%	1.7%

The stock's earnings multiple is now 12.1, nearly equal to our estimate of fair value at 12 times earnings. Given this, we see a small negative impact on total returns in the coming years from the valuation. We expect the dividend yield to return to about 1.7% in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	27%	25%	29%	25%	29%	31%	32%	31%	31%	30%	27%	20%

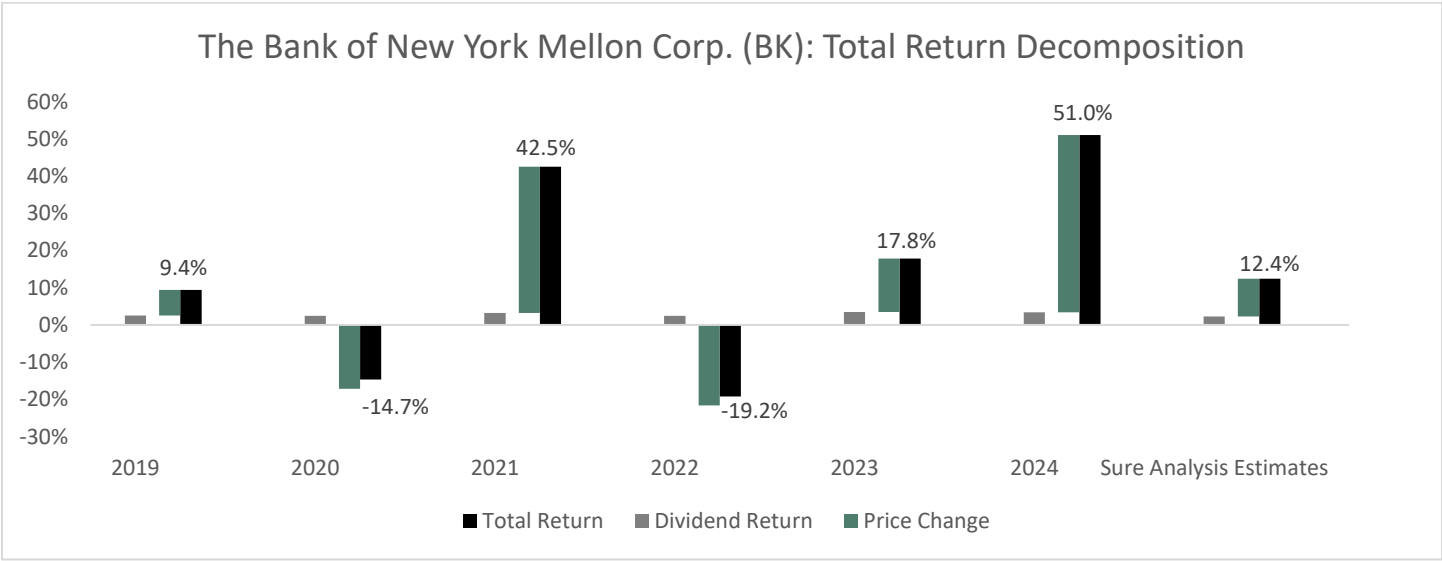
BNY Mellon's dividend is less than a third of its earnings, consistent with other large bank peers. That means the payout is very safe and we expect it to continue growing in the mid-single digits annually in the years to come, but slower than earnings growth.

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 strong growth potential. We are forecasting total annual returns of 12.4% going forward, given a 0.2% headwind from the valuation, 2.3% yield, and 11% earnings growth. We are reiterating the stock at a buy rating following 2024 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	14,656	14,213	14,426	15,295	15,434	15,472	15,633	16,034	17,149	18,258
SG&A Exp.	6,104	6,054	6,262	6,373	6,276	5,966	6,337	6,800	7,095	7,130
D&A Exp.	1,457	1,502	1,474	1,339	1,315	1,630	1,867	1,636	1,748	---
Net Profit	3,158	3,547	4,090	4,266	4,441	3,617	3,759	2,573	3,383	4,530
Net Margin	21.5%	25.0%	28.4%	27.9%	28.8%	23.4%	24.0%	16.0%	19.7%	24.8%
Free Cash Flow	3,526	5,442	3,470	4,888	-1,114	3,816	1,623	13,722	4,692	---
Income Tax	1,013	1,177	496	938	1,120	842	877	768	800	1,305

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets (\$B)	393.8	333.5	371.8	362.9	381.5	469.6	444.4	405.8	410.0	416.1
Cash & Eq. (\$B)	134.9	77.9	108.8	88.0	114.7	162.1	121.3	107.4	128.6	103.3
Acc. Receivable	4,097	4,628	5,200	4,363	4,426	4,129	4,635	5,782	1,150	1,293
Goodwill & Int.	22,815	22,365	22,474	22,222	22,083	22,392	22,599	21,311	19,115	19,449
Total Liab. (\$B)	355.0	294.0	330.1	322.1	339.9	423.5	401.0	364.9	368.8	374.3
Long-Term Debt	22,070	25,217	34,082	34,329	32,059	26,334	26,680	30,855	31,736	31,380
Total Equity	35,485	35,269	37,709	37,096	37,941	41,260	38,196	35,896	36,628	36,975
LTD/E Ratio	0.58	0.65	0.83	0.84	0.77	0.58	0.62	0.76	0.77	0.76

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.8%	1.0%	1.2%	1.2%	1.2%	0.8%	0.8%	0.6%	0.8%	1.1%
Return on Equity	8.9%	10.0%	11.2%	11.4%	11.8%	9.1%	9.5%	6.9%	9.3%	10.9%
ROIC	5.2%	5.7%	5.8%	5.7%	6.0%	4.9%	5.3%	3.6%	4.7%	6.2%
Shares Out.	1,085	1,048	1,013	1,007	901	892	856	815	788	748
Revenue/Share	13.17	13.26	13.87	15.19	16.37	17.34	18.26	19.68	21.77	24.41
FCF/Share	3.17	5.08	3.34	4.85	-1.18	4.28	1.90	16.84	5.96	---

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

Disclaimer

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