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Jan 08, 2020

Bank of America (BAC)

$34.62 (As of 01/07/20)

Price Target (6-12 Months): **$37.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/21/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:D
	Value: C | Growth: F	Momentum: A

Summary

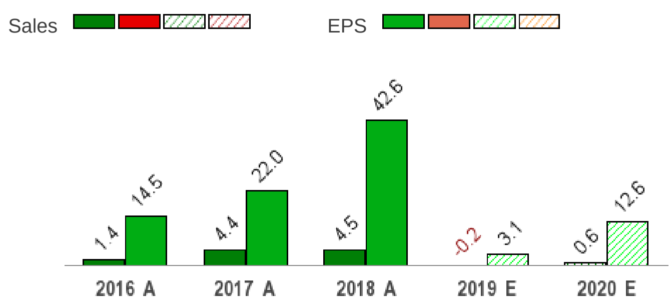
Bank of America's shares have outperformed the industry over the past year. It has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Opening branches in new regions, improved digital offerings, decent loan growth and efforts to control costs will aid profitability despite the Fed's accommodative monetary policy stance. Further, efforts to focus more on consumer banking business have started bearing fruits. The company's enhanced capital deployment actions reflect a strong balance sheet position. However, dismal performance of capital markets continues to hurt the company's investment banking and trading businesses, which in turn will hamper fee income growth. Moreover, earnings estimates have been moving lower ahead of its fourth quarter 2019 results.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$35.72 - $25.09
20 Day Average Volume (sh)	39,489,884
Market Cap	$311.4 B
YTD Price Change	-1.7%
Beta	1.64
Dividend / Div Yld	$0.72 / 2.1%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 12% (30 out of 254)
Last EPS Surprise	12.0%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	01/15/2020
Earnings ESP	0.1%
P/E TTM	12.8
P/E F1	11.4
PEG F1	1.3
P/S TTM	2.7

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	22,792 E	22,815 E	22,724 E	22,425 E	91,544 E
2019	23,004 A	23,084 A	22,807 A	22,012 E	91,024 E
2018	23,125 A	22,609 A	22,777 A	22,736 A	91,247 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.73 E	$0.78 E	$0.77 E	$0.79 E	$3.03 E
2019	$0.70 A	$0.74 A	$0.56 A	$0.68 E	$2.69 E
2018	$0.62 A	$0.63 A	$0.66 A	$0.70 A	$2.61 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

Overview

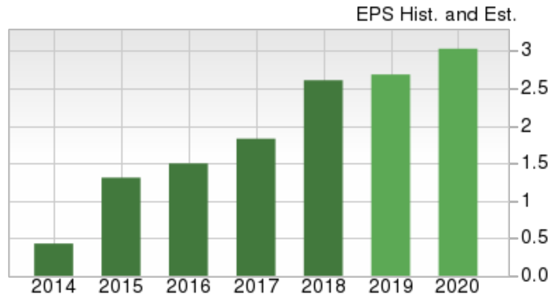
Headquartered in Charlotte, NC, Bank of America Corporation (incorporated in 1874) is a financial holding company. Its banking and non-banking subsidiaries provide a diverse range of banking and non-banking financial services and products.

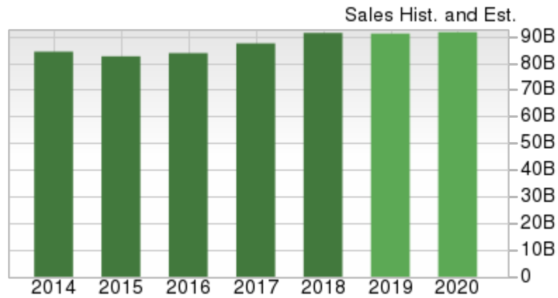
Bank of America presents results of operations through the following business segments:

- *Consumer Banking* (56.5% of net interest income in 2018), comprising Deposits and Consumer Lending businesses, provides a wide range of credit, banking and investment products and services to consumers and businesses.

- *Global Wealth & Investment Management* (13.1%) consisting of Merrill Lynch Global Wealth Management and U.S. Trust, Bank of America Private Wealth Management, offers wealth structuring, investment management, trust and banking needs and specialty asset management services.

- *Global Banking* (22.6%), which includes Global Corporate Banking, Global Commercial Banking, Business Banking and Global Investment Banking, provides lending-related products and services, integrated working capital management and treasury solutions, and underwriting and advisory services.





- *Global Markets* (6.6%) offers sales and trading, market-making, financing, securities clearing, settlement and custody, and risk-management services globally.

- *All Other* (1.2%) consists of ALM activities, equity investments, the international consumer card business, liquidating businesses, residual expense allocations and other.

Reasons To Buy:

> Rising loans and deposits, manageable expenses and expansion into new markets will support Bank of America's financials. Technological upgrades are likely to help in cross selling opportunities.

- Steady loan growth is expected to continue supporting Bank of America's interest income. Over the last three years (2016-2018), net interest income (NII) saw a CAGR of 7.4%. Also, the bank remains focused on acquiring the industry's best deposit franchise. The company's deposit balances have witnessed a CAGR of 4.7% over the same time frame. Further, net interest yield increased to 2.42% in 2018 from 2.37% in 2017, 2.25% in 2016 and 2.19% in 2015. The momentum continued in the first nine months of 2019 as well. Steady rise in loan demand is expected to favorably impact yields and NII in the quarters ahead amid the Federal Reserve's accommodative monetary policy stance.

- Further, prudent expense management continues to support Bank of America's financials. Its expense-saving plan – Project New BAC (launched in 2011) – helped improve overall efficiency and save as much as $8.0 billion in operating expenses annually till the end of 2014. Further, the expenses declined at a three-year CAGR of 1.6% (till 2018 end), as the company achieved its operating expense target in 2018. Adjusted expenses declined in the first nine months of 2019 too despite the company undertaking several strategic growth initiatives. Also, management expects expenses for 2019 to be slightly lower year over year.

- Bank of America continues to align its banking center network according to the customer needs. By 2021, the bank intends to expand to new cities, open nearly 500 new centers and redesign 2,500 centers with technology upgrades. The company is opening fully automated branches that will feature ATMs and video conferencing facility, allowing customers to communicate with off-site bankers. These branches, aiming to sell mortgages, auto loans and credit cards, are smaller in size and utilize advance technology. Further, the company has announced plans to add 2,200 more ATMs to its network. These initiatives, along with launching of Zelle and Erica, will enable Bank of America to improve its digital offerings.

- Bank of America's sturdy capital deployment activities look impressive. In June, the company received the Fed's approval for its 2019 capital plan, which includes a 20% quarterly dividend hike and a share repurchase authorization worth $30.9 billion. Therefore, in aggregate, the bank intends to return roughly $37 billion to shareholders. Given the robust capital position and lower dividend payout ratio compared to its peers, the company will likely be able sustain its capital deployment activities and continue enhancing shareholder value.

- Shares of Bank of America have outperformed the industry over the past six months. The company's 2019 earnings estimates have remained unchanged over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current price/book and price/earnings (F1) ratios are below the respective industry averages. Hence, given the strong fundamentals, the stock has upside potential.

Reasons To Sell:

> Muted investment banking and trading performance remain major near-term challenges for Bank of America. This is expected to have an adverse impact on the company's non-interest income growth.

- Bank of America's significant dependence of investment banking business is a matter of concern, given its cyclical nature. The division's performance continuous to get hampered by fears of global economic slowdown, trade war concerns and several other geopolitical matters. In 2018, investment banking income declined 11%. Though the same improved in the first nine months of 2019, this was majorly driven by significant growth witnessed during the third quarter. With these concerns expected to weigh on the corporates' plans to raise fresh capital by issuing shares and/or debt as well as M&As and IPOs, performance of investment banking business is expected to remain weak in the quarters ahead.

- Though Bank of America has resolved quite a many litigation issues, it still faces investigations from several federal agencies for its business conducts in the pre-crisis period. Legal expenses are expected to continue weighing marginally on the company's bottom line in the near future.

- Further, Bank of America's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 12.05% gradually improved over the years, it compares unfavorably with 17.16% for the S&P 500, reflecting the fact that it is less efficient in using shareholder funds.

Last Earnings Report

BofA's Q3 Earnings Top on Trading, Investment Banking

Quarter Ending	09/2019
Report Date	Oct 16, 2019
Sales Surprise	2.82%
EPS Surprise	12.00%
Quarterly EPS	0.56
Annual EPS (TTM)	2.70

Improved capital market performance drove Bank of America's third-quarter 2019 earnings of 56 cents per share, which outpaced the Zacks Consensus Estimate of 50 cents. However, the figure was down 15% from the prior-year quarter.

Results included merchant services joint venture impairment charges of $2.1 million. Excluding this charge, adjusted earnings were 75 cents per share.

Defying market expectations, Bank of America came out with improved trading and investment banking numbers. Trading revenues (excluding DVA) grew 4% as both equity trading income and fixed income trading revenues witnessed year-over-year improvement.

Additionally, investment banking fees surged 40% as both underwriting and advisory fees increased. Equity underwriting income and debt underwriting fees recorded rise of 21% and 6%, respectively. Further, advisory fees jumped 80%.

Also, marginal rise in net interest income reflects decent loan growth while lower interest rates were the offsetting factor. Moreover, despite taking several initiatives, including technology upgrades at existing ATMs and branches, and opening new branches, the company was able to manage expenses efficiently.

However, provision for credit losses increased during the reported quarter.

Overall performance of the company's business segments, in terms of net income generation, was decent. All segments, except Global Markets and All Others, witnessed a rise in net income.

Loan Growth Aids Revenues, Adjusted Expenses Up Slightly

Net revenues amounted to $22.8 billion, which marginally beat the Zacks Consensus Estimate of $22.2 billion. Also, the reported figure was up slightly on a year-over-year basis.

Net interest income, on a fully taxable-equivalent basis, grew 1% year over year to $12.3 billion, driven by loan and deposit growth. However, net interest yield was down 4 basis points (bps) to 2.41%.

Non-interest income declined marginally from the year-ago quarter to $10.6 billion.

Non-interest expenses were $15.2 billion, up 16.6%. After excluding merchant services joint venture impairment charges of $2.1 million, adjusted operating expenses were up nearly 1%.

Efficiency ratio was 66.51%, up from 57.27% in the year-ago quarter. This included the above-mentioned impairment charges. Increase in efficiency ratio indicates deterioration in profitability.

Credit Quality: Mixed Bag

Provision for credit losses increased 9% on a year-over-year basis to $779 million.

However, net charge-offs (NCOs) declined 13% to $811 million. Notably, excluding recoveries from sales of previously charged-off non-core consumer real estate loans, NCOs increased year over year. Further, as of Sep 30, 2019, ratio of non-performing assets ratio was 0.39%, down 20 bps.

Strong Capital Position

The company's book value per share as of Sep 30, 2019, was $26.96 compared with $24.33 on Sep 30, 2018. Tangible book value per share as of the third-quarter end was $19.26, up from $17.23 a year ago.

At the end of September 2019, the company's common equity tier 1 capital ratio (Basel 3 Fully Phased-in) (Advanced approaches) was 11.7%, up from 11.5% as of Sep 30, 2018.

Share Repurchase Update

During the reported quarter, Bank of America repurchased shares worth $7.6 billion.

Outlook

During an investors conference in December, Brian Moynihan — CEO at Bank of America — came up with upbeat guidance for trading and investment banking (IB) businesses. He stated that in the fourth quarter, the company's trading revenues are likely to increase 7-8% year over year, while IB revenues are projected to rise 3-4%.

For 2019, management anticipates NII to be up nearly 1%, based on the assumption of flattish yield curve, three rate cut this year, and modest loan and deposit growth.

In 2019, core loan growth is anticipated to be in the low-single digits.

Operating expenses for 2019 are expected to be $53 billion. Also, for 2020, management expects operating expenses to be lower than $53 billion.

With LIBOR rates lower than first-quarter level and the forward curve projecting further declines, management expects client deposit rates to move lower.

The effective tax rate (in absence of unusual items) is expected to be roughly 19% in the fourth quarter.

Recent News

BofA to Incur $2.1B Charge in Q3 on Impending JV Termination - Sep 4, 2019

Bank of America will recognize a pre-tax impairment charge of $2.1 billion (to be included in other general operating expenses) in third-quarter 2019. The charges will also result in a reduction inthe company's common equity tier 1 ratio by 10 basis points.

Notably, these charges will have no impact on Bank of America's 2019 capital plan that includes 20% dividend hike and roughly $30.9 billion worth of share repurchase authorization.

Earlier in July, Bank of America had revealed that its merchant servicing joint venture – Banc of America Merchant Services – with First Data, which is now merged with Fiserv, Inc., will be terminated at the end of June 2020. This joint venture was formed in 2009.

Subsequently, Bank of America will likely follow its own merchant services strategy. With the ever-changing payments environment, this effort is expected to further improve the bank's operating efficiency.

Nonetheless, both the companies will be providing "uninterrupted delivery of products and services" to the joint venture clients at least through June 2023. Also, Fiserv will continue to support Bank of America's global payment solutions.

Dividend Update

On Oct 22, 2019, Bank of America announced a quarterly cash dividend of 18 cents per share. The dividend was paid on Dec 27 to shareholders on record as of Dec 6.

Valuation

Bank of America's shares are up 34.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 28.4% and 15.9% over the past year, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 11.48X forward 12 months earnings, which compares to 11.98X for the Zacks sub-industry, 14.77X for the Zacks sector and 18.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.80X and as low as 7.31X, with a 5-year median of 10.99X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $37 price target reflects 12.25X forward earnings.

The table below shows summary valuation data for BAC

Valuation Multiples - BAC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.48	11.98	14.77	18.79
	5-Year High	16.8	13.85	16.21	19.34
	5-Year Low	7.31	9.04	12.01	15.17
	5-Year Median	10.99	11.43	13.98	17.44
P/B TTM	Current	1.27	1.72	2.83	4.43
	5-Year High	1.38	1.93	2.89	4.45
	5-Year Low	0.5	1.01	1.83	2.85
	5-Year Median	0.98	1.49	2.5	3.6
P/S F12M	Current	3.42	4.11	6.53	3.48
	5-Year High	3.66	4.59	6.61	3.48
	5-Year Low	1.33	2.61	5.2	2.54
	5-Year Median	2.66	3.59	6.04	3

As of 01/07/2020

Industry Analysis **Zacks Industry Rank:** Top 12% (30 out of 254)

Top Peers

State Street Corporation **(STT)**	Outperform
Citigroup Inc. **(C)**	Neutral
The Goldman Sachs Group, Inc. **(GS)**	Neutral
JPMorgan Chase & Co. **(JPM)**	Neutral
KeyCorp **(KEY)**	Neutral
Morgan Stanley **(MS)**	Neutral
The PNC Financial Services Group, Inc **(PNC)**	Neutral
Wells Fargo & Company **(WFC)**	Neutral

Industry Comparison Industry: Banks - Major Regional

Industry Peers

	BAC Neutral	X Industry	S&P 500	C Neutral	JPM Neutral	WFC Neutral
VGM Score	D	-	-	D	D	C
Market Cap	311.41 B	42.52 B	23.72 B	171.95 B	426.19 B	222.72 B
# of Analysts	6	7	13	7	5	7
Dividend Yield	2.08%	2.65%	1.79%	2.59%	2.65%	3.87%
Value Score	C	-	-	B	C	B
Cash/Price	2.23	0.67	0.04	4.53	2.33	1.46
EV/EBITDA	-2.28	5.17	13.90	-8.48	-3.98	3.34
PEG Ratio	1.27	1.45	2.00	0.80	1.85	1.15
Price/Book (P/B)	1.27	1.38	3.34	0.97	1.81	1.29
Price/Cash Flow (P/CF)	10.61	10.61	13.67	9.13	11.22	8.71
P/E (F1)	11.43	12.30	18.72	9.33	12.97	12.34
Price/Sales (P/S)	2.71	2.59	2.66	1.68	3.01	2.12
Earnings Yield	8.75%	8.13%	5.31%	10.72%	7.71%	8.11%
Debt/Equity	0.99	0.95	0.72	1.36	1.26	1.33
Cash Flow ($/share)	3.26	6.05	6.94	8.63	12.11	6.05
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	30.95%	13.07%	10.56%	13.07%	15.31%	2.76%
Proj. EPS Growth (F1/F0)	12.83%	4.40%	7.42%	9.06%	0.59%	-5.74%
Curr. Cash Flow Growth	25.85%	17.06%	14.83%	19.03%	23.43%	3.01%
Hist. Cash Flow Growth (3-5 yrs)	14.04%	7.49%	9.00%	5.10%	7.08%	2.49%
Current Ratio	0.92	0.88	1.23	1.00	0.93	0.86
Debt/Capital	47.56%	45.81%	42.92%	55.14%	54.37%	54.26%
Net Margin	24.16%	23.17%	11.08%	18.28%	24.70%	21.67%
Return on Equity	12.05%	12.25%	17.16%	10.16%	14.63%	13.01%
Sales/Assets	0.05	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	0.57%	0.56%	4.15%	1.63%	-0.13%	-5.11%
Momentum Score	A	-	-	F	A	A
Daily Price Chg	-0.66%	-0.79%	0.10%	-0.87%	-1.70%	-0.83%
1 Week Price Chg	-1.27%	-0.81%	-0.30%	0.04%	-0.57%	-0.93%
4 Week Price Chg	3.25%	0.67%	2.33%	3.93%	1.03%	-1.92%
12 Week Price Chg	16.45%	9.45%	7.02%	10.59%	13.27%	5.09%
52 Week Price Chg	35.71%	21.85%	24.61%	42.01%	35.11%	10.77%
20 Day Average Volume	39,489,884	3,723,793	1,589,897	11,318,464	9,494,502	16,101,445
(F1) EPS Est 1 week change	0.71%	0.28%	0.00%	-0.34%	0.28%	0.26%
(F1) EPS Est 4 week change	0.82%	0.51%	0.00%	-1.18%	0.58%	0.12%
(F1) EPS Est 12 week change	1.08%	-0.12%	-0.56%	-1.49%	1.02%	-3.72%
(Q1) EPS Est Mthly Chg	2.11%	0.43%	0.00%	0.00%	1.73%	1.43%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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