

Bank of America (BAC)

\$23.45 (As of 04/08/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

Bank of America's shares have outperformed the industry over the past year. The bank has an impressive earnings surprise history. Its earnings outpaced the Zacks Consensus Estimate in each of the trailing four quarters. Opening branches in new regions, improved digital offerings, decent loan demand and efforts to control costs are expected to aid profitability despite near-zero interest rates. Efforts to focus more on consumer banking business have started bearing fruit. However, significant dependence on capital markets performance makes us apprehensive, given its cyclical nature. This is likely to hurt the company's fee income growth, and in turn negatively affect the top line. Near-zero interest rates are expected to hurt the company's margins and make us apprehensive. A stretched valuation limits the stock's upside potential.

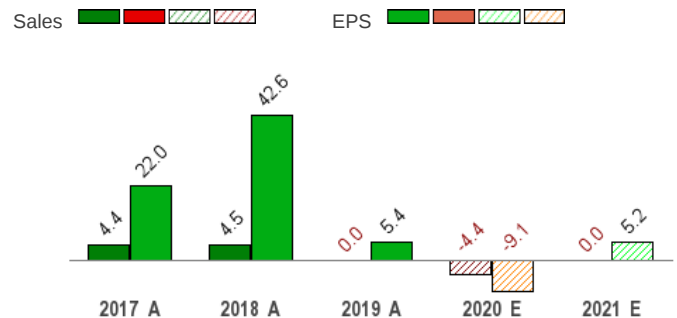
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.72 - \$17.95
20 Day Average Volume (sh)	114,365,976
Market Cap	\$204.6 B
YTD Price Change	-33.4%
Beta	1.70
Dividend / Div Yld	\$0.72 / 3.1%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 1% (250 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.8%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-15.5%
Expected Report Date	04/15/2020
Earnings ESP	-3.1%
P/E TTM	8.6
P/E F1	9.4
PEG F1	1.0
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	20,818 E	20,913 E	21,116 E	20,808 E	87,173 E
2020	22,776 E	21,760 E	21,924 E	21,715 E	87,213 E
2019	23,004 A	23,084 A	22,807 A	22,349 A	91,244 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.53 E	\$0.57 E	\$0.62 E	\$0.67 E	\$2.63 E
2020	\$0.68 E	\$0.61 E	\$0.56 E	\$0.55 E	\$2.50 E
2019	\$0.70 A	\$0.74 A	\$0.56 A	\$0.74 A	\$2.75 A

*Quarterly figures may not add up to annual.

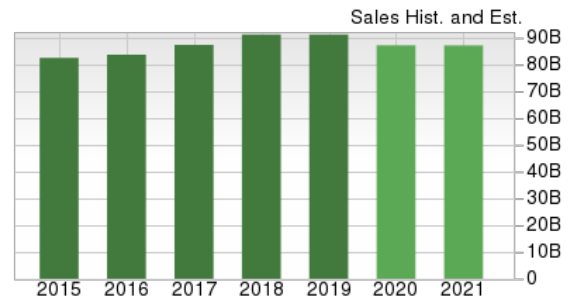
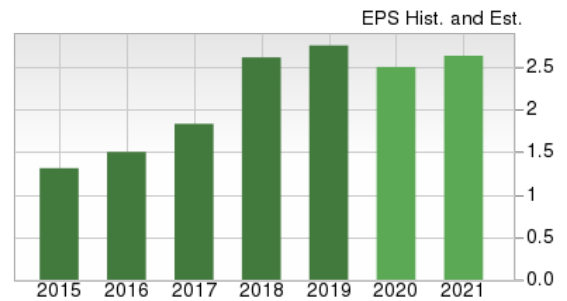
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

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** (33.0% of total assets in 2019), 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** (12.3%) 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** (19.1%), 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** (26.4%) offers sales and trading, market-making, financing, securities clearing, settlement and custody, and risk-management services globally.
- **All Other** (9.2%) consists of ALM activities, equity investments, the international consumer card business, liquidating businesses, residual expense allocations and other.



Reasons To Buy:

- ▲ Steady loan growth is expected to continue supporting Bank of America's interest income. Over the last four years (2016-2019), net interest income (NII) saw a CAGR of 5.6%. 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 last three years (ended 2019). Though net interest yield decreased to 2.43% in 2019 from 2.45% in 2018, it was above 2.40% in 2017 and 2.27% in 2016. Despite the decline in interest rates to near zero amid the Federal Reserve's accommodative monetary policy stance, steady rise in loan demand is expected to favorably impact NII in the quarters ahead.
- ▲ 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, expenses remained roughly around \$54 billion over the last four years, despite the company undertaking several strategic growth initiatives. Management expects expenses for 2020 to be in the low \$53 billion range.
- ▲ Bank of America continues to align its banking center network according to the customer needs. The bank is on track to open 500 new centers in new cities and redesign 2,500 centers with technology upgrades by 2021. The company is opening fully automated branches that will feature ATMs and video conferencing facility, allowing customers to communicate with off-site bankers. Further, the company plans to add 2,200 more ATMs to its network. These initiatives, along with the success of Zelle and Erica, will enable Bank of America to improve digital offerings, and cross sell several products, including mortgages, auto loans and credit cards.
- ▲ 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 included a 20% quarterly dividend hike and a share repurchase authorization worth \$30.9 billion. In aggregate, the bank intends to return roughly \$37 billion to shareholders. As of Dec 31, 2019, \$15.6 billion worth of shares were left to be repurchased. However, in order to provide liquidity to the people affected by the coronavirus outbreak, the company has suspended its share buyback program till second-quarter 2020. Nevertheless, given the robust capital position and lower dividend payout ratio compared to its peers, the company will likely be able to sustain its capital deployment activities and continue enhancing shareholder value.

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.

Reasons To Sell:

- ▼ Bank of America's significant dependence of investment banking (IB) business (nearly 15% of total non-interest income) is a matter of concern, given its cyclical nature. The division's performance continues to get hampered by fears of global economic slowdown, trade war concerns and several other geopolitical matters. Though IB fees witnessed growth in 2019, it declined at a three-year CAGR of 3.1% (ended 2019). While some of the above-mentioned concerns are gradually subsiding, fears over the current pandemic is expected to weigh on the corporates' plans to raise fresh capital by issuing shares and/or debt as well as M&As and IPOs to some extent. Thus, performance of IB business is expected to remain volatile 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. The company's ROE of 11.95% compares unfavorably with 16.74% for the S&P 500, reflecting the fact that it is less efficient in using shareholder funds.
- ▼ Shares of Bank of America have outperformed the industry over the past year. The company's 2020 earnings estimates have moved 6% lower over the past seven days. Further, the stock seems overvalued when compared with the broader industry. Its current price/cash flow and price/sales ratios are above the respective industry averages. Hence, given the concerns and downward estimate revisions, the stock has limited upside potential.

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.

Last Earnings Report

BofA Q4 Earnings Beats on Trading, Underwriting & Loans

Improved trading and underwriting performance drove Bank of America's fourth-quarter 2019 earnings of 74 cents per share, which surpassed the Zacks Consensus Estimate of 68 cents. Also, the figure was up 6% from the prior-year quarter.

As expected, BofA came out with improved trading and investment banking numbers. Sales and trading revenues (excluding DVA) grew 13%, driven by 25% rise in fixed income trading, while equity trading income witnessed a fall of 4% on year-over-year basis.

Investment banking fees grew 9% as underwriting fees recorded a rise. Equity underwriting income and debt underwriting fees grew 18% and 14%, respectively. On the other hand, advisory fees fell 5%.

Also, net interest income decreased despite decent loan growth. Moreover, the company's operating expenses rose moderately. Further, provision for credit losses increased during the reported quarter.

Performance of the company's business segments, in terms of net income generation, was not impressive as well. All segments, except Global Markets and All Others, witnessed a fall in net income. Overall, net income declined 4% to \$7 billion.

Loan Growth, Fee Income Aid Revenues; Expenses Up

Net revenues amounted to \$22.3 billion, which marginally beat the Zacks Consensus Estimate of \$22 billion. However, the reported figure was down 1% on a year-over-year basis.

Net interest income, on a fully taxable-equivalent basis, declined 3% year over year to \$12.3 billion, mainly due to lower interest rates, partly offset by loan and deposit growth. Also, net interest yield was down 17 basis points (bps) to 2.35%.

Non-interest income grew marginally from the year-ago quarter to \$10.2 billion.

Non-interest expenses were \$13.2 billion, up 1% mainly due to continued investments in franchise.

Efficiency ratio was 59.24%, up from 57.65% in the year-ago quarter. Increase in efficiency ratio indicates deterioration in profitability.

Credit Quality: Mixed Bag

Provision for credit losses increased 4% on a year-over-year basis to \$941 million. Also, net charge-offs rose 4% to \$959 million.

However, as of Dec 31, 2019, ratio of non-performing assets ratio was 0.39%, down 17 bps.

Strong Capital Position

The company's book value per share as of Dec 31, 2019, was \$27.32 compared with \$25.13 on Dec 31, 2018. Tangible book value per share as of the fourth-quarter end was \$19.41, up from \$17.91 a year ago.

At the end of December 2019, the company's common equity tier 1 capital ratio (Basel 3 Fully Phased-in) (Advanced approaches) was 11.5%, down from 11.9% as of Dec 31, 2018.

Outlook

Management expects stable economy and interest rate environment in 2020. Thus, based on these assumptions, the company has provided guidance.

For first-quarter 2020, NII is expected to decline sequentially as one less day of interest, full impact of October 2019-end interest rate cut and dilution in securities yields will be partially offset by modest loan and deposit growth.

For second-quarter 2020, NII is anticipated to fall again on a sequential basis due to seasonality. For the second half of the year, the company projects NII to rise modestly, driven by an additional day of interest, deposit pricing discipline, and continued loan and deposit growth.

Thus, for 2020, NII is expected to modestly down year over year.

Management expects loan growth in business segments to be in the mid-single digit range, with solid growth likely in consumer loan portfolio and commercial loan growth likely to be modest.

Now coming to expenses, management expects operating expenses for 2020 to be in the low \$53 billion range. Also, for the first quarter, expenses will include nearly \$400 million of seasonally elevated personnel costs related to payroll taxes, while for the remaining three quarters expenses are expected to be in the low \$13 billion range.

Additionally, effective third-quarter 2020, the accounting for the Bank of America Merchant Services joint venture (JV) is expected to change, following its dissolution. At that time, the company will separately record revenues and expenses from merchant servicing operations, rather than reflecting its share of JV earnings. This will result in an increase in both expenses and revenues, with little bottom-line impact. The company intends to provide more guidance later on.

Further, the company is likely to spend approximately \$3 billion in technology upgrades.

Quarter Ending **12/2019**

Report Date	Jan 15, 2020
Sales Surprise	1.53%
EPS Surprise	8.82%
Quarterly EPS	0.74
Annual EPS (TTM)	2.74

Now on to asset quality, the company expects provisions to be slightly higher than net charge-off in 2020. Additionally, the bank provided some perspectives related to the CECL. The day one implementation resulted in a \$3.3 billion rise in allowance, which was in line with the last update the company provided. All else equal, this is anticipated to lower common equity tier 1 (CET1) ratio by almost 20 basis points.

The effective tax rate (in absence of unusual items) is expected to be roughly 18% for 2020.

Recent News

Dividend Update

On Jan 29, Bank of America announced a quarterly cash dividend of 18 cents per share. The dividend was paid out on Mar 27 to shareholders on record as of Mar 6.

Valuation

Bank of America's shares are down 19.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23.6% and 19.8% over the past year, respectively.

The S&P 500 index is down 5% in the past year.

The stock is currently trading at 7.78X forward 12 months earnings, which compares to 9.20X for the Zacks sub-industry, 11.68X for the Zacks sector and 16.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.80X and as low as 6.68X, with a 5-year median of 11.01X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26 price target reflects 8.64X 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	7.78	9.2	11.68	16.91
	5-Year High	16.8	13.85	16.19	19.34
	5-Year Low	6.68	7.66	11.23	15.19
	5-Year Median	11.01	11.28	13.95	17.44
P/B	Current	0.85	1.07	2.06	3.54
	5-Year High	1.38	1.93	2.89	4.55
	5-Year Low	0.5	0.89	1.69	2.84
	5-Year Median	1	1.49	2.51	3.63
P/S F12M	Current	2.25	2.6	4.93	2.94
	5-Year High	3.66	4.59	6.65	3.44
	5-Year Low	1.33	2.39	4.93	2.54
	5-Year Median	2.74	3.59	6.03	3

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (250 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	BAC Neutral	X Industry	S&P 500	C Underperform	JPM Neutral	WFC Underperform
VGM Score	C	-	-	D	D	D
Market Cap	204.60 B	31.55 B	19.05 B	92.87 B	287.29 B	123.83 B
# of Analysts	9	8	13	9	9	10
Dividend Yield	3.07%	4.61%	2.23%	4.61%	3.82%	6.74%
Value Score	C	-	-	B	C	B
Cash/Price	3.85	1.56	0.06	9.17	3.58	3.01
EV/EBITDA	-3.95	3.20	11.47	-8.16	-4.50	1.22
PEG Ratio	1.10	1.24	2.00	0.65	2.13	0.91
Price/Book (P/B)	0.87	0.86	2.56	0.55	1.26	0.77
Price/Cash Flow (P/CF)	6.39	6.22	10.14	4.34	6.72	4.57
P/E (F1)	9.90	9.39	16.97	6.88	10.66	9.71
Price/Sales (P/S)	1.80	1.58	2.01	0.90	2.01	1.19
Earnings Yield	10.66%	10.66%	5.81%	14.55%	9.38%	10.30%
Debt/Equity	1.00	0.86	0.70	1.41	1.24	1.37
Cash Flow (\$/share)	3.67	6.63	7.01	10.20	14.04	6.63
Growth Score	C	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	26.87%	13.58%	10.92%	13.07%	16.24%	2.73%
Proj. EPS Growth (F1/F0)	-9.17%	-13.65%	-0.64%	-15.07%	-17.45%	-28.79%
Curr. Cash Flow Growth	3.02%	2.66%	5.93%	2.56%	9.35%	-1.58%
Hist. Cash Flow Growth (3-5 yrs)	27.50%	9.49%	8.55%	7.31%	10.67%	1.85%
Current Ratio	0.91	0.90	1.24	1.00	0.92	0.87
Debt/Capital	47.63%	43.35%	42.36%	56.19%	54.21%	54.83%
Net Margin	24.15%	22.06%	11.64%	18.75%	25.49%	18.81%
Return on Equity	11.95%	11.95%	16.74%	10.32%	15.19%	12.11%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-4.42%	-3.36%	0.61%	0.46%	-1.96%	-7.85%
Momentum Score	F	-	-	F	F	D
Daily Price Chg	5.92%	5.23%	4.33%	7.30%	4.04%	5.25%
1 Week Price Chg	-7.27%	-14.11%	-4.40%	-14.41%	-7.77%	-13.38%
4 Week Price Chg	3.44%	-2.85%	-1.70%	-12.86%	-1.73%	-6.34%
12 Week Price Chg	-32.36%	-35.42%	-20.64%	-45.52%	-31.03%	-37.33%
52 Week Price Chg	-19.33%	-30.87%	-12.97%	-32.45%	-10.48%	-36.64%
20 Day Average Volume	114,365,976	10,953,286	4,016,075	35,075,940	31,070,660	49,241,804
(F1) EPS Est 1 week change	-5.98%	-8.23%	-0.26%	-10.34%	-8.23%	-7.59%
(F1) EPS Est 4 week change	-15.46%	-15.46%	-5.64%	-24.65%	-16.49%	-20.21%
(F1) EPS Est 12 week change	-17.35%	-17.35%	-7.49%	-23.84%	-15.53%	-27.06%
(Q1) EPS Est Mthly Chg	-16.86%	-14.71%	-9.90%	-20.29%	-15.77%	-14.71%

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	C
Growth Score	C
Momentum Score	F
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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