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Apr 17, 2020

Bank of America (BAC)

$21.42 (As of 04/16/20)

Price Target (6-12 Months): **$18.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/09/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: D	**5-Strong Sell** VGM:F Momentum: D

Summary

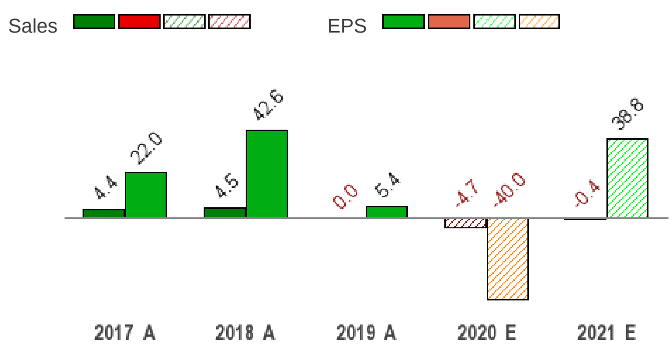
Bank of America's first-quarter 2020 results were adversely impacted by a huge reserve build, done to combat coronavirus-induced economic slowdown. Near-zero interest rates are expected to hurt the bank's margins and interest income. Also, coronavirus-induced concerns will likely continue to hamper business activities and thus, loan growth is expected to be muted. The bank's shares have outperformed the industry over the past year. It has an impressive earnings surprise history, having outpaced the Zacks Consensus Estimate in three of the trailing four quarters. While opening new branches, improved digital offerings and efforts to manage costs will likely aid profitability, significant dependence on capital markets performance makes us apprehensive, given its cyclical nature. This is likely to hurt fee income growth to some extent.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$35.72 - $17.95**
20 Day Average Volume (sh)	**99,640,032**
Market Cap	**$186.9 B**
YTD Price Change	**-39.2%**
Beta	**1.70**
Dividend / Div Yld	**$0.72 / 3.4%**
Industry	**Banks - Major Regional**
Zacks Industry Rank	**Bottom 1% (251 out of 253)**
Last EPS Surprise	**-4.8%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**-43.5%**
Expected Report Date	**07/15/2020**
Earnings ESP	**0.0%**
P/E TTM	**8.8**
P/E F1	**13.0**
PEG F1	**1.4**
P/S TTM	**1.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	20,818 E	20,913 E	21,116 E	20,808 E	86,576 E
2020	22,767 A	21,262 E	21,430 E	21,054 E	86,934 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	$0.52 E	$0.60 E	$0.63 E	$0.67 E	$2.29 E
2020	$0.40 A	$0.38 E	$0.39 E	$0.52 E	$1.65 E
2019	$0.70 A	$0.74 A	$0.56 A	$0.74 A	$2.75 A

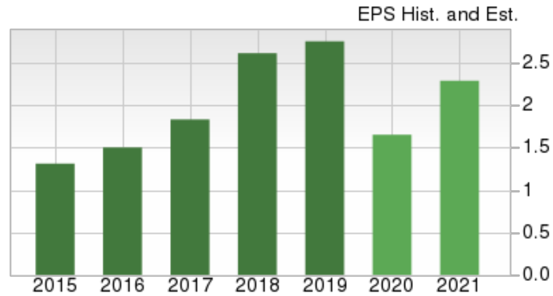
*Quarterly figures may not add up to annual.

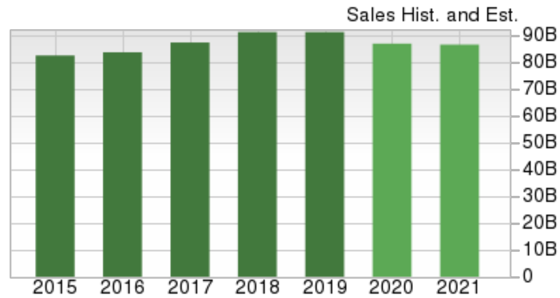
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

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 Sell:

Near-zero interest rates and coronavirus-related economic slowdown will hamper Bank of America's financials in the upcoming quarters. Further, fee income growth challenges are major concerns.

- After slashing interest rates thrice last year, the Federal Reserve cut the rates to near zero in March, with an aim of supporting the U.S. economy from coronavirus-induced mayhem. This has hurt Bank of America's net interest income (NII) growth and resulted in contraction of net interest yield over the last several quarters. A similar trend is expected to continue in the near term as it is less likely that the central bank will raise rates. Thus, this is likely to hamper overall top-line growth of the company.

- Further, Bank of America's dependence on capital market performance to generate fee income is a matter of concern. Fears of global economic slowdown amid coronavirus-related mayhem will likely result in extreme volatility in the company's markets and investment banking performance. Thus, this is expected to make fee income growth challenging in the quarters ahead.

- Bank of America's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 10.64% 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 six months. However, the company's 2020 earnings estimates have moved 39.4% lower over the past 30 days. Further, the stock seems overvalued than the broader industry. Its current price/cash flow and PEG ratios are above the respective industry averages. Hence, given the lower interest rates, other near-term concerns and downward estimate revisions, the stock has limited upside potential.

Risks

- Bank of America remains focused on acquiring the industry's best deposit franchise and strengthening the loan portfolio. Despite the challenging market environment, deposits and loan balances have remained strong over the past several years. Loan and deposit balances are likely to grow further, driven by a steady rise in demand due to lower interest rates.

- 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. Over the last four years, the bank incurred roughly $54 billion expenses annually, despite undertaking several strategic growth initiatives. The company is likely to manage expenses prudently going forward.

- 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 the company 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. The company had received the Fed's approval for the 2019 capital plan, which included a 20% quarterly dividend hike and a share repurchase authorization worth $30.9 billion. Nonetheless, in order to provide liquidity to the people affected by the coronavirus outbreak, the company has suspended the share buyback program till second-quarter 2020. Given the robust capital position and lower dividend payout ratio than peers, the company will likely be able sustain capital deployment activities.

Last Earnings Report

BofA Q1 Earnings Lag, Provisions Up on Coronavirus Woes

Quarter Ending	03/2020
Report Date	Apr 15, 2020
Sales Surprise	0.61%
EPS Surprise	-4.76%
Quarterly EPS	0.40
Annual EPS (TTM)	2.44

Bank of America's first-quarter 2020 earnings of 40 cents per share missed the Zacks Consensus Estimate of 42 cents. This was attributed to reserve build of $3.6 billion for coronavirus-related crisis.

A lower interest rate environment hurt BofA's net interest income despite decent loan growth. Moreover, the company's operating expenses rose moderately.

As expected, Bank of America's advisory fees declined. However, solid underwriting business supported investment banking. Equity and debt underwriting fees grew 14% and 30%, respectively. This led to a 7% increase in investment banking fees.

Bank of America came out with robust trading numbers. Sales and trading revenues (excluding DVA) grew 22% from the prior-year period, driven by a 13% rise in fixed income trading and a 39% jump in equity trading income.

Performance of the company's business segments, in terms of net income generation, was dismal. All segments, except Global Markets, witnessed a fall in net income. Overall, net income plunged 45% from the prior-year quarter to $4 billion.

Lower Rates Hurt Revenues, Expenses Up

Net revenues amounted to $22.8 billion, which marginally beat the Zacks Consensus Estimate of $22.5 billion. However, the reported figure was down 1% on a year-over-year basis.

Net interest income, on a fully taxable-equivalent basis, declined 2% 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 18 basis points (bps) to 2.33%.

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

Non-interest expenses were $13.5 billion, up 2% mainly due to continued investments in franchise.

Efficiency ratio was 58.82%, up from 57.10% in the year-ago quarter. Increase in efficiency ratio indicates deterioration in profitability.

Credit Quality Worsens

Provision for credit losses surged significantly on a year-over-year basis to $4.8 billion. The rise reflects a reserve build primarily due to dismal economic conditions, thanks to coronavirus concerns.

Net charge-offs increased 13% from the year-ago quarter to $1.12 billion.

However, as of Mar 31, 2020, ratio of non-performing loans and leases ratio was 0.39%, down 13 bps.

Strong Capital Position

The company's book value per share as of Mar 31, 2020 was $27.84 compared with $25.57 in the corresponding period of 2019. Tangible book value per share as of first quarter-end was $19.79, up from $18.26 in the comparable year-ago period.

At the end of March 2020, the company's common equity tier 1 capital ratio (Basel 3 Fully Phased-in) (Advanced approaches) was 11.1%, down from 11.9% as of Mar 31, 2019.

Outlook

Given significant drop in card spending, management expects card balances to further decline in the second quarter of 2020.

Given the adverse impact of coronavirus on the economy and lower interest rates, NII is expected to be around $11 billion in the second quarter and then gradually stabilize, driven by loan and deposit growth, partly offsetting the negative impacts of longer-term asset repricing. Therefore, NII is expected to be down modestly on a year-over-year basis in 2020.

The company is still assessing the impacts of the coronavirus pandemic on expenses, and thus, is not in a position to provide any updates to its prior guidance, which projects the same to be in the mid-$53 billion range in 2020.

The effective tax rate (in absence of unusual items) is expected to be roughly 14-15% 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 28.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.6% and 23% over the past year, respectively.

The S&P 500 index is down 3.9% in the past year.

The stock is currently trading at 7.09X forward 12 months earnings, which compares to 11.85X for the Zacks sub-industry, 13.31X for the Zacks sector and 18.92X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our $18 price target reflects 5.96X 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	7.09	11.85	13.31	18.92
	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	11.31	13.95	17.45
P/B	Current	0.77	0.98	2	3.71
	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	3.64
P/S F12M	Current	2.06	2.44	4.93	3.12
	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	2.75	3.59	6.03	3.01

As of 04/16/2020

Industry Analysis **Zacks Industry Rank:** Bottom 1% (251 out of 253)

Top Peers

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

Industry Comparison Industry: Banks - Major Regional

				Industry Peers		
	BAC Underperform	**X Industry**	**S&P 500**	**C** Underperform	**JPM** Underperform	**WFC** Underperform
VGM Score	F	-	-	F	F	F
Market Cap	186.88 B	31.99 B	19.06 B	85.02 B	266.05 B	109.96 B
# of Analysts	9	8	14	9	9	10
Dividend Yield	3.36%	5.08%	2.26%	5.03%	4.12%	7.59%
Value Score	D	-	-	B	F	B
Cash/Price	3.10	1.22	0.06	7.25	2.95	2.38
EV/EBITDA	-3.99	2.67	11.49	-7.95	-4.69	1.10
PEG Ratio	1.54	1.45	2.09	0.92	3.03	2.97
Price/Book (P/B)	0.77	0.77	2.55	0.49	1.15	0.68
Price/Cash Flow (P/CF)	5.84	5.70	10.06	3.97	6.22	4.06
P/E (F1)	13.85	11.47	17.56	9.67	15.17	31.75
Price/Sales (P/S)	1.68	1.58	1.94	0.82	1.91	1.11
Earnings Yield	7.70%	8.73%	5.57%	10.34%	6.60%	3.16%
Debt/Equity	1.06	0.99	0.70	1.52	1.29	1.47
Cash Flow ($/share)	3.67	6.63	7.01	10.20	14.04	6.63
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	26.87%	13.58%	10.92%	13.07%	16.24%	2.73%
Proj. EPS Growth (F1/F0)	-40.00%	-37.19%	-3.36%	-44.74%	-46.29%	-80.66%
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	0.92	0.92	1.24	0.99	0.89	0.87
Debt/Capital	49.21%	49.21%	42.78%	57.96%	54.97%	56.42%
Net Margin	21.64%	21.64%	11.64%	16.56%	21.61%	14.52%
Return on Equity	10.64%	10.72%	16.74%	9.15%	12.52%	9.28%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-4.72%	-4.67%	-0.14%	-1.13%	-4.67%	-13.24%
Momentum Score	D	-	-	F	D	D
Daily Price Chg	-3.47%	-4.62%	-0.20%	-5.46%	-3.81%	-5.45%
1 Week Price Chg	24.11%	25.18%	16.01%	26.46%	22.26%	26.57%
4 Week Price Chg	1.04%	1.04%	14.56%	2.22%	2.38%	-4.95%
12 Week Price Chg	-37.22%	-43.48%	-22.94%	-49.22%	-36.04%	-44.24%
52 Week Price Chg	-28.67%	-39.94%	-15.02%	-41.84%	-23.03%	-43.49%
20 Day Average Volume	99,640,032	9,209,641	3,220,598	30,929,996	28,166,556	43,755,948
(F1) EPS Est 1 week change	-6.84%	0.00%	0.00%	-7.71%	-16.76%	-53.94%
(F1) EPS Est 4 week change	-43.52%	-38.15%	-7.09%	-50.58%	-45.52%	-77.53%
(F1) EPS Est 12 week change	-45.87%	-40.10%	-9.32%	-51.58%	-46.26%	-79.44%
(Q1) EPS Est Mthly Chg	-48.65%	-48.65%	-10.68%	-65.20%	-51.58%	-74.57%

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	D
Growth Score	D
Momentum Score	D
VGM Score	F

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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