

## Bank of America (BAC)

**\$25.27** (As of 07/29/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: A

### Summary

Bank of America's shares have outperformed the industry over the past year. It outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Its second-quarter 2020 results show impressive capital markets performance, partially offset by reserve builds and lower rates. Opening of new branches, improved digital offerings and efforts to manage costs will likely aid profits. A strong balance sheet and liquidity position are expected to continue supporting the company's financials amid economic slowdown. However, 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. Thus, loan growth is expected to be muted. Further, dependence on capital markets performance makes us apprehensive, given its cyclical nature.

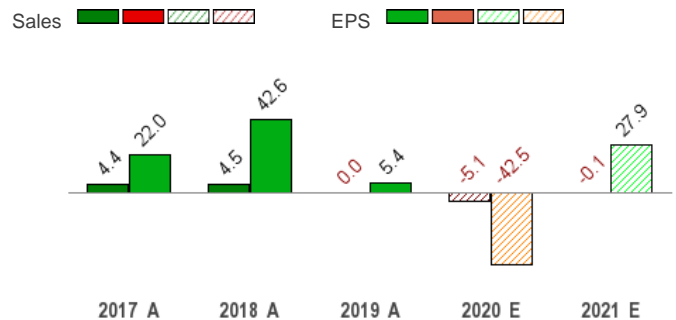
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$35.72 - \$17.95</b>
20 Day Average Volume (sh)	<b>60,384,744</b>
Market Cap	<b>\$219.2 B</b>
YTD Price Change	<b>-28.3%</b>
Beta	<b>1.59</b>
Dividend / Div Yld	<b>\$0.72 / 2.8%</b>
Industry	<a href="#">Banks - Major Regional</a>
Zacks Industry Rank	<b>Bottom 29% (180 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>32.1%</b>
Last Sales Surprise	<b>2.6%</b>
EPS F1 Est- 4 week change	<b>16.7%</b>
Expected Report Date	<b>10/21/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>12.2</b>
P/E F1	<b>16.0</b>
PEG F1	<b>1.8</b>
P/S TTM	<b>2.1</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	21,519 E	21,568 E	21,825 E	21,659 E	86,514 E
2020	22,767 A	22,326 A	20,831 E	20,617 E	86,579 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	\$0.42 E	\$0.49 E	\$0.57 E	\$0.65 E	\$2.02 E
2020	\$0.40 A	\$0.37 A	\$0.41 E	\$0.39 E	\$1.58 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.

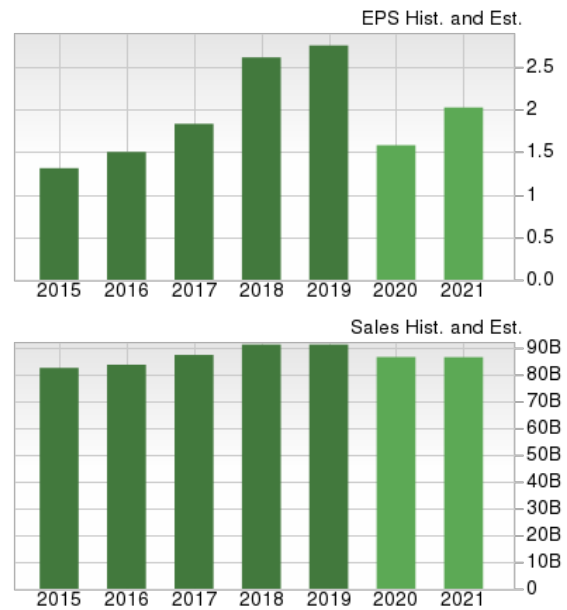
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

## Overview

Headquartered in Charlotte, NC, Bank of America Corporation (incorporated in 1874) is one of the largest financial holding companies in the United States. With total assets worth \$2.74 trillion as of Jun 30, 2020, it provides 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.



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## Reasons To Buy:

- ▲ Bank of America remains focused on acquiring the industry's best deposit franchise and strengthening the loan portfolio. Despite a challenging market environment, deposits and loan balances have remained strong over the past several years. Loan and deposit balances are likely to grow further as the economy recovers gradually.
- ▲ Further, Bank of America's balance sheet position remains solid. As of Jun 30, 2020, the company had a total debt of \$539.6 billion, and cash and cash equivalents worth \$289.3 billion. Its second-quarter times-interest-earned ratio of 3.1 has remained steady over the last several quarters. Thus, given the favorable factors and record of consistent earnings growth, Bank of America has lesser likelihood of default of interest and debt repayments if the economic situation further worsens.
- ▲ 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. During the first six months of 2020, operating expenses rose just 1.5%. 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 capital deployment activities look impressive. The company will be maintaining the current dividend payout level of 18 cents per share in the third quarter, following the announcement of 2020 stress test results. Further, the bank plans to resume share repurchases only after the economic situation improves significantly. Given the robust capital position and earnings strength, the bank is expected to be able to sustain capital deployment activities in the future.
- ▲ Shares of Bank of America have outperformed the industry over the past six months. Also, the company's 2020 earnings estimates have moved 12.1% upward over the past 30 days. Hence, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Rising loans and deposits, manageable expenses and expansion into new markets will support Bank of America. Further, technological upgrades are likely to continue aiding cross selling opportunities.

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## Reasons To Sell:

- ▼ 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 anytime soon. 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. Global economic slowdown amid coronavirus-related mayhem will likely result in extreme volatility in the company's markets and investment banking performances. Thus, this is expected to make fee income growth challenging, going forward.
- ▼ Bank of America's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 9.11% compares unfavorably with 15.10% for the S&P 500, reflecting the fact that it is less efficient in using shareholder funds.
- ▼ Further, Bank of America seems overvalued than the broader industry. Its current price/book and price/earnings (F1) ratios are above the respective industry averages.

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.

## Last Earnings Report

### Bank of America's Q2 Earnings Top, Provisions Up on Coronavirus Woes

Bank of America's second-quarter 2020 earnings of 37 cents per share outpaced the Zacks Consensus Estimate of 28 cents. The earnings included the impact of a reserve build of \$4 billion, mainly done to combat persistent economic slowdown.

A low interest rate environment and muted loan demand hurt Bank of America's net interest income. Moreover, the company's operating expenses rose moderately from a year ago.

Additionally, as expected, Bank of America's total card income decreased 14% on a year-over-year basis. Advisory fees plunged 36% from the prior-year quarter.

However, solid underwriting business supported the investment banking business. Equity and debt underwriting fees jumped 140% and 55%, respectively. This led to a 65% surge in investment banking fees.

Further, BofA came out with impressive trading numbers. Sales and trading revenues (excluding DVA) grew 35% from the prior-year period, driven by a 50% jump in fixed income trading and 7% rise in equity trading income.

Performance of the company's business segments, in terms of net income generation, was disappointing. All segments, except Global Markets, witnessed a drastic decline in net income. Overall, net income plunged 52% from the prior-year quarter to \$3.5 billion.

### Lower Rates Hurt Revenues, Expenses Rise

Net revenues amounted to \$22.3 billion, which beat the Zacks Consensus Estimate of \$21.8 billion. However, the figure was down 3% on a year-over-year basis.

Net interest income, on a fully taxable-equivalent basis, declined 11% year over year to \$10.8 billion, mainly due to lower interest rates, partly offset by loan and deposit growth. Also, net interest yield contracted 57 basis points to 1.87%.

Non-interest income grew 5% from the year-ago quarter to \$11.5 billion.

Non-interest expenses were \$13.4 billion, up 1% mainly due to continued investments in franchise.

Efficiency ratio was 60.06%, up from 57.48% in the year-ago quarter. Increase in the efficiency ratio indicates deterioration in profitability.

### Credit Quality Worsens

Provision for credit losses surged significantly on a year-over-year basis to \$5.1 billion. The rise was due to a reserve build, primarily done to combat dismal economic conditions, thanks to coronavirus-related economic concerns.

Net charge-offs jumped 29% from the year-ago quarter to \$1.1 billion.

As of Jun 30, 2020, non-performing loans and leases was 0.44%, which was unchanged year over year.

### Strong Capital Position

The company's book value per share as of Jun 30, 2020 was \$27.96 compared with \$26.41 in the corresponding period of 2019. Tangible book value per share as of second quarter-end was \$19.90, up from \$18.92 in the comparable year-ago period.

At the end of June 2020, its common equity tier 1 capital ratio (Basel 3 Fully Phased-in) (Advanced approaches) was 11.4%, down from 12.0% as of Jun 30, 2019.

### Outlook

Management expects card deferral to decline in third-quarter 2020 driven by "the expiration in these payment observations."

NII for the third quarter is anticipated to be adversely impacted by commercial loan paydowns, which will likely lower NII by around \$200 million. Also, NII growth will likely be hampered by the impacts of longer-term asset repricing. Beyond the third quarter, NII will likely depend on loan growth "and/or redeployment of deposits into higher yielding securities rather than cash."

Moreover, effective third-quarter 2020, the company will start accounting for merchant services separately and not through a joint venture. As a result, the business is likely to add roughly \$200 million on a quarterly basis to overall operating expenses. Further, additional revenues for merchant services are expected to be roughly \$100 million a quarter, which will likely improve as the economy recovers.

The effective tax rate (in absence of unusual items) is expected to be roughly 11% for the rest of 2020.

Quarter Ending 06/2020

Report Date	Jul 16, 2020
Sales Surprise	2.62%
EPS Surprise	32.14%
Quarterly EPS	0.37
Annual EPS (TTM)	2.07

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## Recent News

### Dividend Update

On Jul 22, Bank of America announced a quarterly cash dividend of 18 cents per share. The dividend will be paid out on Sep 25 to shareholders on record as of Sep 4.

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## Valuation

Bank of America's shares are down 28.3% in the year-to-date period and 17.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.4% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 26.4% and 13.2%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 8.5% in the past year.

The stock is currently trading at 13.73X forward 12 months earnings, which compares to 13.12X for the Zacks sub-industry, 16.31X for the Zacks sector and 22.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.80X and as low as 6.09X, with a 5-year median of 11.01X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$27 price target reflects 14.67X 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	13.73	13.12	16.31	22.44
	5-Year High	16.8	14.2	16.31	22.44
	5-Year Low	6.09	8.01	11.59	15.25
	5-Year Median	11.01	11.31	14.16	17.52
P/TB TTM	Current	1.28	1.49	3.33	12.7
	5-Year High	2.01	2.68	4	12.94
	5-Year Low	0.78	1.21	2.01	5.96
	5-Year Median	1.53	2.11	3.48	9.53
P/S F12M	Current	2.53	2.72	6.04	3.54
	5-Year High	3.66	4.59	6.66	3.54
	5-Year Low	1.33	2.39	4.96	2.53
	5-Year Median	2.73	3.59	6.06	3.02

As of 07/29/2020

## Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
State Street Corporation (STT)	Outperform	1
Citigroup Inc. (C)	Neutral	3
The Goldman Sachs Group, Inc. (GS)	Neutral	3
JPMorgan ChaseCo. (JPM)	Neutral	3
KeyCorp (KEY)	Neutral	4
Morgan Stanley (MS)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	4
Wells FargoCompany (WFC)	Neutral	4

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	BAC	X Industry	S&P 500	C	JPM	WFC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	F	-	-	F	F	F
Market Cap	219.23 B	32.19 B	22.69 B	109.34 B	303.73 B	105.70 B
# of Analysts	10	9	14	10	10	11
Dividend Yield	2.85%	4.22%	1.8%	3.88%	3.61%	7.91%
Value Score	F	-	-	F	F	F
Cash/Price	4.61	2.59	0.07	8.88	4.26	3.87
EV/EBITDA	-9.07	-0.73	13.11	-12.36	-8.85	-1.42
PEG Ratio	1.78	2.29	3.05	1.57	3.37	42.97
Price/Book (P/B)	0.91	0.84	3.15	0.63	1.30	0.66
Price/Cash Flow (P/CF)	6.89	6.32	12.28	5.15	7.10	3.89
P/E (F1)	15.99	14.06	22.27	16.45	16.83	417.03
Price/Sales (P/S)	2.06	1.76	2.46	1.09	2.19	1.15
Earnings Yield	6.25%	7.10%	4.25%	6.07%	5.94%	0.23%
Debt/Equity	1.08	0.88	0.75	1.60	1.35	1.45
Cash Flow (\$/share)	3.67	6.63	6.94	10.20	14.04	6.63
Growth Score	F	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	21.29%	11.74%	10.85%	10.06%	13.82%	-6.26%
Proj. EPS Growth (F1/F0)	-42.58%	-45.12%	-7.70%	-57.89%	-44.75%	-98.59%
Curr. Cash Flow Growth	3.02%	2.66%	5.31%	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	0.93	0.90	1.31	0.98	0.88	0.88
Debt/Capital	49.62%	44.79%	44.23%	59.26%	56.09%	56.18%
Net Margin	19.09%	18.16%	10.45%	13.64%	18.16%	6.26%
Return on Equity	9.11%	8.52%	14.99%	7.40%	10.75%	4.33%
Sales/Assets	0.04	0.05	0.53	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-5.11%	-1.94%	-1.97%	0.24%	0.15%	-15.71%
Momentum Score	A	-	-	C	B	D
Daily Price Chg	3.74%	3.79%	1.52%	2.44%	2.42%	0.98%
1 Week Price Chg	4.87%	3.97%	0.37%	2.89%	0.12%	5.25%
4 Week Price Chg	8.64%	5.44%	5.44%	4.31%	6.88%	2.75%
12 Week Price Chg	13.06%	13.06%	15.38%	22.28%	10.42%	0.66%
52 Week Price Chg	-17.63%	-26.19%	-1.61%	-26.19%	-14.07%	-46.75%
20 Day Average Volume	60,384,744	5,613,066	1,846,377	20,365,592	19,226,006	44,948,552
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.36%	0.00%
(F1) EPS Est 4 week change	16.75%	9.52%	0.27%	9.52%	16.34%	-91.43%
(F1) EPS Est 12 week change	10.42%	10.12%	-0.85%	4.73%	15.61%	-92.62%
(Q1) EPS Est Mthly Chg	33.13%	31.68%	0.13%	22.67%	39.93%	32.23%

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## 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.

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### 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	F
Growth Score	F
Momentum Score	A
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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### Disclosures

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