

BNY Mellon (BK)

\$32.70 (As of 04/01/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

Shares of BNY Mellon have underperformed the industry over the past year. The company's earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Global diversification efforts, solid assets under management (AUM) balance and prudent expense-management initiatives are expected to continue supporting this custodian bank's financials in the quarters ahead. Further, impressive capital-deployment actions reflect a strong balance sheet position. However, the Federal Reserve's accommodative monetary policy along with relatively lower volatility is likely to hurt revenues to some extent. Also, concentration risk, arising from significant dependence on fee-based revenues, remains a major concern. If there is any change in individual investment preferences, it could alter the company's financial position.

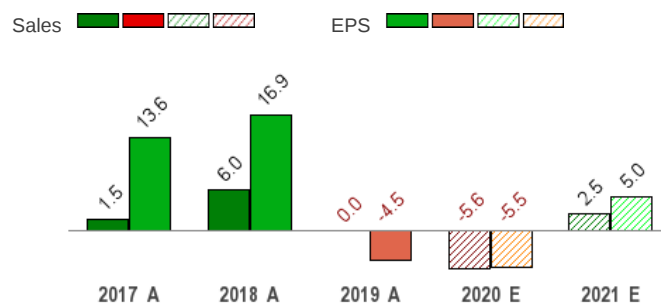
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.61 - \$26.40
20 Day Average Volume (sh)	8,857,654
Market Cap	\$28.9 B
YTD Price Change	-35.0%
Beta	1.14
Dividend / Div Yld	\$1.24 / 3.8%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 14% (219 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-7.9%
Expected Report Date	04/16/2020
Earnings ESP	-3.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,825 E	3,920 E	3,978 E	4,010 E	15,871 E
2020	3,822 E	3,843 E	3,889 E	3,926 E	15,484 E
2019	3,873 A	3,914 A	3,858 A	4,761 A	16,406 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.84 E	\$0.97 E	\$1.04 E	\$1.04 E	\$3.99 E
2020	\$0.91 E	\$0.95 E	\$0.96 E	\$0.94 E	\$3.80 E
2019	\$0.94 A	\$1.01 A	\$1.07 A	\$1.01 A	\$4.02 A

*Quarterly figures may not add up to annual.

P/E TTM	8.1
P/E F1	8.6
PEG F1	1.0
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/01/2020. The reports text is as of 04/02/2020.

Overview

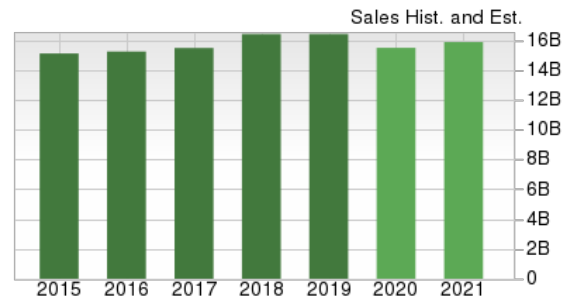
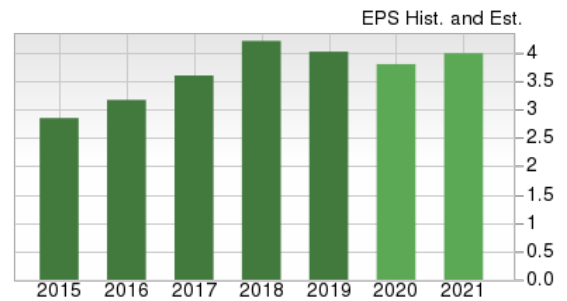
Headquartered in New York and formed as a holding company for The Bank of New York Mellon, The Bank of New York Mellon Corporation (popularly known as BNY Mellon) is a financial services company that has been in business since 1784. The company was incorporated on Jul 1, 2007, following the merger of The Bank of New York Company Inc. and Mellon Financial Corporation.

BNY Mellon operates in 35 countries and provides various products and services to individuals and institutions in more than 100 markets worldwide. The company's global client base consists of financial institutions, corporations, government agencies, endowments and foundations as well as high-net-worth individuals.

BNY Mellon presents operations through the following businesses:

- The **Investment Management** segment (22.7% of total revenues in 2019) provides investment management services to institutional and retail investors; and investment management, wealth and estate planning and private banking solutions to high-net-worth individuals and families, as well as foundations and endowments.
- The **Investment Services** segment (73%) provides global custody and related services, broker-dealer services, alternative investment services, corporate trust, depository receipt and shareowner services, as well as clearing services and global payment/working capital solutions to global financial institutions.
- The **Other** segment (4.3%) primarily consists of credit-related services, the leasing portfolio, corporate treasury activities, business exits, M&I expenses, as well as other corporate revenues and expense items.

As of Dec 31, 2019, BNY Mellon had \$37.1 trillion in assets under custody and/or administration, and \$1.9 trillion in AUM.



Reasons To Buy:

- ▲ BNY Mellon witnessed a rise in expenses in 2017 and 2018 primarily due to higher investment-related expenses, and litigation and restructuring charges. However, its cost-saving initiatives have helped in reducing costs at a CAGR of 2.2% over the past six years (2014-2019). In fact, despite continued investments in technology, operating expenses are expected to remain manageable in the upcoming quarters as the company eliminates unnecessary management layers and automates processes.
- ▲ We remain encouraged by BNY Mellon's meaningful capital deployment activities. The company's 2019 capital plan (approved by the Federal Reserve) included an 11% dividend hike and \$3.94 billion share repurchase authorization. As of Dec 31, 2019, nearly \$1.96 billion worth of share repurchase authorization was left. Given a solid liquidity position along with debt-equity ratio and dividend payout ratio lower than the industry, the company will be able to continue enhancing shareholder value through efficient capital deployment activities.
- ▲ Further, BNY Mellon is trying to gain foothold in foreign markets. Given the huge growth potential of overseas securities markets and a rise in complex new securities, long-term growth prospects of the industry are encouraging. Over the next few years, the company's international revenues are expected to continue improving as demand for personalized services rises across the globe.

BNY Mellon's global reach, manageable expense levels and strong balance sheet position are likely to support profitability. Additionally, the company's capital deployment plan is impressive.

Reasons To Sell:

- ▼ The Fed's accommodative monetary policy is expected to hurt BNY Mellon's revenue growth to some extent. While its net interest margin (NIM) and net interest revenues (NIR) improved on a sequential basis in the fourth quarter of 2019, these witnessed a decline in the prior five quarters. With near-zero interest rates, the company is expected to record a fall in NIR and NIM in the upcoming quarters as well.
- ▼ BNY Mellon's largest source of revenues is fee income — constituting more than 80% of total revenues in 2019. Concentration risk emanating from higher dependence on fee-based revenues could significantly alter the company's financial position if there is any change in individual investment preferences, regulatory amendments or a slowdown in capital market activities.
- ▼ BNY Mellon's trailing 12-month return on equity (ROE) undercuts its growth potential. Although the company's ROE of 10.49% has gradually improved over the years, it compares unfavorably with ROE of 11.95% for the industry and 16.74% for the S&P 500. This reflects that it is less efficient in using shareholders' funds compared with the overall market.
- ▼ Shares of BNY Mellon have underperformed the industry over the past year. Also, the company's 2020 earnings estimates have been revised 6.5% lower over the past seven days. Further, the stock seems overvalued compared with the broader industry. Its current price/book (P/B) and price/earnings (P/E) (F1) ratios are above the respective industry averages. Given the concerns and downward estimate revisions, the stock has limited upside potential.

Lower rates will hamper BNY Mellon's interest revenue growth in the quarters ahead. Moreover, concentration risk arising from significant dependence on fee-based income is a key concern.

Last Earnings Report

BNY Mellon Q4 Earnings Beat Estimates as Revenues Rise

BNY Mellon's fourth-quarter 2019 adjusted earnings per share of \$1.01 surpassed the Zacks Consensus Estimate of 99 cents. Moreover, the figure reflects rise of nearly 2% from the prior-year quarter.

Results benefited from higher revenues and growth in AUM. Moreover, a slight decline in expenses was a tailwind. However, the company's credit quality was mixed.

After considering non-recurring items, net income applicable to common shareholders was \$1.39 billion or \$1.52 per share, up from \$832 million or 84 cents per share recorded in the prior-year quarter.

The company recorded 2019 adjusted earnings per share of \$4.02, which surpassed the Zacks Consensus Estimate of \$3.99. However, the figure reflects a decline of 4.5% from the previous year. Net income applicable to common shareholders (GAAP basis) was \$4.27 billion or \$4.51 per share, up from \$4.10 billion or \$4.04 per share recorded in 2018.

Revenues Improve, Expenses Decline

Total revenues (GAAP basis), excluding income from consolidated investment management funds, increased 18.1% year over year to \$4.76 billion in the fourth quarter. The figure surpassed the Zacks Consensus Estimate of \$4.68 billion.

For 2019, total revenues (GAAP basis), excluding income from consolidated investment management funds, increased marginally year over year to \$16.41 billion. The figure beat the Zacks Consensus Estimate of \$16.16 billion.

Quarterly net interest revenues, on a fully taxable-equivalent basis (non-GAAP basis), were \$817 million, down 8.1% year over year. The decline resulted from lower non-interest bearing deposits and the impact of lower interest rates on the securities portfolio and other interest-earning assets.

Also, non-GAAP net interest margin (FTE basis) contracted 15 basis points year over year to 1.09%.

Total fee and other revenues increased 25.4% year over year to \$3.95 billion. The rise was driven by improvement in total investment services fees, and investment and other income.

Total non-interest expenses were \$2.96 billion, down nearly 1% year over year. This reflects a decrease in all expense components, except for staff expenses, software and equipment costs, sub-custodian and clearing costs, business development expenses, and bank assessment charges.

Asset Position Solid

As of Dec 31, 2019, AUM was \$1.91 trillion, up 11% year over year. This reflects higher market values and the favorable impact of a weaker U.S. dollar, partly offset by net outflows.

Assets under custody and/or administration of \$37.1 trillion grew 12.1% year over year, reflecting higher market values and client inflows.

Credit Quality: Mixed Bag

As of Dec 31, 2019, non-performing assets were \$89 million, up 12.7% from the prior-year quarter.

In the reported quarter, provision for credit losses was a benefit of \$8 million, while the company did not record any provisions in the year-ago quarter. Allowance for loan losses declined 16.4% year over year to \$122 million.

Capital Ratios Mixed

As of Dec 31, 2019, common equity Tier 1 ratio was 11.5% compared with 10.7% as of Dec 31, 2018. Tier 1 Leverage ratio was 6.6%, unchanged from the Dec 31, 2018 level.

Share Repurchase Update

During the fourth quarter, BNY Mellon bought back 22.2 million shares for \$1.04 billion.

Outlook

Management expects securities portfolio yield to continue to fall in first-quarter 2020, with lower reinvestment yields. Hence, it expects NIR in the first quarter to decline a little less than 5% sequentially.

The company expects investment and other income to be between \$25 million and \$35 million per quarter in 2020.

On the expense front, technology spend in 2020 is anticipated to exceed \$3 billion spent in 2019. Excluding notable items, overall expenses in 2020 are expected to increase up to 2% year over year.

The company expects 2020 effective tax rate to be 21%.

Quarter Ending **12/2019**

Report Date	Jan 16, 2020
Sales Surprise	1.77%
EPS Surprise	2.02%
Quarterly EPS	1.01
Annual EPS (TTM)	4.03

Recent News

Dividend Update

On Jan 16, BNY Mellon declared a quarterly dividend of 31 cents per share. The dividend was paid out on Feb 7 to shareholders of record as of Jan 27.

Valuation

BNY Mellon's shares are down 36.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33.3% and 27.2%, over the past year, respectively.

The S&P 500 index is up 10% in the past year.

The stock is currently trading at 7.98X forward 12 months earnings, which compares to 7.12X for the Zacks sub-industry, 10.58X for the Zacks sector and 15.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.50X and as low as 9.52X, with a 5-year median of 12.63X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 8.54X forward earnings.

The table below shows summary valuation data for BK

Valuation Multiples - BK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.98	7.12	10.58	15.99
	5-Year High	15.5	13.85	16.21	19.34
	5-Year Low	7.03	7.12	10.58	15.18
	5-Year Median	12.63	11.3	13.97	17.44
P/B	Current	0.79	0.96	1.86	3.48
	5-Year High	1.56	1.93	2.89	4.55
	5-Year Low	0.67	0.89	1.69	2.85
	5-Year Median	1.3	1.49	2.52	3.63
P/S F12M	Current	1.83	2.22	5.99	2.81
	5-Year High	3.63	4.59	6.64	3.43
	5-Year Low	1.61	2.22	5.38	2.54
	5-Year Median	2.99	3.59	6.04	3

As of 04/01/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (219 out of 254)



Top Peers

Fifth Third Bancorp (FITB)	Neutral
First Republic Bank (FRC)	Neutral
KeyCorp (KEY)	Neutral
The PNC Financial Services Group, Inc (PNC)	Neutral
State Street Corporation (STT)	Neutral
U.S. Bancorp (USB)	Neutral
HSBC Holdings plc (HSBC)	Underperform
Northern Trust Corporation (NTRS)	Underperform

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	BK Neutral	X Industry	S&P 500	KEY Neutral	PNC Neutral	STT Neutral
VGM Score	F	-	-	B	C	D
Market Cap	28.94 B	28.94 B	16.87 B	9.17 B	37.45 B	17.86 B
# of Analysts	7	8	13	10	11	7
Dividend Yield	3.79%	5.26%	2.53%	7.83%	5.27%	4.13%
Value Score	F	-	-	B	B	C
Cash/Price	5.50	1.29	0.06	0.28	0.66	4.33
EV/EBITDA	-10.12	2.76	10.63	7.48	6.29	-8.68
PEG Ratio	1.04	0.94	1.69	0.94	1.01	0.77
Price/Book (P/B)	0.79	0.74	2.30	0.61	0.79	0.85
Price/Cash Flow (P/CF)	5.70	5.39	9.07	4.35	5.82	4.73
P/E (F1)	8.61	7.32	14.38	5.38	7.95	8.31
Price/Sales (P/S)	1.39	1.39	1.80	1.19	1.73	1.36
Earnings Yield	11.62%	13.67%	6.90%	18.62%	12.58%	12.04%
Debt/Equity	0.74	0.86	0.70	0.82	1.04	0.58
Cash Flow (\$/share)	5.74	6.63	7.01	2.17	15.01	10.66
Growth Score	F	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	11.50%	13.58%	10.92%	14.67%	12.04%	7.88%
Proj. EPS Growth (F1/F0)	-5.44%	-3.05%	1.52%	9.07%	-3.48%	-1.67%
Curr. Cash Flow Growth	-5.62%	2.66%	5.98%	-3.09%	3.95%	-5.72%
Hist. Cash Flow Growth (3-5 yrs)	5.07%	9.49%	8.55%	12.28%	5.26%	5.53%
Current Ratio	0.70	0.90	1.24	0.90	0.89	0.50
Debt/Capital	40.45%	43.35%	42.33%	42.22%	51.06%	33.86%
Net Margin	21.39%	22.06%	11.67%	22.06%	24.83%	18.14%
Return on Equity	10.49%	11.95%	16.70%	12.54%	10.91%	11.81%
Sales/Assets	0.06	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-5.62%	-0.73%	1.75%	1.00%	-0.73%	-3.43%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	-2.91%	-7.40%	-5.14%	-8.87%	-8.74%	-5.39%
1 Week Price Chg	11.94%	11.89%	12.29%	21.87%	11.89%	4.26%
4 Week Price Chg	-19.26%	-33.01%	-25.58%	-43.38%	-32.50%	-24.78%
12 Week Price Chg	-36.27%	-45.03%	-29.13%	-51.91%	-45.03%	-38.15%
52 Week Price Chg	-36.18%	-40.78%	-23.44%	-42.48%	-31.12%	-25.92%
20 Day Average Volume	8,857,654	11,814,474	4,261,481	18,803,224	4,283,459	4,740,529
(F1) EPS Est 1 week change	-5.37%	-2.90%	-0.18%	-0.62%	-1.65%	-7.27%
(F1) EPS Est 4 week change	-7.90%	-6.97%	-3.95%	-6.94%	-6.71%	-11.54%
(F1) EPS Est 12 week change	-9.73%	-6.86%	-5.28%	-6.45%	-6.58%	-6.86%
(Q1) EPS Est Mthly Chg	-7.60%	-7.68%	-5.80%	-8.77%	-6.54%	-17.00%

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	F
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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