

BNY Mellon (BK)

\$37.94 (As of 08/10/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/08/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

Shares of BNY Mellon have outperformed the industry so far this year. Its earnings surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Its second-quarter 2020 results were aided by higher revenues, partly offset by a rise in costs. The company's global diversification efforts, solid assets under management (AUM) balance and prudent expense-management initiatives are expected to keep supporting financials. Given the solid liquidity position, the company's capital deployment activities seem sustainable. However, due to near-zero interest rates, revenues are expected to be negatively impacted. Concentration risk, arising from significant dependence on fee-based revenues, is another concern because if there is any change in individual investment preferences, the company's financial position could be altered.

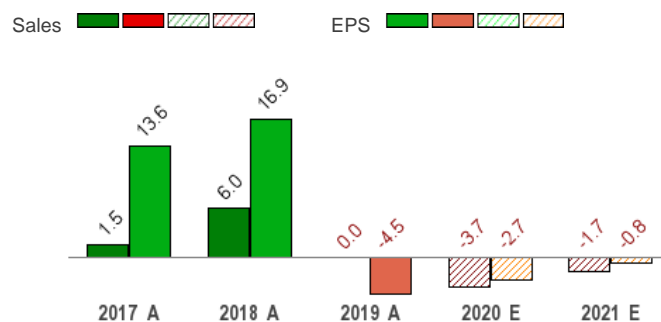
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.60 - \$26.40
20 Day Average Volume (sh)	5,803,179
Market Cap	\$33.6 B
YTD Price Change	-24.6%
Beta	1.05
Dividend / Div Yld	\$1.24 / 3.3%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 15% (215 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.5%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	10/16/2020
Earnings ESP	0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,812 E	3,880 E	3,898 E	3,966 E	15,541 E
2020	4,146 A	3,956 A	3,849 E	3,825 E	15,803 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	\$0.93 E	\$1.02 E	\$1.06 E	\$1.07 E	\$3.88 E
2020	\$1.05 A	\$1.01 A	\$0.93 E	\$0.93 E	\$3.91 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	9.2
P/E F1	9.7
PEG F1	1.2
P/S TTM	1.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

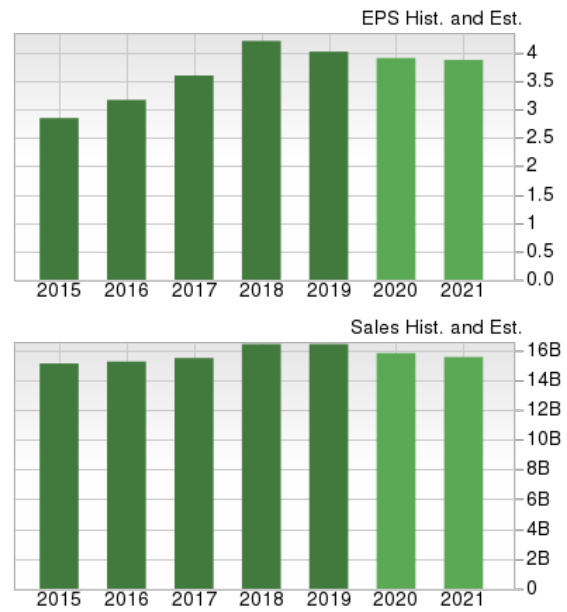
Headquartered in New York and formed as a holding company for The Bank of New York Mellon, The Bank of New York Mellon Corporation (popularly known as BNY Mellon) is a financial services company that has been in business since 1784. The company was incorporated on Jul 1, 2007, following the merger of 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 and Wealth Management** segment (22.7% of total revenues in 2019) (formerly Investment Management) 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 Jun 30, 2020, BNY Mellon had \$35.2 trillion in assets under custody and/or administration, and \$2 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. Expenses also increased in the first half of 2020 on a year-over-year basis. However, the company's 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.
- ▲ As of Jun 30, 2020, BNY Mellon had total debt worth \$49.97 billion, while its cash and cash equivalents and due from banks totaled \$117.50 billion. Also, the company's second-quarter 2020 times-interest-earned ratio of 3.7 increased sequentially and has been witnessing an uptrend over the past several quarters. Further, its current total debt to total capital of 40% declined sequentially. Thus, given the significantly higher cash balance along with decent earnings growth, BNY Mellon has less credit risk and is expected to be able to continue to meet interest and debt obligations, even if the economic situation worsens.
- ▲ We remain encouraged by BNY Mellon's meaningful capital deployment activities. Following the clearance of 2020 stress test, the company is maintaining its dividend payout at the current level for the third quarter of 2020. Also, it has currently suspended share repurchases and intends to resume the same once the economic conditions become favorable. Nevertheless, given a solid liquidity position along with debt-equity ratio and dividend payout ratio lower than the industry, its capital deployment activities seem sustainable, through which the company will be able to continue enhancing shareholder value.
- ▲ 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 seems undervalued right now when compared with the broader industry. Its current price/earnings (F1) and PEG ratios are lower than the respective industry averages.

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 the company's 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. Also, both NIM and NIR declined in the first six months of 2020 on a year-over-year basis. With near-zero interest rates, the company is expected to record a fall in NIR and NIM in the upcoming quarters as well. Management expects third-quarter 2020 NIR to decline 8-11% sequentially.
- ▼ BNY Mellon's largest source of revenues is fee income — constituting more than 80% of total revenues in the first half of 2020. 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. The company's ROE of 10.34% compares unfavorably with 14.39% 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 outperformed the industry so far this year. However, the company's 2020 earnings estimates have been unchanged over the past seven days. Given the concerns and lack of positive estimate revisions, the impressive price performance is not expected to continue in the near term.

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 Q2 Earnings & Revenues Beat, Provisions Jump

BNY Mellon's second-quarter 2020 earnings per share of \$1.01 surpassed the Zacks Consensus Estimate of 94 cents. The figure was on par with the prior-year level.

The results benefited from growth in fee income and improvement in assets balance. However, significantly higher provisions, decline in net interest revenues and a slight rise in operating expenses were the undermining factors.

Net income applicable to common shareholders was \$901 million, down 7% from the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 15, 2020
Sales Surprise	0.16%
EPS Surprise	7.45%
Quarterly EPS	1.01
Annual EPS (TTM)	4.14

Revenues & Expenses Up

Total revenues (GAAP basis), excluding income from consolidated investment management funds, increased 1% year over year to \$3.96 billion. The figure marginally surpassed the Zacks Consensus Estimate of \$3.95 billion.

Net interest revenues — on a fully taxable-equivalent basis (non-GAAP basis) — were \$782 million, down 3% year over year. The decline was due to lower interest rates on interest-earning assets, partially offset by benefits from low deposit and funding rates, and higher deposits, yields on the securities portfolio and loan balances.

Non-GAAP net interest margin (FTE basis) contracted 24 basis points year over year to 0.88%.

Total fee and other revenues increased 2% year over year to \$3.18 billion. The rise was driven by improvement in almost all fee income components except investment management and performance fees, as well as distribution and servicing fees.

Total non-interest expenses were \$2.69 billion, up 1% from the prior-year quarter. The increase was mainly due to higher software and equipment costs, along with bank assessment charges. These were largely offset by Business development expenses, and distribution and servicing costs.

Solid Asset Position

As of Jun 30, 2020, assets under management were \$2 trillion, up 6% year over year. This rise was mainly driven by higher market values and net inflows, partially offset by the unfavorable impact of a stronger U.S. dollar.

Assets under custody and/or administration of \$35.2 trillion grew 4% year over year, reflecting higher client inflows and market values, as well as new business wins. The growth was partly offset by the unfavorable impact of a stronger U.S. dollar.

Credit Quality: Mixed Bag

As of Jun 30, 2020, non-performing assets were \$88 million, down 52.7% year over year.

However, allowance for loan losses — as a percentage of total loans — was 0.55%, up 27 basis points from the prior-year quarter. Moreover, provision for credit losses was \$143 million compared with provision benefit of \$8 million recorded in the year-ago quarter.

Solid Capital Ratios

As of Jun 30, 2020, common equity Tier 1 ratio was 12.6% compared with 11.1% on Jun 30, 2019. Tier 1 Leverage ratio was 6.2%, down from 6.8% as of Jun 30, 2019.

Outlook

NIR in third-quarter 2020 is expected to decline 8-11% sequentially.

In 2020, management expects an increase in investment spend on technology-driven automation initiatives. However, overall expenses (excluding notable items) are expected to be stable on a year-over-year basis.

The company expects the impact from fee waivers to increase in third-quarter 2020 by \$30-\$45 million, net of lower distribution expenses. Also, it will incur an incremental \$25 million in fee waivers in the fourth quarter. Thus, this will result in a full run-rate impact from fee waivers of \$135-\$150 million.

Effective tax rate is expected to be 20% in 2020.

Recent News

Dividend Update

On Jul 15, BNY Mellon declared a quarterly dividend of 31 cents per share. The dividend was paid out on Aug 7 to shareholders of record as of Jul 27.

Valuation

BNY Mellon's shares are down 24.7% in the year-to-date period and 14.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33.1% and 16.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 16.7% and 6.7%, respectively.

The S&P 500 Index is up 3.8% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 9.76X forward 12 months earnings, which compares to 13.48X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.42X and as low as 6.77X, with a 5-year median of 12.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$40 price target reflects 10.28X 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	9.76	13.48	16.65	22.75
	5-Year High	15.42	14.2	16.65	22.75
	5-Year Low	6.77	8.01	11.59	15.25
	5-Year Median	12.33	11.31	14.26	17.58
P/TB TTM	Current	1.78	1.53	3.37	15.31
	5-Year High	3.56	2.68	4	15.31
	5-Year Low	1.43	1.21	2.01	5.96
	5-Year Median	2.98	2.11	3.48	9.56
P/S F12M	Current	2.15	2.82	6.22	3.66
	5-Year High	3.63	4.59	6.66	3.66
	5-Year Low	1.54	2.39	4.96	2.53
	5-Year Median	2.93	3.59	6.06	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank (FRC)	Outperform	3
State Street Corporation (STT)	Outperform	3
HSBC Holdings plc (HSBC)	Neutral	4
KeyCorp (KEY)	Neutral	4
Northern Trust Corporation (NTRS)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	4
U.S. Bancorp (USB)	Neutral	3
Fifth Third Bancorp (FITB)	Underperform	4

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	BK	X Industry	S&P 500	KEY	PNC	STT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	B	-	-	B	D	D
Market Cap	33.61 B	33.61 B	23.56 B	12.40 B	46.55 B	24.62 B
# of Analysts	7	9	14	10	6	8
Dividend Yield	3.27%	3.98%	1.71%	5.82%	4.19%	2.98%
Value Score	C	-	-	B	B	C
Cash/Price	5.57	2.42	0.07	1.29	1.21	4.03
EV/EBITDA	-12.31	-0.63	13.39	4.50	3.85	-11.79
PEG Ratio	1.18	2.35	2.92	2.35	1.16	1.19
Price/Book (P/B)	0.86	0.86	3.18	0.79	0.88	1.10
Price/Cash Flow (P/CF)	6.62	6.55	12.69	5.85	7.30	6.55
P/E (F1)	9.70	14.47	22.16	13.42	8.12	10.84
Price/Sales (P/S)	1.70	1.91	2.55	1.65	2.26	1.91
Earnings Yield	10.31%	6.91%	4.33%	7.47%	12.31%	9.23%
Debt/Equity	0.74	0.88	0.77	0.88	0.89	0.70
Cash Flow (\$/share)	5.74	6.63	6.94	2.17	15.01	10.66
Growth Score	B	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	9.83%	10.96%	10.41%	11.74%	8.49%	8.29%
Proj. EPS Growth (F1/F0)	-2.77%	-43.93%	-6.51%	-41.18%	18.54%	4.48%
Curr. Cash Flow Growth	-5.62%	2.66%	5.26%	-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	0.68	0.90	1.34	0.92	0.87	0.54
Debt/Capital	40.12%	44.79%	44.59%	43.91%	47.04%	38.52%
Net Margin	22.31%	18.16%	10.13%	15.85%	35.52%	20.27%
Return on Equity	10.34%	8.52%	14.59%	8.52%	5.78%	12.74%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-3.68%	-1.23%	-1.54%	1.94%	-7.31%	-1.17%
Momentum Score	C	-	-	A	D	D
Daily Price Chg	0.50%	1.27%	0.91%	1.44%	-0.04%	0.43%
1 Week Price Chg	5.30%	4.22%	2.30%	4.33%	2.84%	9.06%
4 Week Price Chg	-2.37%	7.31%	8.54%	8.08%	6.80%	8.17%
12 Week Price Chg	12.48%	15.43%	13.68%	18.67%	5.38%	19.52%
52 Week Price Chg	-14.42%	-17.72%	3.71%	-21.54%	-14.75%	35.56%
20 Day Average Volume	5,803,179	5,661,401	2,015,804	9,447,776	2,445,043	2,181,443
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.70%	4.56%	1.67%	21.58%	-36.29%	1.10%
(F1) EPS Est 12 week change	6.13%	10.49%	2.27%	38.25%	-36.43%	12.70%
(Q1) EPS Est Mthly Chg	-5.26%	8.23%	0.67%	24.88%	21.37%	-9.25%

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	C
Growth Score	B
Momentum Score	C
VGM Score	B

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.

Disclosures

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