

BNY Mellon (BK)

\$32.49 (As of 05/13/20)

Price Target (6-12 Months): **\$34.00**

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:D

Value: D

Growth: F

Momentum: A

Summary

Shares of BNY Mellon have outperformed the industry so far this year. The company's earnings have surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Its first-quarter 2020 results benefited from growth in revenues, partly offset by a marginal rise in expenses. Global diversification efforts, solid assets under management (AUM) balance and prudent expense-management initiatives are expected to keep supporting the bank's financials. Its impressive capital-deployment actions reflect a strong balance sheet position. However, the Federal Reserve's accommodative monetary policy will likely hurt revenues. Concentration risk, arising from significant dependence on fee-based revenues, remains a woe. If there is any change in individual investment preferences, it could alter the company's financial position.

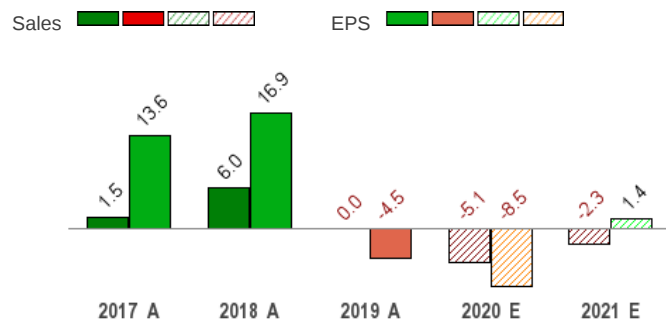
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.60 - \$26.40
20 Day Average Volume (sh)	5,549,755
Market Cap	\$28.8 B
YTD Price Change	-35.5%
Beta	1.12
Dividend / Div Yld	\$1.24 / 3.8%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 5% (240 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	9.5%
EPS F1 Est- 4 week change	8.6%
Expected Report Date	07/15/2020
Earnings ESP	1.2%
P/E TTM	7.9
P/E F1	8.8
PEG F1	1.1
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,780 E	3,871 E	3,919 E	3,953 E	15,215 E
2020	4,146 A	3,841 E	3,820 E	3,777 E	15,569 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	\$1.02 E	\$1.08 E	\$1.08 E	\$3.73 E
2020	\$1.05 A	\$0.90 E	\$0.93 E	\$0.89 E	\$3.68 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/13/2020. The reports text is as of 05/14/2020.

Overview

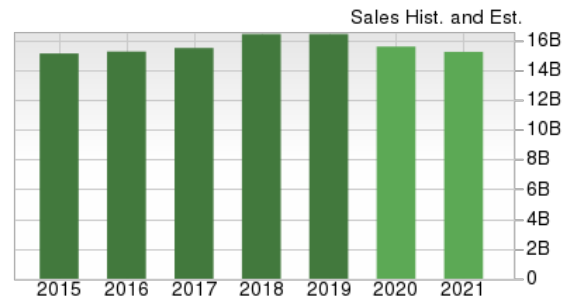
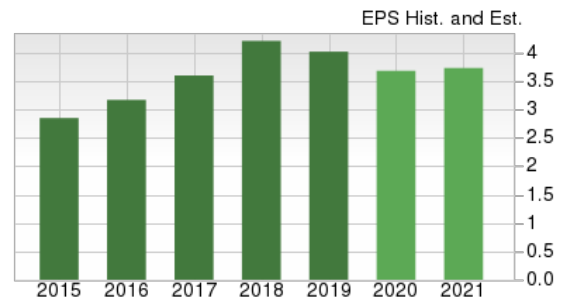
Headquartered in New York and formed as a holding company for The Bank of New York Mellon, The Bank of New York Mellon Corporation (popularly known as BNY Mellon) is a financial services company that has been in business since 1784. The company was incorporated on Jul 1, 2007, following the merger of 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, depositary 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 Mar 31, 2020, BNY Mellon had \$35.2 trillion in assets under custody and/or administration, and \$1.8 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 quarter 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 Mar 31, 2020, BNY Mellon had total debt worth \$49.9 billion, while its cash and cash equivalents and due from banks totaled \$151.6 billion. Also, its times-interest-earned ratio of 3.17 at the end of the first quarter of 2020 increased sequentially and is higher than the industry average of 3.04. Further, the company's current total debt to total capital of 41.44% is below the industry average of 49.85%. This shows that BNY Mellon has relatively less credit risk than its peers. Moreover, given its significantly higher cash balance along with decent earnings growth, it is expected to be able to continue to meet interest and debt payments even if economic situation worsens further.
- ▲ 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. In mid-March, the company suspended its buybacks amid coronavirus-related concerns. 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'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 quarter 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 NIR in second-quarter 2020 to decline 2-5% sequentially.
- ▼ BNY Mellon's largest source of revenues is fee income — constituting more than 80% of total revenues in first-quarter 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. Although the company's ROE of 10.59% has gradually improved over the past few years, it compares unfavorably with ROE of 16.33% 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 no positive estimate revisions, the impressive price performance is not likely 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 Q1 Earnings Beat Estimates as Revenues Improve

BNY Mellon's first-quarter 2020 earnings per share of \$1.05 surpassed the Zacks Consensus Estimate of 90 cents. Moreover, the figure reflects a rise of 11.7% from the prior-year quarter.

Results benefited from growth in revenues. However, a marginal increase in expenses along with a decline in AUM balance hurt results to some extent. Moreover, significantly higher provisions were an undermining factor.

Net income applicable to common shareholders was \$944 million, up from \$910 million recorded in the prior-year quarter.

Revenues Improve, Expenses Rise Marginally

Total revenues (GAAP basis), excluding income from consolidated investment management funds, increased 7% year over year to \$4.15 billion. The figure surpassed the Zacks Consensus Estimate of \$3.79 billion.

Net interest revenues, on a fully taxable-equivalent basis (non-GAAP basis), were \$816 million, down 3.4% year over year. The decline resulted from lower interest rates on interest-earning assets and the impact of hedging activities, partially offset by the benefit of lower deposit and funding rates.

Also, non-GAAP net interest margin (FTE basis) contracted 19 basis points year over year to 1.01%.

Total fee and other revenues increased 9.9% year over year to \$3.33 billion. The rise was driven by improvement in almost all fee income components except for investment and other income, and distribution and servicing fees.

Total non-interest expenses were \$2.71 billion, up marginally from \$2.70 billion recorded in the prior-year quarter. This reflects an increase in professional, legal and other purchased service costs, software and equipment costs, bank assessment charges, and other expenses.

Decent Asset Position

As of Mar 31, 2020, AUM was \$1.80 trillion, down 2.4% year over year. This reflects the unfavorable impact of a stronger U.S. dollar.

Assets under custody and/or administration of \$35.2 trillion grew 2% year over year, reflecting higher client inflows, partially offset by lower market values and the unfavorable impact of a stronger U.S. dollar.

Credit Quality: Mixed Bag

As of Mar 31, 2020, non-performing assets were \$88 million, down 49.4% year over year. Moreover, allowance for loan losses as a percentage of total loans was 0.22%, down from 0.27% recorded at the end of the prior-year quarter.

However, in the reported quarter, provision for credit losses was \$169 million, up significantly from \$7 million recorded in the year-ago quarter.

Capital Ratios Worsen

As of Mar 31, 2020, common equity Tier 1 ratio was 11.3% compared with 11.5% as of Dec 31, 2019. Tier 1 Leverage ratio was 6%, down from 6.6% as of Dec 31, 2019.

Capital Deployment Update

During the first quarter, BNY Mellon bought back 21.7 million shares for \$985 million. Further, it paid out dividends worth \$282 million to common shareholders.

Outlook

Management expects 25-30% of the securities portfolio to re-price in the second quarter of 2020.

NIR in second-quarter 2020 is expected to decline 2-5% sequentially.

The company expects expenses (including the expected 50 bps increase from the increase in expansion expense) in 2020 to be stable on a year-over-year basis.

Effective tax rate is expected to be 20-21% in 2020.

Quarter Ending 03/2020

Report Date	Apr 16, 2020
Sales Surprise	9.47%
EPS Surprise	16.67%
Quarterly EPS	1.05
Annual EPS (TTM)	4.14

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 35.5% in the year-to-date period and 30.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 42.3% and 28.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 29.7% and 21.4%, respectively.

The S&P 500 Index is down 11% in the year-to-date period but up marginally in the past year.

The stock is currently trading at 8.78X forward 12 months earnings, which compares to 11.91X for the Zacks sub-industry, 14.77X for the Zacks sector and 20.75X 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 12.52X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 9.19X 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	8.78	11.91	14.77	20.75
	5-Year High	15.42	14.2	16.18	20.79
	5-Year Low	6.77	8.01	11.58	15.19
	5-Year Median	12.52	11.31	13.94	17.45
P/TB TTM	Current	1.68	1.29	2.31	11.11
	5-Year High	3.56	2.68	4	12.78
	5-Year Low	1.43	1.21	1.99	6.02
	5-Year Median	3.03	2.12	3.47	9.23
P/S F12M	Current	1.87	2.34	5.81	3.24
	5-Year High	3.63	4.59	6.7	3.44
	5-Year Low	1.54	2.34	4.99	2.54
	5-Year Median	2.98	3.59	6.05	3.02

As of 05/13/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
First Republic Bank (FRC)	Neutral	3
HSBC Holdings plc (HSBC)	Neutral	4
KeyCorp (KEY)	Neutral	3
State Street Corporation (STT)	Neutral	3
Fifth Third Bancorp (FITB)	Underperform	5
Northern Trust Corporation (NTRS)	Underperform	3
The PNC Financial Services Group, Inc (PNC)	Underperform	5
U.S. Bancorp (USB)	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	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	D	-	-	F	F	B
Market Cap	28.77 B	28.77 B	18.76 B	9.42 B	41.06 B	18.75 B
# of Analysts	7	8	14	10	10	7
Dividend Yield	3.82%	5.02%	2.23%	7.66%	4.75%	3.90%
Value Score	D	-	-	C	F	B
Cash/Price	6.86	1.06	0.06	0.52	0.62	7.29
EV/EBITDA	-15.85	2.45	11.39	7.06	9.06	-24.75
PEG Ratio	1.06	2.02	2.54	2.47	2.33	0.87
Price/Book (P/B)	0.76	0.75	2.56	0.61	0.83	0.88
Price/Cash Flow (P/CF)	5.66	5.29	10.04	4.45	6.45	5.00
P/E (F1)	8.72	13.34	18.48	14.10	16.32	9.31
Price/Sales (P/S)	1.39	1.43	1.91	1.24	1.90	1.43
Earnings Yield	11.33%	7.50%	5.09%	7.14%	6.13%	10.74%
Debt/Equity	0.77	1.06	0.75	0.89	1.49	0.73
Cash Flow (\$/share)	5.74	6.63	7.01	2.17	15.01	10.66
Growth Score	F	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	10.63%	12.51%	10.82%	13.97%	12.24%	7.98%
Proj. EPS Growth (F1/F0)	-8.39%	-48.67%	-10.51%	-57.45%	-47.93%	-7.29%
Curr. Cash Flow Growth	-5.62%	2.66%	5.83%	-3.09%	3.95%	-5.72%
Hist. Cash Flow Growth (3-5 yrs)	5.07%	9.49%	8.52%	12.28%	5.26%	5.53%
Current Ratio	0.72	0.90	1.27	0.93	0.90	0.59
Debt/Capital	41.44%	49.85%	44.25%	44.09%	59.83%	39.44%
Net Margin	21.60%	21.37%	10.59%	18.85%	23.23%	19.13%
Return on Equity	10.59%	10.59%	16.36%	10.43%	10.16%	12.36%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-5.10%	-3.92%	-2.55%	-0.11%	-5.30%	-3.17%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	-1.52%	-4.33%	-2.85%	-5.01%	-3.21%	-5.43%
1 Week Price Chg	-1.83%	1.76%	3.23%	1.90%	2.00%	1.93%
4 Week Price Chg	-6.18%	-6.30%	-0.28%	-6.30%	4.72%	-6.66%
12 Week Price Chg	-29.25%	-46.21%	-23.80%	-51.04%	-36.88%	-32.36%
52 Week Price Chg	-30.14%	-37.41%	-13.31%	-41.70%	-24.78%	-13.82%
20 Day Average Volume	5,549,755	6,417,756	2,552,088	12,773,073	3,045,908	2,382,050
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.56%	0.00%
(F1) EPS Est 4 week change	8.59%	-19.32%	-6.15%	-19.32%	-20.82%	8.95%
(F1) EPS Est 12 week change	-11.10%	-51.63%	-16.21%	-63.78%	-49.73%	-17.09%
(Q1) EPS Est Mthly Chg	4.07%	-1.11%	-12.28%	95.31%	-18.11%	15.23%

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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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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