

BNY Mellon (BK)

\$51.01 (As of 01/14/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: A

Summary

Shares of BNY Mellon have outperformed the industry over the past six months. Also, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Moreover, earnings estimates have been going up ahead of its fourth quarter 2019 results. Global diversification efforts and prudent cost management initiatives will aid the bank's financials. Also, impressive capital-deployment actions reflect a strong balance sheet position. Yet, the Federal Reserve's accommodative monetary policy along with reduced client activities and low volatility are likely to hurt revenues going forward. Concentration risk arising from significant dependence on fee-based revenues could alter BNY Mellon's financial position if there is any change in individual investment preferences.

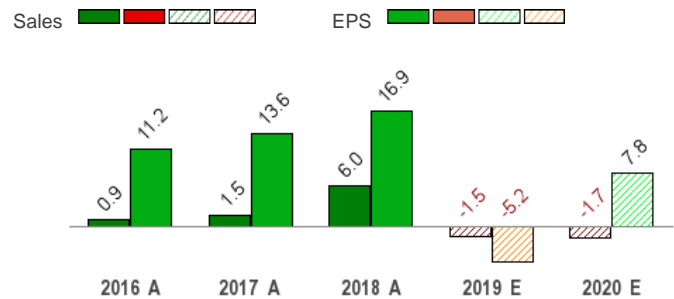
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.27 - \$40.52
20 Day Average Volume (sh)	2,936,768
Market Cap	\$47.0 B
YTD Price Change	1.4%
Beta	1.14
Dividend / Div Yld	\$1.24 / 2.4%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 14% (36 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	1.7%
Expected Report Date	01/16/2020
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	11.9
PEG F1	1.4
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,907 E	3,958 E	4,029 E	4,019 E	15,881 E
2019	3,873 A	3,914 A	3,858 A	4,678 E	16,159 E
2018	4,189 A	4,126 A	4,059 A	4,031 A	16,405 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.01 E	\$1.07 E	\$1.13 E	\$1.14 E	\$4.30 E
2019	\$0.94 A	\$1.01 A	\$1.07 A	\$0.99 E	\$3.99 E
2018	\$1.10 A	\$1.03 A	\$1.06 A	\$0.99 A	\$4.21 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 01/14/2020. The reports text is as of 01/15/2020.

Overview

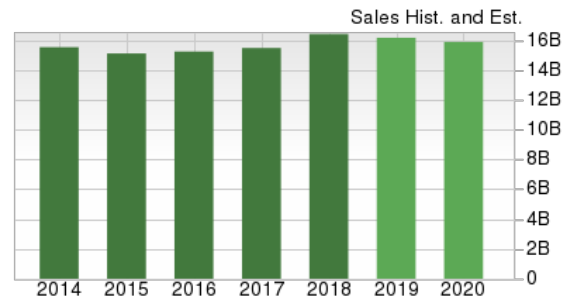
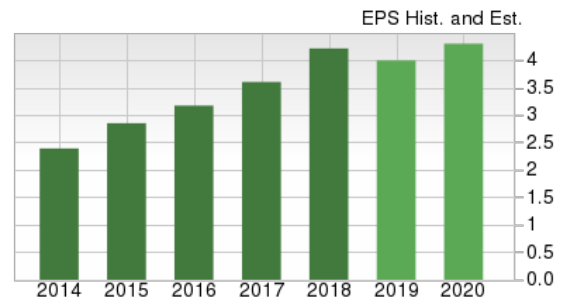
Headquartered in New York and formed as a holding company for The Bank of New York Mellon, The Bank of New York Mellon Corporation (popularly known as BNY Mellon) is a financial services company that has been in business since 1784. The company was incorporated on Jul 1, 2007, following the merger of 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 (24.9% of total revenues in 2018) 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 (75%) 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 (0.1%) 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 Sep 30, 2019, BNY Mellon had \$35.8 trillion in assets under custody and/or administration, and \$1.9 trillion in assets under management (AUM).



Reasons To Buy:

- ▲ BNY Mellon's cost-saving initiatives helped it lower expenses between 2014 and 2016, while the same witnessed a three-year CAGR of 3.2% (2016-2018). The primary reasons were higher investment-related expenses, and litigation and restructuring charges. Nonetheless, expenses declined in the first nine months of 2019 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) includes an 11% dividend hike and \$3.94 billion share repurchase authorization. As of Sep 30, 2019, nearly \$3 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.
- ▲ Shares of BNY Mellon have outperformed the industry over the past six months. With this favorable trend, the company's 2019 earnings estimates have been revised marginally upward over the past seven days. Further, the stock seems undervalued compared with the broader industry. Its current price/book (P/B) and price/earnings (P/E) (F1) ratios are lower than the respective industry averages. Also, the stock has a Value Score of B. Given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

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:

- ▼ Lower rates amid the Fed's accommodative monetary policy are expected to hurt BNY Mellon's revenue growth to some extent. While pressure on the company's net interest margin (NIM) was gradually easing following tightening of rates, the same witnessed a decline in the last five quarters. During the same period, the company's net interest revenues (NIR) also declined. Despite no expectations of more rate cuts, the company is expected to record a fall in NIR and NIM in the upcoming quarters.
- ▼ BNY Mellon's largest source of revenues is fee income — constituting more than 79% of total revenues during the first nine months of 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 10.57% has gradually improved over the years, it compares unfavorably with ROE of 12.25% for the industry and 17.16% for the S&P 500. This reflects that it is less efficient in using shareholders' funds compared with the overall market.

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 Q3 Earnings Beat Estimates as Costs Decline

BNY Mellon's third-quarter 2019 earnings per share of \$1.07 surpassed the Zacks Consensus Estimate of 99 cents. Moreover, the figure reflects rise of nearly 1% from the prior-year quarter.

Results benefited from a decline in expenses along with growth in AUM and provision benefit. However, a decline in revenues was a headwind. Also, the company's capital position deteriorated in the quarter.

Net income applicable to common shareholders for the quarter under review was \$1 billion, down 6.8% year over year.

Revenues Decline, Costs Drop

Total revenues (GAAP basis), excluding income from consolidated investment management funds, declined 5% year over year to \$3.86 billion. The figure lagged the Zacks Consensus Estimate of \$3.90 billion.

Net interest revenues, on a fully taxable-equivalent basis (non-GAAP basis), were \$733 million, down 18.2% year over year. The decline resulted from lower non-interest bearing deposits, rise in interest-bearing deposit and funding costs, and a lease-related impairment of \$70 million.

Also, non-GAAP net interest margin (FTE basis) contracted 28 basis points year over year to 1.00%.

Total fee and other revenues declined 1.3% year over year to \$3.13 billion. The decrease was due to a fall in all components of fee revenues, except for total investment services fees.

Total non-interest expenses were \$2.59 billion, down nearly 5.4% year over year. This reflects a decrease in all expense components, except for professional, legal and other purchased services, software and equipment, and sub-custodian and clearing costs.

Solid Asset Position

As of Sep 30, 2019, AUM was \$1.9 trillion, up 2.7% year over year. This reflects higher market value, partly offset by net outflows and the unfavorable impact of stronger U.S. dollar.

Assets under custody and/or administration of \$35.8 trillion grew 3.8% year over year, reflecting higher market values and net new businesses, partly offset by the unfavorable impact of stronger U.S. dollar.

Credit Quality: Mixed Bag

As of Sep 30, 2019, non-performing assets were \$88 million, up from \$81 million registered at the end of the prior-year quarter.

Provision for credit losses was a benefit of \$16 million compared with a benefit of \$3 million in the year-ago quarter. Allowance for loan losses declined 9.3% year over year to \$127 million.

Capital Position Deteriorates

As of Sep 30, 2019, common equity Tier 1 ratio was 11.1% compared with 11.2% as of Sep 30, 2018. Tier 1 Leverage ratio was 6.6%, down from 7% registered as of Sep 30, 2018.

Capital Deployment Update

During the third quarter, BNY Mellon bought back 21.3 million shares for \$981 million. Further, it paid dividends worth \$294 million to common shareholders.

Outlook

Management expects securities portfolio yield to fall in fourth-quarter 2019 on a sequential basis. Further, non-interest-bearing deposits are expected to continue declining.

Based on the above-mentioned factors, the company expects NIR in the fourth quarter to decline 4-6% sequentially.

On the expense front, technology spend is anticipated to increase in 2019, reflecting the ramp-up of spend in 2018. Notably, even with these investments, excluding the notable items, overall operating expenses are not expected to rise substantially in 2019.

Quarter Ending 09/2019

Report Date	Oct 16, 2019
Sales Surprise	-0.96%
EPS Surprise	8.08%
Quarterly EPS	1.07
Annual EPS (TTM)	4.01

Recent News

Dividend Update

On Oct 16, 2019, BNY Mellon declared a quarterly dividend of 31 cents per share. The dividend was paid on Nov 8 to shareholders of record as of Oct 28.

Valuation

BNY Mellon's shares are up 1.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 22% and 14.4%, over the past year, respectively.

The S&P 500 index is up 25% in the past year.

The stock is currently trading at 11.91X forward 12 months earnings, which compares to 11.90X for the Zacks sub-industry, 14.95X for the Zacks sector and 19.00X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.50X and as low as 10.01X, with a 5-year median of 12.84X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$55 price target reflects 12.85X 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	11.91	11.9	14.95	19
	5-Year High	15.5	13.85	16.21	19.34
	5-Year Low	10.01	9.04	12.01	15.17
	5-Year Median	12.84	11.43	13.98	17.44
P/S F12M	Current	2.96	4.09	6.53	3.52
	5-Year High	3.63	4.59	6.61	3.52
	5-Year Low	2.3	2.61	5.2	2.54
	5-Year Median	2.99	3.59	6.04	3
P/TBV TTM	Current	2.74	2.37	3.3	12.58
	5-Year High	3.56	2.68	3.98	12.58
	5-Year Low	2.21	1.44	2.44	6.03
	5-Year Median	3.06	2.11	3.46	9.08

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 254)



Top Peers

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	BK Neutral	X Industry	S&P 500	KEY Neutral	PNC Neutral	STT Outperform
VGM Score	C	-	-	B	D	C
Market Cap	47.04 B	43.19 B	24.31 B	19.21 B	71.19 B	29.65 B
# of Analysts	7	7	13	4	9	6
Dividend Yield	2.43%	2.64%	1.76%	3.79%	2.88%	2.55%
Value Score	B	-	-	B	B	B
Cash/Price	3.22	0.68	0.04	0.26	0.35	2.35
EV/EBITDA	-8.33	5.20	14.12	10.08	10.99	-5.18
PEG Ratio	1.44	1.44	2.05	1.81	1.63	1.12
Price/Book (P/B)	1.25	1.38	3.34	1.26	1.44	1.38
Price/Cash Flow (P/CF)	9.00	10.82	13.66	9.14	11.47	7.53
P/E (F1)	11.86	11.87	18.82	10.39	13.49	11.97
Price/Sales (P/S)	2.34	2.58	2.64	2.49	3.33	2.27
Earnings Yield	8.43%	8.43%	5.29%	9.64%	7.41%	8.35%
Debt/Equity	0.76	0.95	0.72	0.95	1.10	0.53
Cash Flow (\$/share)	5.67	5.67	6.94	2.13	13.94	10.83
Growth Score	D	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	12.42%	13.07%	10.56%	13.90%	11.10%	8.30%
Proj. EPS Growth (F1/F0)	7.66%	4.47%	7.49%	13.98%	4.47%	15.91%
Curr. Cash Flow Growth	3.03%	17.06%	14.83%	17.06%	15.98%	16.39%
Hist. Cash Flow Growth (3-5 yrs)	6.49%	7.49%	9.00%	15.62%	4.83%	8.18%
Current Ratio	0.70	0.88	1.23	0.91	0.88	0.48
Debt/Capital	41.10%	45.81%	42.99%	45.81%	52.44%	31.24%
Net Margin	19.31%	23.17%	11.08%	21.93%	24.96%	16.18%
Return on Equity	10.57%	12.11%	17.16%	12.71%	10.94%	11.34%
Sales/Assets	0.05	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-1.72%	0.57%	4.23%	2.12%	0.97%	1.07%
Momentum Score	A	-	-	C	C	B
Daily Price Chg	0.26%	0.10%	0.73%	0.10%	0.28%	-0.67%
1 Week Price Chg	0.54%	-1.64%	0.39%	-2.31%	-0.16%	2.66%
4 Week Price Chg	-0.29%	-0.70%	1.84%	-4.22%	-0.30%	1.49%
12 Week Price Chg	10.56%	7.56%	6.48%	7.56%	9.91%	23.44%
52 Week Price Chg	3.24%	18.75%	23.15%	19.56%	32.00%	18.75%
20 Day Average Volume	2,936,768	3,729,215	1,578,594	7,070,903	1,591,047	1,951,517
(F1) EPS Est 1 week change	0.47%	0.27%	0.00%	-0.12%	0.20%	1.73%
(F1) EPS Est 4 week change	1.71%	0.56%	0.00%	-0.01%	1.04%	6.01%
(F1) EPS Est 12 week change	3.99%	-0.25%	-0.48%	0.28%	0.75%	12.52%
(Q1) EPS Est Mthly Chg	0.67%	0.41%	0.00%	0.93%	0.59%	6.46%

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	B
Growth Score	D
Momentum Score	A
VGM Score	C

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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