

JPMorgan Chase & Co. (JPM)

\$138.23 (As of 01/06/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

JPMorgan's shares have outperformed the industry over the past six months. The company has an impressive earnings surprise history. The bank has surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Decent loan demand, acquisition of InstaMed, opening of new branches and focus on strengthening credit card business will aid financials. Also, enhanced capital deployment plan reflects strong balance sheet position and will enhance shareholder value. However, the Fed's accommodative policy will likely hamper top line growth to some extent. The company's significant dependence on capital markets revenues makes us apprehensive, given the several geopolitical concerns. Further, the company is likely to face challenges in expanding mortgage operations. Hence, these matters are expected to hamper fee revenue growth.

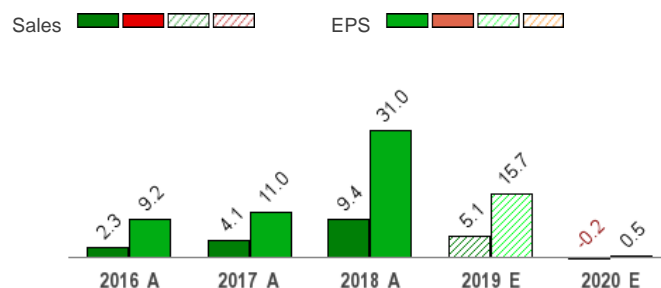
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$141.10 - \$98.09
20 Day Average Volume (sh)	9,342,306
Market Cap	\$433.6 B
YTD Price Change	-0.8%
Beta	1.24
Dividend / Div Yld	\$3.60 / 2.6%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 24% (62 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.8%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/14/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	13.2
PEG F1	1.9
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	28,896 E	28,762 E	28,866 E	27,884 E	114,407 E
2019	29,123 A	28,832 A	29,341 A	27,307 E	114,603 E
2018	27,907 A	27,753 A	27,260 A	26,109 A	109,029 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.63 E	\$2.65 E	\$2.73 E	\$2.50 E	\$10.46 E
2019	\$2.65 A	\$2.59 A	\$2.68 A	\$2.30 E	\$10.41 E
2018	\$2.37 A	\$2.29 A	\$2.34 A	\$1.98 A	\$9.00 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 01/06/2020. The reports text is as of 01/07/2020.

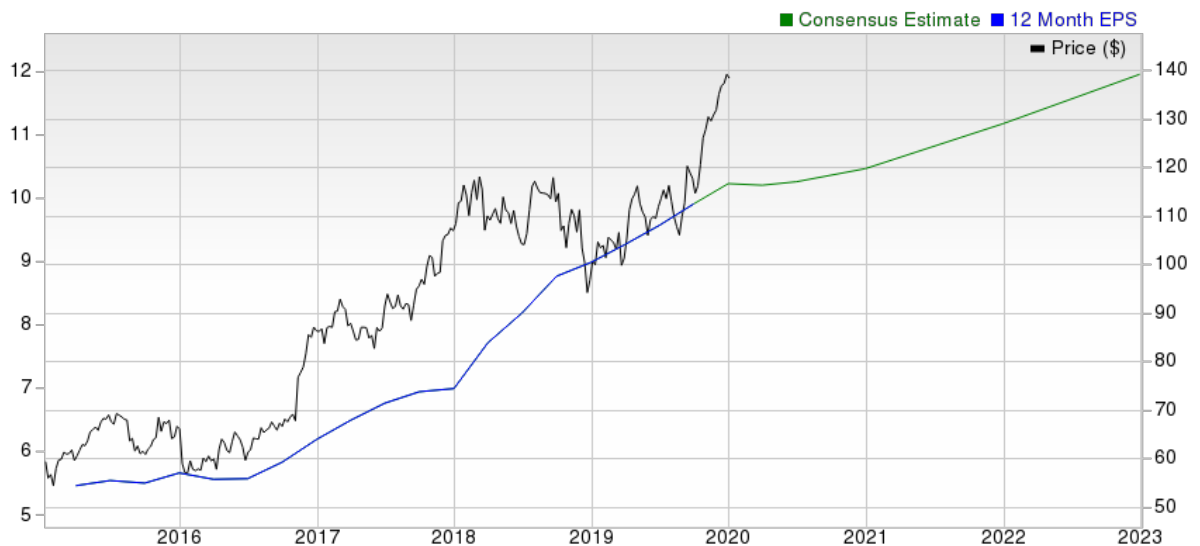
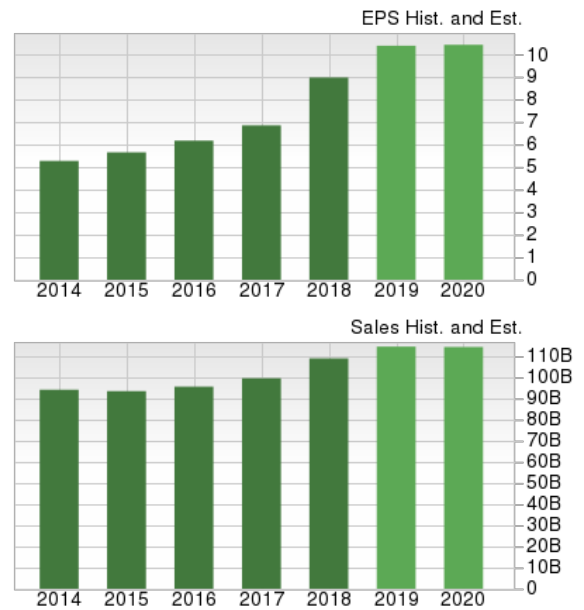
Overview

Headquartered in New York, JPMorgan Chase & Co. is a financial holding company with assets worth \$2.76 trillion and stockholders' equity worth \$264.3 billion as of Sep 30, 2019. With operations in more than 60 countries, the company (incorporated under Delaware law in 1968) is one of the major financial service firms in the world.

JPMorgan organizes its business through following five reportable segments:

- **Consumer & Community Banking (CCB)** segment (constituting 21% of total assets as of Dec 31, 2018) serves consumers and businesses through personal service at bank branches and through ATMs, online, mobile and telephone banking. CCB is organized into Consumer & Business Banking, Mortgage Banking and Card, Commerce Solution & Auto.
- **Corporate & Investment Bank (CIB)** segment (34%) offers a wide range of investment banking, market-making, prime brokerage, and treasury and securities products and services to a global client base of corporations, investors, financial institutions, government and municipal entities.
- **Commercial Banking (CB)** segment (9%) provides lending, treasury services, investment banking and asset management services to corporations, municipalities, financial institutions and non-profit entities.
- **Asset & Wealth Management (AWM)** segment (7%) provides services to institutions, retail investors and high-net-worth individuals. It offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity including money market instruments and bank deposits. The segment also offers trust and estate, banking and brokerage services.
- **Corporate** segment (29%) consists of Treasury & Chief Investment Office (CIO) and Other Corporate, which includes corporate staff units and centrally managed expenses.

In July 2019, JPMorgan acquired InstaMed Holdings Inc.



Reasons To Buy:

- ▲ Decent loan demand continues to support JPMorgan's net interest income (NII) and net interest yield. Over the last four years (2015-2018), NII witnessed a CAGR of 8.2%, with trend continuing in the first nine months of 2019. While net interest yield improved to 2.50% in 2018 from 2.36% in 2017 and 2.25% in 2016, the same remained almost stable year over year for the nine months ended Sep 30, 2019. Improving economy and modest loan growth are expected to continue supporting NII in the quarters ahead amid the Fed's accommodative monetary policy stance.
- ▲ After consolidating its branch network for years to control costs and improve operating efficiency, JPMorgan is now expanding its footprint in new regions by opening branches. The bank aims to enter 15-20 new markets by the end of 2022, by opening roughly 400 new branches. The company has already made progress on this front, with announcements to open branches in several new regions. In addition to enhancing market share, this expansion strategy will help the bank grab cross-selling opportunities, by increasing its presence in the card and auto loan sectors. Further, in July, the company acquired InstaMed, which will enable it to expand its reach into lucrative U.S. healthcare payments market. These initiatives are, thus, expected to support the CCB segment.
- ▲ Further, JPMorgan remains focused on acquiring the industry's best deposit franchise and strengthening its loan portfolio. Despite the challenging market environment, total deposits and loan balances grew over the past several years, with the trend continuing in the first nine months of 2019. As of Sep 30, 2019, loans-to-deposits ratio was 62%. Loan and deposits are likely to further grow in the quarters ahead, driven by improving economy.
- ▲ We are encouraged by JPMorgan's capital deployment activities. The company cleared the 2019 annual stress test and has received approval for its capital plan, which include an increase in quarterly dividend by 12.5% and buyback shares worth \$29.4 billion. As of Sep 30, 2019, repurchase authorization worth \$22.5 billion remained. Given its solid liquidity position and earnings strength, the company will be able to sustain improved capital deployments.
- ▲ JPMorgan's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 14.63% compares favorably with 12.25% for the industry.
- ▲ JPMorgan's shares have outperformed the industry over the past three months. Also, the company's 2019 earnings estimates have moved marginally upward over the past 30 days. So, given the fundamental strength and positive estimate revisions, the stock has upside potential.

JPMorgan's net interest income will continue to rise modestly, given the decent loan growth. Further, the acquisition of InstaMed and plans to expand branch network in new markets will aid growth.

Reasons To Sell:

- ▼ Performance of JPMorgan's mortgage banking operation has been muted. Over the last three years (2016-2018), mortgage fees and related income declined at a CAGR of 29%. However, the trend reversed in first nine months of 2019, mostly driven by strong performance in the third quarter as lower mortgage rates led to rise in refinancing activities and improvement in originations. Nevertheless, the bank is likely to continue facing difficulties in expanding mortgage business, given the increase in competition.
- ▼ Further, JPMorgan's significant dependence of capital markets revenues is a matter of concern. The company's investment banking division's performance is getting hampered by fears of global economic slowdown, ambiguity related to trade conflict and several other geopolitical concerns. The similar trend persisted in first nine months of 2019, though there was an improvement in total investment banking fees during the third quarter. With the above-mentioned concerns expected to linger in the near term, performance of investment banking business will remain weak. Also, management lowered medium-term profitability target for the unit to 18% as it requires more capital in 2019.
- ▼ Though JPMorgan has resolved quite a many litigation issues, it still faces investigations from several federal agencies and a few foreign governments for its business conducts in the pre-crisis period. Legal expenses are expected to continue weighing marginally on the company's bottom line in the near future.
- ▼ Further, JPMorgan seems overvalued when compared with the industry. Its current price-to-book and price-to-earnings (F1) ratios are above the respective industry averages.

Mortgage banking and investment banking growth challenges are key near-term concerns for JPMorgan, and will hamper fee income growth. A stretched valuation limits the stock's upside potential.

Last Earnings Report

JPMorgan Q3 Earnings Top on Bond Trading, Underwriting

Better-than-expected underwriting business performance, rise in mortgage banking fees and higher bond trading income drove JPMorgan's third-quarter 2019 earnings of \$2.68 per share, which outpaced the Zacks Consensus Estimate of \$2.44.

Rise in wholesale and credit card loans supported net interest income amid the Federal Reserve's interest rate cuts and decline in consumer loans. Moreover, home lending revenues rose 12% year over year, mainly due to substantially higher mortgage origination volume.

Additionally, as expected, fixed income trading revenues jumped 25%, given the strong client activity across products. Further, underwriting revenues increased as both equity underwriting income and debt underwriting fees recorded a rise of 22% and 17%, respectively.

Among other positives, credit card sales volume was up 10% and merchant processing volume grew 11%. Further, Commercial Banking average core balances jumped 3% and Asset & Wealth Management average loan balances were up 7%.

On the other hand, equity trading income was down 5% and advisory fees witnessed a 13% decline. Further, operating expenses increased in the reported quarter. Also, provision for credit losses recorded a significant rise.

The overall performance of JPMorgan's business segments, in terms of net income generation, was decent. All segments, except Commercial Banking and Asset & Wealth Management, reported a rise in net income on a year-over-year basis.

Net income increased 8% to \$9.1 billion.

Fee Income Majorly Aids Revenues, Costs Rise

Net revenues as reported were \$29.3 billion, up 8% from the year-ago quarter. Growth in balance sheet and higher fixed income markets results were the primary reasons for the improvement. These were partially offset by lower interest rates. Also, the top line beat the Zacks Consensus Estimate of \$28.4 billion.

Net interest income increased 2% to \$14.2 billion. Non-interest income was \$15.1 billion, up 13%, mainly driven by impressive mortgage banking performance.

Non-interest expenses (on managed basis) were \$16.4 billion, up 5% from the year-ago quarter. The rise was primarily due to investments in business and auto loan depreciation.

Deteriorating Credit Quality

Provision for credit losses was \$1.5 billion, a jump of 60% year over year. This surge reflects absence of reserve releases and net recoveries that were recorded in the prior-year quarter. Also, as of Sep 30, 2019, non-performing assets were \$5.3 billion, up 6% from Sep 30, 2018. Further, net charge-offs surged 33% year over year to \$1.4 billion.

Strong Capital Position

Tier 1 capital ratio (estimated) was 14.1% as of third-quarter end compared with 13.6% on Sep 30, 2018. Tier 1 common equity capital ratio (estimated) was 12.3% as of Sep 30, 2019, up from 12.0%. Total capital ratio was 15.9% (estimated) at the end of the third quarter compared with 15.4% as on Sep 30, 2018.

Book value per share was \$75.24 as of Sep 30, 2019 compared with \$69.52 on Sep 30, 2018. Tangible book value per common share was \$60.48 at the end of September compared with \$55.68 a year ago.

Outlook

At an investors conference in December, JPMorgan's CFO Jennifer Piepszak stated that trading revenues in the fourth quarter are expected to be up "meaningfully" year over year, with gains largely driven by the fixed income operation. In the year-ago quarter, the company's fixed-income trading revenues were at the lowest levels since the financial crisis.

Further, the bank's IB revenues are now projected to be flat on a year-over-year basis, up from the prior guidance of a decline. Piepszak said, "The quarter has played out a little bit better than we thought largely on healthy investment grade flow given the rate environment. Important to note there that the wallet is shrinking. So staying flat for us year-over-year is the continuation of us taking share in IB fees."

Additionally, with a bit of improvement in the rate environment, NII during the quarter is projected to be nearly \$14.2 billion, on par with the third-quarter level.

Management projects NII to be less \$57.5 billion in 2019 due to a number of factors, including lower long end rates and expectations of up to three rate cuts this year.

For 2019, it expects operating expenses to be approximately \$65.5 billion, up \$2.7 billion from 2018 level. This additional spending includes \$600 million of new technology investments and \$1.6 billion for marketing, front-office hiring, new branches and a new headquarters building.

Net charge-offs are expected to be roughly \$5.5 billion in 2019, up from \$4.9 billion recorded in 2018.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	3.30%
EPS Surprise	9.84%
Quarterly EPS	2.68
Annual EPS (TTM)	9.90

Recent News

JPMorgan Expands Into Healthcare Payments, Acquires InstaMed - Jul 24, 2019

With an to expand its reach into lucrative U.S. healthcare payments market, JPMorgan completed the acquisition of InstaMed Holdings, Inc. The financial terms of the deal were not disclosed, while CNBC reported (at the time of announcement in May) the value to be more than \$500 million (making it the bank's biggest acquisition since the 2008 financial crisis).

Founded in 2004, Philadelphia-based InstaMed, which will operate as a subsidiary of JPMorgan Chase Bank, N.A, offers automated billing services linking hospitals and doctors' offices with patients and insurers. The firm has nearly 300 employees and processed \$94 billion worth of transactions last year.

The deal will, thus, complement JPMorgan's huge corporate payments infrastructure, which processes more than \$6 trillion of payments on a daily basis.

InstaMed offers unmatched connectivity across the healthcare marketplace through its network of more than 50% of all healthcare providers with millions of consumers and every type of payers in the U.S. The firm's solutions are used by a broad range of healthcare clients.

Stuart Hanson, Head of Healthcare Payments, JPMorgan Chase said, "Together with InstaMed, we are able to design and deliver the future of healthcare payments to providers, payers, and consumers. Investing in a complete payment and remittance management solution reflects our commitment to the healthcare payments industry and to provide new, innovative offerings that make the customer experience better."

Dividend Update

On Dec 10, 2019, JPMorgan announced a quarterly cash dividend of 90 cents per share. The dividend will be paid on Jan 31, 2020 to stockholders of record at the close of business on Jan 6.

Valuation

JPMorgan's shares are up 37.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 29.6% and 16.6% over the past year, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 13.21X forward 12 months earnings, which compares to 12.03X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.74X and as low as 8.65X, with a 5-year median of 11.14X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 14.00X forward earnings.

The table below shows summary valuation data for JPM

Valuation Multiples - JPM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.21	12.03	14.79	18.71
	5-Year High	15.74	13.85	16.21	19.34
	5-Year Low	8.65	9.04	12.01	15.17
	5-Year Median	11.14	11.43	13.98	17.44
P/B TTM	Current	1.84	1.72	2.83	4.41
	5-Year High	1.88	1.93	2.89	4.45
	5-Year Low	0.88	1.01	1.83	2.85
	5-Year Median	1.4	1.49	2.5	3.6
P/S F12M	Current	3.79	4.13	6.53	3.47
	5-Year High	3.86	4.59	6.61	3.47
	5-Year Low	1.97	2.61	5.2	2.54
	5-Year Median	3.05	3.59	6.04	3

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Top 24% (62 out of 254)



Top Peers

State Street Corporation (STT)	Outperform
Bank of America Corporation (BAC)	Neutral
Citigroup Inc. (C)	Neutral
The Goldman Sachs Group, Inc. (GS)	Neutral
Morgan Stanley (MS)	Neutral
The PNC Financial Services Group, Inc (PNC)	Neutral
U.S. Bancorp (USB)	Neutral
Wells Fargo & Company (WFC)	Neutral

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	JPM Neutral	X Industry	S&P 500	BAC Neutral	C Neutral	WFC Neutral
VGM Score	D	-	-	C	D	C
Market Cap	433.56 B	0.00 M	23.66 B	313.48 B	173.45 B	224.58 B
# of Analysts	5		13	6	7	7
Dividend Yield	2.60%	%	1.79%	2.07%	2.57%	3.84%
Value Score	C	-	-	B	B	B
Cash/Price	2.33	NA	0.04	2.23	4.53	1.46
EV/EBITDA	-3.87	NA	13.88	-2.24	-8.44	3.38
PEG Ratio	1.89	NA	1.99	1.28	0.81	1.16
Price/Book (P/B)	1.84	NA	3.36	1.28	0.98	1.30
Price/Cash Flow (P/CF)	11.42	NA	13.62	10.68	9.21	8.78
P/E (F1)	13.22	NA	18.74	11.52	9.38	12.43
Price/Sales (P/S)	3.06	NA	2.67	2.73	1.69	2.14
Earnings Yield	7.57%	NA%	5.32%	8.69%	10.66%	8.04%
Debt/Equity	1.26	NA	0.72	0.99	1.36	1.33
Cash Flow (\$/share)	12.11	NA	6.94	3.26	8.63	6.05
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	15.31%	NA%	10.56%	30.95%	13.07%	2.76%
Proj. EPS Growth (F1/F0)	0.40%	NA%	7.41%	12.71%	9.43%	-5.60%
Curr. Cash Flow Growth	23.43%	NA%	14.83%	25.85%	19.03%	3.01%
Hist. Cash Flow Growth (3-5 yrs)	7.08%	NA%	9.00%	14.04%	5.10%	2.49%
Current Ratio	0.93	NA	1.23	0.92	1.00	0.86
Debt/Capital	54.37%	NA%	42.92%	47.56%	55.14%	54.26%
Net Margin	24.70%	NA%	11.08%	24.16%	18.28%	21.67%
Return on Equity	14.63%	NA%	17.10%	12.05%	10.16%	13.01%
Sales/Assets	0.05	NA	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-0.17%	%	4.20%	-0.04%	1.63%	-4.94%
Momentum Score	A	-	-	A	F	A
Daily Price Chg	-0.08%	NA%	-0.61%	-0.14%	-0.31%	-0.60%
1 Week Price Chg	-0.57%	NA%	0.13%	-1.27%	0.04%	-0.93%
4 Week Price Chg	2.84%	NA%	2.60%	4.00%	5.47%	-1.52%
12 Week Price Chg	18.70%	NA%	8.87%	19.59%	13.11%	7.77%
52 Week Price Chg	37.19%	NA%	29.34%	36.35%	42.87%	11.46%
20 Day Average Volume	9,342,306	0	1,603,615	39,871,744	11,444,787	16,235,170
(F1) EPS Est 1 week change	0.10%	NA%	0.00%	0.54%	0.00%	0.38%
(F1) EPS Est 4 week change	0.40%	NA%	0.00%	0.65%	-0.84%	0.24%
(F1) EPS Est 12 week change	0.84%	NA%	-0.57%	0.91%	-1.16%	-3.61%
(Q1) EPS Est Mthly Chg	0.77%	NA%	0.00%	1.06%	0.24%	1.43%

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	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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