

JPMorgan Chase & Co. (JPM)

\$90.79 (As of 04/15/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: C

Summary

JPMorgan's first-quarter 2020 results were adversely impacted by a huge reserve build, which was done to combat coronavirus-induced economic slowdown. The Fed's accommodative policy and near-zero interest rates are expected to hurt the bank's interest income and margins. Also, coronavirus-induced concerns will likely continue to hamper business activities. Thus, loan growth will likely be muted in the near term. Its shares have outperformed the industry over the past year. The bank surpassed the Zacks Consensus Estimate for earnings in three of the trailing four quarters. While the acquisition of InstaMed, new branch openings and focus on credit card business will continue aiding its financials, challenges in expanding mortgage operations and significant dependence on capital market revenues will hurt fee income growth to an extent.

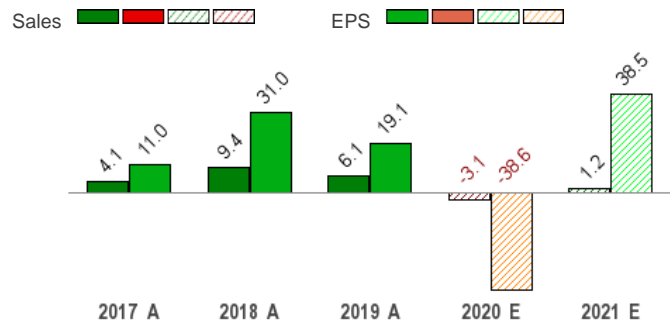
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$141.10 - \$76.91
20 Day Average Volume (sh)	28,152,828
Market Cap	\$276.6 B
YTD Price Change	-34.9%
Beta	1.31
Dividend / Div Yld	\$3.60 / 4.0%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 1% (251 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-54.1%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	-37.7%
Expected Report Date	07/21/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	28,620 E	28,582 E	29,036 E	28,662 E	113,410 E
2020	28,251 A	27,672 E	27,812 E	27,379 E	112,022 E
2019	29,123 A	28,832 A	29,341 A	28,331 A	115,627 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.18 E	\$2.24 E	\$2.39 E	\$2.51 E	\$9.11 E
2020	\$0.78 A	\$1.48 E	\$1.48 E	\$1.85 E	\$6.58 E
2019	\$2.65 A	\$2.59 A	\$2.68 A	\$2.57 A	\$10.72 A

*Quarterly figures may not add up to annual.

P/E TTM	10.5
P/E F1	13.8
PEG F1	2.0
P/S TTM	2.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/15/2020. The reports text is as of 04/16/2020.

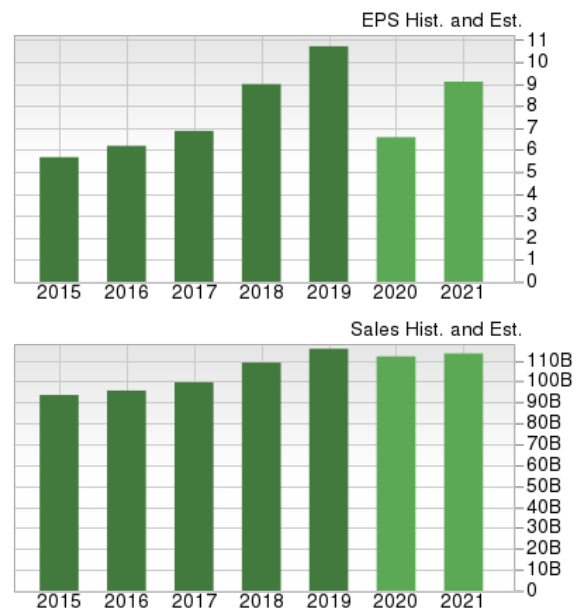
Overview

Headquartered in New York, JPMorgan Chase & Co. is one of the biggest banks with assets valued at \$3.14 trillion and stockholders' equity worth \$261.3 billion as of Mar 31, 2020. 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 45% of net income in 2019) 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 & Auto.
- **Corporate & Investment Bank (CIB)** segment (33%) offers a wide range of investment banking, market-making, prime brokerage, and wholesale payments services to a global client base of corporations, investors, financial institutions, government and municipal entities.
- **Commercial Banking (CB)** segment (11%) provides lending, wholesale payments, and investment banking services to corporations, municipalities, financial institutions and non-profit entities.
- **Asset & Wealth Management (AWM)** segment (8%) 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 (3%) consists of Treasury & Chief Investment Office (CIO) and Other Corporate, which includes corporate staff units and centrally managed expenses.

In 2019, JPMorgan acquired InstaMed Holdings Inc.



Reasons To Sell:

- ▼ After slashing rates thrice last year, the Federal Reserve cut the rates to near zero in March, with an aim of supporting the U.S. economy from coronavirus-induced mayhem. This has hurt JPMorgan's net interest income (NII) growth and resulted in contraction of net yield on interest-earning assets over the last several quarters. A similar trend is expected to continue in the near term as there is very less chance that the central bank will raise rates. In fact, management has lowered its NII guidance for 2020. The company now anticipates NII to be nearly \$55.5 billion, down from the prior guidance of more than \$57 billion. This also indicates roughly 4% decline from the 2019 level.
- ▼ Performance of JPMorgan's mortgage banking operation is a concern. Though mortgage fees and related income jumped 62% in 2019, the same declined at a four-year (2016-2019) CAGR of 6.5%. The downtrend persisted in the first quarter of 2020, mainly due lower mortgage servicing income. While lower rates led to an increase in refinancing activities and improvement in originations, the bank is likely to continue facing difficulties in expanding the mortgage business, given increase in competition.
- ▼ Further, JPMorgan's significant dependence of capital market performance to generate fee income is a matter of concern. Fears of global economic slowdown amid coronavirus-related mayhem will likely result in extreme volatility in the company's markets and investment banking performance. Thus, this is expected to make fee income growth challenging going forward.
- ▼ JPMorgan's shares have outperformed the industry over the past year. However, the company's current-year earnings estimates have moved 16.6% lower over the past seven days. Further, the stock seems overvalued when compared with the industry. Its current price-to-book and price-to-earnings (F1) ratios are above the respective industry averages. So, given the lower rates, other concerns and downward estimate revisions, the stock has limited upside potential in the near term.

Near-zero interest rates and coronavirus-related economic slowdown will hurt JPMorgan's financials in the upcoming quarters. Also, fee income growth challenges are major concerns for the bank.

Risks

- JPMorgan remains focused on acquiring the industry's best deposit franchise and strengthening its loan portfolio. Despite the challenging market environment, deposits and loan balances have remained strong over the past several years. As of Mar 31, 2020, loans-to-deposits ratio was 55%. Loan and deposit balances are likely to grow further, driven by a steady rise in demand due to lower interest rates.
 - JPMorgan is 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, having added more than 70 new branches in 16 new markets in 2019. In addition to enhancing market share, the strategy will help the bank grab cross-selling opportunities by increasing its presence in the card and auto loan sectors. Moreover, acquisition of InstaMed in July 2019 enabled the company to expand into lucrative U.S. healthcare payments market. These initiatives are, thus, expected to further support the CCB segment.
 - 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 included an increase in quarterly dividend by 12.5% and buyback shares worth \$29.4 billion. Nonetheless, in March, the company suspended the share buyback plan amid coronavirus-related slowdown through second-quarter 2020. Given its solid liquidity position and earnings strength, the company will be able to sustain improved capital deployments.
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Last Earnings Report

JPMorgan Q1 Earnings Miss on Coronavirus Credit Costs

JPMorgan's first-quarter 2020 earnings came in at 78 cents per share, which missed the Zacks Consensus Estimate of \$1.70, thanks to a substantial rise in provisions owing to coronavirus-related concerns.

The weak results were attributed to provision builds owing to deterioration in the macro-economic backdrop, losses related to funding spread widening on derivatives and bridge book markdowns. Excluding these, earnings per share amounted to \$2.89.

The company built a large reserve to tide over economic slowdown. In a statement, Jamie Dimon said, "...given the likelihood of a fairly severe recession, it was necessary to build credit reserves of \$6.8B, resulting in total credit costs of \$8.3B for the quarter."

Further, operating expenses increased year over year in the reported quarter.

Lower interest rates drove mortgage production revenues (up 60%), while loan sales in Home Lending resulted in a decline in servicing fees (down 99%). This resulted in lower mortgage fees and related income. As expected, advisory fees declined. Conversely, both equity and debt underwriting fees improved, rising 25% and 15%, respectively, leading to 3% growth in investment banking fees.

Also, fixed income markets revenues surged 34%, given strong client activity across products. Similarly, equity markets revenues grew 28% driven by higher revenues in derivatives.

Among other positives, credit card sales volume was up 4% and merchant processing volume grew 5% from the prior-year quarter. Further, Commercial Banking loan balances were up 14%, and Asset & Wealth Management loan balances jumped 16% from the year-ago quarter.

Overall quarterly performance of JPMorgan's business segments, in terms of net income generation, was disappointing. All segments, except Commercial Banking, reported a drastic decline in net income on a year-over-year basis.

Net income plunged 69% from the prior-year period to \$2.9 billion.

Lower Rates Hurt Revenues, Costs Rise

Net revenues as reported were \$28.3 billion, down 3% from the year-ago quarter. Lower rates and a few significant non-recurring items were the primary reasons for the decline. Also, the top line lagged the Zacks Consensus Estimate of \$29 billion.

Net interest income was on par with the prior-year number of \$14.4 billion. Non-interest income was \$13.8 billion, down 6%, mainly due to dismal mortgage banking and principal transactions performance.

Non-interest expenses (on managed basis) were \$16.9 billion, up 3% from the year-ago quarter. The rise was primarily due to a rise in legal costs and "higher volume-and revenue-related expense."

Credit Quality Worsens

Provision for credit losses was \$8.3 billion, up significantly from the prior-year quarter. The rise was largely due to reserve build amid deteriorating operating backdrop as a result of the impact of coronavirus and continued pressure on oil prices.

As of Mar 31, 2020, non-performing assets were \$6.4 billion, up 14% from Mar 31, 2019. Further, net charge-offs increased 8% from the year-ago period to \$1.5 billion.

Strong Capital Position

Tier 1 capital ratio (estimated) was 13.3% at the end of the first quarter compared with 13.8% on Mar 31, 2019. Tier 1 common equity capital ratio (estimated) was 11.5%, up from 12.1% as of the same date. Total capital ratio was 15.5% (estimated) at the end of the first quarter compared with 15.7% as of Mar 31, 2019.

Book value per share was \$75.88 as of Mar 31, 2020 compared with \$71.78 in the corresponding period of 2019. Tangible book value per common share was \$60.71 at the end of March, up from \$57.62 in the comparable year-ago period.

Outlook

Second-Quarter 2020

Management expects NII (depending on market conditions) to be \$13.7 billion, indicating roughly 5% sequential decline.

After a drastic increase in provisions in the first quarter, it expects to build more reserves.

2020

The company now anticipates NII to be nearly \$55.5 billion, down from the prior guidance of more than \$57 billion.

Adjusted operating expenses are expected to be approximately \$65 billion.

Quarter Ending 03/2020

Report Date	Apr 14, 2020
Sales Surprise	-3.09%
EPS Surprise	-54.12%
Quarterly EPS	0.78
Annual EPS (TTM)	8.62

For the CIB Markets division, non-interest revenues are expected to decline own nearly \$3.5 billion year over year due to interest rates, partially offset by a rise in NII. For the CIB Banking division, reduced activity is projected to result in lower investment banking fees.

For the AWM segment, the company expects a decline in fees on lower average market levels.

Recent News

Dividend Update

On Mar 17, JPMorgan announced a quarterly cash dividend of 90 cents per share. The dividend will be paid out on Apr 30 to stockholders of record at the close of business on Apr 6.

Valuation

JPMorgan's shares are down 20.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 30.2% and 22.1% over the past year, respectively.

The S&P 500 index is down 4.4% in the past year.

The stock is currently trading at 8.40X forward 12 months earnings, which compares to 10.35X for the Zacks sub-industry, 13.07X for the Zacks sector and 18.03X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.74X and as low as 7.81X, with a 5-year median of 11.25X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$77 price target reflects 7.12X 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	8.4	10.35	13.07	18.03
	5-Year High	15.74	13.85	16.19	19.34
	5-Year Low	7.81	7.66	11.23	15.19
	5-Year Median	11.25	11.28	13.95	17.45
P/B	Current	1.19	1.1	2.08	3.65
	5-Year High	1.89	1.93	2.89	4.55
	5-Year Low	0.88	0.89	1.69	2.84
	5-Year Median	1.42	1.49	2.51	3.64
P/S F12M	Current	2.36	2.53	4.93	3.04
	5-Year High	3.86	4.59	6.65	3.44
	5-Year Low	1.97	2.39	4.93	2.54
	5-Year Median	3.08	3.59	6.03	3.01

As of 04/15/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (251 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	JPM Underperform	X Industry	S&P 500	BAC Underperform	C Underperform	WFC Underperform
VGM Score	F	-	-	F	F	F
Market Cap	276.60 B	30.65 B	19.18 B	193.60 B	89.93 B	116.30 B
# of Analysts	9	7	14	9	9	10
Dividend Yield	3.97%	4.98%	2.24%	3.24%	4.76%	7.17%
Value Score	F	-	-	D	B	B
Cash/Price	2.95	1.22	0.06	3.10	7.25	2.38
EV/EBITDA	-4.54	2.83	11.46	-3.86	-7.84	1.26
PEG Ratio	1.93	1.41	2.08	1.79	0.90	1.55
Price/Book (P/B)	1.20	0.80	2.58	0.80	0.51	0.72
Price/Cash Flow (P/CF)	6.47	5.97	10.15	6.05	4.20	4.29
P/E (F1)	13.48	12.14	17.24	12.53	9.44	16.55
Price/Sales (P/S)	1.99	1.54	1.99	1.74	0.87	1.18
Earnings Yield	7.25%	8.24%	5.64%	7.98%	10.59%	6.05%
Debt/Equity	1.29	0.99	0.70	1.06	1.52	1.47
Cash Flow (\$/share)	14.04	6.63	7.01	3.67	10.20	6.63
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	16.24%	13.58%	10.92%	26.87%	13.07%	2.73%
Proj. EPS Growth (F1/F0)	-38.59%	-36.93%	-2.92%	-35.60%	-40.12%	-60.75%
Curr. Cash Flow Growth	9.35%	2.66%	5.93%	3.02%	2.56%	-1.58%
Hist. Cash Flow Growth (3-5 yrs)	10.67%	9.49%	8.55%	27.50%	7.31%	1.85%
Current Ratio	0.89	0.90	1.24	0.92	0.99	0.87
Debt/Capital	54.97%	49.21%	42.36%	49.21%	57.96%	56.42%
Net Margin	21.61%	21.64%	11.64%	21.64%	16.56%	14.52%
Return on Equity	12.52%	10.96%	16.74%	10.64%	9.15%	9.28%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-3.12%	-4.35%	0.00%	-5.41%	-1.13%	-12.61%
Momentum Score	C	-	-	C	F	D
Daily Price Chg	-4.93%	-6.49%	-3.26%	-6.49%	-5.64%	-5.77%
1 Week Price Chg	22.26%	25.18%	16.01%	24.11%	26.46%	26.57%
4 Week Price Chg	8.23%	8.23%	16.73%	6.73%	17.65%	1.14%
12 Week Price Chg	-33.58%	-39.33%	-22.44%	-35.42%	-46.49%	-41.43%
52 Week Price Chg	-20.57%	-37.18%	-14.41%	-26.11%	-39.08%	-40.19%
20 Day Average Volume	28,152,828	9,454,858	3,301,889	101,302,424	31,212,052	43,764,016
(F1) EPS Est 1 week change	-20.72%	-20.72%	0.00%	-21.75%	-29.50%	-35.52%
(F1) EPS Est 4 week change	-37.70%	-37.70%	-6.78%	-39.37%	-46.45%	-55.51%
(F1) EPS Est 12 week change	-38.55%	-38.55%	-9.07%	-41.80%	-47.53%	-58.28%
(Q1) EPS Est Mthly Chg	-43.95%	-43.95%	-11.31%	-46.93%	-63.06%	-59.74%

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	C
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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