

## JPMorgan Chase & Co. (JPM)

**\$99.71** (As of 08/17/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 05/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: B

### Summary

JPMorgan's shares have outperformed the industry over the past year. The company has an impressive earnings surprise history. It has outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Branch openings in new regions, acquisition of InstaMed, reversal in mortgage banking business and focus on credit card operation are likely to continue supporting the bank's financials in the quarters ahead. Also, the company will be keeping the dividend level unchanged in the third quarter, following the clearance of annual stress test results. However, the Fed's accommodative policy and near-zero rates are expected to hurt the bank's interest income and margins. Further, coronavirus-induced economic downturn will likely continue to hamper business activities. Thus, loan growth will likely be muted in the near term.

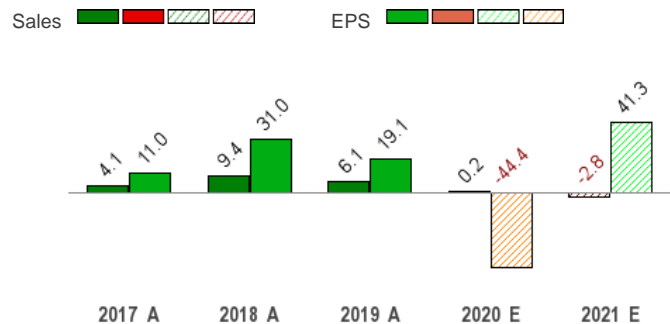
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$141.10 - \$76.91</b>
20 Day Average Volume (sh)	<b>14,844,723</b>
Market Cap	<b>\$303.9 B</b>
YTD Price Change	<b>-28.5%</b>
Beta	<b>1.18</b>
Dividend / Div Yld	<b>\$3.60 / 3.6%</b>
Industry	<b><a href="#">Banks - Major Regional</a></b>
Zacks Industry Rank	<b>Bottom 10% (226 out of 252)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>3.0%</b>
Last Sales Surprise	<b>7.3%</b>
EPS F1 Est- 4 week change	<b>0.9%</b>
Expected Report Date	<b>10/20/2020</b>
Earnings ESP	<b>2.6%</b>
P/E TTM	<b>13.5</b>
P/E F1	<b>16.7</b>
PEG F1	<b>3.4</b>
P/S TTM	<b>2.2</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	29,087 E	28,554 E	29,145 E	28,767 E	112,603 E
2020	28,251 A	32,980 A	27,844 E	27,024 E	115,802 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	\$1.88 E	\$1.97 E	\$2.21 E	\$2.42 E	\$8.42 E
2020	\$0.78 A	\$1.38 A	\$1.86 E	\$1.75 E	\$5.96 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

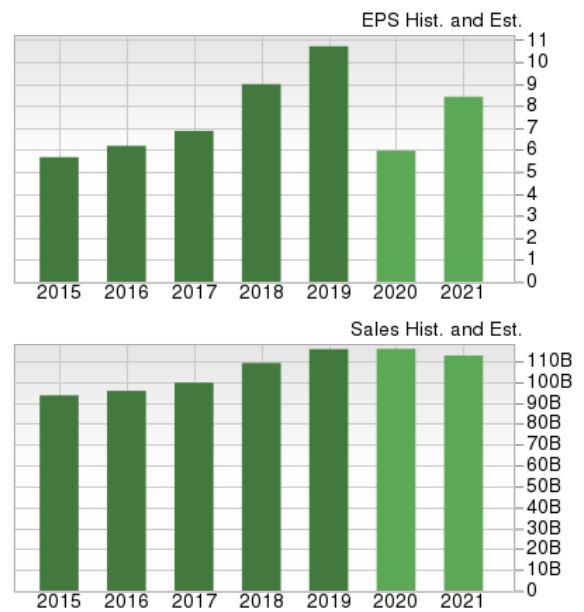
## Overview

Headquartered in New York, JPMorgan Chase & Co. is one of the biggest banks with assets valued at \$3.21 trillion and stockholders' equity worth \$264.5 billion as of Jun 30, 2020. With operations in more than 60 countries, the company (incorporated under Delaware law in 1968) is one of the largest 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.



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## Reasons To Buy:

- ▲ JPMorgan remains focused on acquiring the industry's best deposit franchise and strengthening its loan portfolio. Despite a challenging operating environment, deposits and loan balances have remained strong and increased steadily over the past several years. As of Jun 30, 2020, loans to deposits was 51%.
- ▲ As of Jun 30, 2020, JPMorgan had a total debt of \$765.9 billion, and cash and cash equivalents & due from banks, and deposits with banks worth \$493.7 billion. Of the total debt, nearly \$448 billion is short term in nature. While total debt to total capital of 54.5% is slightly higher than the industry average and its time-interest-earned ratio of 3.3 at the end of second quarter 2020 has remained steady in this range over the past several quarters. Given the favorable factors and earnings strength, JPMorgan has lesser likelihood of default in interest payment and debt repayment if the economic situation worsens.
- ▲ 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 nearly 100 new branches so far and plans to add another 75 by the end of this year. 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, the acquisition of InstaMed enabled the company to expand into the attractive U.S. healthcare payments market. These initiatives are, thus, expected to further support the CCB segment.
- ▲ Solid performance of JPMorgan's mortgage banking operation is a catalyst of late. Though mortgage fees and related income declined at a four-year (2016-2019) CAGR of 6.5%, the same jumped 83% in first-half 2020 and 62% in 2019. While the bank continues to face difficulties in expanding the mortgage business owing to increase in competition, historically low mortgage rates are expected to result in a substantial rise in refinancing activities and improvement in origination volumes. Thus, mortgage banking business is likely to offer support to the company's top-line growth to some extent.
- ▲ We are encouraged by JPMorgan's capital deployment activities. The company will be maintaining the current dividend payout level of 90 cents per share in the third quarter, following the announcement of 2020 stress test results. Further, the bank plans to resume share repurchases only after the economic situation improves significantly. Given solid liquidity position, we believe that the company will be able to sustain capital deployments.
- ▲ JPMorgan's shares have outperformed the industry over the past year. Also, the company's earnings estimates for 2020 have moved nearly 1% upward over the past 30 days. So, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

JPMorgan's robust loan and deposit balances, acquisition of InstaMed, strong liquidity position and initiatives to expand the branch network in new markets will continue supporting profitability.

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## 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. The central bank has signaled no rate hike in the near future. Management anticipates NII to be approximately \$56 billion in 2020, indicating roughly 2% decline from the 2019 level.
- ▼ Further, JPMorgan's significant dependence on capital market performance to generate fee income is a matter of concern. Global economic slowdown amid coronavirus-related mayhem will likely result in extreme volatility in the company's markets and investment banking performances. Thus, this is expected to make fee income growth challenging, going forward.
- ▼ JPMorgan's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 10.75% compares unfavorably with 14.51% for the S&P 500, reflecting the fact that it is less efficient in using shareholder funds.
- ▼ Further, JPMorgan seems overvalued than the industry. Its current price-to-book and price-to-earnings (F1) ratios are above the respective industry averages.

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.

## Last Earnings Report

### JPMorgan Q2 Earnings Beat Despite Huge Reserve Build

As expected, a significant improvement in trading and mortgage banking businesses drove JPMorgan's second-quarter 2020 earnings of \$1.38 per share. The bottom line surpassed the Zacks Consensus Estimate of \$1.34.

The results included provision builds owing to deterioration in the macro-economic backdrop, bridge book markups and gains related to funding spread tightening on derivatives. Excluding these, earnings per share amounted to \$3.27.

The company built a large reserve to tide over economic slowdown. In a statement, Jamie Dimon said, "Despite some recent positive macroeconomic data and significant, decisive government action, we still face much uncertainty regarding the future path of the economy."

Further, operating expenses increased year over year in the reported quarter. Additionally, near-zero interest rates and dismal loan demand hurt interest income.

Moreover, credit card sales volume declined 23%, while merchant processing volume remained relatively unchanged from the prior-year quarter.

Conversely, historically lower rates drove mortgage fees and related income to \$917 million. As expected, fixed income markets revenues jumped 99%, driven by strong performance across products. Similarly, equity markets revenues grew 38% driven by solid client activities.

Despite disappointing deal making activities during the quarter, JPMorgan was able to grow advisory fees, which were up 15% year over year. In addition to this, both equity and debt underwriting fees rose 93% and 54%, respectively. Thus, investment banking fees recorded a surge of 54% from the prior-year quarter.

Among other positives, Commercial Banking average loan balances were up 13%, and Asset & Wealth Management average loan balances grew 12% from the year-ago quarter.

Overall quarterly performance of JPMorgan's business segments, in terms of net income generation, was disappointing. All segments, except Corporate & Investment Bank, reported a drastic decline in net income and/or net loss on a year-over-year basis.

Net income plunged 51% from the prior-year period to \$4.7 billion.

### Trading & Mortgage Banking Aid Revenues, Costs Rise

Net revenues as reported were \$33 billion, up 15% from the year-ago quarter. The improvement reflects higher trading, mortgage and investment banking fees, while lower interest rates was an offsetting factor. Also, the top line beat the Zacks Consensus Estimate of \$29.5 billion.

Net interest income declined 4% year over year to \$13.9 billion. Conversely, non-interest income grew 33% from the year-ago quarter to \$19.1 billion, mainly driven by mortgage banking and principal transactions performance.

Non-interest expenses (on managed basis) were \$16.9 billion, up 4% from the year-ago quarter. The rise was primarily due to "higher revenue-related expense."

### Credit Quality Worsens

Provision for credit losses was \$10.5 billion, up significantly from \$1.1 billion in the prior-year quarter. The rise was largely due to reserve builds of \$8.9 billion amid a deteriorating operating backdrop and "increased uncertainty in the macroeconomic outlook" as a result of coronavirus impacts.

As of Jun 30, 2020, non-performing assets were \$8.4 billion, which jumped 60% from Jun 30, 2019. Further, net charge-offs increased 11% from the year-ago period to \$1.6 billion.

### Strong Capital Position

Tier 1 capital ratio (estimated) was 14.3% at second quarter-end compared with 14.0% on Jun 30, 2019. Tier 1 common equity capital ratio (estimated) was 12.4%, up from 12.2% as of the same date. Total capital ratio was 16.6% (estimated) at second quarter-end compared with 15.8% as of Jun 30, 2019.

Book value per share was \$76.91 as of Jun 30, 2020 compared with \$73.88 in the corresponding period of 2019. Tangible book value per common share was \$61.76 at the end of June, up from \$59.52 in the comparable year-ago period.

### Outlook

The company now anticipates NII to be nearly \$56 billion in 2020, up slightly from the prior guidance of approximately \$55.5 billion.

Adjusted operating expenses are expected to be approximately \$65 billion in 2020.

For the third quarter 2020, investment banking fees are expected to be down both sequentially and year-on-year, mainly due to the seasonal decline and lower M&A announcements year-to-date. Further, capital markets activities are anticipated to revert to normalized levels as seen toward the June-end.

Quarter Ending 06/2020

Report Date	Jul 14, 2020
Sales Surprise	7.29%
EPS Surprise	2.99%
Quarterly EPS	1.38
Annual EPS (TTM)	7.41



## Recent News

### Dividend Update

On May 19, JPMorgan announced a quarterly cash dividend of 90 cents per share. The dividend was paid out on Jul 31 to stockholders of record at the close of business on Jul 6.

### Valuation

JPMorgan's shares are down 28.5% in the year-to-date period and 8.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.9% and 15.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 15.1% and 6.7%, respectively.

The S&P 500 index is up 4.6% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 13.27X forward 12 months earnings, which compares to 13.63X for the Zacks sub-industry, 16.81X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.87X and as low as 7.35X, with a 5-year median of 11.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$106 price target reflects 14.11X 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	13.27	13.63	16.81	22.85
	5-Year High	16.87	14.2	16.81	22.85
	5-Year Low	7.35	8.01	11.6	15.25
	5-Year Median	11.64	11.31	14.26	17.58
P/TB TTM	Current	1.68	1.57	3.37	13.18
	5-Year High	2.45	2.68	4	13.2
	5-Year Low	1.18	1.21	2.01	5.96
	5-Year Median	1.89	2.11	3.48	9.57
P/S F12M	Current	2.67	2.87	6.22	3.67
	5-Year High	3.86	4.59	6.66	3.67
	5-Year Low	1.97	2.39	4.96	2.53
	5-Year Median	3.07	3.59	6.06	3.05

As of 08/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 10% (226 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
State Street Corporation (STT)	Outperform	3
Bank of America Corporation (BAC)	Neutral	3
The Bank of New York Mellon Corporation (BK)	Neutral	3
Citigroup Inc. (C)	Neutral	4
The PNC Financial Services Group, Inc (PNC)	Neutral	4
Truist Financial Corporation (TFC)	Neutral	4
U.S. Bancorp (USB)	Neutral	4
Wells FargoCompany (WFC)	Neutral	4

## Industry Comparison Industry: Banks - Major Regional

	JPM	X Industry	S&P 500	BAC	C	WFC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	D	-	-	F	D	F
Market Cap	303.88 B	32.86 B	23.75 B	224.40 B	107.05 B	100.82 B
# of Analysts	10	9	14	10	10	11
Dividend Yield	3.61%	4.03%	1.62%	2.78%	3.97%	1.63%
Value Score	C	-	-	C	D	D
Cash/Price	4.09	2.32	0.07	4.24	8.67	4.00
EV/EBITDA	-8.85	-0.74	13.49	-8.97	-12.41	-1.53
PEG Ratio	3.35	2.30	3.03	2.34	1.52	66.04
Price/Book (P/B)	1.30	0.85	3.18	0.93	0.61	0.63
Price/Cash Flow (P/CF)	7.10	6.47	12.85	7.06	5.04	3.69
P/E (F1)	16.73	14.28	22.17	16.39	15.98	640.88
Price/Sales (P/S)	2.19	1.89	2.49	2.11	1.06	1.10
Earnings Yield	5.98%	7.00%	4.32%	6.10%	6.26%	0.16%
Debt/Equity	1.35	0.88	0.77	1.08	1.60	1.45
Cash Flow (\$/share)	14.04	6.63	6.94	3.67	10.20	6.63
Growth Score	D	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	13.82%	10.96%	10.44%	21.29%	10.06%	-6.26%
Proj. EPS Growth (F1/F0)	-44.38%	-43.93%	-5.97%	-42.55%	-57.55%	-99.13%
Curr. Cash Flow Growth	9.35%	2.66%	5.22%	3.02%	2.56%	-1.58%
Hist. Cash Flow Growth (3-5 yrs)	10.67%	9.49%	8.52%	27.50%	7.31%	1.85%
Current Ratio	0.88	0.89	1.33	0.93	0.98	0.88
Debt/Capital	56.09%	44.79%	44.59%	49.62%	59.26%	56.18%
Net Margin	18.16%	18.16%	10.13%	19.09%	13.64%	6.26%
Return on Equity	10.75%	8.52%	14.51%	9.11%	7.40%	4.33%
Sales/Assets	0.05	0.05	0.51	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	0.15%	-1.23%	-1.67%	-5.24%	0.29%	-15.86%
Momentum Score	B	-	-	B	A	D
Daily Price Chg	-2.64%	-2.25%	-0.02%	-2.15%	-2.85%	-3.28%
1 Week Price Chg	3.05%	1.49%	1.09%	1.38%	1.55%	0.92%
4 Week Price Chg	2.48%	7.87%	4.83%	9.84%	2.55%	-0.41%
12 Week Price Chg	11.44%	14.30%	13.09%	14.30%	16.60%	1.24%
52 Week Price Chg	-8.26%	-20.04%	2.77%	-5.02%	-20.04%	-45.92%
20 Day Average Volume	14,844,723	4,982,951	1,932,479	58,620,000	17,697,038	40,111,176
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.95%	0.78%	1.80%	0.32%	0.81%	-49.40%
(F1) EPS Est 12 week change	16.12%	10.49%	2.88%	10.49%	5.55%	-95.15%
(Q1) EPS Est Mthly Chg	4.12%	3.42%	0.80%	-0.27%	14.26%	-1.00%



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## 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.

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### 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	D
Momentum Score	B
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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### Disclosures

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