

JPMorgan Chase & Co. (JPM)

\$138.20 (As of 01/17/20)

Price Target (6-12 Months): **\$160.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/16/20)

Prior Recommendation: Neutral

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 bank has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Improvement in non-interest income and lower provisions supported fourth-quarter 2019 results, while decline in net interest income was an undermining factor. Decent loan demand, improving economy, the acquisition of InstaMed, new branch openings and focus on credit card business will continue to aid financials. While the Fed's accommodative policy, challenges in expanding mortgage operations and the company's significant dependence on capital markets revenues make us apprehensive about top-line growth to some extent, enhanced capital deployment plan reflects strong balance sheet position and will enhance shareholder value.

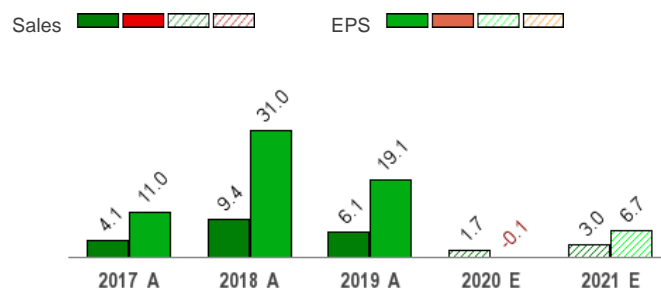
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$141.10 - \$98.09
20 Day Average Volume (sh)	10,383,283
Market Cap	\$433.5 B
YTD Price Change	-0.9%
Beta	1.24
Dividend / Div Yld	\$3.60 / 2.6%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 15% (37 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.8%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	2.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	13.2
P/E F1	12.9
PEG F1	1.8
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	31,460 E	31,290 E	30,706 E	30,797 E	121,054 E
2020	29,593 E	29,431 E	29,426 E	29,117 E	117,566 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	\$2.90 E	\$2.91 E	\$2.92 E	\$2.88 E	\$11.43 E
2020	\$2.70 E	\$2.67 E	\$2.69 E	\$2.65 E	\$10.71 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 01/17/2020. The reports text is as of 01/20/2020.

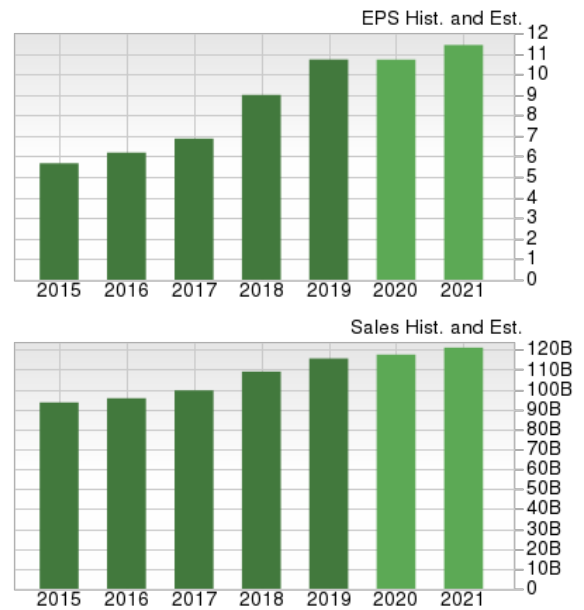
Overview

Headquartered in New York, JPMorgan Chase & Co. is a financial holding company with assets worth \$2.69 trillion and stockholders' equity worth \$261.3 billion as of Dec 31, 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 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, Commerce Solution & Auto.
- **Corporate & Investment Bank (CIB)** segment (33%) 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 (11%) provides lending, treasury services, investment banking and asset management 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 Buy:

- ▲ Decent loan demand and expected pause in interest rate cuts are likely to support JPMorgan's net interest income (NII) going forward. Over the last four years (2016-2019), NII witnessed a CAGR of 7.5%. Though net interest yield declined to 2.46% in 2019 from 2.52% in 2018 (mainly due to lower interest rates), it is surpassed 2.36% in 2017 and 2.25% in 2016. Improving economy and modest loan growth are expected to continue supporting NII in the quarters ahead.
- ▲ 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.
- ▲ Further, 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 Dec 31, 2019, loans-to-deposits ratio was 61%. Loan and deposits are likely to further grow in the quarters ahead, driven by improving economy and positive developments on a few macroeconomic matters.
- ▲ 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 Dec 31, 2019, repurchase authorization worth roughly \$15.8 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 15.19% compares favorably with 12.11% for the industry.
- ▲ JPMorgan's shares have outperformed the industry over the past three months. Also, the company's 2020 earnings estimates have moved 2% upward over the past seven 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 demand. Further, the acquisition of InstaMed and plans to expand branch network in new markets will aid growth.

Risks

- Performance of JPMorgan's mortgage banking operation is a concern. Though mortgage fees and related income jumped 62% in 2019, the same has declined at a four-year (2016-2019) CAGR of 6.5%. While lower rates led to an increase in refinancing activities and improvement in originations, 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 performance to generate fee income is a matter of concern. Fears of global economic slowdown, ambiguity related to trade conflict and several other geopolitical factors persisted since the fourth quarter of 2018 and had an adverse impact on the company's markets and investment banking performance. Though some of these woes are gradually subsiding, future performance continues to depend on market developments and client volumes.
 - 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.
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Last Earnings Report

JPMorgan Q4 Earnings Top on Improved Consumer & Trading Businesses

Quarter Ending **12/2019**

Better-than-expected trading performance and rise in mortgage banking fees drove JPMorgan's fourth-quarter 2019 earnings of \$2.57 per share, which handily outpaced the Zacks Consensus Estimate of \$2.32.

Report Date	Jan 14, 2020
Sales Surprise	3.93%
EPS Surprise	10.78%
Quarterly EPS	2.57
Annual EPS (TTM)	10.49

Lower interest rates drove mortgage banking fees (up 133%), mainly due to 94% rise in mortgage origination volume. Further, as expected, both equity and debt underwriting fees improved, rising 10% and 11%, respectively. Thus, this resulted in an increase in investment banking fees (up 5%) despite a 3% fall in advisory fees.

Also, fixed income markets revenues surged 86%, given a favorable comparison against a soft prior-year quarter performance and strong client activity across products. Likewise, equity markets revenues grew 15% driven by strong equity markets performance.

Among other positives, credit card sales volume was up 10% and merchant processing volume grew 7%. Further, Commercial Banking average loan balances were up 1% and Asset & Wealth Management average loan balances jumped 8%.

Also, provision for credit losses recorded a slight decline.

However, fall in consumer loans (excluding credit card loans) and lower interest rates hurt net interest income. Further, operating expenses increased in the reported quarter.

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

Net income increased 21% to \$8.5 billion.

Fee Income Aids Revenues, Costs Rise

Net revenues as reported were \$28.3 billion, up 9% from the year-ago quarter. Growth in balance sheet, solid trading results and improvement in home lending operation were the primary reasons for the upsurge. These were partially offset by lower interest rates. Also, the top line beat the Zacks Consensus Estimate of \$27.3 billion.

Net interest income declined 1% to \$14.2 billion. On the other hand, non-interest income was \$14.2 billion, up 21%, mainly driven by impressive mortgage banking and principal transactions performance.

Non-interest expenses (on managed basis) were \$16.3 billion, up 4% from the year-ago quarter. The rise was primarily due to auto loan depreciation and "higher volume-and revenue-related expense."

Credit Quality Improves

Provision for credit losses was \$1.4 billion, down 8% year over year.

Also, as of Dec 31, 2019, non-performing assets were \$4.5 billion, down 13% from Dec 31, 2018. However, net charge-offs jumped 21% to \$1.5 billion.

Strong Capital Position

Tier 1 capital ratio (estimated) was 14.1% as of fourth-quarter end compared with 13.7% on Dec 31, 2018. Tier 1 common equity capital ratio (estimated) was 12.4%, up from 12.0%. Total capital ratio was 16.0% (estimated) at the end of the fourth quarter compared with 15.5% as on Dec 31, 2018.

Book value per share was \$75.98 as of Dec 31, 2019 compared with \$70.35 on Dec 31, 2018. Tangible book value per common share was \$60.98 at the end of December, up from \$56.33.

Outlook

First-quarter 2020

Management expects NII to be nearly \$14 billion, depending on market conditions.

Adjusted operating expenses are expected to \$17 billion, while effective tax rate will likely be roughly 17%, reflecting the impact of stock-based compensation.

2020

NII is anticipated to be flat to slightly down as the impact of lower rates will likely be offset by balance growth.

Operating expenses are expected to rise less than 3%.

Effective tax rate is expected to be roughly 20%.

Recent News

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 32.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 17.4% and 11.7% over the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 12.86X forward 12 months earnings, which compares to 11.69X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X 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 11.15X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$160 price target reflects 14.88X 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	12.86	11.69	14.73	19.2
	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	11.15	11.43	13.98	17.44
P/B TTM	Current	1.85	1.69	2.86	4.55
	5-Year High	1.89	1.93	2.89	4.55
	5-Year Low	0.88	1.01	1.83	2.85
	5-Year Median	1.4	1.49	2.51	3.61
P/S F12M	Current	3.68	4.01	6.53	3.57
	5-Year High	3.86	4.59	6.61	3.57
	5-Year Low	1.97	2.61	5.2	2.54
	5-Year Median	3.05	3.59	6.04	3

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 15% (37 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 Outperform	X Industry	S&P 500	BAC Neutral	C Neutral	WFC Neutral
VGM Score	D	-	-	D	C	D
Market Cap	433.46 B	42.59 B	24.65 B	312.22 B	177.10 B	208.00 B
# of Analysts	10	7	13	10	10	11
Dividend Yield	2.60%	2.70%	1.73%	2.07%	2.51%	4.15%
Value Score	C	-	-	B	B	B
Cash/Price	2.37	0.68	0.04	2.24	4.56	1.49
EV/EBITDA	-3.95	5.04	14.11	-2.31	-8.20	2.94
PEG Ratio	1.84	1.39	2.08	1.27	0.80	1.11
Price/Book (P/B)	1.85	1.38	3.39	1.29	1.01	1.25
Price/Cash Flow (P/CF)	11.41	10.63	13.81	10.63	9.40	9.88
P/E (F1)	12.90	11.90	19.19	11.39	9.38	11.90
Price/Sales (P/S)	3.03	2.58	2.69	2.75	1.71	2.00
Earnings Yield	7.75%	8.40%	5.21%	8.79%	10.66%	8.40%
Debt/Equity	1.24	0.95	0.72	1.00	1.41	1.37
Cash Flow (\$/share)	12.11	4.98	6.94	3.26	8.63	4.98
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	15.31%	13.07%	10.56%	30.95%	13.07%	2.76%
Proj. EPS Growth (F1/F0)	-0.06%	4.71%	7.57%	10.84%	14.13%	-5.63%
Curr. Cash Flow Growth	23.43%	17.06%	14.73%	25.85%	19.03%	-26.05%
Hist. Cash Flow Growth (3-5 yrs)	7.08%	7.49%	9.00%	14.04%	5.10%	2.49%
Current Ratio	0.92	0.91	1.24	0.91	1.00	0.87
Debt/Capital	54.21%	45.81%	42.99%	47.63%	56.19%	54.83%
Net Margin	25.49%	23.17%	11.14%	24.15%	18.75%	18.81%
Return on Equity	15.19%	12.11%	17.16%	11.95%	10.32%	12.11%
Sales/Assets	0.05	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	1.68%	1.07%	4.16%	0.50%	1.52%	-6.43%
Momentum Score	A	-	-	A	A	D
Daily Price Chg	0.69%	0.34%	0.27%	-0.03%	0.15%	-0.14%
1 Week Price Chg	-1.64%	-1.64%	0.39%	-0.46%	-0.56%	-1.72%
4 Week Price Chg	0.62%	-3.19%	2.95%	-0.69%	3.73%	-8.30%
12 Week Price Chg	10.53%	6.11%	7.76%	10.68%	12.20%	-3.76%
52 Week Price Chg	34.28%	16.20%	22.29%	19.73%	29.85%	-0.10%
20 Day Average Volume	10,383,283	3,636,411	1,536,375	39,607,640	11,743,826	20,530,556
(F1) EPS Est 1 week change	2.25%	0.00%	0.00%	0.62%	2.19%	-2.88%
(F1) EPS Est 4 week change	2.84%	1.08%	0.00%	1.14%	1.86%	-2.45%
(F1) EPS Est 12 week change	2.92%	0.31%	-0.40%	2.08%	1.24%	-4.25%
(Q1) EPS Est Mthly Chg	3.55%	0.67%	0.00%	2.54%	1.08%	-10.15%

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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