



Bank of America Corp. (BAC)

Updated October 16th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	9.4%	Market Cap:	\$324 B
Fair Value Price:	\$37	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/06/2024 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	12/29/2024
Dividend Yield:	2.5%	5 Year Price Target	\$59	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Bank of America, headquartered in Charlotte, NC, provides traditional banking services, as well as non-banking financial services to customers all over the world. Its operations include Consumer Banking, Wealth & Investment Management and Global Banking & Markets. Bank of America was founded in 1904, trades with a market capitalization of \$324 billion, and should produce about \$100 billion in revenue this year, making it one of the largest financial companies in the world on both measures.

Bank of America posted third quarter earnings on October 15th, 2024, and results were modestly better than expected on both the top and bottom lines. The company posted 81 cents in earnings-per-share, which was a nickel ahead of estimates. Revenue was up fractionally at \$25.3 billion, beating estimates by a modest \$70 million.

Provisions for credit losses came to \$1.5 billion, which was flat against Q2, but higher from \$1.2 billion in the year-ago period. Book value ended the quarter at \$35.37, up 8%. Tangible book value per share was up 10% to \$26.25.

Net interest income was \$14.1 billion, up from \$13.9 billion in Q2, but down from \$14.5 billion a year ago. The gain was driven mostly by investment banking and asset management fees, as well as sales and trading revenue. Noninterest income was \$11.4 billion, down from \$11.7 billion in Q2, but higher from \$10.8 billion a year ago.

Noninterest expense was \$16.5 billion, up slightly from Q2, but sharply higher from \$15.8 billion a year ago.

Average deposits were \$1.92 trillion at the end of the quarter, up fractionally from Q2. Average loans were \$1.06 trillion, also up fractionally from Q2.

We now see \$3.20 in earnings-per-share for this year with one quarter to go, noting this would be the best result since 2021, if achieved.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.36	\$1.31	\$1.50	\$1.83	\$2.54	\$2.75	\$1.87	\$3.57	\$3.19	\$3.08	\$3.20	\$5.15
DPS	\$0.12	\$0.20	\$0.25	\$0.39	\$0.54	\$0.66	\$0.72	\$0.78	\$0.86	\$0.92	\$1.04	\$1.53
Shares²	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,078	7,997	7,896	7,800	7,500

The damage from the financial crisis to Bank of America's earnings and dividend was massive. The company lost huge sums of money during the crisis, but since 2011, has produced an annual profit each year. Earnings growth has been robust but 2020 was certainly a setback. With the rebound in 2021 from relatively low levels, we see growth at 10% annually in the coming years from this year's more normalized \$3.20 per share.

Bank of America remains highly focused on reducing spending where possible, and it has finally begun building its loan book. The company has almost one trillion dollars of deposits it has not lent out, and the bank is still lending cautiously despite relatively high interest rates. The bank has aggressively bought back shares in the past, which will help boost earnings-per-share. We encourage investors to keep an eye on credit quality in the coming quarters, as well as

¹ Estimated date

² Share count in millions

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management's willingness to lend out its massive hoard of deposits. We note provisions for credit losses were elevated once again in Q3 despite a relative lack of lending growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	12.6	10.3	13.5	8.7	10.7	14.1	11.3	10.4	10.9	13.1	11.5
Avg. Yld.	0.7%	1.2%	1.6%	1.6%	2.3%	2.2%	2.7%	1.9%	2.6%	2.7%	2.5%	2.6%

With a solid growth outlook and a healthy balance sheet, we believe Bank of America's valuation could settle on a low double-digits earnings multiple, in line with its peers. Shares go for 13.1 times earnings today, well ahead of our fair value estimate of 11.5 times earnings. We forecast a modest headwind to total returns as a result. We see the yield potentially rising slightly over time as the valuation could decline to meet fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	15%	17%	21%	21%	24%	39%	26%	27%	30%	33%	30%

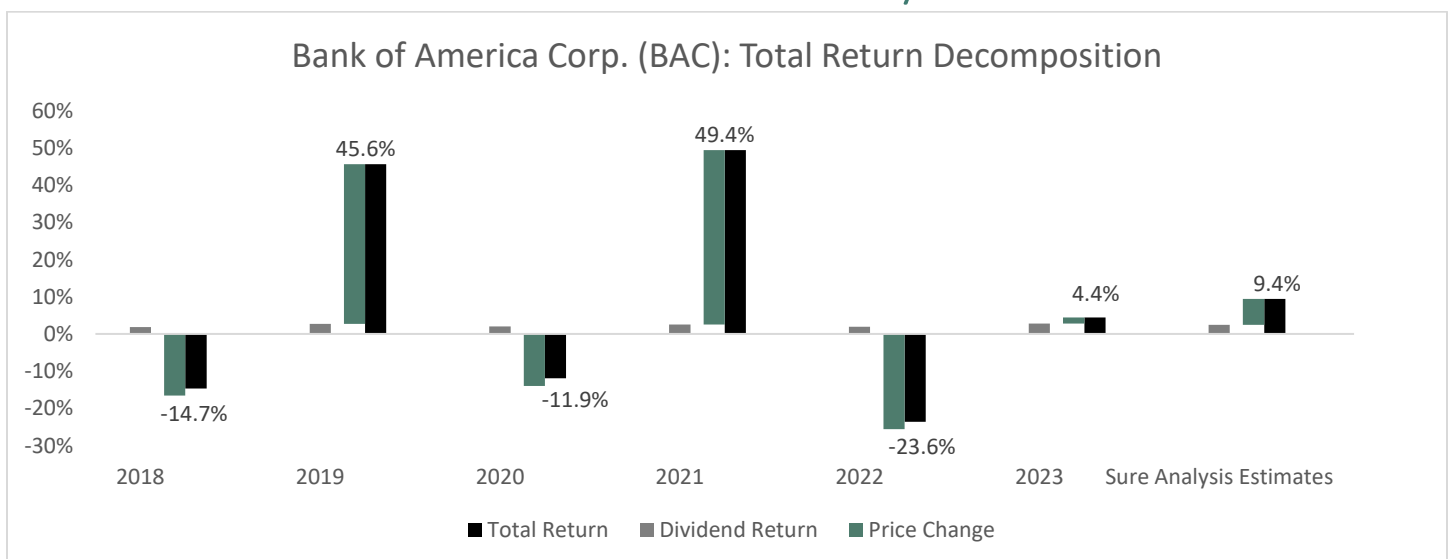
Bank of America started to raise its dividend payout ratio several years ago, but the company still only pays out only a third of its profits in the form of dividends. The dividend in its current state is still very safe, even if earnings were to decline precipitously.

Bank of America competes with the largest banks in the U.S. It has advantages of scale given its massive branch footprint, its digital presence, and its balance sheet that puts it among the largest banks in the world. During the last financial crisis, Bank of America was hit hard, but major financial crises such as the one in 2009 are not common occurrences. During a normal recession, Bank of America should perform better than its 2007-2009 history would suggest. The impacts from the 2020 recession are a thing of the past, and the bank is moving forward with growth plans.

Final Thoughts & Recommendation

Bank of America is in a strong position, as its long-term earnings power is intact, its dividend is seeing a strong growth rate, and its balance sheet looks extremely healthy. Shares are overvalued in our view, and the total return outlook of 9.4% annually has us reiterating the stock at a hold rating. We see returns accruing from 10% earnings growth, the 2.5% yield, and a 2.6% headwind from the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	85,894	82,965	83,701	87,126	91,020	91,244	86,266	89,113	94,950	98,581
SG&A Exp.	65,863	49,221	47,270	41,835	40,520	42,069	41,156	45,049	45,946	47,715
D&A Exp.	2,522	2,389	2,241	2,103	2,063	1,729	1,843	1,898	1,978	2,057
Net Profit	5520	15910	17822	18232	28147	27,430	17,894	31,978	27,528	26,515
Net Margin	6.4%	19.2%	21.3%	20.9%	30.9%	30.1%	20.7%	35.9%	29.0%	26.9%
Free Cash Flow	30,795	28,397	17,277	9,864	39,520	61,777	37,993	-7,193	-6,327	4,498
Income Tax	2,443	6,277	7,199	10,981	6,437	5,324	1,101	1,998	3,441	1,827

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	2104.5	2144.3	2188.1	2281.2	2354.5	2434.1	2819.6	3169.5	3050.7	3180.2
Cash & Eq. (\$B)	146.10	167.10	157.60	168.59	184.90	168.7	387.0	355.4	237.5	341.4
Acc. Receivable	61845	58312	58759	61623	65814	55937	64221	72263	67543	81881
Goodwill & Int.	77919	76616	71716	71253	68951	68951	68951	69022	69022	69021
Total Liab. (\$B)	1861.1	1888.1	1921.9	2014.1	2089.2	2169.3	2546.7	2899.4	2777.5	2888.2
LT Debt (\$B)	274.31	264.86	240.77	260.07	249.53	265.1	282.3	303.9	302.9	334.3
Total Equity (\$B)	224.16	233.90	240.98	244.82	243.00	241.4	248.4	245.4	244.8	263.2
LTD/E Ratio	1.13	1.03	0.90	0.97	0.94	1.00	1.03	1.13	1.11	1.15

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	0.7%	0.8%	0.8%	1.2%	1.1%	0.7%	1.1%	0.9%	0.9%
Return on Equity	2.5%	6.9%	7.5%	7.5%	11.5%	11.3%	7.3%	13.0%	10.1%	9.4%
ROIC	1.1%	3.1%	3.5%	3.5%	5.4%	5.3%	3.3%	5.7%	4.8%	4.4%
Shares Out.	10,517	10,380	10,053	10,287	9,669	8,840	8,650	8,558	8,168	8,080
Revenue/Share	8.12	7.38	7.58	8.10	8.91	8.66	9.81	10.41	11.63	12.20
FCF/Share	2.91	2.53	1.66	0.97	3.86	6.54	4.32	-0.84	-0.77	5.57

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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