

# Truist Financial

## Upgrade to Buy: Three reasons to buy the stock

Rating Change: BUY | PO: 43.00 USD | Price: 37.51 USD

### Execution risk, macro becoming more manageable

We upgrade our rating on Truist Financial (TFC) to Buy from Neutral, raising our PO to \$43 implying 17% upside (stock also offers a 5.7% dividend yield). We see the risk/reward as attractive, owing to balance sheet positioning heading into a Fed rate cutting cycle, expense flex given management's sharpened focus on franchise efficiency, superior growth potential owing to its Southeast footprint and capital optionality stemming from the insurance business (TIH). See our updated thoughts on the sector: [US Banks: 2024 Year Ahead: Top ten questions asked \(and answered\)](#).

### #1: Liability sensitive balance sheet a relative positive

Management's net interest income (NII) guidance calls for a bottoming in 1H24. Potential for sooner than expected rate-cuts (markets pricing-in a 68% probability for a March cut) a positive given the modest liability sensitivity of the balance sheet. 100bp of rate-cuts to boost NII by +30bp vs. -120bp peer median. We forecast FY2024 NII of \$13.7bn, -2% vs. 4Q23e annualized or -7% YoY.

### #2: Efficiency focus provides EPS defensibility

We see potential for management to outperform on cost save targets on the back of the recently announced organizational simplification (= enhanced productivity) and as management synergizes its merger-of-equals (MOE) between SunTrust/BB&T. Strategic actions also set the stage for a continued efficiency boost beyond 2024. Forecast FY24 expenses of \$14.6bn or relatively flat YoY; vs. management's 0-1% growth guidance.

### #3: Capital/EPS optionality due to TIH good to have

While investors are divided on the prospect of management selling its remaining 80% stake in TIH, we believe that the capital (~200bp of CET1 capital unlocked) and EPS optionality (potential to restructure part of the bond book) offset the loss of a differentiated (but not a strategically integral to management's go-to market strategy) revenue stream.

### Patience should be rewarded

Missteps tied to the four-year-old SunTrust/BB&T merger continue to frustrate investors. However, changes in senior management ranks and the downsizing of the Board of Directors are evidence of course correction underway. We see downside risks as more manageable on a go forward basis. Revise 4Q23/FY24e EPS to \$0.89/\$3.15 from \$0.88/\$3.10. Stock trading at 11.6x/10.3x FY24/25e EPS vs. 13.2x 5yr pre-pandemic median; 1.8x (1.1x adj.) YE24e TBV vs. 17% ROTCE forecast through YE26.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.54	4.96	3.78	3.15	3.55
GAAP EPS	4.65	4.45	3.44	3.15	3.55
EPS Change (YoY)	32.3%	-10.5%	-23.9%	-16.6%	12.8%
Consensus EPS (Bloomberg)			3.75	3.45	3.91
DPS	1.86	2.00	2.08	2.08	2.18
Valuation (Dec)					
P/E	6.8x	7.6x	9.9x	11.9x	10.6x
GAAP P/E	8.1x	8.4x	10.9x	11.9x	10.6x
Dividend Yield	5.0%	5.3%	5.5%	5.5%	5.8%

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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04 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	37.00	43.00
2023E Rev (m)	23,523.3	23,535.7
2024E Rev (m)	22,776.2	22,762.1
2025E Rev (m)	23,378.4	23,371.9
2023E EPS	3.77	3.78
2024E EPS	3.10	3.15
2025E EPS	3.50	3.55

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### Stock Data

Price	37.51 USD
Price Objective	43.00 USD
Date Established	4-Jan-2024
Investment Opinion	B-1-7
52-Week Range	25.56 USD -51.26 USD
Mrkt Val / Shares Out (mn)	29,270 USD / 780.3
Free Float	99.3%
Average Daily Value	344.29 USD
BofA Ticker / Exchange	TFC / NYS
Bloomberg / Reuters	TFC US / TFC.N
ROE (2023E)	9.0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> Truist Financial

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	13,114	14,458	14,731	13,731	13,992
% change	-6.0%	10.2%	1.9%	-6.8%	1.9%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	0	(71)	0	0	0
Total Operating Income	22,404	23,103	23,536	22,762	23,372
Operating Expenses	(13,261)	(13,650)	(14,556)	(14,628)	(14,915)
% change	0.3%	2.9%	6.6%	0.5%	2.0%
Provisions Expense	813	(777)	(2,087)	(2,145)	(1,750)
% change	-134.8%	NA	168.6%	2.8%	-18.4%
Operating Pre-Tax Income	9,956	8,676	6,892	5,989	6,707
Operating Net Income to Comm S/Hold.	7,937	7,039	5,489	4,601	5,096
GAAP Net Income	13,001	12,399	9,703	8,844	9,879

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	541,241	555,255	538,769	538,994	548,404
Average Interest Earning Assets	454,265	480,228	492,447	480,016	488,154
Total Gross Customer Loans	294,325	327,435	313,974	320,634	329,715
% change	-3.8%	11.2%	-4.1%	2.1%	2.8%
Total Customer Deposits	416,488	413,495	395,067	395,506	406,566
% change	9.3%	-0.7%	-4.5%	0.1%	2.8%
Tangible Equity	33,092	23,156	25,399	28,426	30,678
Common Shareholders' Equity	62,598	53,841	55,527	58,077	59,909

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	2.89%	3.01%	2.99%	2.86%	2.87%
Effective Tax Rate	19.7%	18.7%	17.5%	19.2%	19.3%
Loan / Deposit Ratio	70.7%	79.2%	79.5%	81.1%	81.1%
Tangible Common Equity / Assets	6.1%	4.2%	4.7%	5.3%	5.6%
ROA	1.4%	1.2%	0.9%	0.8%	0.9%
ROE	12.0%	11.6%	9.0%	7.4%	8.1%
RoTE	21.9%	23.6%	20.8%	15.7%	16.1%
Dividend Payout Ratio	31.6%	38.0%	50.8%	60.6%	57.5%
Efficiency Ratio (Cost / Income Ratio)	59.2%	58.9%	61.8%	64.3%	63.8%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	41.5%	37.4%	37.4%	39.7%	40.1%
NPLs plus Foreclosed Real Estate / Loans	0.4%	0.4%	0.5%	0.6%	0.6%
Loan Loss Reserves / NPLs	398.83%	368.43%	304.91%	241.59%	211.45%
Loan Loss Reserves / Total Loans	1.51%	1.34%	1.52%	1.49%	1.37%

## Company Sector

Banks-US Regionals

## Company Description

Truist Financial Corp (TFC) is a Charlotte, North Carolina-based financial services company with more than \$500 billion in assets. With a history dating back to the Civil War, and now currently the 6th-largest bank in the US by deposits, TFC offers a wide variety of different financial products ranging from consumer and commercial banking to securities brokerage and asset management.

## Investment Rationale

TFC has non-macro-related catalysts following the transformative deal that makes it the 6th-largest U.S. bank by assets. Unlike similarly sized super-regionals, TFC will have a dominant, contiguous, and concentrated presence down the Mid-Atlantic coast and Southeast. Moreover, we think there is upside potential to numbers, given potential for more cost cut identification, and potential for balance sheet optimization. Capital optionality from TIH also positive differentiator vs. peers.

## Stock Data

Average Daily Volume 9,178,663

## Quarterly Earnings Estimates

	2022	2023
Q1	1.23A	1.09A
Q2	1.20A	0.95A
Q3	1.24A	0.84E
Q4	1.30A	0.89E

- SSS

## Price objective basis & risk

### Truist Financial (TFC)

Our \$43 PO is based on 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 13.5x/2.0x multiples respectively, in-line with the bank's 5 year pre pandemic median of 13.2x/2.2x given reduced uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks to our PO: higher than expected credit losses, greater than expected revenue pressure, regulatory changes that would impact growth/profitability, execution risk tied to STI/BBT merger of equals that completed in December 2019.

## Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala



## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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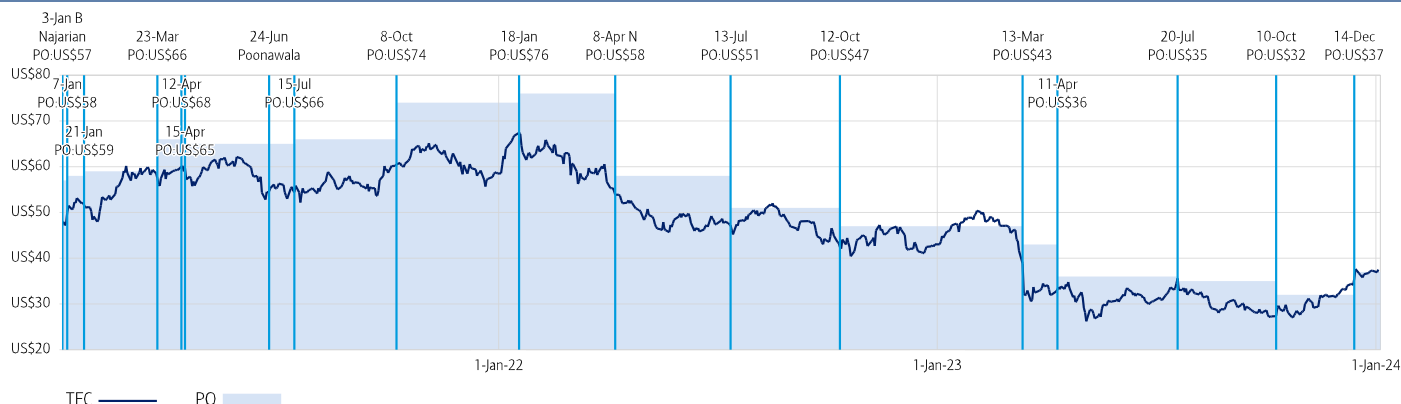
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# Disclosures

## Important Disclosures

### Truist Financial (TFC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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