

Capital One Financial

Credit is a positive in November

Reiterate Rating: BUY | PO: 146.00 USD | Price: 129.20 USD

Solid loan growth and encouraging NCO trends

Capital One (COF) reported November operating metrics highlighted by solid loan growth and slightly higher net charge-off rates. Overall, we view the results as positive – card net charge-off rates were up only 11bps m/m and outperformed historical seasonality (10yr average: +31bps). Recent credit trends continue to suggest COF is approaching peak charge-offs, which we think is a positive for both valuation and sentiment (for more see: [Hello, soft landing – upgrade COF and DFS to Buy 06 December 2023](#)). Maintain Buy.

Domestic card up 13.4% y/y, Auto down 5.5% y/y

Domestic credit card balances of \$144.9B increased 13.4% y/y, a slowdown from 14.3% y/y in October. Card balances grew 199bps m/m which is below the 10yr average of +283bps for November. December balances tend to increase an additional 318bps m/m which would imply card loans slightly ahead of BofAe/cons at \$148.7B/\$147.6B in 4Q. However, given the more modest growth compared to typical seasonality in recent months, we remain comfortable with our estimate. Auto balances were down m/m to \$74.6B vs \$75.0B in October, further reflecting COF's prudence in the auto market.

Card NCOs up 11bps m/m to 5.19%

The November net charge-off (NCO) rate of 5.19% increased 11bps from the prior month. Historically, loss rates have increased 31bps m/m in November and the relative outperformance vs seasonality suggests that Capital One is turning a corner on credit normalization. Typically, loss rates increase an additional 15bps in December and the QTD average loss rate is 5.13%. So, while we remain comfortable with our 5.20% estimate, we believe consensus at 5.08% may be a touch light. DQs were up 7bps m/m at 4.55%, in-line with typical November results, and suggests relative stability in near-term losses. Auto loss rates improved to 2.13% from 2.26% in October and the m/m improvement was slightly better than what typical seasonality would suggest (-4bps).

Tweaking estimates and PO

Following November results we tweak our 2023/2024 EPS estimates to \$12.51/\$13.89 from \$12.45/\$13.72 prior. We also increase our PO to \$146 from \$129 prior based on a 10.5x multiple to 2024e EPS (9.5x), this is approx. a 9x multiple on 2025e EPS. We increase the multiple given increased confidence of a soft landing and positive credit trends and note it remains in the middle of the historical trading range.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	27.11	17.71	12.51	13.89	15.70
GAAP EPS	26.94	17.91	12.51	13.89	15.70
EPS Change (YoY)	368.2%	-34.7%	-29.4%	11.0%	13.0%
Consensus EPS (Bloomberg)			12.95	13.86	16.39
DPS	2.60	2.40	2.40	2.80	2.80
Valuation (Dec)					
P/E	4.8x	7.3x	10.3x	9.3x	8.2x
GAAP P/E	4.8x	7.2x	10.3x	9.3x	8.2x
Dividend Yield	2.0%	1.9%	1.9%	2.2%	2.2%

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12638064

Timestamp: 15 December 2023 07:50AM EST

15 December 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	129.00	146.00

Mihir Bhatia

Research Analyst
BofAS
+1 415 436 3553
mihir.bhatia@bofa.com

Jason Kupferberg

Research Analyst
BofAS
+1 646 855 1961
jason.kupferberg@bofa.com

Nathaniel Richam-Odoi

Research Analyst
BofAS
+1 646 855 1607
nate.richam-odoi@bofa.com

Derek Hewett

Research Analyst
BofAS
+1 646 855 2087
derek.hewett@bofa.com

Cassie Chan

Research Analyst
BofAS
+1 646 855 1829
cassie.chan@bofa.com

Stock Data

Price	129.20 USD
Price Objective	146.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	83.93 USD - 130.15 USD
Mrkt Val / Shares Out (mn)	49,225 USD / 381.0
Free Float	95.3%
Average Daily Value	355.23 USD
BofA Ticker / Exchange	COF / NYS
Bloomberg / Reuters	COF US / COF.N
ROE (2023E)	0%
ESGMeter™	High

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DQ: Delinquency

NCO: Net charge-off

iQprofileSM Capital One Financial

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	24,171	27,114	29,146	29,866	30,716
% change	5.5%	12.2%	7.5%	2.5%	2.8%
Net Fee Income	6,264	7,136	7,537	8,010	8,438
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	30,435	34,250	36,683	37,876	39,154
Operating Expenses	(16,570)	(19,163)	(19,770)	(20,444)	(21,135)
% change	10.1%	15.6%	3.2%	3.4%	3.4%
Provisions Expense	1,944	(5,847)	(10,641)	(10,533)	(10,491)
% change	-118.9%	NA	82.0%	-1.0%	-0.4%
Operating Pre-Tax Income	15,809	9,240	6,272	6,899	7,528
Operating Net Income to Comm S/Hold.	11,969	7,044	4,792	5,218	5,725
GAAP Net Income	12,390	7,360	5,115	5,558	6,065

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	432,381	455,249	480,968	489,844	507,497
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Customer Deposits	310,980	332,992	349,217	353,256	360,322
% change	1.8%	7.1%	4.9%	1.2%	2.0%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	61,029	52,582	54,138	55,622	57,050

Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	21.6%	20.3%	18.5%	19.4%	19.4%
Loan / Deposit Ratio	0%	0%	0%	0%	0%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	9.6%	13.3%	19.1%	20.1%	17.8%
Efficiency Ratio (Cost / Income Ratio)	54.4%	56.0%	53.9%	54.0%	54.0%
Billings Growth	NA	NA	NA	NA	NA
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,161)	(947)	(915)	(1,053)	(1,023)
Change in Debt	NA	NA	NA	NA	NA

Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	20.6%	20.8%	20.5%	21.1%	21.6%
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

Company Sector

Financial Services-Consumer/Commercial

Company Description

Headquartered in McLean, Virginia, Capital One Financial Corporation (COF) is a bank holding company that is primarily in the business of issuing credit cards and auto loans. In 2022, COF was the second-largest credit card issuer (by cards outstanding) and had the second-largest auto loan portfolio in the U.S. In addition to offering credit cards and auto loans to US consumers, COF provides debit cards, business cards, and commercial banking services

Investment Rationale

We rate COF Buy. In our view, early indicators suggest COF's delinquency and net charge-offs are becoming more constructive. The more optimistic macro outlook and resilient consumer balance sheet should support credit metrics if unemployment does tick higher. Also COF's strategy to lean-in on marketing OpEx is helping to grow cards in-force and loan growth.

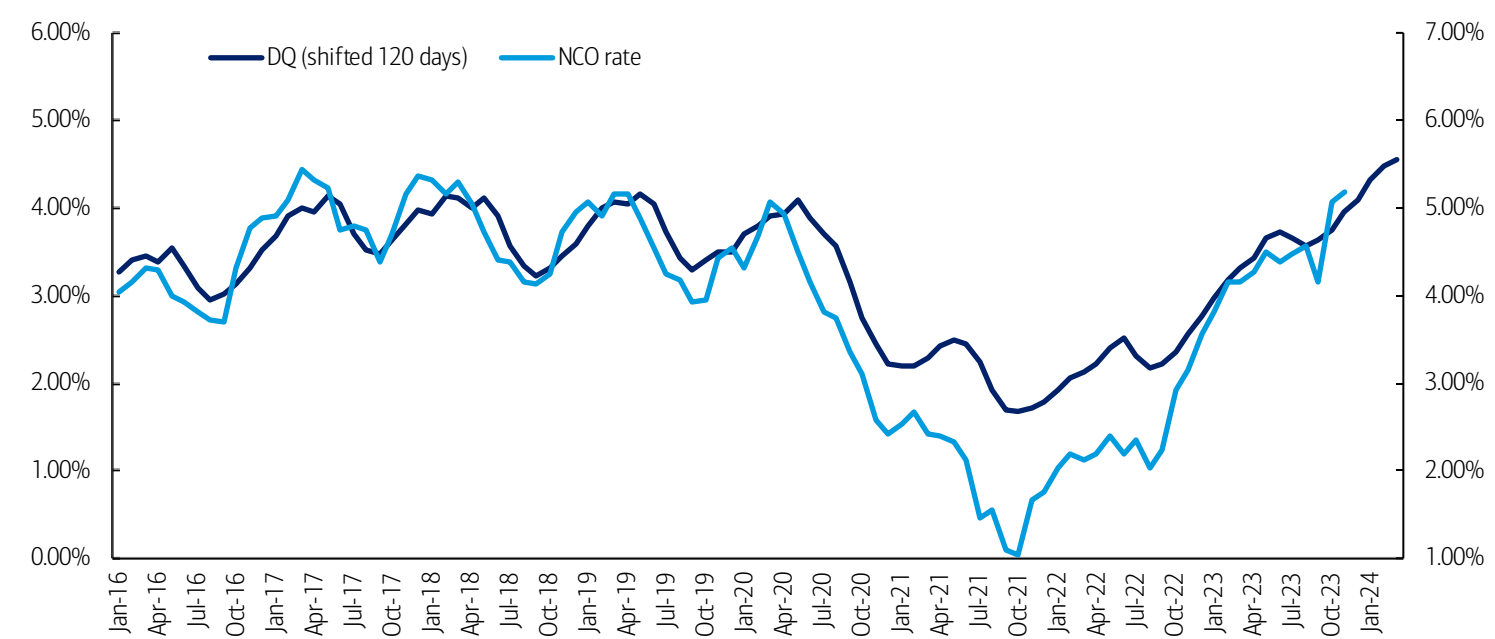
Stock Data

Average Daily Volume 2,749,458

Quarterly Earnings Estimates

	2022	2023
Q1	5.62A	2.31A
Q2	4.96A	3.52A
Q3	4.20A	4.45A
Q4	2.82A	2.23E

Exhibit 1: Recent DQ trends imply higher loss rates but some stability in the near-term
DQs lagged by four months



Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH



Price objective basis & risk

Capital One Financial (COF)

Our \$146 PO is based on a 10.5x PE multiple to our 2024 EPS forecast. A 10.5x PE multiple is in the middle of the historical range (7-12x) which we think is appropriate given the more optimistic macro outlook and strong loan growth, partially offset by rising credit costs.

Downside risks are: slower than expected revolving credit growth, faltering economic recovery and rising loan losses, which could drive earnings below our estimates, and result in valuation compression. Cybersecurity and regulations are also risks.

Analyst Certification

I, Mihir Bhatia, 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.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	ADP	ADP	ADP US	Jason Kupferberg
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg
RSTR	EngageSmart	ESMT	ESMT US	Jason Kupferberg

iQmethodSM 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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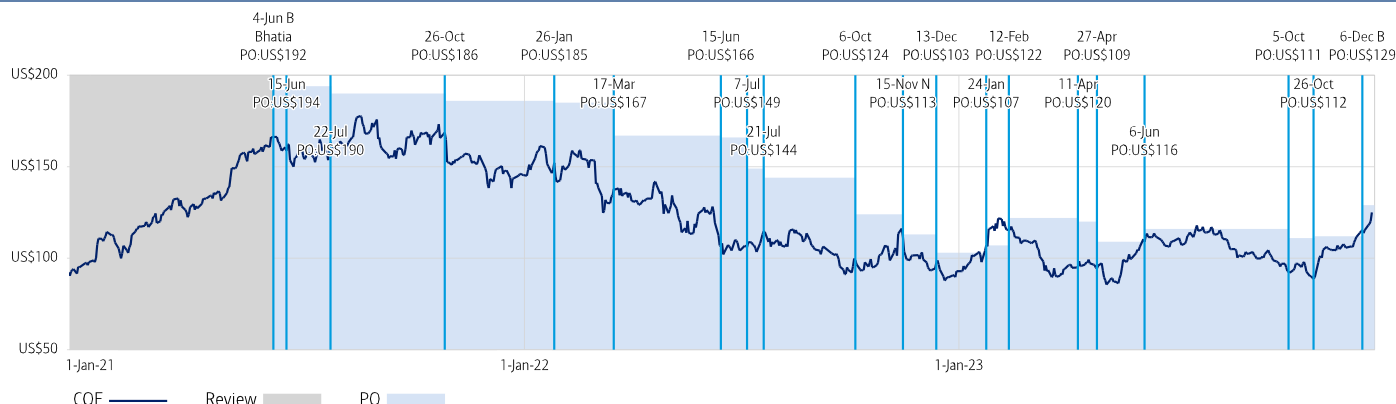
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Capital One (COF) Price Chart



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: Financial Services Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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