

Wells Fargo & Company

2024 Year Ahead: Progressing

Reiterate Rating: BUY | PO: 54.00 USD | Price: 48.68 USD

Investor fatigue overlooks progress being made

We sense a certain degree of investor fatigue with Wells Fargo's (WFC) turnaround. However, it is worth noting that the stock has outperformed the bank index in each of the last three years and has also modestly outperformed since CEO Charlie Scharf joined the bank on Oct 21, 2019. We believe the bank has made significant progress under the current leadership to not just address regulatory issues, but also at improving franchise efficiency and undertaking necessary investments to grow market share across business lines (cards, wealth, capital markets, digital banking).

Rate cuts pose near term EPS headwind

Investors focused on downside EPS risks given the impact from expected Fed rate cuts on WFC's asset sensitive balance sheet (lowest cost of deposits among global systemically important banks [GSIB]). While BofA/consensus net interest income forecast of -7/-6% YoY for FY24 is already discounting margin pressures, the risk from a sooner/steeper Fed rate cutting cycle has the potential to further weigh on earnings. Investors will be looking for mgmt. update during the 4Q23 earnings call (Jan 12) on potential actions to mitigate asset sensitivity when it lays out its FY24 NII outlook.

Expense flex muddied

Mgmt. has repeatedly noted that it sees significant room to cut costs across the bank. However, it has also actively reinvested some of these savings into the franchise (which makes sense to us). Given that Wells Fargo is largely viewed as a self-help story by investors, we think the Street will likely be disappointed if rate cut-driven revenue headwinds lead to a failure in achieving positive operating leverage. This would further push out the timeline for when the bank could achieve its 15% ROTCE target. Clarity on 2024 expense outlook could help the stock coming out of 4Q23 results next week.

Idiosyncratic catalysts, EPS levers keep stock interesting

In our view, the biggest catalyst for the stock remains the removal of the Fed-imposed asset cap. We believe that this could occur before YE25, with the upcoming US election cycle reducing the likelihood for this to occur in 2024. The longer Wells is removed from any major fines, the better the probability that the asset cap could get removed. Beyond this, any relief on Basel III Endgame should lead to a re-acceleration in share buybacks, while making it easier to achieve mgmt's 15% ROTCE target. At 10.6x 2024e P/E and 1.2x YE24e TBV/share, we see risk/reward as attractive. Update 4Q23/FY24e EPS to \$1.09/\$4.60 from \$1.14/\$4.38, reiterate Buy rating.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.77	4.50	4.97	4.60	5.38
GAAP EPS	4.96	3.29	4.40	4.60	5.38
EPS Change (YoY)	NM	-5.6%	10.4%	-7.5%	17.0%
Consensus EPS (Bloomberg)			5.06	4.90	5.40
DPS	0.60	1.10	1.30	1.40	1.54
Valuation (Dec)					
P/E	10.2x	10.8x	9.8x	10.6x	9.1x
GAAP P/E	9.8x	14.8x	11.1x	10.6x	9.1x
Dividend Yield	1.2%	2.3%	2.7%	2.9%	3.2%

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price
Objective Basis/Risk on page 4.

Timestamp: 04 January 2024 06:00AM EST

04 January 2024

Equity

Key Changes		
(US\$)	Previous	Current
2023E Rev (m)	82,560.1	82,500.3
2024E Rev (m)	80,284.2	80,238.7
2025E Rev (m)	82,295.9	81,886.2
2023E EPS	5.02	4.97
2024E EPS	4.38	4.60
2025E EPS	5.24	5.38

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Stock Data

Price	48.68 USD
Price Objective	54.00 USD
Date Established	14-Dec-2023
Investment Opinion	B-1-7
52-Week Range	35.25 USD -50.77 USD
Mrkt Val / Shares Out (mn)	247,883 USD / 5,092.1
Free Float	99.9%
Average Daily Value	866.58 USD
BofA Ticker / Exchange	WFC / NYS
Bloomberg / Reuters	WFC US / WFC.N
ROE (2023E)	11.3%
ESGMeter™	High

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iQprofile [™] Wells Fargo & Company

Income Statement Data (Dec)					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Net Interest Income	36,206	45,386	52,602	48,965	48,938
% change	-9.9%	25.4%	15.9%	-6.9%	-0.1%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	553	151	10	0	C
Total Operating Income	77,621	75,553	82,500	80,239	81,886
Operating Expenses	(53,285)	(51,560)	(52,858)	(52,532)	(52,870)
% change	-5.1%	-3.2%	2.5%	-0.6%	0.6%
Provisions Expense	4,155	(1,534)	(5,867)	(7,000)	(6,000)
% change	-127.9%	NA	282.5%	19.3%	-14.3%
Operating Pre-Tax Income	28,491	22,459	23,775	20,707	23,016
Operating Net Income to Comm S/Hold.	15.492	13,731	14,731	13,024	18,198
GAAP Net Income	34,789	27,290	32,091	30,774	37,865
Balance Sheet Data (Dec)					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Total Assets	1,948,068	1,881,016	1,924,800	1,923,676	1,946,733
Average Interest Earning Assets	1,762,617	1,725,090	1,724,679	1,736,413	1,747,716
Total Gross Customer Loans	919,011	962,975	950,833	953,813	985,626
% change	-0.5%	4.8%	-1.3%	0.3%	3.3%
Total Customer Deposits	1,482,479	1,383,985	1,356,197	1,346,858	1,373,521
% change	5.6%	-6.6%	-2.0%	-0.7%	2.0%
Tangible Equity	141,254	133,752	136,053	144,317	149,475
Common Shareholders' Equity	168,331	160,614	161,311	169,533	174,656
Key Metrics (Dec)					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	2.05%	2.63%	3.05%	2.82%	2.80%
Effective Tax Rate	18.1%	17.3%	16.7%	16.7%	16.7%
Loan / Deposit Ratio	62.0%	69.6%	70.1%	70.8%	71.8%
Tangible Common Equity / Assets	7.3%	7.1%	7.1%	7.5%	7.7%
ROA	1.0%	0.9%	1.0%	0.9%	0.9%
ROE	11.4%	10.6%	11.3%	9.9%	10.6%
RoTE	13.9%	12.5%	13.7%	11.6%	12.4%
Dividend Payout Ratio	15.7%	30.5%	32.8%	38.1%	28.6%
Efficiency Ratio (Cost / Income Ratio)	69.1%	68.4%	64.1%	65.5%	64.6%
Quality of Earnings (Dec)					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	53.4%	39.9%	36.2%	39.0%	40.2%
NPLs plus Foreclosed Real Estate / Loans	0.8%	0.6%	1.0%	1.3%	1.3%

173.18%

1.36%

230.80%

1.35%

159.38%

127.94%

116.31%

1.56%

Company Sector

Banks-US Regionals

Company Description

Wells Fargo & Company (WFC) is a San Francisco, Californiabased financial services company with \$1.8 trillion in assets. Founded in 1852, WFC services one in three US households and offers a wide variety of financial products ranging from banking and insurance to mortgages and commercial finance.

Investment Rationale

WFC is a multi-year transformational story with multiple catalysts. We think WFC still has multiple opportunities to improve productivity (outside of regulatory related costs) and build product scale. We see "normalized" ROTCE of midteens as achievable, thus helping shares re-rate higher to close valuation gap vs. peers.

Stock Data	
Average Daily Volume	17,801,534

2022 2023 Q1 0.92A 1.23A Q2 0.72A 1.25A Q3 1.30A 1.39A

Quarterly Earnings Estimates

Loan Loss Reserves / NPLs

Loan Loss Reserves / Total Loans

We update 4Q23/FY24e EPS to 1.09/4.60 from 1.14/4.38 but our PO is unchanged at 4.2 now based on 12.5 and 12.5 and 12.5 and lower FY24 provisioning forecast due to increased likelihood of soft-landing scenario.



Price objective basis & risk

Wells Fargo & Company (WFC)

Our \$54 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 12.5x/1.2x multiples, respectively, in-line/below the bank's 5 year pre pandemic median of 12.4x/1.8x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks to our PO: worse-than-expected economic downturn that leads to significantly higher-than-expected credit losses, elevated expense trajectory, slower-than-expected resolution of its consent orders. Upside risks to our PO: better-than-expected credit quality (i.e., lower loan losses) and material expense management that improve visibility on future earnings.

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
BUY				
	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.	С	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODIUS	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
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Fbrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
	Western Alliance Dancorp	VVAL	WAL 05	Lorai III I I I I Oorlawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett

North America - Banks Coverage Cluster

Investment rating	Company	Bof A Ticker	Bloomberg symbol	Analyst
	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
	State Street Corporation	STT	STT 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
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
UNDERPERFORM				
	Bank of Hawaii Corp.	ВОН	BOHUS	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	LDIUS	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBIUS	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

⊘method ^{su} Measures Definitions

Numerator

Enterprise Value

Business Performance

Return On Capital Employed	NOPAT = (EBIT + Interest Income) \times (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations — Total Capex	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt - Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt +	Sales
	Other LT Liabilities	

Denominator

Basic EBIT + Depreciation + Amortization



EV/EBITDA

Valuation Toolkit Numerator Denominator

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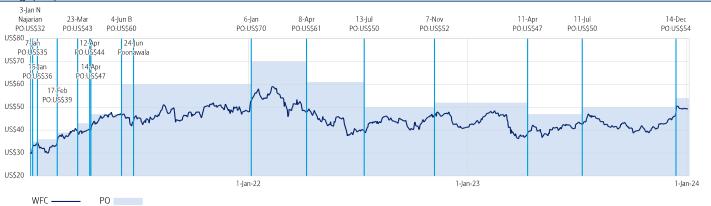
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Disclosures

Important Disclosures

Wells Fargo (WFC) 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 R1	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 R1	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%

¹⁸ Issuers that were investment banking dients 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}
Pun	> 100%	< 700%

Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Jnderperform	N/A	≥ 20%

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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