

## Capital One Financial

## Apr operating data: NCOs tick up 10bps, loan growth is solid

Reiterate Rating: NEUTRAL | PO: 109.00 USD | Price: 86.34 USD

## Solid data in April

Capital One Financial (COF) reported April operating metrics after the close on Friday highlighted by solid loan growth and some credit normalization. Overall, we view the release as positive – while credit continues to normalize, the 10bps m/m increase in loss rates was relatively benign and the 30+ day DQ rate improved 9bps m/m. That said, the prospect of higher losses as the unemployment rate ticks up keeps us cautious on the stock. Maintain Neutral.

## Card loans up 20.9% y/y, Auto prudence continues

Domestic credit card balances were \$132.7B, up 20.9% y/y a slight slowdown from March at 21.3% y/y. The 130bps m/m loan growth well outperformed 10yr seasonality of +8bps. Assuming continued normalization of revolve behavior, BofAe/cons 1Q estimates at \$134.5B/\$135.3B may be too low. Auto balances fell \$300M m/m to \$76.3B reflecting COF's decision to pull back from the auto market due to unfavorable risk/reward.

## Cards NCOs at 4.26%, DQs down 9bps m/m

The April NCO rate was 4.26%, up 10bps from March – while this is above 10yr seasonality which averaged a 7bps improvement to loss rates, the increase was better than feared. Our loss rate forecast at 4.75% could prove to be conservative given April's pace of normalization, but consensus at 4.41% may be too optimistic. 30+ day DQ rates for cards decreased 9bps m/m to 3.57% which is a positive sign for losses in the near-to-medium term. Auto loss rates continue to fall to 1.16% (1.30% in March), though we note the DQ rate did inflect 10bps higher to 5.10%.

## Adjusting estimates

We tweak estimates to reflect stronger loan growth and higher reserving to account for outsized balances. We adjust our 2023/2024 estimates to \$10.92/\$13.66 from \$10.90/\$13.67 prior and maintain a \$109 PO.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	27.11	17.71	10.92	13.66	15.98
GAAP EPS	26.94	17.91	10.92	13.66	15.98
EPS Change (YoY)	368.2%	-34.7%	-38.3%	25.1%	17.0%
Consensus EPS (Bloomberg)			12.11	13.96	15.83
DPS	2.60	2.40	2.60	2.80	2.80
Valuation (Dec)					
P/E	3.2x	4.9x	7.9x	6.3x	5.4x
GAAP P/E	3.2x	4.8x	7.9x	6.3x	5.4x
Dividend Yield	3.0%	2.8%	3.0%	3.2%	3.2%

14 May 2023

## Equity

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## Stock Data

Price	86.34 USD
Price Objective	109.00 USD
Date Established	27-Apr-2023
Investment Opinion	B-2-7
52-Week Range	83.93 USD - 128.95 USD
Mrkt Val / Shares Out (mn)	37,161 USD / 430.4
Average Daily Value	259.69 USD
BofA Ticker / Exchange	COF / NYS
Bloomberg / Reuters	COF US / COF.N
ROE (2023E)	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"](#).

NCO: Net charge-off

DQ: Delinquency

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# iQprofile<sup>SM</sup> Capital One Financial

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	NA	NA	NA	NA	NA
Return on Equity	NA	NA	NA	NA	NA
Operating Margin	NA	NA	NA	NA	NA
Free Cash Flow	NA	NA	NA	NA	NA

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NA	NA	NA	NA	NA
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate	NA	NA	NA	NA	NA
Net Debt-to-Equity Ratio	NA	NA	NA	NA	NA
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Net Interest & Other Income	NA	NA	NA	NA	NA
<b>Net Income (Adjusted)</b>	<b>12,041</b>	<b>6,964</b>	<b>4,133</b>	<b>4,975</b>	<b>5,432</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	12,394	7,360	4,425	5,267	5,724
Depreciation & Amortization	NA	NA	NA	NA	NA
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	NA	NA	NA	NA	NA
Capital Expenditure	NA	NA	NA	NA	NA
<b>Free Cash Flow</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	21,746	30,856	49,525	39,237	40,530
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	NA	NA	NA	NA	NA
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	NA	NA	NA	NA	NA
<b>Total Assets</b>	<b>432,381</b>	<b>455,249</b>	<b>491,559</b>	<b>496,851</b>	<b>514,619</b>
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	NA	NA	NA	NA	NA
Other Non-Current Liabilities	NA	NA	NA	NA	NA
<b>Total Liabilities</b>	<b>371,352</b>	<b>402,667</b>	<b>434,995</b>	<b>439,872</b>	<b>458,195</b>
<b>Total Equity</b>	<b>61,029</b>	<b>52,582</b>	<b>56,565</b>	<b>56,979</b>	<b>56,424</b>
<b>Total Equity &amp; Liabilities</b>	<b>432,381</b>	<b>455,249</b>	<b>491,559</b>	<b>496,851</b>	<b>514,619</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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 2020, COF was the largest credit card issuer (by cards outstanding) and had the third 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 Neutral. In our view, early indicators suggest COF's strategy to lean-in on marketing OpEx is helping to grow cards in-force and loan growth. That said, the pace of credit normalization appears to have accelerated faster than expectations and will be a cause for concern under the current macro backdrop.

## Stock Data

Average Daily Volume 3,007,706

## Quarterly Earnings Estimates

	2022	2023
Q1	5.62A	2.31A
Q2	4.96A	3.36E
Q3	4.20A	3.25E
Q4	2.82A	2.00E

## Price objective basis & risk

### Capital One Financial (COF)

Our \$109 PO is based on a 8x PE multiple to our 2024 EPS forecast. A 8x PE multiple is on the low end of the historical range (7-12x) which we think is appropriate given the relatively uncertain macro backdrop, increased recession risk and 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.

Upside risks are: Consumer balance sheets continue to hold strength and credit metrics remain strong. Increased visibility in peak loss rates shifts investor sentiment. Federal reserve achieves a soft landing. Outsized capital return.

## 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
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackrock TCP Capital Corp	TCPC	TCPC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	CI&T	CINT	CINT US	Jason Kupferberg
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	DLocal	DLO	DLO US	Jason Kupferberg
	EngageSmart	ESMT	ESMT US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FISV	FISV 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
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	Owl Rock Capital Corporation	ORCC	ORCC US	Derek Hewett
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Ellington Financial	EFC	EFC US	Derek Hewett
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Paymentus	PAY	PAY US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG Real Estate Finance Trust	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Angel Oak Mortgage Inc.	AOMR	AOMR US	Derek Hewett
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	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
	New York Mortgage Trust	NYMT	NYMT US	Derek Hewett
	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

## **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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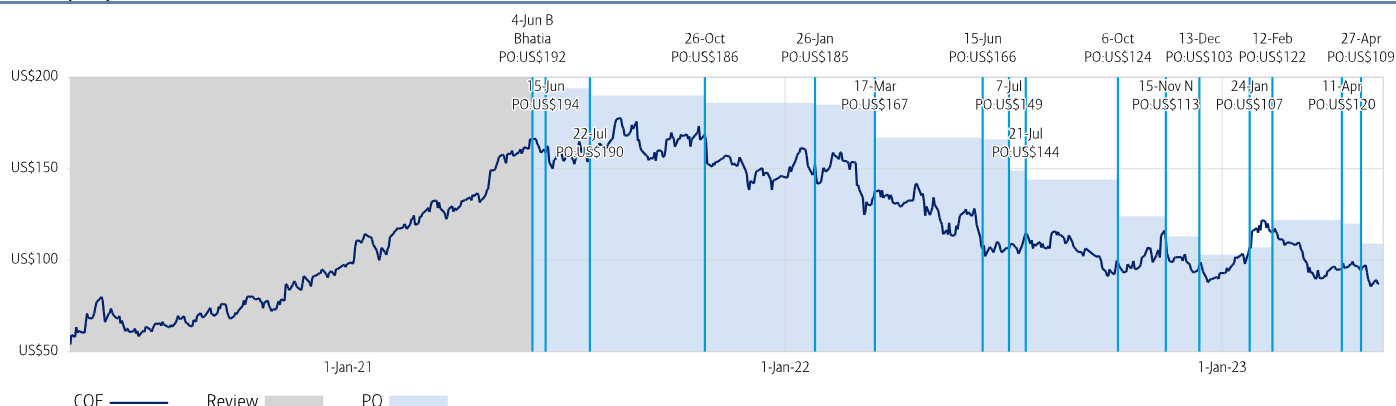
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### Capital One (COF) Price Chart



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 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	152	52.41%	Buy	92	60.53%
Hold	73	25.17%	Hold	44	60.27%
Sell	65	22.41%	Sell	41	63.08%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<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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