

 [click here for WFC model](#)

Wells Fargo

WFC 4Q20 EPS Instant Insight

Stock Rating/Industry View: Equal Weight/Positive**Price Target:** USD 36.00**Price (14-Jan-2021):** USD 34.75**Potential Upside/Downside:** 4%**Tickers:** WFC

Bottom line

Core EPS was ahead of consensus as a lower than expected loan loss provision and tax rate more than offset softer than anticipated fee income (net interest income in-line). Looking out, it sees 2021 net interest income of \$35-\$37bn and expenses of \$53bn (our sense is these ranges are below investor expectations). While its slides showed a longer-term ROTCE target of 15%, no time frame was offered, and while it has identified in excess of \$8bn of potential gross expenses savings, it did not offer a net number.

Outlook

2021 net interest income: Sees 2021 NII flat to down 4% from the annualized 4Q20 level of \$36.8bn (so \$35.3-\$36.8bn). This reflects the announced sale of its student loan portfolio which accounts for 1% of the decline and assumes the asset cap will remain in place for 2021.

2021 expenses: Sees 2021 expenses at \$53bn (ex. restructuring charges and business exits) down from \$54bn in 2020 (ex. customer remediation accruals and restructuring charges). Its 2021 outlook includes ~\$1bn of operating losses (e.g., litigation, customer remediation accruals, fraud, theft, etc.).

Expense program: In excess of \$8bn of potential gross saves identified. Said it will continue to invest across its businesses initiatives over a span of 3-4 years. Nevertheless, targeting "net" expense reductions each year. Additional pipeline of efficiency initiative concepts being vetted.

ROTCE: Compared to an 8% ROTCE in 4Q20, adjusted for expected efficiency initiatives and optimized capital levels, it sees its pro forma ROTCE at 10%. It said its longer-term ROTCE target is ~15%, though no time-frame specified.

Share repurchase: Its Board approved an increase in its authority to repurchase common stock by an additional 500mn shares, bringing the total authorized amount to 667mn common shares.

Key takeaways

Lower provision drives beat. WFC reported 4Q20 EPS of \$0.64. Our estimate was \$0.65 and consensus was \$0.60. Results included a \$781mn (\$0.14) restructuring charge and \$321mn (\$0.06) of customer remediation accruals partially offset by a \$757mn (\$0.14) reserve release due to the announced sale of its student loan portfolio. Net these cost it \$0.06. Relative to consensus, a lower than expected loan loss provision and tax rate more than offset softer than anticipated fee income (net interest income in-line).

Profitability metrics pressured. Operating revenues declined 8% y-o-y and were little changed linked quarter at \$72.4bn. Tangible book increased 3% to \$33.04 (trading at 1.1x). It posted a ROA of 0.62%, ROE of 6.4% and ROTCE was 7.7%. Its CET1 ratio increased 20bps to 11.6%, TLAC was unchanged at 25.8% and its LCR was 133% (134% in 3Q20). Its average diluted share count increased 0.5%.

NII slips, loans drops. Net interest income declined 1% reflecting lower loan balances on lower customer demand and elevated prepayments, and the impact of lower interest rates, which drove a repricing of the balance sheet. Average

earning assets rose 1% with loans down 3% (commercial -4%, consumer -2%) and securities up 4%. Period-end loans declined 4%. Commercial fell 1% with CRE little changed and C&I (-1%), construction (-3%) and leasing (-5%) lower. Consumer fell 6% with credit card (+2%) up and other (-26%), H/E (-7%), mortgage (-6%), and auto (-1%) lower.

NIM stable. Its net interest margin was unchanged at 2.13%. Its yield on AEA declined 4bps to 2.41% (loans -2bps, securities -14bps), while its cost of IBL decreased 6bps to 0.39% (IBD - 6bps to 0.07%). Average deposits declined 1% reflecting targeted actions to manage to the asset cap, primarily in Corporate & Investment Banking, Corporate Treasury and Commercial Banking. Its average deposit costs declined 4bps to 0.05%.

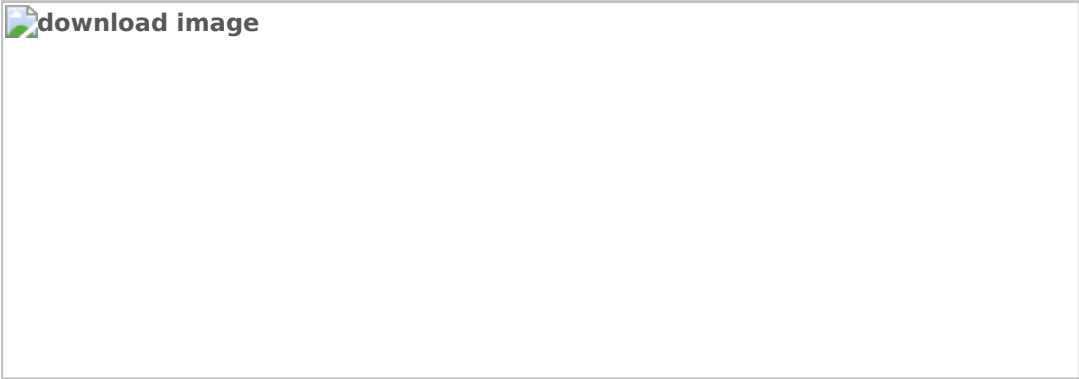
Fees, costs little changed. Fee income was little changed linked quarter. Increased gains from equity investments and higher brokerage advisory, commissions and other fees were offset by declines in trading, operating leases and mortgage. Core expenses increased 1% y-o-y and rose modestly from 3Q20. Sequentially, personal costs increased while other categories declined. Its tax rate was 3.5%, down from 22.5% in 3Q20.

NPAs up, NCOs down. Its NPA ratio increased 11bps to 1.00%. Dollar NPAs rose 9%, or \$709mn, to \$8.9bn. The increase was driven by its CRE, mortgage, and lease portfolios, partially offset by a decrease in C&I. Its NCO ratio declined 3bps to 0.26%. Its commercial (-3bps) and consumer (-4bps) NCO ratios were both 0.26%. Commercial NCOs were impacted by a small number of credit exposures in the CRE portfolio. Consumer losses decreased as the impacts of government stimulus programs and customer accommodations, including payment deferrals, continued to impact performance. It posted a provision benefit of \$179mn, compared to a \$769mn expense in 3Q20. This resulted in a \$763mn loan loss reserve release, compared to a \$38mn build in the prior quarter. The reserve release was predominantly due to the announced sale of its student loan portfolio. Its reserve/loan ratio was stable at 2.22%.

10:00am conference call

- domestic 866-872-5161; int'l 440-424-4922
- replay domestic 855-859-2056; int'l 404-537-3406 passcode 6849835

EPS Reconciliation (\$mn, except per share amounts)



Source: Barclays Research and Company

Results Relative to Expectations (FULL MODEL ATTACHED)

Source: Barclays Research, S&P Global Market Intelligence, and Company

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Wells Fargo (WFC, 14-Jan-2021, USD 34.75), Equal Weight/Positive, A/CD/CE/D/E/I/J/K/L/M/N

Valuation Methodology: Our price target is \$36, based on 11.5x our 2022 EPS estimate of \$3.15

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: If GDP growth were to come in below current expectations, we could see weaker NII, fees and higher credit costs. Increased regulatory oversight for an extended amount of time adds more risks to the operating model.

Ratings and Price Target History:

Wells Fargo
Currency=USD



Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
04-Jan-2021	29.70		36.00
14-Jul-2020	24.25		33.00
08-Apr-2020	30.28		40.00
14-Jan-2020	49.30		57.00
06-Jan-2020	53.10	Equal Weight	59.00
17-Jul-2019	45.21		55.00
11-Jul-2019	47.14		58.00
15-Apr-2019	46.77		60.00
02-Jan-2019	46.94		64.00
16-Apr-2018	50.80		66.00
16-Jan-2018	62.50		71.00

On 15-Jan-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 75.00.

Source: Bloomberg, Barclays Research

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