

October 13, 2020 | Equity Research



JPMorgan Chase & Co.

JPM: Increase Ests.; Goliath is Winning

Overweight/\$130

Large-Cap Banks

Earnings Estimates Revised Up

• JPM's strong 3Q20 beat reflects our "Goliath is Winning" theme given superior growth, efficiency, and ROTCE (19%). That's given YoY capital markets strength (up 1/4th), deposit growth (equal to the 8th-largest bank), and matching revenues and expenses despite a 1/4th decline in NIM. Given a lack of reserve builds, it also reflects our theme that credit has improved as reflected by \$25tn of fixed income assets (see our [note](#) from last week), meaning that 2Q20 marked a low point for EPS. Indeed, we increased ests. due to better than expected credit (see below). Otherwise, the earnings call implied a flattening out of NII from this point and enough reserves to handle a severe stress test scenario. The big industry questions are the extent that problems are delayed vs. resolved. For example, credit is mixed (NPAs up 18% QoQ but JPM doesn't expect meaningful NCO increases until 2H21), loan growth will likely stay subdued (down 2% QoQ given paydowns), and the extent that capital markets are a pull forward (guided flattish investment banking in 4Q20).

• **Increasing estimates.** We are increasing 2020 EPS from \$6.00 to \$7.15 largely reflecting 3Q20 results, but also higher 4Q20 EPS due to materially lower NCOs than previously modeled as well as continued momentum in investment banking and mortgage production. We also increased our 2021 EPS from \$7.75 to \$8.35 largely due to lower est. net charge-offs, which aren't expected to materially increase until 2H21, partially offset by lower NII.

• **3Q20 exceeds.** JPM reported 3Q20 GAAP EPS of \$2.92 (vs. consensus of \$2.23) and est. operating (run-rate) EPS of \$2.82 excl. (a) loan loss reserve release (\$0.8bn pretax or 19c after-tax/sh), (b) above trend securities gains (\$0.2bn or 5c), and (c) MSR-hedge noise (\$0.1bn or 3c), partially offset by (d) litigation charge (\$0.5bn or 17c). Results reflect flattish operating leverage YoY (est. core revenue and expenses both -1%). JPM's CIB revenue were up 21% YoY (vs. est. up 11% in our model) led by trading and investment banking. Wholesale Payments were a touch better than expected. Other wholesale areas did better than expected, incl. Commercial Banking (flat YoY rev. vs. est. -5% in our model) and Asset Mgmt (+5% YoY vs. -3%). JPM Consumer outperformed low expectations (rev. -9% YoY vs. est. -14%). Core expenses were a touch lower than expected after adj. for one-timers and after taking account revenue-driven activities (IB, trading, mortgage). Credit provisions were materially lower than expected (\$0.6bn actual vs. \$2bn in our model) due to lower NCOs and reserve releases (portfolio related) instead of an expected modest reserve build. We still expect provisions to increase in future quarters but at a slower pace and lower level than previously projected.

\$	2019A	2020E		2021E	
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	2.65	0.78 A	NC	2.25	1.81
Q2 (June)	2.82	1.38 A	NC	2.19	1.85
Q3 (Sep.)	2.68	2.92 A	2.17	1.90	1.97
Q4 (Dec.)	2.57	2.07	1.68	2.01	2.12
FY	10.72	7.15	6.00	8.35	7.75
CY	10.72	7.15		8.35	
FY P/EPS	9.4x	14.1x		12.1x	
Rev.(MM)	118,692	119,731		113,950	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
 V = Volatile
 Sum of quarters may not equal full-year due to rounding.

Ticker	JPM
Price Target/Prior:	\$130/NC
Price (10/13/2020)	\$100.83
52-Week Range:	\$76-142
Shares Outstanding: (MM)	3,048.2
Market Cap.: (MM)	\$307,350.0
S&P 500:	3,519.39
Avg. Daily Vol.:	17,633,100
Dividend/Yield:	\$3.60/3.6%
LT Debt: (MM)	\$279,175.0
LT Debt/Total Cap.:	52.0%
ROE:	14.0%
3-5 Yr. Est. Growth Rate:	11.0%
CY 2020 Est. P/EPS-to-Growth:	1.3x
Last Reporting Date:	10/13/2020
	Before Open

NC = No Change

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Mike Mayo, CFA

Senior Analyst | 212-214-5300
mike.mayo@wellsfargo.com

Christopher Spahr

Senior Analyst | 212-214-5301
christopher.spahr@wellsfargo.com

Robert Rutschow

Senior Analyst | 212-214-5302
robert.rutschow@wellsfargo.com

Eric Chan

Associate Analyst | 212-214-5303
eric.chan@wellsfargo.com

Please see page 3 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 10/13/20 unless otherwise stated. 10/13/20 13:46:02 ET

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Together we'll go far



Figure 1. JPMorgan Chase summary income statement and key financial metrics

	2019A	2020E	2021E	2022E	'19-22 CAGR
Per share information (\$)					
EPS	10.72	7.15	8.35	10.25	(1.5)
Dividend per share	3.40	3.60	3.80	4.20	7.3
Book value	75.98	80.35	85.10	91.72	6.5
Tangible book value	60.98	63.81	68.49	74.47	6.9
Avg diluted shares O/S (MM)	3,230.4	3,086.9	3,079.2	3,010.3	(2.3)
EOP common shares O/S (MM)	3,084.0	3,048.8	3,036.3	2,923.2	(1.8)
Key operating metrics (%)					
Revenue growth	6.4	0.9	(4.8)	5.3	
Expense growth	3.3	2.3	(0.7)	2.5	
Core revenue growth	5.8	0.4	(4.5)	5.2	
Core expense growth	3.3	2.3	(0.7)	2.5	
Reported efficiency ratio	56.8	57.9	60.3	58.7	
Core efficiency ratio	55.3	56.4	58.6	57.1	
Net interest margin	2.46	1.99	1.87	1.91	
Net charge-off ratio	0.59	0.59	1.30	1.08	
Tier 1 common	12.4	13.1	13.7	13.6	
ROTCE	18.5	11.7	12.7	14.4	
ROA	1.33	0.76	0.84	0.97	
Income statement (US\$MM)					
Net interest income (FTE)	57,776	54,774	53,615	56,406	(0.8)
Fee revenues	60,658	64,139	59,924	63,081	1.3
Non-core revenues	258	818	411	477	NM
Total revenues	118,692	119,731	113,950	119,965	0.4
Operating expenses	(65,497)	(67,020)	(66,527)	(68,216)	1.4
Non-core expenses	-	-	-	-	NM
Total expenses	(65,497)	(67,020)	(66,527)	(68,216)	1.4
Pre-provision net revenues	53,195	52,711	47,424	51,749	(0.9)
Net charge-offs	(5,625)	(6,022)	(12,781)	(10,940)	24.8
Reserve releases & other	40	(14,955)	1,470	2,130	NM
Net provisions	(5,585)	(20,977)	(11,311)	(8,810)	16.4
Pretax net income	47,610	31,734	36,113	42,939	(3.4)
Taxes	(11,179)	(7,942)	(8,688)	(10,386)	(2.4)
Minority interest	-	-	-	-	
Net income	36,431	23,792	27,425	32,553	(3.7)
Preferred dividends & other	(1,790)	(1,706)	(1,700)	(1,700)	(1.7)
Net income available for common	34,641	22,086	25,725	30,853	(3.8)

Source: company reports, Wells Fargo Securities LLC ests.

Price Target

Price Target: \$130 from NC

We arrive at a price target of \$130 based on the simple average of six valuation techniques (PE, price-to-book, discount dividend model, PEG ratio analysis and sum of the parts for both PE and PB). Macro downside risk factors include a slowdown in global economic activity, greater-than-expected increases in unemployment and bankruptcies (in the US and abroad), and adverse changes in US and foreign laws and regulations. Company-specific downside risks include higher-than-projected credit losses (especially in credit cards and home equity but also other consumer areas and commercial lending), market and interest-rate risks (which can affect JPMorgan's businesses and portfolios in a variety of ways, especially MSRs and investment securities), and operational risks (primarily associated with regulatory compliance across the firm's domestic consumer and global wholesale businesses).

Investment Thesis

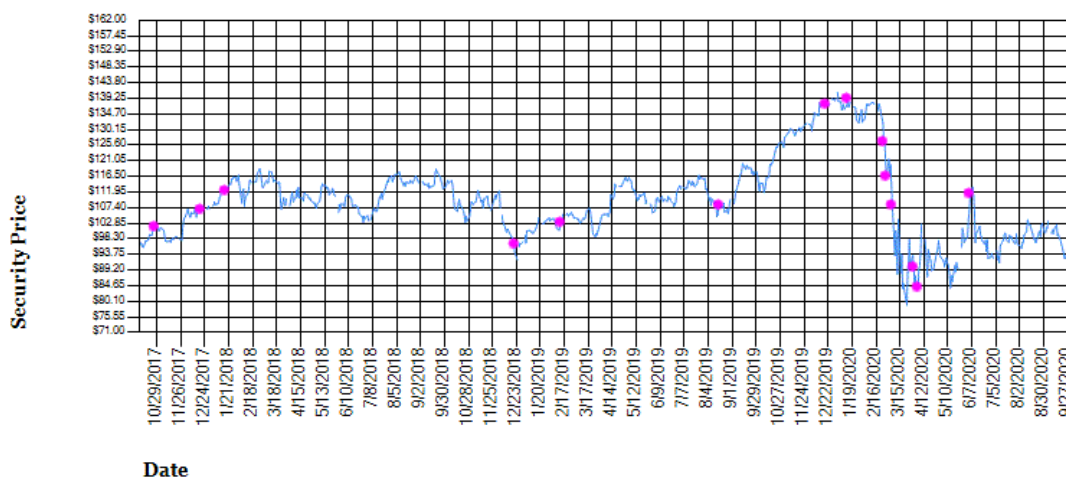
JPMorgan Chase (JPM) has excelled at both offense and defense over the past decade in which it has been gaining market share in all major business lines while optimizing its businesses, showing consistent earnings relative to other global banks and creating a fortress balance sheet (as defined by its CEO). During this period of covid, playing defense has carried more importance, but greater offense is expected to play a role as JPM continues to invest long-term. We expect JPMorgan's ROTCE to trend higher from a low of est. 12% in 2020 to est. 14% in 2022.

Company Description

JPMorgan Chase is a leading global financial services firm with assets of \$2.7tn and operations. The firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management.

Required Disclosures

JPMorgan Chase & Co. (JPM) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
10/9/2017		Mayo				
10/9/2017	NA	1	110	NE	NE	96.41
10/26/2017	101.74	1	115	NE	NE	101.74
12/19/2017	106.51	1	120	NE	NE	106.51
1/16/2018	112.27	1	130	NE	NE	112.27
12/20/2018	96.45	1	121	NE	NE	96.45
2/13/2019	103.09	1	130	NE	NE	103.09
8/16/2019	105.20	1	125	NE	NE	107.72
12/20/2019	137.35	1	150	NE	NE	137.24
1/14/2020	139.42	1	160	NE	NE	138.80
2/25/2020	126.84	1	155	NE	NE	126.26
2/28/2020	121.37	1	148	NE	NE	116.11
3/6/2020	113.97	1	140	NE	NE	108.08
3/31/2020	90.03	1	125	NE	NE	90.03
4/5/2020	84.05	1	115	NE	NE	84.05
6/5/2020	110.96	1	130	NE	NE	111.23

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Overweight/Buy
- 2 Equal Weight/Hold
- 3 Underweight/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 0.5% or more of any class of the common stock of J.P. Morgan Chase & Co..
- Wells Fargo Securities, LLC, or any of its affiliates, intends to seek or expects to receive compensation for investment banking services from J.P. Morgan Chase & Co. in the next three months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of J.P. Morgan Chase & Co.
- The research analyst or a member of the research analyst's household currently has a long position in the securities of J.P. Morgan Chase & Co..
- Wells Fargo Securities, LLC maintains a market in the common stock of J.P. Morgan Chase & Co..
- J.P. Morgan Chase & Co. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided non-securities services to J.P. Morgan Chase & Co..
- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from J.P. Morgan Chase & Co. in the past 12 months.
- Wells Fargo Securities, LLC or its affiliates has a significant financial interest in J.P. Morgan Chase & Co..

JPM: Macro downside risk factors include a slowdown in global economic activity, greater-than-expected increases in unemployment and bankruptcies (in the US and abroad), and adverse changes in US and foreign laws and regulations. Company-specific downside risks include higher-than-projected credit losses (especially in credit cards and home equity but also other consumer areas and commercial lending), market and interest-rate risks (which can affect JPMorgan's businesses and portfolios in a variety of ways, especially MSRs and investment securities), and operational risks (primarily associated with regulatory compliance across the firm's domestic consumer and global wholesale businesses).

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: October 13, 2020

51% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.

Wells Fargo Securities, LLC has provided investment banking services for 47% of its Equity Research Overweight-rated companies.

39% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

Wells Fargo Securities, LLC has provided investment banking services for 36% of its Equity Research Equal Weight-rated companies.

10% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.

Wells Fargo Securities, LLC has provided investment banking services for 29% of its Equity Research Underweight-rated companies.

Important Disclosure for U.S. Clients

This report was prepared by Wells Fargo Securities Global Research Department ("WFS Research") personnel associated with Wells Fargo Securities and Structured Asset Investors, LLC ("SAI"), an investment adviser subsidiary of Wells Fargo & Co. If you are paying directly for this research, it is being provided by SAI. For all other recipients in the U.S. this report is being provided by Wells Fargo Securities.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC, Wells Fargo Securities International Limited and Wells Fargo Securities Asia Limited are exempt from the requirements to hold an Australian financial services license in respect of the financial services they provide to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under the laws of the United States, Wells Fargo Securities International Limited is regulated under laws of the United Kingdom, and Wells Fargo Securities Asia Limited is regulated under the laws of Hong Kong. All such laws differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC, Wells Fargo Securities International Limited or Wells Fargo Securities Asia Limited in the course of providing the financial services will be prepared in accordance with the laws of the United States, United Kingdom or Hong Kong and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC's research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 The Laws of Hong Kong), "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the Securities and Futures Commission. Professional investors who receive this report should direct any queries regarding its contents to Kelly Chiang and Mandy Wan at WFSAL (email: wfsalresearch@wellsfargo.com).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc., Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information or they wish to effect transactions in the securities discussed in this report. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities Global Research Department ("WFS Research"), to be reliable, but WFS Research does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of WFS Research, at this time, and are subject to change without notice. Certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by third parties (collectively, "Third Party Content"). Third Party Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Third Party Content included in this report for purposes other than fair use requires permission from the copyright owner. Any external website links included in this publication are not maintained, controlled or operated by Wells Fargo Securities. Wells Fargo Securities does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of Wells Fargo Securities. Please review the applicable privacy and security policies and terms and conditions for the website you are visiting. All Wells Fargo Securities and SAI research reports published by WFS Research are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Additional distribution may be done by sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Not all research content is redistributed to our clients or available to third-party aggregators, nor is WFS Research responsible for the redistribution of our research by third party aggregators. Equity Strategists focus on investment themes across the equity markets and sectors. Any discussion within an Equity Strategy report of specific securities is not intended to provide a fundamental analysis of any individual company described therein. The information provided in Equity Strategy reports is subject to change without notice, and investors should not expect continuing information or additional reports relating to any security described therein. For research or other data available on a particular security, please contact your sales representative or go to <http://www.wellsfargoresearch.com>. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2020 Wells Fargo Securities, LLC

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE