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JPMorgan Chase & Co.

CFO Commentary at Sell-Side Lunch & Recent Presentation

Stock Rating/Industry View: Overweight/Positive
Price Target: USD 140.00
Price (11-Dec-2019): USD 134.18
Potential Upside/Downside: 4%
Tickers: JPM

Overview

Earlier today, 7.5 months into her new role, JPM hosted a "holiday get-together and Q&A session" with CFO Jenn Piepszak for sell-side analysts. In addition, Piepszak gave her first investor conference presentation earlier this week. Following we recap our key takeaways from these two events.

Recall, Piepszak became CFO and a member of JPM's Operating Committee on May 1. She is responsible for a number of areas, including Finance & Business Management, the Chief Investment Office, and the Chief Administrative Office. Piepszak began her career at JPM in 1994 in the Corporate & Investment Bank where she held various controller and chief financial officer roles from 1994-2010, including within the interest rate securities, interest rate derivatives, credit portfolio, proprietary positioning/principal investment management and its equities and prime services businesses. She moved to Consumer & Community Banking in 2009, where she was CFO of Mortgage Banking and Controller of Mortgage Banking and Retail Financial Services. She became Business Banking CEO in Jan 2015 and in Feb 2017 was named CEO of its Card Services business. We view Piepszak as another example of JPM moving around strong athletes across the company.

Key Takeaways

4Q19 update: JPM expects 4Q19 trading revenues to rise "meaningfully" y-o-y with increases in both FICC and equities (though FICC should outperform equities). It expects investment banking fees to be stable y-o-y (implies down 8% from 3Q19). This is better than its prior guidance of down y-o-y. The quarter has played out a little bit better than it thought, largely on healthy investment-grade activity given the rate environment. It also believes it is taking market share. With respect to net interest income, it noted the interest rate environment has gotten a little bit better, thus results could be closer to $14.2bn in 4Q19. Recall, it had guided to less than $57.5bn on its 3Q19 earning call. YTD, on a managed basis, it has reported $43.5bn. As such, $57.5bn for the full-year would have implied $14.0bn for 4Q19, while $14.2bn equates to $57.7bn. This $0.2bn pick-up equals $0.05/shr all else equal.

Operating environment: JPM sees continued global GDP growth with the Fed and ECB on hold as we head into 2020. Its believes the consumer is "incredibly strong", and credit is "very, very good" amid a very strong labor market and a rebound in consumer sentiment. Based on its own data, it noted holiday spend feels consistent the trends it has been seeing all year, which is up about 10% y-o-y. Of note, looking at Black Friday through Cyber Monday, spend was up closer to 20% y-o-y. On the business side, it noted there are some cautionary signs. Still, at the margin, it has seen some improvement since the summer, including in CEO sentiment. Looking to 2020, in addition to trade, the U.S. elections will likely contribute to an uncertain environment.

Business opportunities: JPM sees opportunities across the franchise for growth and is focused on building on its scale and deepening its relationship with existing clients and customers.

Consumer & Community Banking (CCB). Its Consumer & Business Bank should benefit from its market expansion strategy. It expects to have 80-90 branches open its expansion markets of Boston, Philly, North Carolina, Virginia, and Minneapolis by year-end. While early days, it noted it is exceeding its expectations versus historical performance for new branches (in totality, some branches ahead while other are behind). In Credit Card, the secular tailwind of the electronification of cash should contribute to growth, although it believes there is an opportunity to take market share. In addition, it has 40mn credit card households and a little less than one-third of them have a multi-LOB relationship with it. Mortgage has also proven to be an effective role for it to deepen relationships. It said it is seeing a meaningful portion of its deposit growth in the consumer bank coming from customers who were previously consumer lending only customers. Interestingly, it is having above-average success with its Chase Ink Business Card customers opening personal retail accounts as they are already familiar with the brand. JPM also recently launched two new products called 'My Chase Plan' and 'My Chase Loan'. 'My Chase Plan' is point of scale financing (for example TV, refrigerator), built off its credit card app, while "My Chase Loan' allows one to borrow against their unused available credit limit (for example kitchen remodel). It's a targeted product feature for existing customers with no application or credit check needed. It believes this should allow it to compete better against competitors' unsecured consumer credit offerings.

Corporate & Investment Bank (CIB): In CIB, it continues to build scale in wholesale payments. It sees China as a big opportunity. It is also surgically hiring in markets where it's relatively underpenetrated around the world. It believes it is continuing to take market share in investment banking.

Commercial Bank (CB): CIB is focused on international expansion and building on the existing infrastructure that it has in the Investment Bank. Still, it noted last year 40% of its IB fees in North America came from the Commercial Banking segment.

Asset & Wealth Management (AWM): In AWM, international private banking is an opportunity as high net worth is a segment where it is relatively under-penetrated. It also recently announced it is combing its U.S. wealth-management operations for affluent clients, the Chase branch network's financial-advisory business, and its new You Invest online brokerage under common leadership as it aims to better penetrate the high-network space by leveraging JPMorgan products and Chase distribution.

Loans: Excluding home lending loan sales, loans should grow in the 3%-4% range in 2019. Assuming the environment holds, 2020 should be in a similar range. It expects strong growth rates in credit card (+8% y-o-y in 3Q19) and AWM (+7%) to continue into next year. In CB, trends appear mixed. It is seeing good growth in C&I in specialized industries and expansion markets. Still, this is being mitigated by continued runoff of its tax-exempt portfolio. And in CRE, good origination activity in commercial term lending, given the rate environment, is offset by real estate banking as it is being cautious. And, CIB loan growth is expected to remain episodic.

Deposits: It views deposit betas as largely symmetric. On the retail side, it didn't see a lot of reprice on the way up, so it expects less of an opportunity on the way down. In fact, it noted in 3Q19 and 4Q19, its rate paid on retail deposits has increased due to mix shift, as customers are still moving from savings to CDs. Still, it did note CD pricing has come off its peak. On the wholesale side, it did see deposits costs start to come down after the 1st rate cut (late July) and witnessed an acceleration after the 2nd rate cut (mid-Sept) and expects a further reduction (Fed cut again in late Oct before holding in mid-Dec). These reductions have been more prevalent in CIB than CB and AWM. After a slowdown in deposit growth earlier in the year, when it chose not to compete as aggressively on price, it has witnessed improvement post the recent Fed cuts. It would expect this improved level of growth to continue into 2020.

Expenses: It continues to feel like 55%, a level it achieved in 3Q19, is a proper efficiency ratio target. Still, it continues to see opportunities for further efficiencies. It cited robotics and the opportunity to replace repetitive processes, opportunities to leverage machine learning and AI (already benefit from a reduction in fraud), and utilizing cloud technology. It also noted teller-transactions are down 40%, while 80% of its transactions are now through self-service channels. JPM has also increased its technology budget significantly over the last few years ($11.5bn slated for 2019 with half going to investment spend). Still, given it's been investing a portion in productivity, it has opportunities to self-fund incremental investments. It is also looking to better measure human capital productivity in an effort to improve efficiency.

Asset quality: It noted asset quality looks "pretty pristine" heading into 2020. Still, it is surgically pulling back in certain pockets. It noted certain cells in the consumer space look less attractive, while it is being cautious in CRE.

Capital: Despite our calculation that it was in the 400bps GSIB surcharge bucket at 3Q19, JPM said it expects to be in the 350bp bucket at year-end (which counts for measurement purposes). Still, looking out, it remains hopeful the Fed will refine this process. Its CET1 target remains the upper-end of 11-12%, while it awaits the final SCB rule from the Fed.

Acquisitions: It would expect to continue to look acquire or partner in areas where it may have competitive gaps. Recent examples of this include the purchases of InstaMed (health care payments) and WePay (small business payment processing).

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Valuation Methodology: Our price target is $140 and implies 13x our 2020 EPS estimate of $10.60.
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Ratings and Price Target History:
JPMorgan Chase & Co.
Currency=USD

JPM
Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
02-Jan-2019	99.31		140.00
16-Jan-2018	112.27		135.00
02-Jan-2018	107.95		132.00
13-Oct-2017	95.86		105.00
03-Jan-2017	87.23		100.00

On 12-Dec-2016, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 79.00.

Source: Bloomberg, Barclays Research

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