

April 14, 2020 | Equity Research



## JPMorgan Chase &amp; Co.

## JPM: Goliath Winning; Lower 2020 Est., No Change To 2021 Est.

## Overweight/\$115

Large-Cap Banks

## Earnings Estimate Revised Down

• **Benefits of scale.** JPM is acting more as an intermediary at a time when it is needed more – i.e., it is “re-intermediating.” JPM showed the benefit of size given profits despite \$9bn of charges, flight-to-quality benefits w/balance sheet growth equal to the 6th-largest bank, best ever trading quarter (up 1/3 YoY), and positive operating leverage ex-write-downs on bridge loans and derivatives (\$2bn). Yet, JPM indicated that its large reserve builds in 1Q20 (\$7bn) could get repeated ahead given its worse economic forecasts. We lower our est. for 2020 (\$6.30 to \$4.60) but keep our 2021 est. (\$7.35) and price target (\$115) the same. We suspect that JPM’s economic assumptions will be more conservative than most.

• **Crisis impacts.** Results in 1Q20 did not reflect too much of the downturn as credit losses declined QoQ and the net interest margin was about flat. Looking ahead, JPM now has worse economic forecasts for 2Q20 GDP (-40% vs. -25%) and unemployment (-20% vs. -10%), which means that 2Q20 may be a kitchen sink quarter like 1Q20. Items to watch include mortgage forbearance (4% so far), decline in purchase volume for restaurant and T&E (down 50%+), and com'l revolver utilization (record 44%). Period-end assets increased QoQ (\$2.7tn to \$3.1tn), w/large increases in CIB (+33%), the com'l bank (+12%), and for March (up \$100bn). Also, debt underwriting and trading were at all-time records in 1Q20.

• **Balance sheet resiliency.** We continue to view this as an income statement recession and not a balance sheet one for banks. Despite charges of \$9bn, JPM still had decent capital (CET1 ratio of 11.5% vs. 10.5% min.), cash (access to \$1tn), and flattish book value. Reported EPS of \$0.78 would equal \$2.89 ex-reserve builds and almost \$2bn of charges for bridge loans and derivatives. Trading was strong (up 1/3 YoY), boding well for GS, trust banks, and other capital market players in 1Q20. Also, spreads have tightened since quarter-end. The main issue was a 43% QoQ increase in NPAs (some CECL-related) and reserve builds of \$6.8bn (cards and CECL a big component) as JPM seeks to get ahead of upcoming credit losses.

• **Income statement mixed.** Est. core efficiency improved to 55% vs. 56% (QoQ and YoY) with slightly faster revenue than expense growth both QoQ (6% vs. 3%) and YoY (4% vs. 3%) and it lowered 2020 expenses guidance (\$67bn to \$65bn now). This mitigates the new NII guidance (\$55.5bn vs. \$57bn). However, there are now new fee headwinds (asset management, NIR in trading, credit card purchasing volume down, lower card outstandings, more). The bottom line is that we expect 1H20 to reflect a kitchen sink period that, should it prove too conservative, will provide more earnings flexibility on the backend. This is vintage JPM and Jamie Dimon – prepare for a difficult period with a degree of conservatism and have extra reserves if the outlook pans out better than expected.

\$	2019A	2020E	2021E		
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	2.65	<b>0.78 A</b>	<b>1.42</b>	<b>1.87</b>	<b>1.83</b>
Q2 (June)	2.82	<b>0.77</b>	<b>1.76</b>	<b>1.83</b>	<b>1.84</b>
Q3 (Sep.)	2.68	<b>1.52</b>	<b>1.76</b>	<b>1.85</b>	<b>1.86</b>
Q4 (Dec.)	2.57	<b>1.53</b>	<b>1.36</b>	<b>1.80</b>	<b>1.82</b>
FY	10.72	<b>4.60</b>	<b>6.30</b>	7.35	NC
CY	10.72	4.60		7.35	
FY P/EPS	9.0x	20.9x		13.1x	
Rev.(MM)	118,692	109,752		112,905	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters  
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful  
 V = Volatile

Ticker	JPM
Price Target/Prior:	\$115/NC
Price (04/14/2020)	\$95.90
52-Week Range:	\$76-142
Shares Outstanding: (MM)	3,084.0
Market Cap.: (MM)	\$295,755.6
S&P 500:	2,838.67
Avg. Daily Vol.:	32,000,900
Dividend/Yield:	\$3.60/3.8%
LT Debt: (MM)	\$291,498.0
LT Debt/Total Cap.:	52.0%
ROE:	14.0%
3-5 Yr. Est. Growth Rate:	11.0%
CY 2020 Est. P/EPS-to-Growth:	1.9x
Last Reporting Date:	04/14/2020
	Before Open

NC = No Change

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

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Please see page 4 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 04/14/20 unless otherwise stated. 04/14/20 13:20:55 ET

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**Figure 1. JPMorgan Chase summary income statement and key operating metrics**

	2019A	2020E	2021E	2022E	'19-22 CAGR
<b>Per share information (\$)</b>					
EPS	10.72	4.60	7.35	9.35	(4.5)
Dividend per share	3.40	3.60	3.80	4.20	7.3
Book value	75.98	77.04	80.59	87.19	4.7
Tangible book value	60.98	61.87	65.31	71.34	5.4
Avg diluted shares O/S (MM)	3,230.4	3,064.1	3,046.4	2,984.9	(2.6)
EOP common shares O/S (MM)	3,084.0	3,047.0	3,025.0	2,914.3	(1.9)
<b>Key operating metrics (%)</b>					
Revenue growth	6.4	(7.5)	2.9	4.4	
Expense growth	3.3	(1.9)	1.3	2.3	
Core revenue growth	5.8	(7.8)	3.0	4.5	
Core expense growth	3.3	(1.9)	1.3	2.3	
Reported efficiency ratio	56.8	60.6	59.6	58.3	
Core efficiency ratio	55.3	58.8	57.9	56.7	
Net interest margin	2.46	2.11	2.07	2.10	
Net charge-off ratio	0.59	1.00	1.66	1.15	
Tier 1 common	12.4	11.4	11.9	11.9	
ROTCE	18.5	7.6	11.6	13.6	
ROA	1.33	0.51	0.76	0.91	
<b>Income statement (US\$MM)</b>					
Net interest income (FTE)	57,776	55,348	56,179	58,764	0.6
Fee revenues	60,658	53,820	56,254	58,677	(1.1)
Non-core revenues	258	584	472	429	NM
Total revenues	118,692	109,752	112,905	117,871	(0.2)
Operating expenses	(65,497)	(64,236)	(65,076)	(66,561)	0.5
Non-core expenses	-	-	-	-	NM
Total expenses	(65,497)	(64,236)	(65,076)	(66,561)	
Pre-provision net revenues	53,195	45,515	47,829	51,309	(1.2)
Net charge-offs	(5,625)	(10,141)	(16,865)	(11,935)	28.5
Reserve releases & other	40	(14,282)	950	(165)	NM
Net provisions	(5,585)	(24,423)	(15,915)	(12,100)	29.4
Pretax net income	47,610	21,093	31,914	39,210	(6.3)
Taxes	(11,179)	(5,278)	(7,790)	(9,577)	(5.0)
Minority interest	-	-	-	-	
Net income	36,431	15,815	24,124	29,632	(6.7)
Preferred dividends & other	(1,790)	(1,728)	(1,728)	(1,728)	(1.2)
Net income available for common	34,641	14,087	22,396	27,904	(7.0)

Source: company reports, Wells Fargo Securities, LLC estimates

## Price Target

Price Target: \$115 from NC

We arrive at a price target of \$115 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

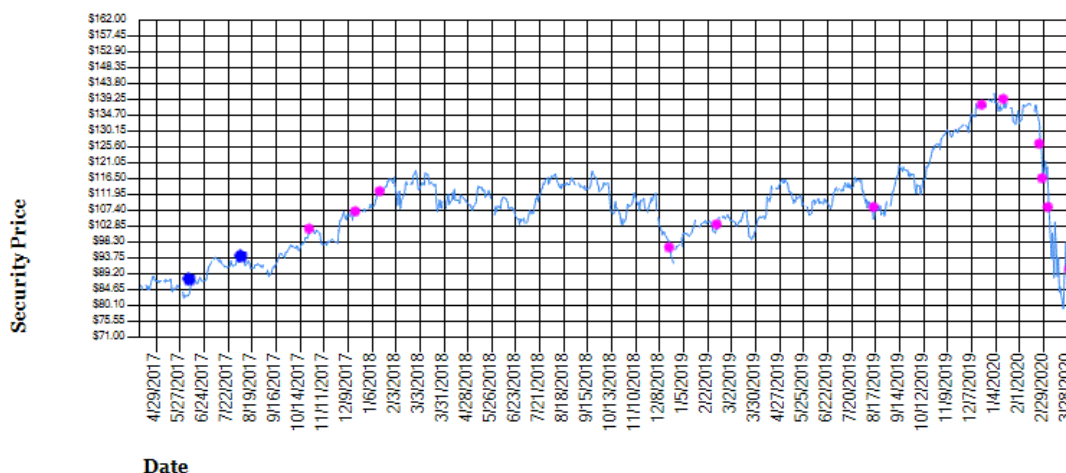
JPMorgan Chase (JPM) has excelled at both offense and defense over the past decade in which it has been gaining market share in all major business lines while optimizing its businesses, showing consistent earnings relative to other global banks and creating a fortress balance sheet (as defined by its CEO). Decade to date, playing defense has carried more importance but greater offense is needed ahead. Despite the risk with a transition from optimization to growth, the result should be the greatest value creation in a decade. We expect JPMorgan's 2020 ROTCE (est. 18%) to be the best in the firm's history on a risk-adjusted basis during a period of time its cost of capital is declining.

## 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 (\$)
4/10/2017		Burnell				
4/10/2017	NA	1	NE	99.00	101.00	85.88
6/9/2017		Hausner				
6/9/2017	86.97	SR	NE	NE	NE	86.96
8/9/2017		Mayo				
8/9/2017	93.53	1	110	NE	NE	93.53
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

\*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

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As of: April 14, 2020

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