

Bank of America[®]



Bank of America Stock Pitch

BAC – NYSE
Banking & Financial Services

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Background

CEO: Brian Moynihan

- Has had multiple positions within the company since joining BAC's predecessor, FleetBoston Financial in 1993
- Became CEO of Bank of America in 2010



CFO: Alastair Borthwick

- Manages overall financial management of the company, including accounting, balance sheet management, financial planning and analysis, corporate treasury, investor relations, corporate investments and tax.
- Served as president of Global Commercial Banking for Bank of America starting in 2012 until becoming CFO in September 2021



Bank of America Subsidiaries and International Operations

- Merrill Lynch (2009)
- U.S. Trust (2007)
- Countrywide Financial (2008)
- FleetBoston Financial (2004)
- LaSalle Bank (2007)
- Axia Technologies (2021)

They also operate in roughly 35 countries, including Canada, Mexico, England, France, Italy, Germany, etc.

Investment Thesis

Bank of America is primed to capitalize on the current rising interest rates, as the majority of their revenue stream comes from their **consumer banking** segment. They are also maintaining low APY rates on their deposit products to maintain lower borrowing costs, despite short-term interest rates exceeding long-term rates at this time.

Recommendation: **Buy**

Current Price: \$32.73

Target Price: \$37.61 (14.92%)

CATALYSTS

- **Rising interest rates:** increases revenue generated from lending operations
- **Low APY rates:** improves bottom line by reducing expenses

RISKS

- Greater chance of **consumers defaulting on loans**
- **Yield curve inversion** increases expenses, as banks make money by borrowing at short-term rates and lending long-term rates
- **Competitors offer better APY rates**, incentivizing consumers to deposit elsewhere
- Rising inflation, increased cost of living, and an overall **reduction in personal savings, leading to less deposits**

Two-Stage Dividend Discount Model

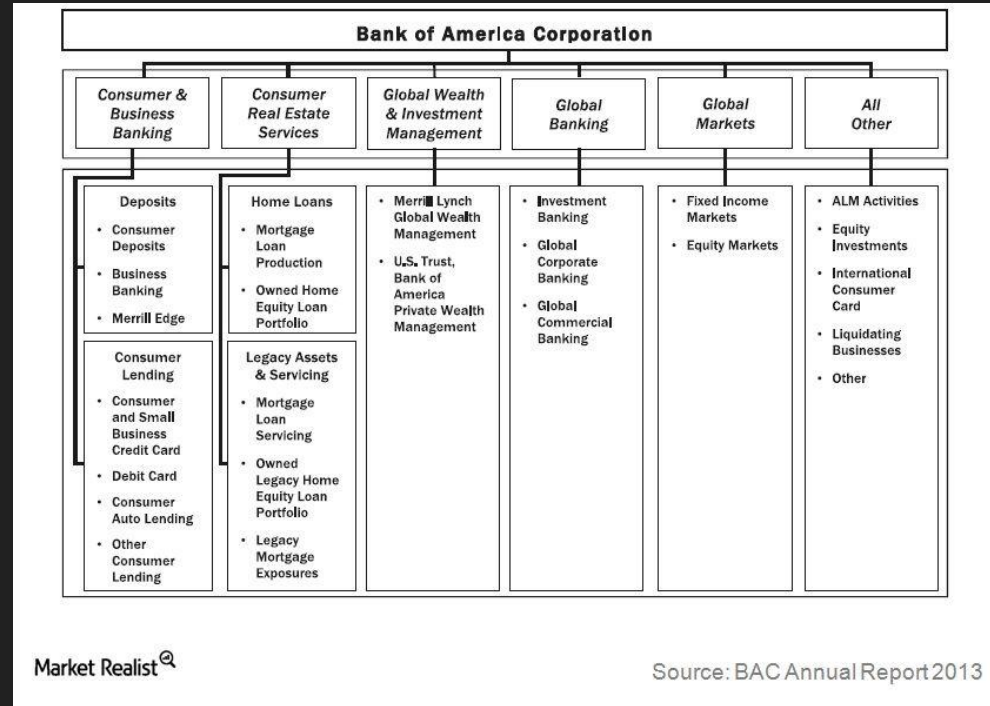
Bank of America Two-Stage Dividend Discount Model

| | | | | | | |
|--------|------------|---------------------|----|-------|-----------------|--------|
| Ticker | BAC | Implied Share Price | \$ | 37.61 | Upside/Downside | 14.92% |
| Date | 12/12/2022 | Current Share Price | \$ | 32.73 | | |

| Dividend Projections (High Growth Period) | | | | | Growth Period | | Assumptions | | CAPM | |
|---|---------|---------|------------|------|-----------------|----|-------------|---------------|-------------------------------------|-------|
| Year | EPS | DPS | PV @ 9.33% | | EPS | \$ | 3.60 | Stable Period | Rfr (5 yr treasury yield) | 3.92% |
| 1 | \$ 3.92 | \$ 0.85 | \$ | 0.78 | DPS | \$ | 0.78 | | Beta | 1.23 |
| 2 | \$ 4.26 | \$ 0.92 | \$ | 0.77 | Payout Ratio | | 21.7% | Growth | Avg Mkt Return | 8.3% |
| 3 | \$ 4.63 | \$ 1.00 | \$ | 0.77 | ROE | | 11.20% | ROE | Risk Premium | 4.40% |
| 4 | \$ 5.04 | \$ 1.09 | \$ | 0.76 | | | | Payout Ratio | | 40% |
| 5 | \$ 5.48 | \$ 1.19 | \$ | 0.76 | Growth | | 8.77% | | Cost of Equity (High Growth Period) | 9.33% |
| Sum | | | \$ | 3.84 | | | | | | |
| | | | | | PV of dividends | \$ | 3.84 | | Stable Beta | 1.0 |
| E(EPS) | \$ | 5.70 | | | | | | | Cost of Equity (Stable Growth) | 8.32% |
| E(DPS) | \$ | 2.28 | | | | | | | | |
| Terminal Price | | \$ | 52.76 | | | | | | | |
| PV of Terminal Price | | \$ | 33.77 | | | | | | | |
| Value Today | | \$ | 37.61 | | | | | | | |

How Does BAC Make Money

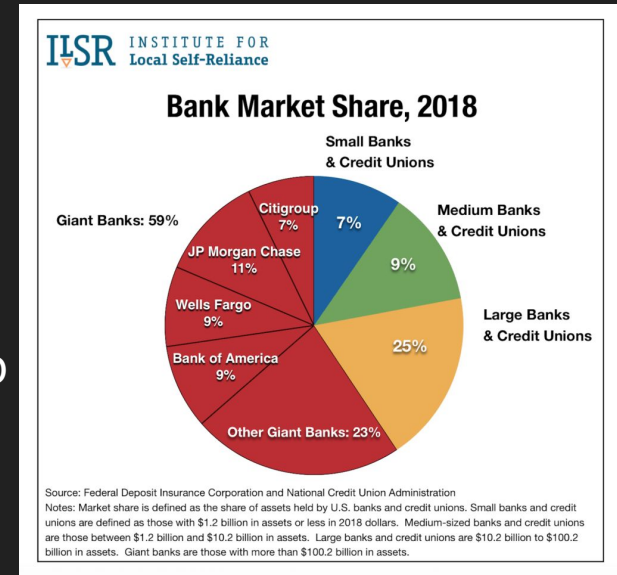
- Operates through five major segments:
 - Consumer and Business Banking,
 - Consumer Real Estate Services,
 - Global Wealth and Investment Management,
 - Global Banking
 - Global Markets.
- The Consumer and Business Banking segment contributes a third of the bank's total revenues.
- The domestic banking that they do makes majority of their revenue
- As of 2021, roughly two thirds of the bank's total revenues came from the U.S. and Canada and the other third of its revenue coming from global operations
- According to Bloomberg, BAC has increased the number of employees based in Latin America by 9% and increased their market share in investment banking



Competitors

Being a large bank, Bank of America has many competitors, its' main competition being:

- 1: JP Morgan Chase (JPM) - \$405.30 Billion market cap
- 2: Wells Fargo (WFC) - \$182.71 Billion market cap
- 3: Morgan Stanley (MS) - \$157.29 Billion market cap
- 4: Charles Schwab (SCHW) - \$154.08 Billion market cap



Performance History

HOME > BAC · NYSE

Bank of America Corp

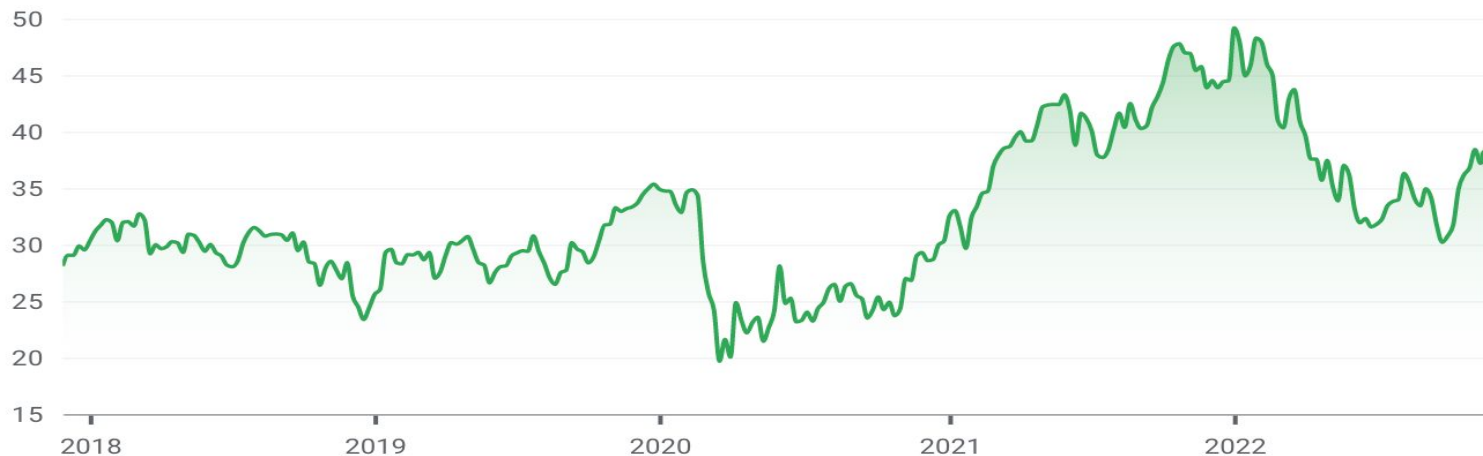
\$37.85 ↑ 34.70% +9.75 5Y

After Hours: **\$37.79** (↓ 0.16%) **-0.060**

Closed: Nov 30, 7:59:31 PM UTC-5 · USD · NYSE · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX

 Key events



Performance History Against Competitors



| | | | | |
|-----------------------------------|-----------|------------|----------|---|
| <div></div> Bank of America C... | \$37.85 | +\$9.75 | ↑ 34.70% | |
| <div></div> Dow Jones Industri... | 34,589.77 | +10,358.18 | ↑ 42.75% | × |
| <div></div> Wells Fargo & Co | \$47.95 | -\$8.25 | ↓ 14.68% | × |
| <div></div> JPMorgan Chase & ... | \$138.18 | +\$33.39 | ↑ 31.86% | × |

Relevant Metrics

PE Ratio = 11.94

The standard ratio for financial institutions is roughly 6.23, with this PE ratio being higher than average

PEG Ratio = 1.79

Typically the ideal ratio should be lower than 1, so this suggests that the stock is overvalued

CAPE Ratio = 15.31

Generally should fall in the range of 10-15, so this is roughly standard

Debt to Total Capitalization = 0.50

Slightly higher than normal, may indicate higher risks for paying off debt
























Loan-to-Deposit Ratio = 0.53

Ideally, this ratio should be around 0.8-0.9, but with many banks having low loan-to-deposit rates, this is close to average at around 0.6

Income Statement

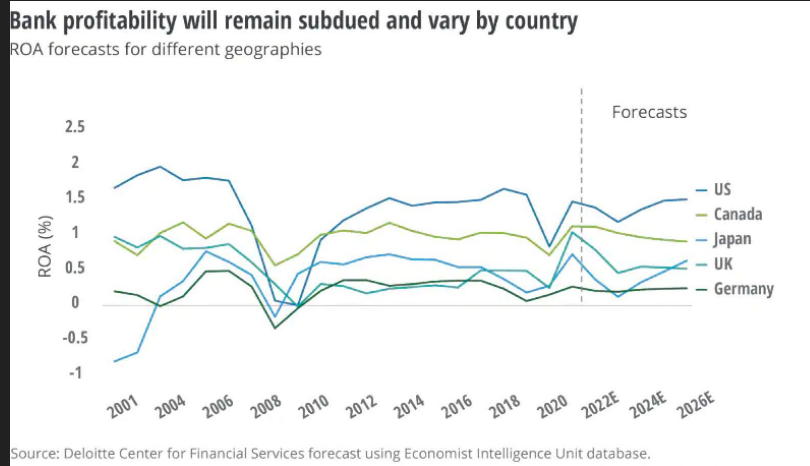
| Annual Data Millions of US \$ except per share data | | 2021-12-31 | 2020-12-31 | 2019-12-31 | 2018-12-31 | 2017-12-31 | 2016-12-31 | 2015-12-31 | 2014-12-31 |
|---|--|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Net Income/Loss | | \$31,978 | \$17,894 | \$27,430 | \$28,147 | \$18,232 | \$17,822 | \$15,910 | \$5,520 |
| Total Depreciation And Amortization - Cash Flow | | \$7,735 | \$5,944 | \$3,795 | \$3,887 | \$4,354 | \$5,375 | \$5,002 | \$4,227 |
| Other Non-Cash Items | | \$-2,686 | \$11,203 | \$9,854 | \$7,898 | \$12,965 | \$10,267 | \$4,901 | \$2,019 |
| Total Non-Cash Items | | \$5,049 | \$17,147 | \$13,649 | \$11,785 | \$17,319 | \$15,642 | \$9,903 | \$6,246 |
| Change In Accounts Receivable | | \$-8,951 | \$-608 | \$1,317 | \$901 | \$-2,958 | \$-519 | \$-1,729 | \$-830 |
| Change In Inventories | | \$-22,104 | \$16,942 | \$7,920 | \$-23,673 | \$-14,663 | \$-2,635 | \$2,550 | \$5,860 |
| Change In Accounts Payable | | - | - | - | - | - | - | - | - |
| Change In Assets/Liabilities | | \$-34,455 | \$-12,883 | \$-11,113 | \$11,920 | \$-20,090 | \$-14,103 | \$2,645 | \$5,894 |
| Total Change In Assets/Liabilities | | \$-48,871 | \$-934 | \$14,487 | \$2,158 | \$-33,038 | \$-17,292 | \$4,196 | \$20,630 |
| Cash Flow From Operating Activities | | \$-7,193 | \$37,993 | \$61,777 | \$39,520 | \$9,864 | \$17,277 | \$28,397 | \$30,791 |
| Net Change In Property, Plant, And Equipment | | - | - | - | - | - | - | - | - |
| Net Change In Intangible Assets | | - | - | - | - | - | - | - | - |
| Net Acquisitions/Divestitures | | - | - | - | - | - | - | - | - |
| Net Change In Short-term Investments | | \$-178,765 | \$-146,253 | \$-113,855 | \$-44,725 | \$-109,437 | \$-125,373 | \$-82,452 | \$2,531 |
| Net Change In Long-Term Investments | | \$-78,240 | \$-72,616 | \$76,769 | \$-10,201 | \$85,439 | \$87,370 | \$68,795 | \$-45,607 |
| Net Change In Investments - Total | | \$-257,005 | \$-218,869 | \$-37,086 | \$-54,926 | \$-23,998 | \$-38,003 | \$-13,657 | \$-43,076 |
| Investing Activities - Other | | \$-56,286 | \$41,204 | \$-43,544 | \$-16,542 | \$-27,543 | \$-24,282 | \$-41,914 | \$34,817 |
| Cash Flow From Investing Activities | | \$-313,291 | \$-177,665 | \$-80,630 | \$-71,468 | \$-51,541 | \$-62,285 | \$-55,571 | \$-8,260 |
| Net Long-Term Debt | | \$29,849 | \$9,065 | \$1,626 | \$11,232 | \$4,006 | \$-16,086 | \$3,305 | \$-2,170 |
| Net Current Debt | | \$26,438 | \$321 | \$-17,875 | \$-2,408 | \$15,562 | \$-8,014 | \$-30,060 | \$-11,650 |
| Debt Issuance/Retirement Net - Total | | \$56,287 | \$9,386 | \$-16,249 | \$8,824 | \$19,568 | \$-24,100 | \$-26,755 | \$-13,830 |
| Net Common Equity Issued/Repurchased | | \$-25,126 | \$-7,025 | \$-28,144 | \$-20,094 | \$-12,814 | \$-5,112 | \$590 | \$-1,675 |
| Net Total Equity Issued/Repurchased | | \$-24,928 | \$-5,916 | \$-27,069 | \$-20,091 | \$-12,814 | \$-2,165 | \$590 | \$4,280 |
| Total Common And Preferred Stock Dividends Paid | | \$-8,055 | \$-7,727 | \$-5,934 | \$-6,895 | \$-5,700 | \$-4,194 | \$-3,574 | \$-2,300 |
| Financial Activities - Other | | \$268,346 | \$360,076 | \$52,629 | \$71,280 | \$48,214 | \$63,612 | \$78,274 | \$-345 |
| Cash Flow From Financial Activities | | \$291,650 | \$355,819 | \$3,377 | \$53,118 | \$49,268 | \$33,153 | \$48,535 | \$-12,207 |
| Net Cash Flow | | \$-32,242 | \$218,903 | \$-15,844 | \$19,970 | \$9,696 | \$-11,615 | \$20,764 | \$7,269 |
| Stock-Based Compensation | | \$2,768 | \$2,031 | \$1,974 | \$1,729 | \$1,649 | \$1,367 | \$-89 | \$71 |
| Common Stock Dividends Paid | | \$-8,055 | \$-7,727 | \$-5,934 | \$-6,895 | \$-5,700 | \$-4,194 | \$-3,574 | \$-2,300 |

Balance Sheet

| Annual Data Millions of US \$ except per share data | | 2021-12-31 | 2020-12-31 | 2019-12-31 | 2018-12-31 | 2017-12-31 | 2016-12-31 | 2015-12-31 |
|---|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cash On Hand |  | \$853,165 | \$889,921 | \$673,090 | \$660,377 | \$590,692 | \$536,032 | \$483,000 |
| Receivables |  | - | - | - | - | - | - | - |
| Inventory |  | - | - | - | - | - | - | - |
| Pre-Paid Expenses |  | - | - | - | - | - | - | - |
| Other Current Assets |  | - | - | - | - | - | - | - |
| Total Current Assets |  | \$1,907,800 | \$1,872,444 | \$1,712,195 | \$1,673,852 | \$1,590,101 | \$1,499,303 | \$1,406,000 |
| Property, Plant, And Equipment |  | \$10,833 | \$11,000 | \$10,561 | \$9,906 | \$9,247 | \$9,139 | \$8,800 |
| Long-Term Investments |  | \$982,627 | \$684,850 | \$472,197 | \$441,753 | \$440,130 | \$430,731 | \$420,000 |
| Goodwill And Intangible Assets |  | \$69,022 | \$68,951 | \$68,951 | \$68,951 | \$68,951 | \$71,716 | \$71,716 |
| Other Long-Term Assets |  | \$199,213 | \$182,382 | \$170,175 | \$160,045 | \$172,805 | \$177,178 | \$177,178 |
| Total Long-Term Assets |  | \$1,261,695 | \$947,183 | \$721,884 | \$680,655 | \$691,133 | \$688,764 | \$688,764 |
| Total Assets |  | \$3,169,495 | \$2,819,627 | \$2,434,079 | \$2,354,507 | \$2,281,234 | \$2,188,067 | \$2,094,764 |
| Total Current Liabilities |  | \$2,581,637 | \$2,238,243 | \$1,890,184 | \$1,821,899 | \$1,752,386 | \$1,665,569 | \$1,665,569 |
| Long Term Debt |  | \$280,117 | \$262,934 | \$240,856 | \$229,392 | \$227,402 | \$216,823 | \$216,823 |
| Other Non-Current Liabilities |  | \$37,675 | \$45,526 | \$38,229 | \$37,891 | \$34,300 | \$39,480 | \$39,480 |
| Total Long Term Liabilities |  | \$317,792 | \$308,460 | \$279,085 | \$267,283 | \$261,702 | \$256,303 | \$256,303 |
| Total Liabilities |  | \$2,899,429 | \$2,546,703 | \$2,169,269 | \$2,089,182 | \$2,014,088 | \$1,921,872 | \$1,921,872 |
| Common Stock Net |  | \$62,398 | \$85,982 | \$91,723 | \$118,896 | \$138,089 | \$147,038 | \$147,038 |
| Retained Earnings (Accumulated Deficit) |  | \$188,064 | \$164,088 | \$156,319 | \$136,314 | \$113,816 | \$101,225 | \$101,225 |
| Comprehensive Income |  | \$-5,104 | \$-1,656 | \$-6,633 | \$-12,211 | \$-7,082 | \$-7,288 | \$-7,288 |
| Other Share Holders Equity |  | - | - | - | - | - | - | - |
| Share Holder Equity |  | \$270,066 | \$272,924 | \$264,810 | \$265,325 | \$267,146 | \$266,195 | \$266,195 |
| Total Liabilities And Share Holders Equity |  | \$3,169,495 | \$2,819,627 | \$2,434,079 | \$2,354,507 | \$2,281,234 | \$2,188,067 | \$2,094,764 |

Financial Services Sector Outlook

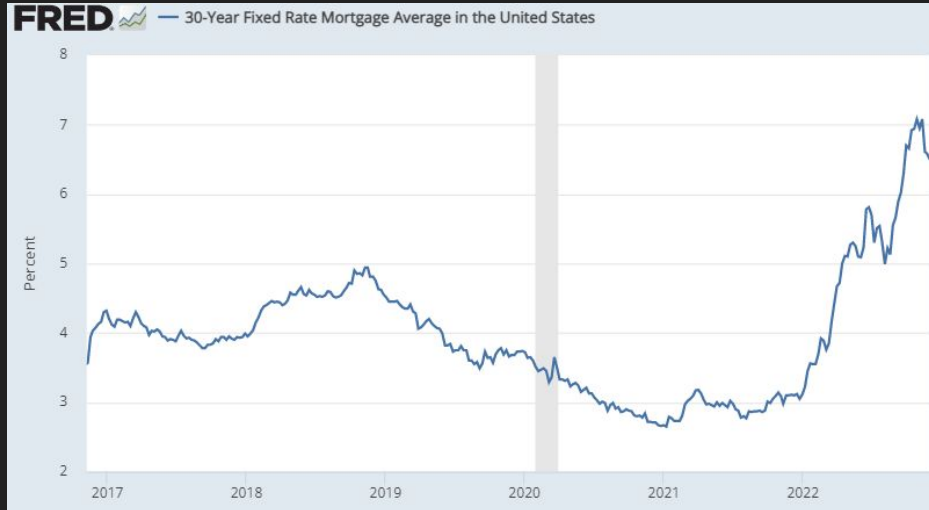
- Inflation, high interest rates, supply chain problems, and a potential recession lead to a stressful environment in the future
- 2023 will likely have added regulations and transparency requirements especially after FTX and Sam Bankman-Fried have been caught stealing money from investors
- The future will likely have challenges never seen before in this industry such as requirements to invest in ESG



Unless another 2008/2009 situation occurs the larger financial institutions like Bank of America should be able to survive the potential threats surrounding the overall market

Tailwinds

- Rising interest rates increase income generated from loans, in turn creating more revenue



Headwinds

- With rising borrowing costs, there is an increased risk of default from consumers
- Short-term rates are higher than long-term rates, leading to an increased cost of borrowing for BAC

Tailwinds

Low APY on deposit products lead to increased profit margins due to lower costs

| Bank of America Advantage Savings [†] | | | |
|--|-------------------|--------|-------|
| Standard Pricing | | | |
| | Account Balance | Rate % | APY % |
| | Less than \$2,500 | 0.01% | 0.01% |
| | \$2,500 and over | 0.01% | 0.01% |
| Preferred Rewards Tier with Interest Rate Booster* | | | |
| | Account Balance | Rate % | APY % |
| Gold | | | |
| | Less than \$2,500 | 0.02% | 0.02% |
| | \$2,500 and over | 0.02% | 0.02% |
| Platinum | | | |
| | Less than \$2,500 | 0.03% | 0.03% |
| | \$2,500 and over | 0.03% | 0.03% |
| Platinum Honors | | | |
| | Less than \$2,500 | 0.04% | 0.04% |
| | \$2,500 and over | 0.04% | 0.04% |
| Diamond | | | |
| | Less than \$2,500 | 0.04% | 0.04% |
| | \$2,500 and over | 0.04% | 0.04% |
| Diamond Honors | | | |
| | Less than \$2,500 | 0.04% | 0.04% |
| | \$2,500 and over | 0.04% | 0.04% |

Headwinds

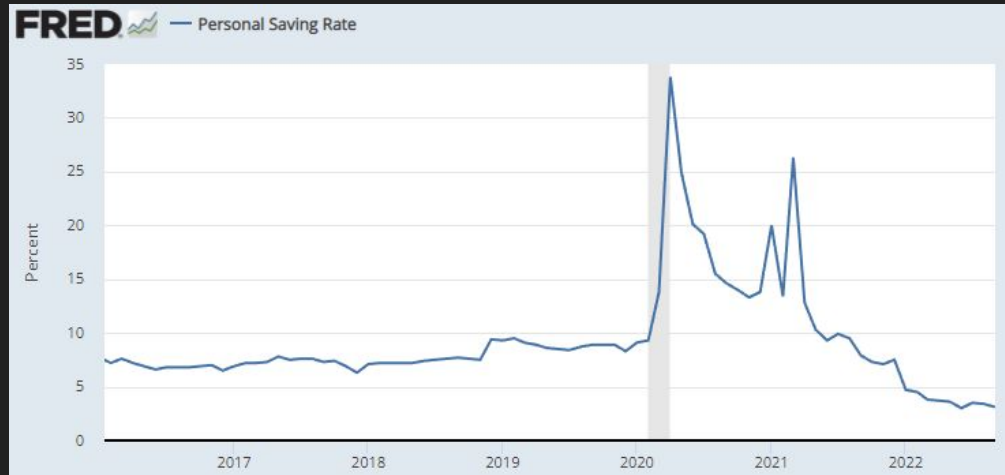
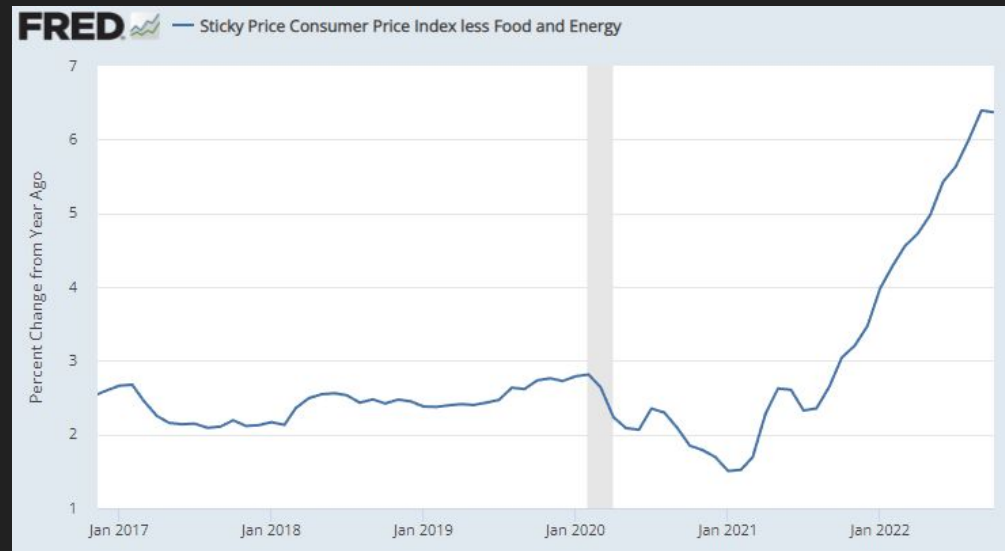
Competitors offer better APY rates regardless of balance size

| Competitors | APY % |
|---|-------------|
| Morgan Stanley Private Bank Premium Savings Account | 3.25% |
| Chase Premier Savings | 0.02% |
| Wells Fargo Platinum Savings | 0.25% to 2% |
| Marcus Goldman Sachs Online Savings Account | 3.00% |
| Schwab Bank High Yield Investor Savings Account | 0.47% |

Consumers are incentivized to deposit elsewhere

Risks

- Rising CPI
 - High inflation rate
 - Overall higher cost of living
-
- Reduction in personal savings rate
 - Less bank deposits



Conclusion

Bank of America poses an opportunity for growth in these current market conditions as interest rates are rising, which in turn increases their revenue streams from loans. They are maintaining low APY rates on their deposit products, ranging from CDs to savings accounts, which will aid in slowing down their year-over-year operating expenses.

Recommendation: **Buy**

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