

## JPMorgan Chase Q3 2019 Earnings

Saying that JPMorgan Chase is the best run business in the world will not be an exaggeration. A bank of this size to be able to grow at such a rate is unbelievable.

It comes down to great leadership and management. Jamie Dimon is the most admired CEO of a Fortune 500 company by his peers(<https://fortune.com/2019/05/14/fortune-500-ceos-most-admired/>)



But it is not only about him, it is also about the great executive team of the company from Marriane Lake to Jeniffer Piepszak.

Let's now look at the Q3 earning reports

(<https://www.jpmorganchase.com/corporate/investor-relations/document/45256e8f-40ab-4d40-bba3-4193e1577515.pdf>)

### 3Q19 Financial highlights

<b>ROTCE<sup>1</sup></b> 18%	<b>Common equity Tier 1<sup>2</sup></b> 12.3%	<b>Net payout LTM<sup>3</sup></b> 98%
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- 3Q19 net income of \$9.1B and EPS of \$2.68
  - Record managed revenue of \$30.1B<sup>4</sup>
  - Expense of \$16.4B and managed overhead ratio of 55%<sup>4</sup>
- Balance sheet
  - Average total loans flat YoY and down 1% QoQ
    - Average total loans excluding loan sales in Home Lending up 3% YoY and flat QoQ
  - Average deposits up 5% YoY and 1% QoQ
  - Basel III CET1 capital of \$188B<sup>2</sup> and Standardized CET1 ratio of 12.3%<sup>2</sup>
- Delivered strong capital return to shareholders
  - \$9.6B<sup>5</sup> distributed to shareholders in 3Q19, including \$6.7B of net repurchases
  - Common dividend of \$0.90 per share

Now, it is important to go deeper and see each segment of the business. We know that JPMorgan Chase is quite a diversified business having operations in investment banking, commercial banking, credit card issuing, wealth management and custodian banking(<https://www.jpmorganchase.com/corporate/investor-relations/document/713c9e33-64d3-430d-92f3-91e5c7c0651f.pdf>)

<p><b>Firmwide Metrics</b></p>	<ul style="list-style-type: none"> <li>■ Reported revenue of \$29.3 billion; managed revenue of \$30.1 billion<sup>2</sup></li> <li>■ Average total loans flat or up 3% excluding the impact of loan sales in Home Lending</li> </ul>
<p><b>CCB</b> <i>ROE 32%</i></p>	<ul style="list-style-type: none"> <li>■ Average loans down 4%; Home Lending loans down 12% impacted by loan sales; credit card loans up 8%</li> <li>■ Client investment assets up 13%; average deposits up 3%</li> <li>■ Credit card sales volume<sup>6</sup> up 10%; merchant processing volume up 11%</li> </ul>
<p><b>CIB</b> <i>ROE 13%</i></p>	<ul style="list-style-type: none"> <li>■ Maintained #1 ranking for Global Investment Banking fees with 9.3% wallet share YTD</li> <li>■ Total Markets revenue of \$5.1 billion, up 14%</li> </ul>
<p><b>CB</b> <i>ROE 16%</i></p>	<ul style="list-style-type: none"> <li>■ Gross Investment Banking revenue of \$700 million, up 20%</li> <li>■ Average client deposits of \$173 billion, up 3%</li> </ul>
<p><b>AWM</b> <i>ROE 24%</i></p>	<ul style="list-style-type: none"> <li>■ Average loan balances up 7%</li> <li>■ Assets under management (AUM) of \$2.2 trillion, up 8%</li> </ul>

# Consumer & Community Banking<sup>1</sup>

\$mm			
	3Q19	\$ O/(U)	
		2Q19	3Q18
Revenue	\$14,259	\$426	\$969
Consumer & Business Banking	6,688	(109)	303
Home Lending <sup>2</sup>	1,465	347	159
Card, Merchant Services & Auto	6,106	188	507
Expense	7,290	128	308
Credit costs	1,311	191	331
Net charge-offs (NCOs)	1,261	(59)	181
Change in allowance	50	250	150
Net income	\$4,273	\$99	\$187

Key drivers/statistics (\$B) <sup>3</sup>			
Equity	\$52.0	\$52.0	\$51.0
ROE	32%	31%	31%
Overhead ratio	51	52	53
Average loans	\$459.5	\$467.2	\$479.6
Average deposits	694.0	690.9	674.2
Active mobile customers (mm)	36.5	35.4	32.5
Debit & credit card sales volume	\$282.2	\$281.5	\$259.0

In the consumer and community banking, JPMorgan was able to take advantage of the low interest rates to expand their credit card business.

# Corporate & Investment Bank<sup>1</sup>

\$mm			
	3Q19	\$ O/(U)	
		2Q19	3Q18
Revenue	\$9,338	(\$303)	\$533
Investment banking revenue	1,871	95	140
Treasury Services	1,101	(34)	(82)
Lending	329	(8)	(2)
<b>Total Banking</b>	<b>3,301</b>	<b>53</b>	<b>56</b>
Fixed Income Markets	3,557	(133)	713
Equity Markets	1,517	(211)	(78)
Securities Services	1,034	(11)	(23)
Credit Adjustments & Other	(71)	(1)	(135)
<b>Total Markets &amp; Securities Services</b>	<b>6,037</b>	<b>(356)</b>	<b>477</b>
Expense	5,348	(139)	173
Credit costs	92	92	134
Net income	\$2,809	(\$126)	\$183

Key drivers/statistics (\$B) <sup>2</sup>			
Equity	\$80.0	\$80.0	\$70.0
ROE	13%	14%	14%
Overhead ratio	57	57	59
Comp/revenue	29	28	27
IB fees (\$mm)	\$1,981	\$1,846	\$1,823
Average loans	127.4	132.0	122.7
Average client deposits <sup>3</sup>	471.3	458.2	434.8
Assets under custody (\$T)	25.7	25.5	24.4
ALL/EOP loans ex-conduits and trade <sup>4</sup>	1.33%	1.27%	1.27%
Net charge-off/(recovery) rate <sup>4</sup>	0.13	0.23	(0.14)
Average VaR (\$mm)	\$38	\$44	\$33

Corporate and Investment banking keeps growing YoY. There has been many mergers and IPOs this year and JPMorgan says that they are optimistic about the IPO market. Goldman Sachs, on the other hand, is not so optimistic about IPOs. Two major IPOs coming from JPMorgan would be WeWork and Saudi Aramco.

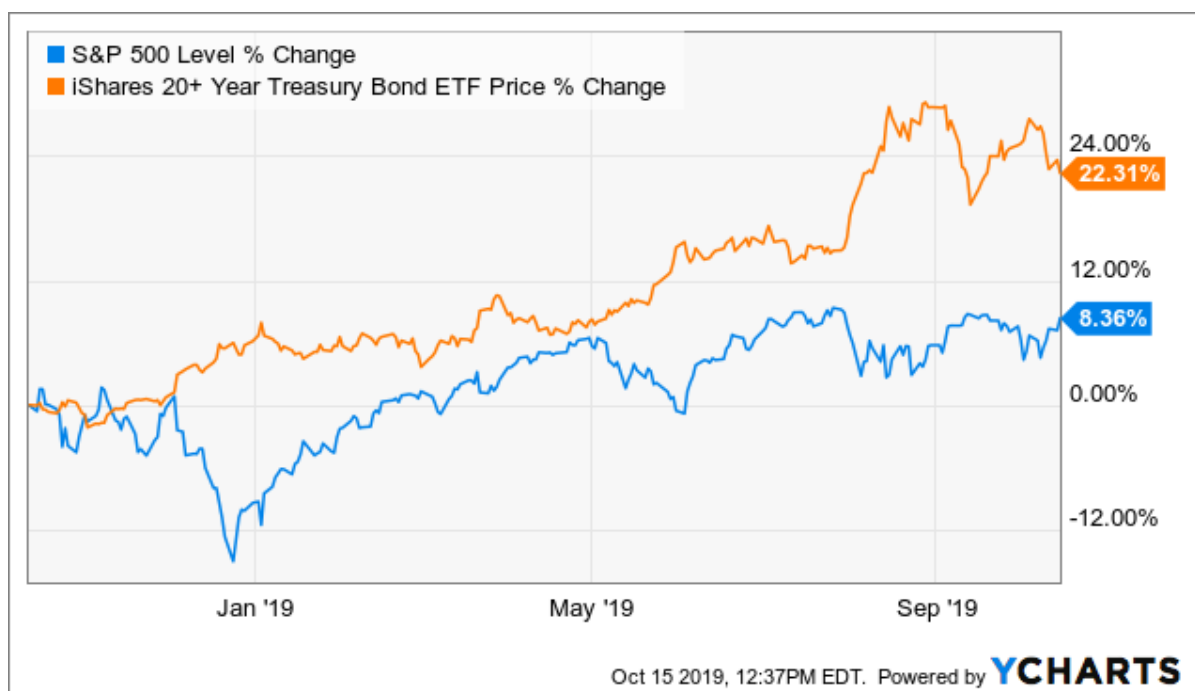
It is also important to note a 25% YoY gain in fixed income revenues and lower revenues from equity. This is a good indication on how investors are behaving. They are more interested in bonds than in stocks.

## ■ Markets & Securities Services revenue

### ■ Markets revenue of \$5.1B, up 14% YoY

- Fixed Income Markets revenue of \$3.6B, up 25% compared to the prior year which reflected less favorable market conditions
- Equity Markets revenue of \$1.5B, down 5% compared to a strong prior year, reflecting lower revenues in derivatives, partially offset by higher Cash Equities

### ■ Securities Services revenue of \$1.0B, down 2% YoY, with deposit margin compression largely offset by organic growth



# Commercial Banking<sup>1</sup>

\$mm

	3Q19	\$ O/(U)	
		2Q19	3Q18
Revenue	\$2,207	(\$4)	(\$64)
Middle Market Banking	903	(36)	(32)
Corporate Client Banking	739	30	(10)
Commerical Real Estate Banking <sup>2</sup>	547	9	(15)
Other <sup>2</sup>	18	(7)	(7)
Expense	881	17	28
Credit costs	67	38	82
Net income	\$937	(\$59)	(\$152)

## Key drivers/statistics (\$B)<sup>3</sup>

Equity	\$22.0	\$22.0	\$20.0
ROE	16%	17%	21%
Overhead ratio	40	39	38
Gross IB Revenue (\$mm)	\$700	\$592	\$581
Average loans	208.2	207.5	207.2
Average client deposits	172.7	168.2	168.2
Allowance for loan losses	2.8	2.8	2.6
Nonaccrual loans	0.7	0.6	0.5
Net charge-off/(recovery) rate <sup>4</sup>	0.09%	0.03%	(0.03)%
ALL/loans <sup>4</sup>	1.32	1.32	1.28

# Asset & Wealth Management<sup>1</sup>

\$mm

	3Q19	\$ O/(U)	
		2Q19	3Q18
Revenue	\$3,568	\$9	\$9
Asset Management	1,816	31	(11)
Wealth Management	1,752	(22)	20
Expense	2,622	26	37
Credit costs	44	42	21
Net income	\$668	(\$51)	(\$56)

## Key drivers/statistics (\$B)<sup>2</sup>

Equity	\$10.5	\$10.5	\$9.0
ROE	24%	27%	31%
Pretax margin	25	27	27
Assets under management ("AUM")	\$2,246	\$2,178	\$2,077
Client assets	3,061	2,998	2,867
Average loans	150.5	146.5	140.6
Average deposits	138.8	140.3	133.0

Commercial banking and Wealth and Asset Management underperform. Not surprising considering a slowing down of the economic expansion.

<https://www.jpmorganchase.com/corporate/investor-relations/document/181b6f1d-840b-4597-9b89-94c091e2e5ef.pdf>

SELECTED INCOME STATEMENT DATA	QUARTERLY TRENDS					3Q19 Change		NINE MONTHS ENDED SEPTEMBER 30,		
	3Q19	2Q19	1Q19	4Q18	3Q18	2Q19	3Q18	2019	2018	2019 Change
										2018
<b>Reported Basis</b>										
Total net revenue	\$ 29,341	\$ 28,832	\$ 29,123	\$ 26,109	\$ 27,260	2%	8%	\$ 87,296	\$ 82,920	5%
Total noninterest expense	16,422	16,341	16,395	15,720	15,623	—	5	49,158	47,674	3
Pre-provision profit	12,919	12,491	12,728	10,389	11,637	3	11	38,138	35,246	8
Provision for credit losses	1,514	1,149	1,495	1,548	948	32	60	4,156	3,323	25
<b>NET INCOME</b>	9,080	9,652	9,179	7,066	8,380	(6)	8	27,911	25,408	10
<b>MARKET AND PER COMMON SHARE DATA</b>										
Market capitalization	\$ 369,133	\$ 357,479	\$ 328,387	\$ 319,780	\$ 375,239	3	(2)	\$ 369,133	\$ 375,239	(2)
Common shares at period-end	3,136.5	3,197.5	3,244.0	3,275.8	3,325.4	(2)	(6)	3,136.5	3,325.4	(6)
Book value per share	75.24	73.88	71.78	70.35	69.52	2	8	75.24	69.52	8
Tangible book value per share ("TBVPS") (b)	60.48	59.52	57.62	56.33	55.68	2	9	60.48	55.68	9
Cash dividends declared per share	0.90 (e)	0.80	0.80	0.80	0.80	13	13	2.50	1.92	30

Considering the growth of book value by 8% YoY (first nine month) and growth in net income by 10% in the same period which resulted in growth of 16% in EPS due to share repurchases, I will say that the market is undervaluing JPMorgan Chase stocks. There is always a premium on such a company but even with the premium, it is undervalued. I recently sold some of my shares of JPMorgan Chase.

My rating on JPMorgan Chase remains a BUY

Let's end this analysis with some quotes from Jamie Dimon from the conference call.

Jamie Dimon, Chairman and CEO, commented on the financial results: *“JPMorgan Chase delivered record revenue this quarter, demonstrating broad-based strength and the resilience of our business model despite a more challenging interest rate backdrop. In Consumer & Community Banking, we had strong deposit and client investment asset growth. Our consumer lending businesses benefited from our continued investments and a favorable environment for borrowers, which helped drive healthy volumes in Home Lending and Auto and strong loan growth in Card.”*

Dimon added: *“We had record third quarter IB fees with particularly strong performance in DCM and ECM, and year-to-date we maintained our #1 global ranking with share gains across products and regions. Markets performance was solid, reflecting improved client activity – particularly in Fixed Income. Commercial Banking turned in a solid performance with continued momentum in investment banking and treasury services. And in Asset & Wealth Management, both AUM and client assets were a record helped by strong net inflows into long-term and liquidity products.”*

Dimon concluded: *“In the U.S. economy, GDP growth has slowed slightly. The consumer remains healthy with growth in wages and spending, combined with strong balance sheets and low unemployment levels. This is being offset by weakening business sentiment and capital expenditures mostly driven by increasingly complex geopolitical risks, including tensions in global trade. Regardless of the operating environment, JPMorgan Chase will continue to serve our customers, clients and communities globally, while investing in innovation, talent, technology, security and controls.”*

A handwritten signature in black ink, appearing to read "John F. Perally". The signature is written in a cursive, flowing style with a large loop at the end.