

# JPMorgan Chase & Co. (NYSE:JPM)



**Ishfaq Peerally**  
eToro Elite Popular Investor  
(Approved Value Investor)

## Trading Statistics (USD)

<b>Market Cap (mm)</b>	458	<b>LTM EPS</b>	12.62	<b>Update Date</b>	15 Apr 2021
<b>Current Price</b>	151	<b>LTM P/E</b>	11.9	<b>Recommendation</b>	HOLD
<b>52 Wk L - H</b>	82 - 161	<b>EV / EBITDA</b>	N/A	<b>Price Target</b>	NONE

## Business Description

- Largest bank in the US with \$3.6 Trillion in AUM and \$31 Trillion in AUC
- Largest commercial Bank in the US, largest Investment Bank in the World, second largest Custodian Bank in the world, largest credit card issuer in the US
- Operates under the JPMorgan and Chase brands, serving different clientele. TheChase Brand is focused on retail and commercial banking while JPMorgan on wealth management, private banking, corporate and investment banking.

## Financial Summary

	FY17	FY18	FY19	FY20	TTM
<b>Revenue (mm)</b>	100,705	108,783	115,399	119,543	124,470
<b>Book Value</b>	255,693	256,515	261,330	279,354	275,864
<b>ROE</b>	10%	13%	14%	10%	15%
<b>Net Income (mm)</b>	24,441	32,474	36,431	29,131	40,566
<b>Margins</b>	24%	30%	32%	24%	33%

## Investment Thesis

### Business Description:

Segments	1Q21				
	Loans YoY	Deposits YoY	ROE	Revenues YoY	Net Income YoY
<b>Consumer</b>	7%	32%	54%	6%	3400%
<b>Investment</b>	11%	37%	27%	56%	189%
<b>Commercial</b>	-2%	54%	19%	11%	860%
<b>Wealth Man.</b>	18%	43%	35%	20%	86%
<b>Consolidated</b>	1%	36%	23%	14%	399%

- Massive increase in deposits YoY mostly from Increase in Federal Reserve System balance sheet
- Massive increase in net income from release of reserves for credit losses of \$5.2 billion in 1Q21

	1/1/2020	3/31/2020	12/31/2020	1Q21 Build/(release)	3/31/2021
Consumer					
Card	\$11.2	\$15.0	\$17.8	(\$3.5)	\$14.3
Home Lending	2.0	2.3	2.0	(0.6)	1.4
Other Consumer <sup>1</sup>	1.0	1.3	1.8	(0.4)	1.5
<b>Total Consumer</b>	<b>14.2</b>	<b>18.6</b>	<b>21.6</b>	<b>(4.5)</b>	<b>17.1</b>
Wholesale <sup>1</sup>	4.4	6.8	9.1	(0.7)	8.4
Securities	0.0	0.0	0.1	0.0	0.1
<b>Firmwide</b>	<b>\$18.6</b>	<b>\$25.4</b>	<b>\$30.8</b>	<b>(\$5.2)</b>	<b>\$25.6</b>

## Catalysts:

- Economic recovery in the US and around the World
- Rising interest rates
- More release of credit losses → do not contribute to actual growth, only paper growth
- Increased dividends and share buybacks

## Risks:

- Zero interest rates, QE and banking regulations (Dodd-Frank Act of 2011) makes makes it harder for banks to do business

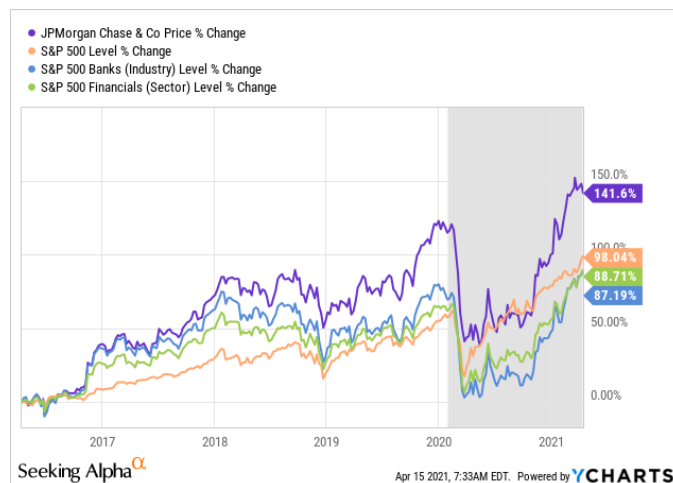
## Financial Analysis:

- Revenues of \$33.1 Billion 1Q21 up \$3.0 Billion QoQ
- Revenues of \$124.3 Billion in TTM vs \$119.5 Billion in FY20
- Net income of \$14.3 Billion in 1Q21 up \$2.2 Billion QoQ
- Net income of \$40.5 Billion in TTM vs \$27.4 Billion in FY20
- ROE of 23% vs 19% for 4Q20
- ROTCE of 29% vs 24% for 4Q20
- Overhead Ratio of 57% vs 53% for 4Q20
- CET1 Capital Ratio of 13.1%
- Issued \$1.5 Billion in Preferred Shares in 1Q21
- Common Dividends of \$2.8 Billion or \$0.90 per share
- \$4.3 Billion of common shares buybacks
- 2Q21 net buyback capacity of \$7.4B, after paying common dividend of \$0.90 per share

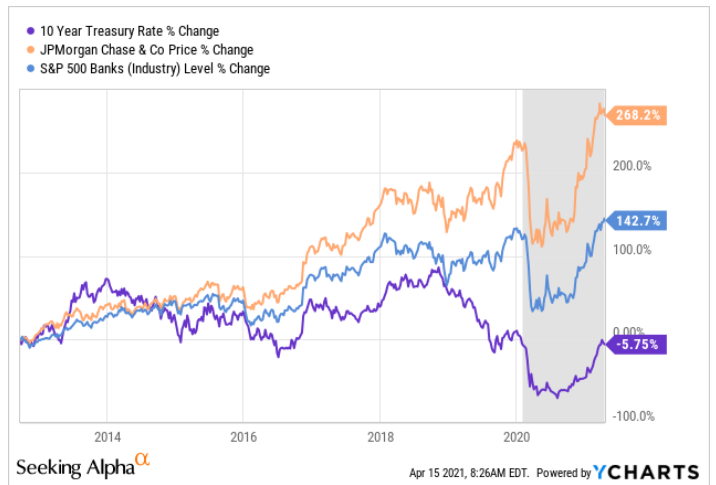
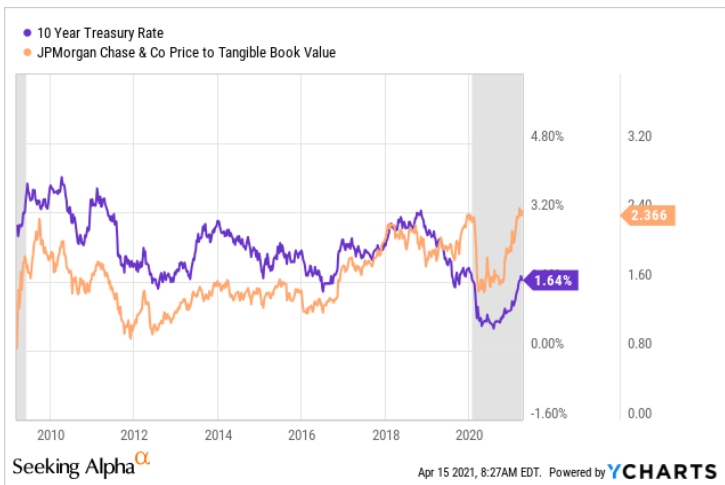
## Valuations

- My personal Biases
  - 4.9% of my portfolio, buying since 2016
  - Likes management
- Assumptions
  - Net income of \$45 Billion for FY21 with further release of credit losses and economic recovery
  - Net income falls to \$40 Billion in FY20, increasing by 4% annually
  - Discount Rate of 10% for the next 5 years
  - Terminal Growth rate of 2%

Year	Net Income	Discounted NI
<b>TTM</b>	<b>\$40.5</b>	
<b>2021</b>	<b>\$45.0</b>	<b>\$40.9</b>
<b>2022</b>	<b>\$40.0</b>	<b>\$33.1</b>
<b>2023</b>	<b>\$41.6</b>	<b>\$31.3</b>
<b>2024</b>	<b>\$43.3</b>	<b>\$29.5</b>
<b>2025</b>	<b>\$45.0</b>	<b>\$27.9</b>
<b>Terminal Value</b>		<b>\$348.0</b>
<b>Intrinsic Value</b>		<b>\$510.7</b>



- Exit Multiples Analysis
  - Based on Tangible Book value in 2025
  - 2% annual increase in book value for base case (2.3% in last 5 years)
  - 2.3% for bull case and 1.8% for bear case
  - 4% of tangible book value paid in dividends every year (average for last 5 years)
  - 15% of shares outstanding bought back over next 5 years in base case, 20% in bull case and 10% in bear case
  - Price to Tangible book value per share ranged from 1.2 to 2.3 in last 5 years, currently at 2.3, expected to rise if interest rates rises



		2025 Price to Tangible Book Value Ratio				
Tangible Book Value per share		1.5	1.8	2.1	2.4	2.7
<b>Bull</b>	\$ 89.86	\$ 134.79	\$ 161.75	\$ 188.71	\$ 215.66	\$ 242.62
<b>Base</b>	\$ 83.40	\$ 125.10	\$ 150.12	\$ 175.14	\$ 200.16	\$ 225.18
<b>Bear</b>	\$ 77.95	\$ 116.93	\$ 140.31	\$ 163.70	\$ 187.08	\$ 210.47
<b>Returns</b>		-23%	-1%	16%	33%	61%
<b>CAGR</b>		-5%	0%	3%	6%	10%
<b>Dividend Yield</b>		3%	2%	2%	2%	1%
<b>Total Returns</b>		-2%	2%	5%	7%	11%
<b>Probability</b>		10%	15%	25%	30%	20%
<b>Expectation</b>	<b>6%</b>	0%	0%	1%	2%	2%

### Conclusion

- Stock undervalued but future returns not expected to be much at current price
- Good hedge against rising interest rates
- Good stock to hold long-term