

JPMorgan Chase & Co. (NYSE:JPM)



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Investor (Approved Value
Investor)

Trading Statistics (USD)

Market Cap (bb)	422.6	LTM EPS	8.88	Update Date	19 Jan 2021
Current Price	138.64	LTM P/E	15.6	Recommendation	HOLD
52 Wk L - H	76.91 - 142.75	EV / EBITDA	N/A	Price Target	NONE

Business Description

- Largest bank in the US with \$3.3 Trillion in AUM and over \$30 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 clienteles. The Chase Brand is focused on retail and commercial banking while JPMorgan on wealth management, private banking, corporate and investment banking.

Financial Summary

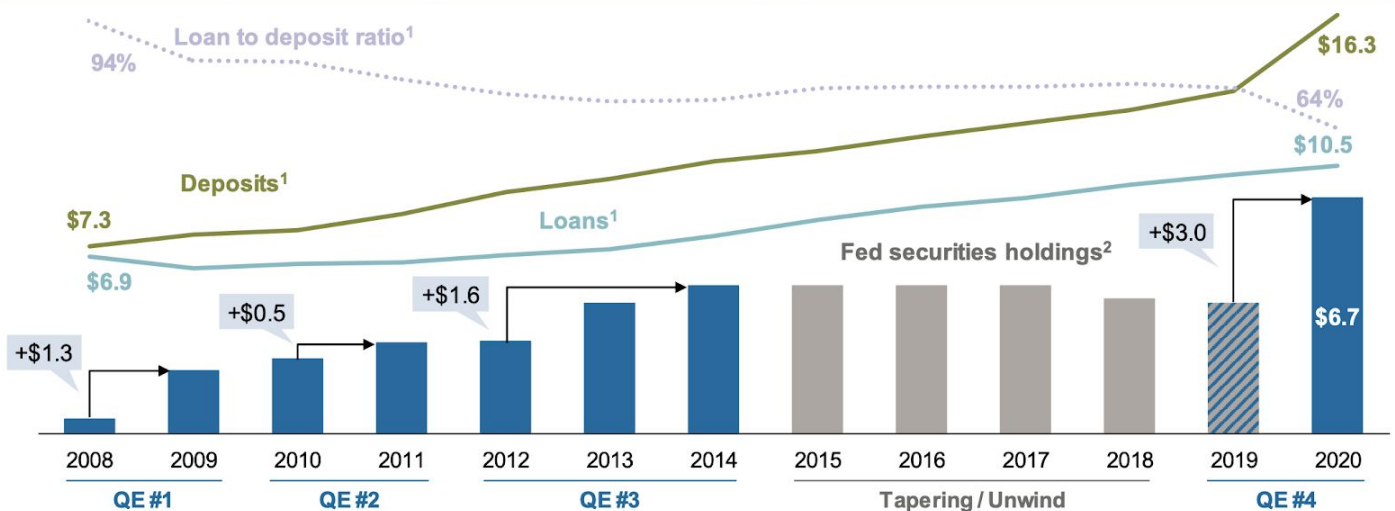
	FY16	FY17	FY18	FY19	FY20
Revenue (mm)	96,569	100,705	109,029	115,627	119,543
Book Value (mm)	254,190	255,693	256,515	261,330	279,354
ROE	9.1	8.9%	11.9%	13.3%	9.8%
Net Income (mm)	24,733	24,441	32,474	36,431	27,410
Margins	25.6%	24.3%	29.8%	31.5%	22.9%

Investment Thesis

Unfriendly Banking environment

- Zero interest rates, QE and banking regulations (Dodd-Frank Act of 2011) makes makes it harder for banks to do business
- CEO Jamie Dimon noted in the conference call, "I mean, our capital cup runneth over, OK. We have so much capital we cannot use it. If you look at what happened this year, our capital went from 12.4% to 13.3%. I think advanced is more representative of real risks so it will be 13.8%."

QE #4 resulted in a rapid expansion through ~\$3T of securities purchases (\$T)



- Deposits for all US commercial banks grew by 21% in the TTM while loans grew by only 8%
- As for JPMorgan Chase, the average loans were \$996B up 1% YoY and 1% QoQ
- Average deposits of \$2.1T up 35% YoY and 6% QoQ
- Revenues of \$30.2 Billion and net income of \$12.1 billion

4Q20 Financial results¹

\$B, except per share data							
				\$ O/(U)			
				4Q20	3Q20	4Q19	
Net interest income				\$13.4	\$0.2	(\$0.9)	
Noninterest revenue ²				16.8	(0.0)	1.9	
Managed revenue ^{1,2}	\$B	4Q20	3Q20	4Q19	30.2	0.2	1.0
Expense ²					16.0	(0.8)	(0.2)
Credit costs					(1.9)	(2.5)	(3.3)
Reported net income				\$12.1	\$2.7	\$3.6	
Net income applicable to common stockholders			4Q20 Tax rate Effective rate: 19.4% Managed rate: 24.2% ^{1,6}	\$11.7	\$2.7	\$3.6	
Reported EPS				\$3.79	\$0.87	\$1.22	
ROE ³		4Q20	ROE	O/H ratio	19%	15%	14%
ROTCE ^{3,4}					24	19	17
Overhead ratio – managed ^{1,3}					53	56	56
Memo: Adjusted expense ⁵				\$15.8	(\$0.6)	(\$0.3)	
Memo: Adjusted overhead ratio ^{1,3,5}				52%	55%	55%	

\$B, except per share data						
				\$ O/(U)		
				FY2020	FY2019	FY2019
Net interest income				\$55.0	\$57.8	(\$2.8)
Noninterest revenue ²				67.9	60.7	7.3
Managed revenue ^{1,2}	\$B	FY2020	FY2019	122.9	118.5	4.5
Expense ²				66.7	65.3	1.4
Credit costs				17.5	5.6	11.9
Reported net income				\$29.1	\$36.4	(\$7.3)
Net income applicable to common stockholders			FY2020 Tax rate Effective rate: 17.7% Managed rate: 24.9% ^{1,6}	\$27.4	\$34.6	(\$7.2)
Reported EPS				\$8.88	\$10.72	(\$1.84)
ROE ³		FY2020	ROE	O/H ratio	12%	15%
ROTCE ^{3,4}					14	19
Overhead ratio – managed ^{1,3}					54	55
Memo: Adjusted expense ⁵				\$65.5	\$65.0	\$0.5
Memo: Adjusted overhead ratio ^{1,3,5}				53%	55%	

- Positive results across all segments

Segments	4Q20					
	Loans YoY	Deposits YoY	ROE	Revenues YoY	Net income YoY	
Consumer	6%	30%	32%	8%	3%	
Investment	8%	41%	26%	17%	82%	
Commercial	1%	52%	36%	7%	115%	
Wealth Management	15%	31%	29%	10%	-2%	
Consolidated	1%	35%	16%	3%	44%	

- Playing safely in terms of allowance for credit losses with \$30.8 billion in reserve
- Credit losses for 4Q20 were only \$4.0 billion with over \$33 billion in reserve with release of \$2.9 billion and \$1.1 billion charge off

4Q20 Reserves

Allowance for credit losses (\$B) ¹						
	12/31/2019	CECL adoption impact	1Q20-3Q20 Build/(release)	9/30/2020	4Q20 Build/(release)	12/31/2020
Consumer						
Card	\$5.7	\$5.5	\$6.6	\$17.8	\$0.0	\$17.8
Home Lending	1.9	0.1	0.9	2.9	(0.9)	2.0
Other Consumer ²	0.7	0.3	0.8	1.8	0.0	1.8
Total Consumer	8.3	5.9	8.3	22.5	(0.9)	21.6
Wholesale ²	6.0	(1.6)	6.7	11.1	(2.0)	9.1
Securities	N/A	0.0	0.1	0.1	(0.0)	0.1
Firmwide	\$14.3	\$4.3	\$15.2	\$33.8	(\$2.9)	\$30.8

- CET1 Capital Ratio of 13.1%

Analysis and Conclusion

- JPMorgan Chase continues to expand both its domestic and international businesses, hoping to have commercial banks in all of the 48 Lower States by mid 2021
- Still playing safely as uncertainties about pandemic and recession continues
- Will restart buying back shares
- Currently fairly valued and I'll give a HOLD (forever) rating