

# JPMorgan Chase & Co. (NYSE:JPM)



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



## Trading Statistics (USD)

|                        |          |                    |       |                       |             |
|------------------------|----------|--------------------|-------|-----------------------|-------------|
| <b>Market Cap (mm)</b> | 471      | <b>LTM EPS</b>     | 14.99 | <b>Update Date</b>    | 14 Jul 2021 |
| <b>Current Price</b>   | 155      | <b>LTM P/E</b>     | 10.3  | <b>Recommendation</b> | HOLD        |
| <b>52 Wk L - H</b>     | 91 - 167 | <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 clienteles. The Chase 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 | 121,335 |
| <b>Book Value</b>      | 255,693 | 256,515 | 261,330 | 279,354 | 253,548 |
| <b>ROE</b>             | 10%     | 13%     | 14%     | 10%     | 18%     |
| <b>Net Income (mm)</b> | 24,441  | 32,474  | 36,431  | 29,131  | 52,496  |
| <b>Margins</b>         | 24%     | 30%     | 32%     | 24%     | 43%     |

## Investment Thesis

### Business Description:

| Segments            | 2Q21      |              |     |              |                |
|---------------------|-----------|--------------|-----|--------------|----------------|
|                     | Loans YoY | Deposits YoY | ROE | Revenues YoY | Net Income YoY |
| <b>Consumer</b>     | -3%       | 25%          | 44% | 3%           | N/A            |
| <b>Investment</b>   | 3%        | 2%           | 23% | -19%         | -9%            |
| <b>Commercial</b>   | 12%       | 22%          | 23% | 3%           | N/A            |
| <b>Wealth Man.</b>  | 21%       | 37%          | 32% | 20%          | 74%            |
| <b>Consolidated</b> | 0%        | 23%          | 18% | -7%          | 155%           |

- 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 \$3.0 billion in 2Q21

|                              | Jan 1, 2020   | Jun 30, 2020  | Mar 31, 2021  | 2Q21<br>Build / (release) | Jun 30, 2021  |
|------------------------------|---------------|---------------|---------------|---------------------------|---------------|
| <b>Consumer</b>              |               |               |               |                           |               |
| Card                         | \$11.2        | \$17.8        | \$14.3        | (\$1.8)                   | \$12.5        |
| Home Lending                 | 2.0           | 3.2           | 1.4           | (0.6)                     | 0.8           |
| Other Consumer <sup>1</sup>  | 1.0           | 1.9           | 1.5           | (0.2)                     | 1.3           |
| <b>Total Consumer</b>        | <b>14.2</b>   | <b>22.9</b>   | <b>17.1</b>   | <b>(2.6)</b>              | <b>14.5</b>   |
| <b>Wholesale<sup>1</sup></b> | <b>4.4</b>    | <b>11.4</b>   | <b>8.4</b>    | <b>(0.4)</b>              | <b>8.0</b>    |
| <b>Securities</b>            | <b>0.0</b>    | <b>0.0</b>    | <b>0.1</b>    | <b>(0.0)</b>              | <b>0.1</b>    |
| <b>Firmwide</b>              | <b>\$18.6</b> | <b>\$34.3</b> | <b>\$25.6</b> | <b>(\$3.0)</b>            | <b>\$22.6</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

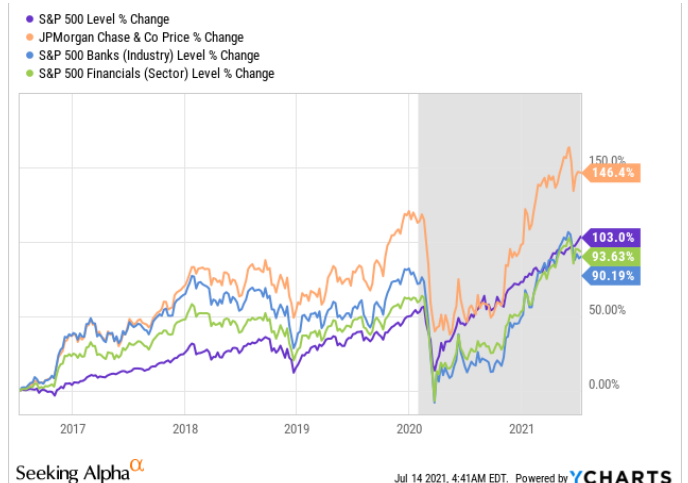
## Financial Analysis:

- Revenues of \$31.4 Billion in 2Q21 down \$1.7 Billion QoQ
- Revenues of \$121.9 Billion in TTM vs \$119.5 Billion in FY20
- Net income of \$11.9 Billion in 2Q21 down \$2.4 Billion QoQ
- Net income of \$47.7 Billion in TTM vs \$27.4 Billion in FY20
- ROE of 18% vs 7% for 2Q20
- ROTCE of 23% vs 9% for 2Q20
- Overhead Ratio of 56% vs 50% for 2Q20
- CET1 Capital Ratio of 13.0%
- Common Dividends of \$2.7 Billion or \$0.90 per share
- \$5.9 Billion of common shares buybacks

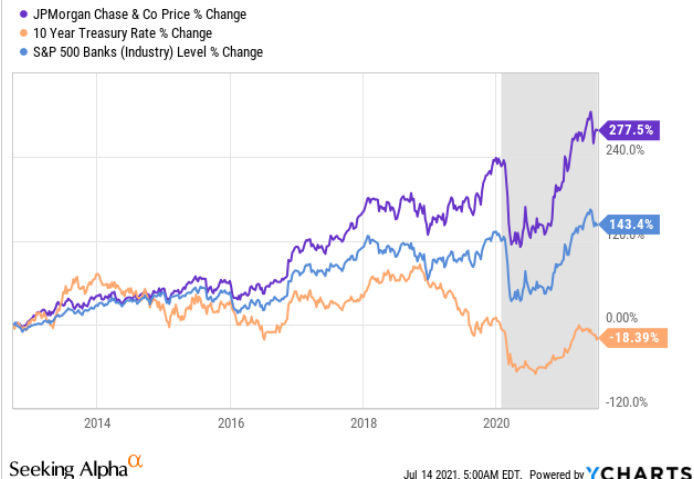
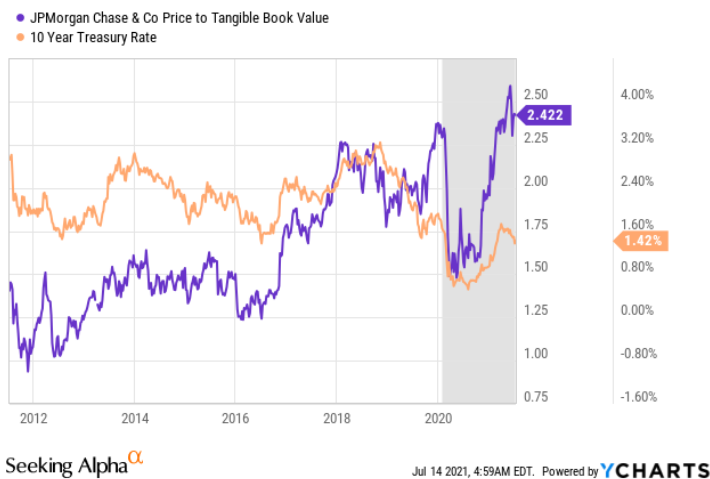
## Valuations

- My personal Biases
  - 5.2% of my portfolio, buying since 2016
  - Likes management
- Assumptions
  - Net income of \$48 Billion for FY21 with further release of credit losses and economic recovery
  - Net income falls to \$43 Billion in FY20, increasing by 4% annually
  - Discount Rate of 10% for the next 5 years
  - Terminal Growth rate of 2%

| Year                   | Net Income    | Disounted NI   |
|------------------------|---------------|----------------|
| <b>TTM</b>             | <b>\$47.7</b> |                |
| <b>2021</b>            | <b>\$48.0</b> | <b>\$43.6</b>  |
| <b>2022</b>            | <b>\$43.0</b> | <b>\$35.5</b>  |
| <b>2023</b>            | <b>\$44.7</b> | <b>\$33.6</b>  |
| <b>2024</b>            | <b>\$46.5</b> | <b>\$31.8</b>  |
| <b>2025</b>            | <b>\$48.4</b> | <b>\$30.0</b>  |
| <b>Terminal Value</b>  |               | <b>\$375.0</b> |
| <b>Intrinsic Value</b> |               | <b>\$549.6</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>                   | \$ <b>92.65</b> | \$ 138.98                               | \$ 166.77        | \$ 194.57        | \$ 222.36        | \$ <b>250.16</b> |
| <b>Base</b>                   | \$ <b>87.50</b> | \$ 131.25                               | \$ <b>157.50</b> | \$ <b>183.75</b> | \$ <b>210.00</b> | \$ 236.25        |
| <b>Bear</b>                   | \$ <b>82.87</b> | \$ <b>124.31</b>                        | \$ 149.17        | \$ 174.03        | \$ 198.89        | \$ 223.75        |
| <b>Returns</b>                |                 | -20%                                    | 2%               | 19%              | 35%              | 61%              |
| <b>CAGR</b>                   |                 | -4%                                     | 0%               | 3%               | 6%               | 10%              |
| <b>Dividend Yield</b>         |                 | 3%                                      | 2%               | 2%               | 2%               | 1%               |
| <b>Total Returns</b>          |                 | -2%                                     | 3%               | 5%               | 8%               | 12%              |
| <b>Probability</b>            |                 | 10%                                     | 15%              | 20%              | 30%              | 25%              |
| <b>Expectation</b>            | <b>7%</b>       | 0%                                      | 0%               | 1%               | 2%               | 3%               |

### 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