

JPMorgan Chase & Co. (NYSE:JPM)



Ishfaq Peerially
eToro Elite Popular Investor
(Approved Value Investor)

Trading Statistics (USD)

Market Cap (mm)	487	LTM EPS	15.10	Update Date	14 Oct 2021
Current Price	163	LTM P/E	10.7	Recommendation	HOLD
52 Wk L - H	95 - 171	EV / EBITDA	N/A	Price Target	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
Revenue (mm)	100,705	108,783	115,399	119,543	122,410
Book Value	255,693	256,515	261,330	279,354	290,041
ROE	10%	13%	14%	10%	18%
Net Income (mm)	24,441	32,474	36,431	29,131	50,071
Margins	24%	30%	32%	24%	40%

Investment Thesis

Business Description:

Segments	3Q21				
	Loans YoY	Deposits YoY	ROE	Revenues YoY	Net Income YoY
Consumer	-2%	20%	34%	-3%	12%
Investment	26%	12%	26%	7%	29%
Commercial	-7%	21%	22%	10%	30%
Wealth Man.	20%	41%	33%	21%	36%
Consolidated	5%	19%	18%	2%	24%

- Massive increase in deposits YoY mostly from Increase in Federal Reserve System balance sheet
- Increase in net income from release of reserves for credit losses of \$2.1 billion in 2Q21 and economic recovery

	Jan 1, 2020	Sep 30, 2020	Jun 30, 2021	3Q21 Build / (release)	Sep 30, 2021
Consumer					
Card	\$11.2	\$17.8	\$12.5	(\$0.9)	\$11.7
Home Lending	2.0	2.9	0.8	0.0	0.8
Other Consumer ¹	1.0	1.8	1.3	(0.0)	1.3
Total Consumer	14.2	22.5	14.5	(0.9)	13.7
Wholesale¹	4.4	11.1	8.0	(1.2)	6.8
Securities	0.0	0.1	0.1	(0.0)	0.1
Firmwide	\$18.6	\$33.8	\$22.6	(\$2.1)	\$20.5

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 it harder for banks to do business

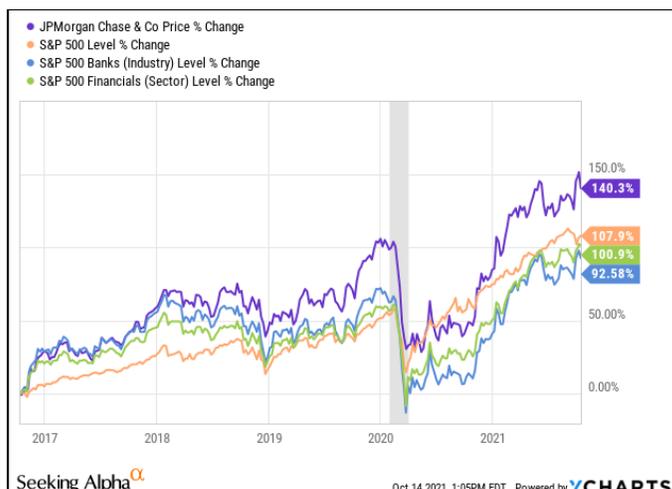
Financial Analysis:

(bb USD)	3Q21	3Q20	% change	ROE	18%	CET Capital Ratio	12.9%
Revenues	\$ 30.4	\$ 29.9	2%	ROTCE	22%	Total Assets	\$ 3,757
Net Income	\$ 11.6	\$ 9.4	23%	Overhead Ratio	56%	Total Liabilities	\$ 3,467

Valuations

- My personal Biases
 - 5.5% of my portfolio, buying since 2016
 - Likes management
- Assumptions
 - Net income of \$52.5 Billion for FY21 with further release of credit losses and economic recovery
 - Net income falls to \$40 Billion in FY22, increasing by 4% annually
 - Discount Rate of 10% for the next 5 years
 - Terminal Growth rate of 2%

Year	Net Income	Discounted NI
TTM	\$49.9	
2021	\$52.5	\$47.7
2022	\$40.0	\$33.1
2023	\$41.6	\$31.3
2024	\$43.3	\$29.5
2025	\$45.0	\$27.9
Terminal Value		\$348.0
Intrinsic Value		\$517.5



- 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
Bull	\$ 93.93	\$ 140.90	\$ 169.07	\$ 197.25	\$ 225.43	\$ 253.61
Base	\$ 88.71	\$ 133.07	\$ 159.68	\$ 186.29	\$ 212.90	\$ 239.52
Bear	\$ 84.02	\$ 126.03	\$ 151.24	\$ 176.44	\$ 201.65	\$ 226.85
Returns		-23%	-2%	14%	31%	56%
CAGR		-5%	0%	3%	5%	9%
Dividend Yield		3%	2%	2%	2%	1%
Total Returns		-2%	2%	5%	7%	11%
Probability		10%	15%	20%	30%	25%
Expectation	6%	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