

JPMorgan Chase & Co
Ticker: JPM
Sector: Financial
Industry: Diversified Banking

Intrinsic Value: \$78.72
Current Price: \$52.51 (10/16)
Buy: \$56.00
Sell: \$80.00

TTM P/E: 10.77
Forward P/E: 9.26
FV Imp. P/E: 13.88
Beta: 1.36

Market Cap: 197.1 b
Dividend Yield: 2.93%
VL 3-5 Yr Price: \$65 - \$95
52 Wk Range: \$38.83 - 56.93

Industry Trends:

As US economic has become a little brighter, we see commercial customers making new investments, new individuals signing mortgage, credit cards being actively used for consumer products. In addition, the industry-wide, nonperforming loans (NPL) continue to decline. The improving housing market is a strong contribution to new mortgages. Market interest rates have increased since May 2013, when Fed sent out signal that it would pull back the bonds purchasing program, although Fed decided to maintain QE. In our investment horizon, this is an upward interest trend.

Investment Thesis:

Banking is in many ways a cyclical business. Recovered from 2008, JPM revenue in 2009 jumped 13% has been stable for the next two years until dropped by 4.2% in 2012 due to the European Crisis. The non-interest income has been a significant revenue driver for JPM, increased from 28.05% in 2008 to 47.23% in 2012, and partly compensated the decrease in interest income. With a strong position in non-interest income business plus an upward trend in interest, we believe JPM's performance will be outstanding for the next five years.

Competitive Analysis:

JPM has a lower risk among its peers. JPM has a raw Beta of 1.54 and an adjusted beta of 1.36, which means that over the last five years, it has shown greater volatility than the S&P 500 index. However, this company has been less volatile than the average constituent of its peer group. On the credit rating perspective, JPM receives a higher credit rating from than its peer. S&P and Moody's give JPM A and A2 respectively.

Pros:

- **Upward trend in interest rate.** J.P. Morgan Chase achieved a reasonable level of profitability in recent years. With a rising market interest, its interest margin will be widen
- **Significant stock buyback.** This is a potential source of income

Risk Factors:

- **High litigation cost.** JPM is much likely to remain under the regulatory issues, as now it is also under investigation
- **Macroeconomics is still struggling in the short run.** JPM's business is heavily relies on the overall economy. The short term outlook is still not good enough

OCT 5 year stock performance:



Key ratios	Dvd Yld	ROE	ROA	NIM
JPM	2.45%	12.00%	0.94%	2.48%
BAC	0.29%	2.31%	0.19%	2.35%
C	0.08%	5.13%	0.39%	2.88%

Total Return Estimates:

3 Yr FV Reversion*: 14.42%
5 Yr FV Reversion*: 9.67%

(* - From limit order price of \$56.8)

Key Valuation Assumptions:

Long term ROE: 12%
 Cost of equity: 10.67%
 10 yr. Risk Free Rate: 2.65%
 Equity Risk Premium: 8.02%

Key Financial Data:

Est. 2013 EPS: \$5.67
 Est. 2014 EPS: \$6.9
 3-5 Yr. Est. EPS Growth: 9%
 PEG (TTM): 1.11
 Credit Quality: A
 ROE: 10.72%
 ROA: 0.92
 Price /Book: 1
 Price/Cash Flow: 3
 Debt/Equity market value: 3.57
 Tier 1 Capital Ratio: 11.70

CSR Scores

Human Rights: 1/1
 Business Ethics Policy: 1/1
 ESG Disclosure Score: 47.37/35.28
 Equal Opportunity Score: 1/1
 Environmental Disclosure Score: 44.64/38.70

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