

U.S. Bancorp (NYSE: USB)

Sector: Financial Services

Industry: Regional- Midwest Banks

Key Financials:

Intrinsic Value: \$42.45 Current Price: \$37.05

Market Cap: \$68.14B P/E: 12.56x

52 Week High: \$38.23

52 Week Low: \$30.96

Dividend Yield: 2.50%

Price/FCF: 6.50

Industry Trends:

The financial industry in the United States is still dealing with the impacts of the 2008 Financial Crisis. Historically low interest rates have helped fuel business for the industry, but the threat of rising rates is beginning to hurt banks (especially mortgage focused banks). Regulatory reform including Basel III and Dodd-Frank is also putting pressure on banks.

Investment Overview:

U.S. Bancorp is a multi-state financial services holding company. It is the 5th largest bank in the United States. U.S. Bancorp operations are divided into consumer and small business banking, payment services, wholesale banking, and wealth management. Consumer and business banking operations cover 25 states primarily in the Midwest and Western United States. Wholesale banking and wealth management is operated nationally and payment services business operates internationally. Business revenues are sourced primarily from consumer and small business banking (47% of revenues) and payment services (25% of revenues). After the 2008 Financial Crisis U.S. Bancorp grew through selectively acquiring several distressed regional banks including First Citizens Bancshares Inc. and BB&T Corporation.

Pros:

- Industry leader in performance ratios, maintaining highest return on equity, return on assets, and lowest efficiency ratio among all major banks
- Conservative bank that is well positioned (high capital ratios and credit ratings) for regulatory requirements
- Focused on shareholder payouts and plans to return 60-80% of earnings to shareholders (2Q13 dividend up 18% from 1Q13, 2Q13 buyback plan up 20% from 2012)
- Low revenue volatility (≈50% revenue is non-interest/fee based)

Cons:

- Long-term growth rate projections slightly cut due to decline in mortgage activity
- Shrinking Net Interest Margins (2Q13 NIM: 3.43% vs. 2Q12 NIM: 3.58%)

External Risks:

- Regulatory conditions in the financial industry (ranging from capital requirements to caps on credit/debit card fees)
- Downturn in the financial markets
- Loss of momentum in consumer spending
- Rise of U.S. interest rates

5-Year Stock Performance:



Corporate Social Responsibility:

ESG Disclosure Rating	30.26 (Ind. Avg.: 41.94)
Environmental Disclosure Score	18.75 (Ind. Avg.: 35.84)
Carbon Disclosure Score	77.00 (Ind. Avg.: 85.82)
Social Disclosure Score	23.33 (Ind. Avg.: 61.38)
Governance Disclosure Score	60.71 (Ind. Avg.: 61.38)
Equal Opportunity Policy	Yes
Community Spending	\$47.70 mm
Total Energy Consumption	812,320 MWh

Sources: Bloomberg Terminal, Value Line Investment Survey, Google Finance

Value Estimate:

\$45 - \$56 (2014-2016)

Financial Information:

10 yr. Risk-Free Rate	2.70%
WACC	6.70%
Expected Inflation	1.50%
Est. Revenue Growth	7.0%
Current EPS	\$2.95
Est. 2014 EPS	\$3.20
Credit Rating	Aa3
ROE	14.11%
ROA	1.60%
Efficiency Ratio	51%
Price/Book	1.95
Debt/Equity	128.69
Operating Margin	40.33%
Net Profit Margin	29.52%
FCF Yield	13.20%

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