



JPMorgan Chase & Co.

Ticker: NYSE: JPM

Analyst & Author: **Kushagra Sadwal**

Sector: Financials

Industry: Financial Services

Recommendation: **Long-Term Bullish (Buy) (5+ year hold)**

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genzevalsbiz@gmail.com

emailkushs@gmail.com

www.genzevals.com

Introduction

Founded in 1871, JP Morgan Chase & Co. was an essential part of the wave of industrial consolidation in the 19th and 20th centuries. Today, it's a global financial services holding company and the largest bank in the United States in terms of assets. Its services include consumer banking, commercial banking, investment banking, asset management, and catering to corporations, individuals, governments, and institutions worldwide.

Segment Performance (based off Q3 2023)



Consumer & Community Banking:

Net Income was 5.3B, up 22% YoY; Revenue was 17.0B, up 19% YoY. Services in this segment include the following: auto loans, cash management, credit-card issuance, deposit and investment products, mortgage origination and servicing, and payment solutions.

Corporate & Investment Bank:

Net income was \$3.1B, down 12% YoY; Revenue was \$11.7B, down 2% YoY. Services in this segment include investment banking, market-making, prime brokerage, and treasury and securities products and services to corporations, investors, financial institutions, and governments.

Commercial Banking:

Net income was \$1.7B, up 79% YoY; Revenue was \$3.7B, up 20% YoY. Services in this segment include credit, financing, treasury, and payment solutions to help businesses succeed, and commercial real estate services for investors and developers.

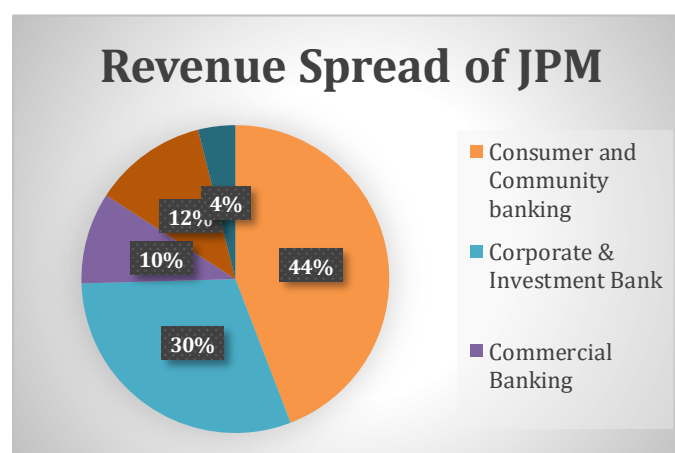
Asset & Wealth Management:

Net income \$1.1B, down 12% YoY; Revenue \$4.6B, up relatively flat YoY. Services in this segment include a provision of services across all asset classes and \$4.6 trillion in client assets. The segment also provides retirement products and services, as well as brokerage and banking.

Corporate:

Revenue was \$1.5B, up \$1.7B YoY. Services offered in this segment include measurement, monitoring of reports, and bank's liquidity management, funding, capital, and foreign exchange risks, among other functions.

Figure 1:



Current State of the Economy:

Between mid-year 2023 and September 2023, JP Morgan's outlook on the economy heavily shifted. In terms of inflation, the high rates we saw in 2022 (which had not been seen since the 20th century) are expected to fall, albeit slowly. With respect to economic growth, due to the consumer optimism and a resilient economy, American Consumers have continued to spend even though oil and gas prices have risen. Jerome Powell, chair of the Federal Reserve, announced at a conference that "Economic activity has been stronger than we've expected, stronger than anyone expected." However, he also mentioned that the Fed expects the economy to cool at "1.5% next year." Moving on to the stock market, the outlook in the mid-year was proved wrong as the S&P 500 rose 16% and the digitally focused Nasdaq Composite outshone its competitor with over 30% in growth. Emerging markets, the credit market, and the currency market, have all reported similar outlooks with their rapid growth in the mid-year being slowed or having slight changes overall. These will have a counterbalancing effect on JP Morgan, leading to a little decline or increase in profitability.

Porter's 5 Forces: **5**

The Porter's Five Forces business model reveals that the biggest problems for JPM lie within its competitors and the low cost of switching, making moving from one bank to the next very appealing to current and potential customers.

Competitors:

The problem with the competition factor of the Porter's Five Forces for JP Morgan are as follows:

1. Numerous competitors in the United States and Internationally
2. Extremely low cost (if not no cost at all) to switch between banks.
3. Incentives to switch banks

This makes competition steep and noteworthy for JPM. However, the JP Morgan brand and economic moat protect it from this. (mentioned below)

Bargaining Power of Consumers:

The banking industry relies heavily on the bargaining power of consumers. While losing individual consumers may not have a large effect, the loss of corporate clients and high-net-worth individuals may significantly increase bargaining power and may lead to large revenue losses, therefore affecting profitability.

Threat of Substitutes:

The threat of substitute products in the banking industry has increased with the growth of technology. Investopedia notes that PayPal and Apple Pay, prepaid debit cards, and online peer-to-peer lenders (P2P) such as Prosper.com or LendingClub.com offer a multitude of options that cost JPMorgan—and other major banks—a considerable amount of revenue. These threats demonstrate that its competitors aren't only substitute banks, but growing tech companies.

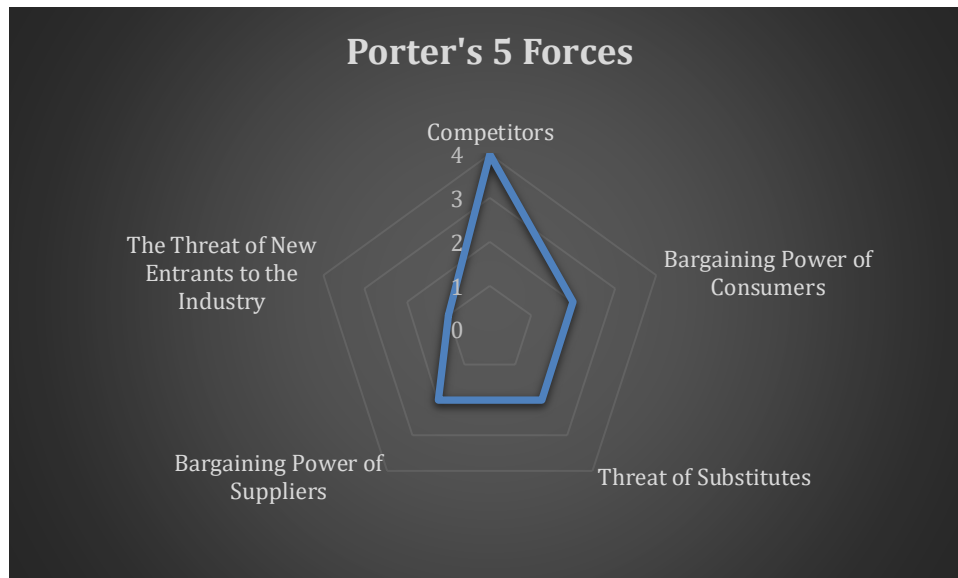
Bargaining Power of Suppliers:

The two main suppliers for JP Morgan are depositors (capital) and their employees (labor). The threats for these two groups remain relatively low, however, for both groups, major depositors and executive employees are among the small groups that pose larger threats to the company.

The Threat of New Entrants to the Industry:

Other than tech competitors entering commercial lending market, there seems to be no imminent threat to JP Morgan. Entering the industry as a new bank is extremely difficult, especially if they intend to compete on the same level as JP Morgan.

Figure 2:



(Porter's Five Forces modeled on a range chart scale 0-4, 0=not threatening, 4=extremely threatening)

Competitive Advantage:

Size and Diverse Business Models Which Help to Mitigate Risk-

With assets reaching \$3.74 trillion, JP Morgan's size and scale give it a significant advantage over smaller competitors. This is because it can spread its fixed costs over its asset base, resulting in lower costs of units per output. Its size and scale also help with scouting (and retaining) the top talent by offering larger salaries, better benefits, and more opportunities for career growth. Along with the size/scale of JP Morgan, its diverse range of services and segments allows JP Morgan to successfully mitigate risks, as part of a larger portfolio

Pace of Innovation-

JP Morgan evolves with its customers, innovating and developing new products and services to meet their needs. For example, JP Morgan was one of the first to develop a mobile banking app. But this doesn't mean it has stopped investing in technology as it aims to provide its customers with an impeccable digital experience. The company has been developing timely financial products such as derivatives and structured products which has significantly boosted the profitability of its investment banking sector.

Economic Moat and Brand-

JP Morgan's reputation has pushed the bank to build a brand of reliability, trustworthiness, and stability to attract clients, customers, and employees. The business has made significant investments in programs that advance social welfare, environmental sustainability, and economic growth, which has helped it gain favor with its stakeholders. While JP Morgan has recovered from the effects of the pandemic, we can't ignore that it faced risks and consequences at the time. However, its large economic moat protects the business and provides stability. Its economic moat includes benefits like cost advantages, benefits from switching costs, and brand. For example, with \$2 trillion in assets under management, JPMorgan Chase benefits from economies of scale, as managing \$2 trillion costs relatively the same as managing \$500 billion but generates higher fees.



ESG:

Environment-

The financial industry plays a crucial role in addressing some of the most important challenges facing our world today, such as environmental issues, social inequality, and good governance. J.P. Morgan is dedicated to creating a more sustainable and inclusive economy, by moving towards a more environmentally friendly business model, helping second- and third-world countries develop, and advising on how to make the company leadership more diverse. In 2021, they set a goal to finance and enable more than \$2.5 trillion worth of initiatives over the next decade to demonstrate how they are actively fighting climate change and social problems.

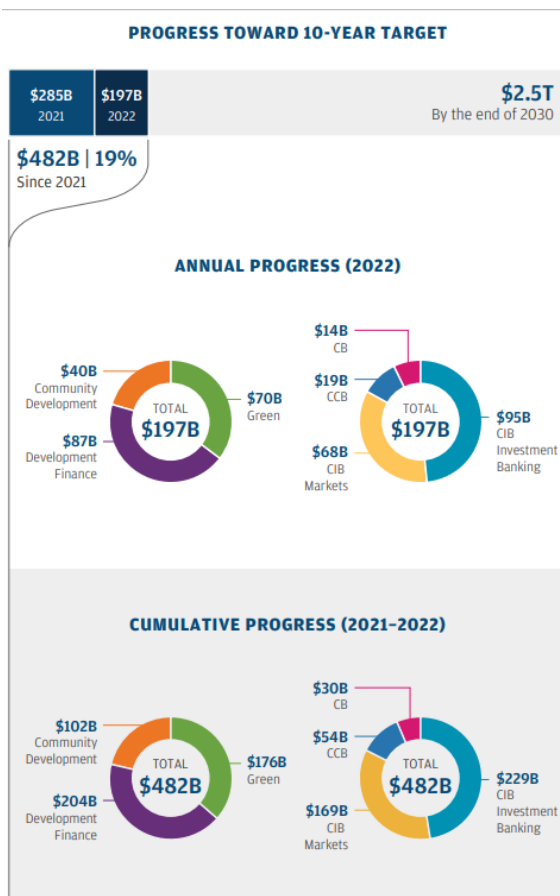


Figure 3 (10-year plan progress from 2022 ESG report)

J.P. Morgan uses its expertise, money, data, and resources to make a positive impact on these challenges. They assist clients in achieving their sustainability goals in several ways:

1. They provide valuable insights and advice from their experts in banking, risk management, and various industries. These insights and advice are aligned with environmental, social, and governance (ESG) principles.
2. They invest in and support important projects and businesses that address critical issues. This helps clients grow and make a difference in their respective fields.
3. They collaborate with investors to include environmental and social factors in their investment decisions, creating investment options that align with these goals.

J.P. Morgan offers a range of solutions related to environmental, social, and governance topics in different parts of their business, including Corporate & Investment Banking, Commercial Banking, and Asset Management. These solutions are used by various clients, such as big corporations, investors, and startups. Here are some of the specific initiatives they're involved in:

1. **Center for Carbon Transition:** This center helps clients transition to a low-carbon future by providing expertise and data. It also aligns with the Net Zero Banking Alliance to support global efforts against climate change.
2. **Commercial Banking Green Economy:** This part of J.P. Morgan focuses on industries like renewable energy, energy efficiency, sustainable finance, agriculture, and clean energy mobility. They provide financial support and guidance to companies making a positive environmental impact in these sectors.
3. **Investment Banking ESG Solutions:** A specialized team of bankers advises clients on ESG-related matters in capital markets and M&A transactions. They help clients access ESG-focused capital.
4. **Development Finance Institution:** This institution works to advance the United Nations Sustainable Development Goals in emerging economies by mobilizing finance.
5. **Director Advisory Services:** They offer strategic advice on corporate governance, board composition, and best practices to corporate clients and directors.

These efforts by J.P. Morgan are aimed at making the world a better place by addressing important global challenges, promoting sustainability, and advocating for responsible business practices.

Social

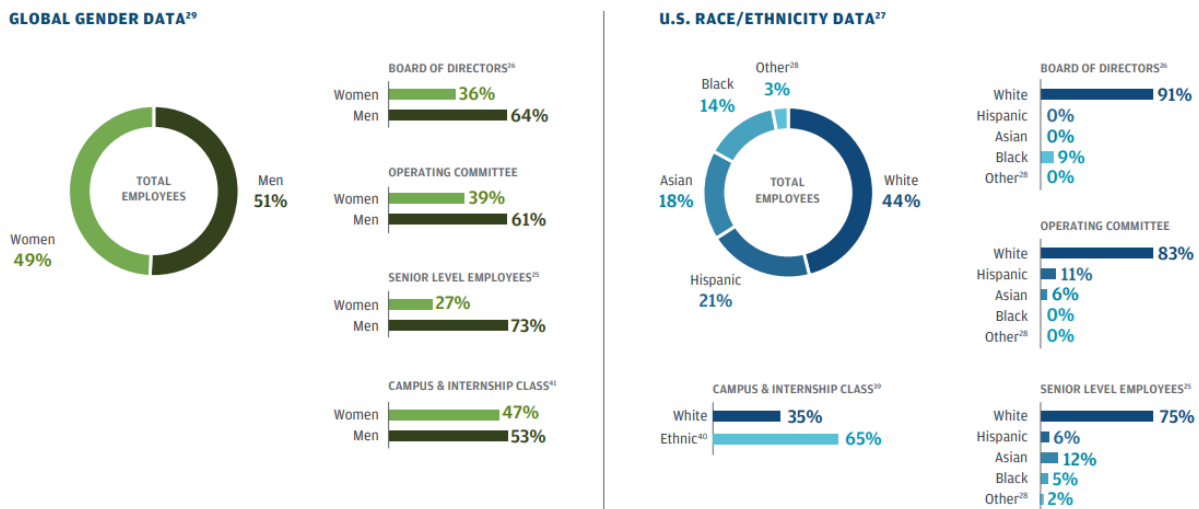


Figure 4 (JPM Employee Racial Demographic from 2022 ESG Report)

As of December 31, 2022, JPM reported nearly \$29 billion dollars of progress donated toward their five-year Racial Equity Commitment, which focuses on the following key areas:

- Increasing Homeownership
- Expanding affordable rental housing and support for vital community institutions
- Growing small businesses
- Spending more with Black, Hispanic, and Latino suppliers
- Improving financial health and access to banking
- Investing in Minority Depository Institutions and Community Development Financial Institutions
- Providing Philanthropic Capital to advance an inclusive economic recovery and support Black, Hispanic, Latino, and underserved communities
- Accelerating investment in employees and building a more diverse and inclusive workforce.

There is also a large emphasis on building careers and skills as well as fueling business growth and entrepreneurship.

Corporate Governance-

Here is a summary of JPM corporate governance:

1. Board of Directors:

- JPMorgan Chase is governed by a Board of Directors responsible for overseeing the management and affairs of the company.
- The board is composed of various committees, each focusing on specific areas such as audit, compensation, and risk.

2. Leadership:

- The Chairman and CEO of JPMorgan Chase is a key figure in the governance structure, often holding both positions.
- The separation or combination of the Chairman and CEO roles can be a topic of discussion in corporate governance.

3. Committees:

- JPMorgan Chase's board has committees to address specific aspects of governance and management, including audit, risk, and compensation committees.
- These committees play a crucial role in ensuring oversight, transparency, and accountability.

4. Shareholder Engagement:

- The company likely engages with its shareholders through annual meetings and other channels to discuss key issues and gather feedback.
- Shareholders may vote on certain matters, including the election of directors and approval of executive compensation.

5. Ethical Practices:

- Corporate governance involves maintaining high ethical standards. JPMorgan Chase is expected to adhere to legal and ethical principles in its business practices.

6. Risk Management:

- Given its nature as a financial institution, JPMorgan Chase places a strong emphasis on risk management within its governance framework.
- This involves identifying, assessing, and mitigating risks to protect the interests of shareholders and stakeholders.

7. Regulatory Compliance:

- JPMorgan Chase operates in a highly regulated industry, and governance includes compliance with relevant financial regulations and laws.

8. Transparency and Reporting:

- The company is expected to provide regular and transparent communication to shareholders and the public, disclosing financial information and relevant developments.

Our ESG rating:

Scale 0-10, 0 being very poor, 10 being close to perfection.

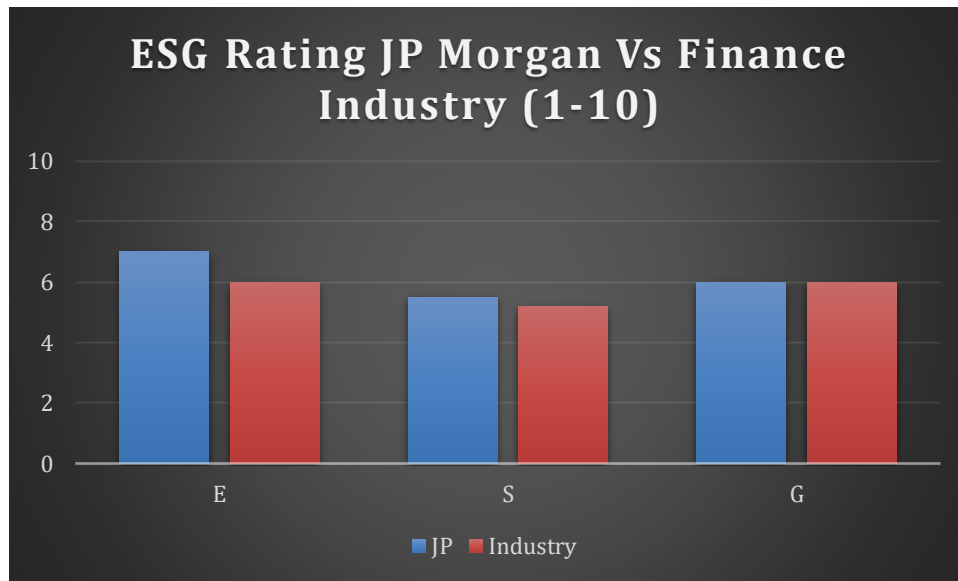


Figure 5

Industry Analysis:

Figure 6:



Figure 6 above shows the graph of JPM (green and red) and XLF (orange, a diversified fund that includes a variety of industries within the financial sector with strong returns and high liquidity) over the last year. As we can see, over the past year JP Morgan has crushed the entire financial sector and seems to outperform other finance companies. JP Morgan is poised to grow at a faster rate than the financial sector. But how will the finance sector do in the future?

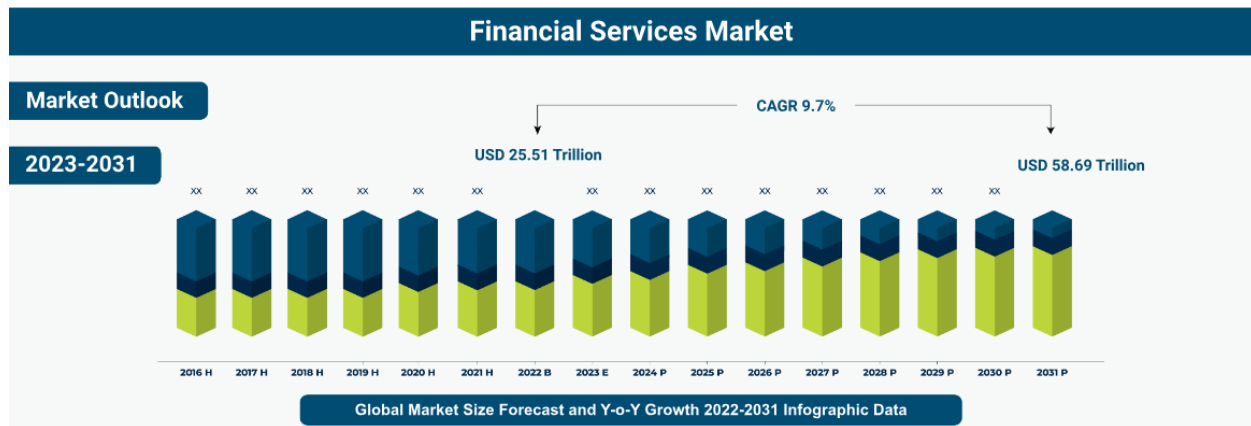


Figure 7

From Figure 7 we can see that the finance sector has a very respectable compound annual growth rate (CAGR) of 9.7% (typically for such a large value of stocks and companies and a CAGR of 8-10% is respectable). And as we saw before JP Morgan tends to outperform the financial services and finance sectors meaning it may have a very respectable CAGR.

Key Financials (11/30/23 Yahoo! Finance data):



Valuation Measures

Market Cap (intraday)	443.89B
Enterprise Value	N/A
Trailing P/E	9.16
Forward P/E	10.08
PEG Ratio (5 yr expected)	3.06
Price/Sales (ttm)	3.01
Price/Book (mrq)	1.53
Enterprise Value/Revenue	N/A
Enterprise Value/EBITDA	N/A

Profitability

Profit Margin	35.98%
Operating Margin (ttm)	45.06%

Management Effectiveness

Return on Assets (ttm)	1.34%
Return on Equity (ttm)	16.93%

Stock Price History

Beta (5Y Monthly)	1.10
52-Week Change	13.26%
S&P500 52-Week Change	11.63%
52 Week High	159.38
52 Week Low	123.11
50-Day Moving Average	145.87
200-Day Moving Average	142.76

Share Statistics

Avg Vol (3 month)	9.2M
Avg Vol (10 day)	6.9M
Shares Outstanding	2.89B
Implied Shares Outstanding	2.89B
Float	2.89B
% Held by Insiders	0.88%
% Held by Institutions	71.11%

Income Statement

Revenue (ttm)	142.43B
Revenue Per Share (ttm)	48.27
Quarterly Revenue Growth (yoy)	23.10%
Gross Profit (ttm)	122.31B
EBITDA	N/A
Net Income Avi to Common (ttm)	49.49B
Diluted EPS (ttm)	16.77
Quarterly Earnings Growth (yoy)	35.10%

Balance Sheet

Total Cash (mrq)	1.44T
Total Cash Per Share (mrq)	498.17
Total Debt (mrq)	752.57B
Total Debt/Equity (mrq)	N/A
Current Ratio (mrq)	N/A
Book Value Per Share (mrq)	100.30

Cash Flow Statement

Operating Cash Flow (ttm)	53.97B
Levered Free Cash Flow (ttm)	N/A

Shares Short	17.18M
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Short Ratio	1.77
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Short % of Float	0.60%
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Short % of Shares Outstanding	0.59%
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Shares Short	16.11M
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Dividends & Splits

Forward Annual Dividend Rate	4.2
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Forward Annual Dividend Yield	2.74%
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Trailing Annual Dividend Rate	4.05
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Trailing Annual Dividend Yield	2.64%
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5 Year Average Dividend Yield	2.86
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Payout Ratio	24.16%
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Dividend Date	Oct 30, 2023
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Ex-Dividend Date	Oct 04, 2023
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Last Split Factor	3:2
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Last Split Date	Jun 11, 2000
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Investment Thesis:

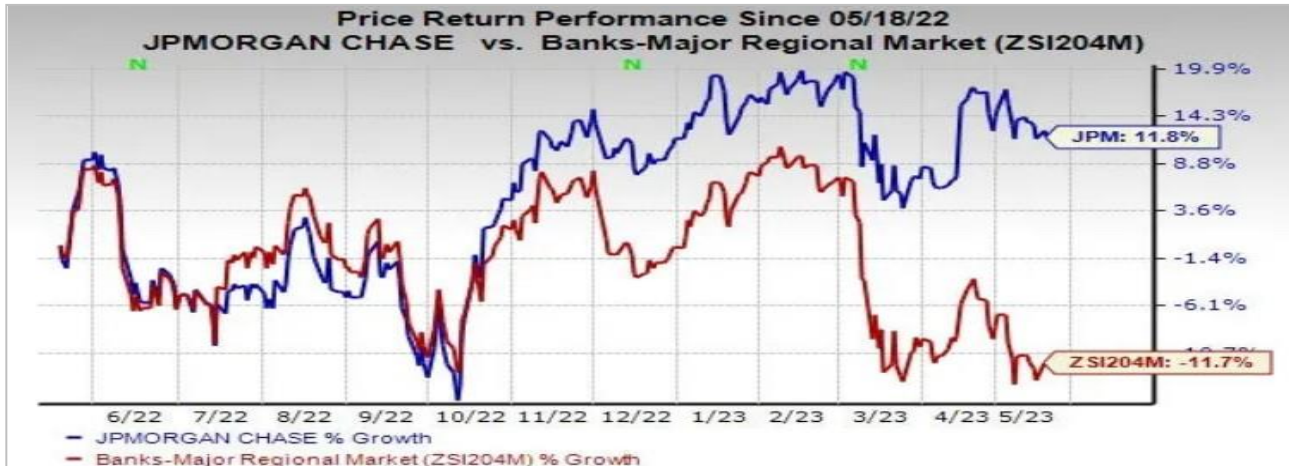


Figure 8

JPMorgan Chase & Co. (JPM) appears to be a robust investment choice, even in the face of industry-wide turmoil. The company remains poised for organic expansion thanks to a surge in loan and deposit balances. Additionally, its significant capital deployment activities are expected to boost shareholder value. Over the past year, JPMorgan's shares have gained 11.8% value, while the industry has seen a decline of 11.7% (demonstrated by Figure 8).

Here are several reasons why JPM stock is currently a compelling investment opportunity:

1. **Earnings Growth:** JPMorgan has experienced earnings growth of 12.2% over the last three to five years, surpassing the industry average of 6.8%.
2. **Revenue Momentum:** JPMorgan's organic growth trajectory is quite impressive. The company's total revenues (managed) have exhibited a compound annual growth rate (CAGR) of 4.4% from 2018 to 2022. Sales estimates for 2023 have been revised upward by 14.6%. Factors such as higher interest rates, global expansion initiatives, consistent loan demand, and deposits are expected to continue supporting revenue growth in the coming quarters.
3. **Balance Sheet:** JPMorgan has a substantial amount of total cash, which can be positive for future investments, acquisitions, or weathering economic downturns. The total debt level should be monitored, as high debt levels can pose risks, especially if economic conditions change.
4. **Superior ROE:** JPMorgan has an ROE of 16.02%, higher than the industry average of 12.37%. This shows that the company reinvests its cash more efficiently than its peers.
5. **Strategic Takeovers:** By purchasing both domestic and foreign businesses, JPM has been steadily extending its operations in new areas.
 - In May, the business bought First Republic Bank and Aumni.

- It announced a contract to purchase while purchasing a 49% share in the Greek company Viva Wallet and Global Shares.
- Likewise, the business announced several other purchases in 2021, including a 75% share in Volkswagen Financial, the company's payment unit Services.
- OpenInvest, a 40% investment in C6 Bank of Brazil
- Netmeg, a roboadvisor located in the United Kingdom and 55ip. These purchases, along with several other previous deals, maintain the company's financial stability, aid in income diversification, and improve market share.

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Trading View and Yahoo Finance