07 March 2012
Americas/United States
Equity Research
Multinational Banks

CREDIT SUISSE

JPMorgan Chase & Co. (JPM)

Rating	**OUTPERFORM***
Price (06 Mar 12, US$)	39.32
Target price (US$)	52.00[1]
52-week price range	47.64 - 28.38
Market cap. (US$ m)	150,098.61

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.

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COMPANY UPDATE

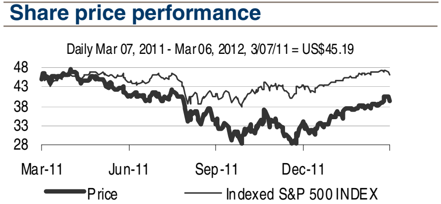
Management Meeting Takeaways: Confidence in Profitability Targets and Capital Return

- **We had the opportunity to meet with the Chairman & CEO of JPMorgan Chase, Jamie Dimon, yesterday in New York.** Overall, management's tone was constructive. The company is confident in its long-term profitability and net income targets given market share positioning and organic growth opportunities. While industry challenges remain, management is confident about its ability to navigate the new environment (including reforms such as Basel 3, Volcker Rule, Durbin). Capital levels are strong and management views the company as well positioned to both deploy capital, as well as meet Basel III minimums.

- **We expect JPM to be approved for incremental capital deployment activities following CCAR results.** Capital ratios are strong, and we expect the company to reach 9.5% Basel III Tier 1 common equity during 2013, inclusive of continued share buyback. While the B3 phase-in period is long, management is evaluating the benefits of reaching the fully phased-in target sooner rather than later. We think that reaching 9.5% could ease some regulatory pressures and provide the company with some incremental flexibility around its capital priorities. That said, we look for JPM to pursue a solid rate of capital return in 2012 at about 55% of total earnings in the form of dividends and buybacks.

- **Reiterate Outperform rating.** We continue to recommend JPM shares due to its competitive positioning, ability to gain market share and strong balance sheet. The company achieved a 7.9% Tier 1 common ratio under Basel III despite returning capital in 2011. We think that JPM is well positioned to return capital in 2012. Our $52 price target equates to 1.4x forward tangible book value and 9.5x 2013 earnings.

Share price performance



On 03/06/12 the S&P 500 INDEX closed at 1340.69

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.74	1.36	1.12	1.25
2011E	1.31	1.27	1.02	0.90
2012E	1.16	1.28	1.21	1.35

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	4.48	4.51	5.00	5.50
Prev. EPS (US$)	—	—	—	—
P/E (x)	8.8	8.7	7.9	7.1
Relative P/E (%)	63	68	69	70
Revenue	106,500.0	99,767.0	103,950.4	106,337.5
Preprovision Income (US$ m)	46,225	36,856	40,189	42,018
Book Value (US$)	43.04	46.59	50.38	54.38
Tangible book value (US$)	30.27	33.69	37.21	41.21
ROE (%)	10.9	10.2	11.7	12.1
ROA (%)	0.87	0.81	0.86	0.93

Book Value (Next Qtr., US$)	46.59	Tangible BV (Next Qtr., US$)	33.69
P/BV (x) (Next Qtr.)	0.84	P/TBV (x) (Next Qtr.)	1.2
Dividend (Next Qtr., US$)	1.00	Shares Outstanding (m)	3,817
Dividend yield (%)	2.5		

Source: Company data, Credit Suisse estimates.

Meeting Highlights

We had the opportunity to meet with the Chairman & CEO of JPMorgan Chase, Jamie Dimon, yesterday in New York. Overall, management's tone was constructive regarding organic growth opportunities. Additionally, management struck a positive tone on the state of the housing market–indicating that we are likely at an inflection point in housing with declining shadow inventory and better supply/demand balance. Management appears confident in its long-term profitability and net income targets given market share positioning and organic growth prospects. Separately, capital levels are strong and management views the company as well positioned to both deploy capital, as well as meet Basel III minimums.

- **Confident in the Investment Bank profitability target.** Management appears confident in its Investment Bank ROE target of 17% despite the pending Volcker Rule. While there were some questions posed at last weeks' Investor Day related to the Investment Bank ROE target remaining unchanged at 17%, management appears comfortable with the target with an assumption that the Volcker Rule will be manageable. We think the 17% target is appropriate as the company generated a 17% ROE in 2011 despite higher allocated capital ($40 billion) and inclusive of weaker 4Q11 results. Management indicated that the trading revenue detail provided at the Investor Day last week was to help "de-mystify" trading. Management emphasized that the predominance of trading revenues is driven from client flow (and not from speculative activities). In addition, about 25% of the earnings of the Investment Bank are derived from the Commercial Bank.

- **Capital levels are strong.** Management expects that the company will fare well under the stress test–with an estimated 8-9% Basel 1 Tier 1 common equity ratio post-stress and well above the 5% minimum (implies roughly $35 billion of excess capital above 5%). Management is comfortable with ability to achieve a Basel III Tier 1 common equity ratio of roughly 9% by year-end 2012, inclusive of capital deployment. While the Basel III phase-in period is long, management sees benefits in reaching the fully phased-in target sooner rather than later. We think that reaching 9.5% could ease some regulatory pressures and provide the company with some incremental flexibility around its capital priorities. We think that the magnitude of potential buybacks is a key determinant in the speed with which JPM achieves its targeted 9.5% Basel III ratio–as they are well positioned to attain 9% by year-end 2012 and 9.5% sometime in 2013 (with the exact timing depending on the size of buybacks).

- **We expect increased capital return following CCAR results.** We are expecting the Fed stress test results to be released on March 15, 2012. JPM indicated that they may comment on the Fed's stress test results if the Fed's loss estimates are materially different than the company's stress scenario. Following CCAR results, the company will disclose its 2012 capital plan including share repurchase authorization and dividend policy. We expect management to increase the quarterly dividend to $0.30 per share (from $0.25 per share currently). In addition, we are forecasting a $9 billion share buyback plan and relatively consistent with full-year 2011. Our 2012 buyback assumption of $9 billion is inclusive of approximately $3 billion associated with the repurchase of employee stock issuance. We are forecasting a solid rate of capital return in 2012 at about 55% of total earnings; however, it's possible that the Fed permits capital return to be in excess of 60% of earnings for the strongest players in the industry. Consequently, we think there could be room for JPM's share buyback authorization to be somewhat larger than our current forecast.

- **Pursue share buyback at attractive valuations.** Management reiterated that it's interested in opportunistic share repurchase only if it makes economic sense for shareholders. We think that share buybacks would be attractive at current valuations. The company believed the stock was attractive above these levels a year ago, and tangible book has grown 10%. However, in the event that management considers valuations less attractive, they would consider a special dividend versus buying back the shares at an "expensive" price.

- **Selective acquisitions.** Capital will be allocated to organic growth opportunities as a priority before the pursuit of acquisitions. That said, the company may be interested in select portfolio purchases or business lines that are complementary to existing businesses/capabilities. Management would be more likely to consider potential deals in the Investment Bank, Treasury & Securities Services or Asset Management. Given the regulatory and political environment, JPM is not likely to pursue a large retail bank acquisition (neither domestic nor foreign). Although the company is below the deposit cap, a sizeable bank transaction would likely be met with regulatory pushback.

- **Positive outlook on housing.** Mr. Dimon appears optimistic about the state of the housing market, indicating that this could to be an inflection point in housing. The positive outlook is based on the increase in the formation of households, decline in shadow inventory, improvement in the supply/demand balance and low level of interest rates.

Companies Mentioned *(Price as of 06 Mar 12)*
JPMorgan Chase & Co. (JPM, $39.32, OUTPERFORM, TP $52.00)

Disclosure Appendix

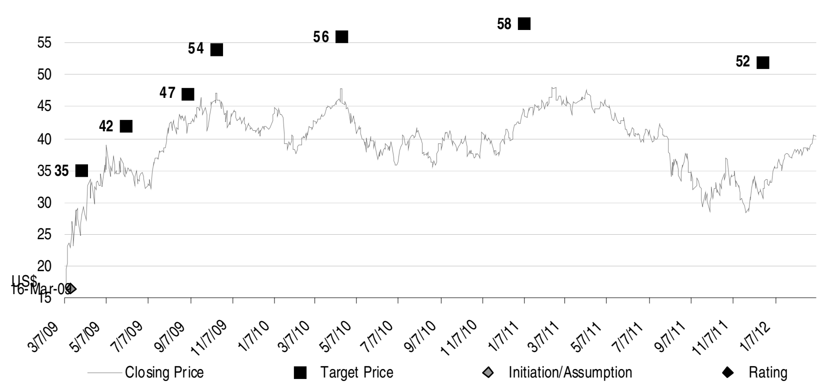
Important Global Disclosures

I, Moshe Orenbuch, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for JPM

JPM Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
3/16/09				X
4/1/09	28.14	35		
6/5/09	34.55	42		
9/2/09	40.86	47		
10/14/09	47.16	54		
4/14/10	47.73	56		
1/6/11	44.48	58		
12/19/11	30.7	52		



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
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Restricted	2%	

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Price Target: (12 months) for (JPM)

Method: Our $52 target price equates to 1.4 times forward tangible book value per share. This equates to 10.4 times our 2012 and 9.4 times our 2013 EPS estimate, a modest discount relative to the historical average. We view this as appropriate given the economic backdrop and regulatory environment.

Risks: The risks to JPM's $52 target price are as follows: Capital markets weakness, interest rate changes and credit are JPM's most substantial macroeconomic risk factors. More unique to JPMorgan is the risk of volatility/losses in its principal or proprietary trading book (JPM's results have been more volatile than peers) and the risk of higher than currently anticipated levels of investment spending.

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