

# Trade Idea – Capital One (COF)

## Quantitative Analysis (Annual) - **SHORT**

Shares Outstanding = 455,31M

COF	2017	2018	2019	2020 (Q1)
Stock Price \$	99.58	75.59	102.91	52.61
Market Cap \$M	48,346	35,353	46,989	23,953
EPS	3.52	11.9	11.1	-3.02
Earnings Growth %	-47%	203%	-8%	-124%
Price/Earnings	28.28	6.35	9.27	-17.42
PEG	-0.59	0.03	-1.18	0.14
Sales \$M	29,999	32,377	33,766	7,249
Sales Growth %	9%	8%	4%	8% (Q1)
Net Income (GAAP) \$	1982	6015	5546	-1340

### Comments on Annual Quantitative Analysis

Good performance until 2019, but in the first quarter of 2020 the earnings are negative because of their provision for credit losses. This provision was made in March and may not be enough, it is very probable to have losses in the next quarters.

In the Annual Stress Test made in 2019 they made a simulation of a rise of the unemployment until 9.9%, dropping the treasury bonds to 0.5% and declining of the Real Estate prices. In that simulation they expected annual losses of 7.2 billion. <https://ir-capitalone.gcs-web.com/static-files/5cf5230b-a6fc-4cde-9c71-83b57cc2a70e>

## Quantitative Analysis (Sector Comps)

COF US	PE1	EG1(2019)	EG2(2020)	PEG1	Market Cap'	Tier 1
Visa	35.32	17%	3.6%	2,08	416.79	N/A
Mastercard	44.3	39%	-9.1%	1.13	300.68	N/A
American Exp	15.05	-2%	-76.30%	-7.5	100.84	11.6
Ally Financial	7.55	36%	-40%	0.21	11.44	11.2
Discover	8.83	7.8%	-27%	1.13	26.31	11.5
CACC	13.10	14%	-37%	0.94	8.12	N/A
Wells Fargo	11.59	-13%	-88.9%	-0.89	222.43	12.76
COF	9.27	-8%	-124%	-118.9	46.98	13.7%

### Comments on Quantitative Analysis Sector Comparison

Capital One is the company with the worst Q1 among the group. The firm also experimented negative growth in 2019, a positive point are the Tier 1 capital levels.

The company is less capitalized than banks and payment companies in general. By the other hand, is more capitalized than the compared consumer loans firms but hasn't their strong revenue growth.

Also is worth noting that Capital One has one of the worst FICO scores. The Sector presents the following scores above 660, Discover: 85%, Ally Financial: 68%.

### **Comments on Business**

Capital One Financial Corp. operates as a financial holding company, which engages in the provision of financial products and services throughout the US, UK and Canada. It operates through the following segments: Credit Card, Consumer Banking, and Commercial Banking. The Credit Card segment offers domestic consumer and small business card lending, and international card lending businesses. The Consumer Banking segment consists of branch-based lending and deposit gathering activities for consumers and small businesses. The Commercial Banking segment comprises of lending, deposit gathering and treasury management services to commercial real estate and commercial and industrial customers.

Portfolio composition:

Domestic credit card: 44.6%

Auto loans: 22.7%

Real State: 11.4%

### **KPI's driving Revenue and Earnings**

Interest rates income.

Non-interest rates incomes, essentially, Interchange fees.

Deposits

Delinquency rate.

Provision for Credit losses.

### **Earnings Announcements**

Q2 2020 20<sup>th</sup> July 2020, the estimations for earnings are negative, the provisions for credit losses will continue.

### **Catalysts excluding Earnings**

Bad economic outlook for money lenders. Very cyclical business.

Increase of delinquency is expected, in fact, Capital One rates are already higher than competitors.

Fed lowering interest rates reduce the margin.

Only 60% of the credits have a FICO score above 660

**Buying August Put Option Strike 60. (28% Annual Volatility)**