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JP Morgan Chase & Co

Company Profile

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ABOUT DATAMONITOR

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COMPANY OVERVIEW

JP Morgan Chase & Company (JPMC) provides investment banking, security services, asset management, hedge fund and retail banking services through its subsidiaries. The company primarily operates in US, Europe, the Middle East, Africa and the Middle East. It is headquartered in New York City, New York and employs 222,316 people.

The company recorded revenues of $100,434 million during the financial year (FY) ended December 2009, an increase of 49.3% over FY2008. The operating profit of the company was $16,067 million during FY2009, compared to $2,773 million in FY2008. The net profit was $8,774 million during FY2009, an increase of 85% over FY2008.

KEY FACTS

Head Office	JP Morgan Chase & Co 270 Park Avenue New York 10017 2070 New York USA
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Web Address	http://www.jpmorganchase.com
Revenue / turnover (USD Mn)	100,434.0
Financial Year End	December
Employees	222,316
New York Ticker	JPM

SWOT ANALYSIS

JPMorgan Chase (JPMC) has strong franchises across business divisions – investment bank, commercial banking, retail financial services, treasury and security services, asset management, and card services. The franchises strength was further strengthened with the acquisition of Bear Stearns and Washington Mutual. However, increased regulatory spending and economic uncertainties in Europe could hurt JPMC's revenue and profitability.

Strengths	**Weaknesses**
Strong franchises across business divisions Strong liquidity and capital position The acquisition of Bear Stearns and Washington Mutual add significant scale at low price	Steep climb in credit losses impacting profitability Over dependence on the US market makes it vulnerable to domestic economic situation
Opportunities	**Threats**
Buoyant asset management market Growth in the US credit card market Increasing prospects for commercial banking	Increased governmental and regulatory scrutiny and negative publicity may affect business prospects Economic uncertainties in Europe Increases in FDIC insurance premiums and other proposed fees likely to affect margins

Strengths

Strong franchises across business divisions

JPMorgan Chase (JPMC) has strong franchises across business divisions – investment bank, commercial banking, retail financial services, treasury and security services, asset management, and card services. For instance, JPMC's investment bank was ranked number one in global investment banking fees for 2009. According to Thomson Reuters, in 2009, JPMC was ranked number one in Global Debt, Equity and Equity-related; number one in Global Equity and Equity-related; number one in Global Long-Term Debt: number one in Global Syndicated Loans and number three in Global Announced M&A, based on volume. JPMC's retail financial services is the largest non-captive auto finance company in the US and it also ranks among the top three positions in deposit market share, mortgage origination, mortgage servicing and home equity origination. JPMC's treasury and security service is the largest player in US dollar treasury clearing and payment services. The company is the largest credit card issuer (by outstanding) and the second largest merchant acquirer. Similarly

JPMC is the largest hedge fund manager and largest manager of AAA rated global liquidity funds. The company's strong franchises provide a continuous stream of recurring revenues.

Strong liquidity and capital position

JPMC has strong liquidity position across its businesses. Its capital position is also strong. The company's strong liquidity position is indicated by several measures. The average bank had loans that were generally greater than 110% of its deposits. For JPMorgan Chase, loans were approximately 75% of deposits. In fact, its excess deposits greatly reduced the need to finance ourselves in riskier wholesale markets. JPMC's strong capital position is indicated by its tier 1 capital ratio which rose to 11.1 in 2009, as compared to 10.9% in 2008, or 8.4% in 2007. Similarly, its tier 1 common capital ratio rose to 8.8% in 2009 from 7% in 2008. Total capital ratio rose to 14.8% in 2009 from 13.3% in 2007.Strong liquidity and capital position enable the company to meet short term and long term obligations without undergoing undue stress.

The acquisition of Bear Stearns and Washington Mutual add significant scale at low price

On May 30, 2008, JPMC acquired Bear Stearns (a company that had reported a little more than $11 billion in common equity) for $1.5 billion. Bear Stearns added significantly to JPMC's franchise. In particular, it completed the company's franchise in two areas where it was weak, Prime Brokerage and Commodities, and it enhanced the company's broader equity and fixed income businesses. These businesses are expected to add approximately $1 billion of annual earnings to JPMC. In September 2008, JPMC acquired the deposits, assets and certain liabilities of Washington Mutual for approximately $1.9 billion. This acquisition added WaMu's 2,200 branches, 5,000 ATMs and 12.6 million checking accounts, as well as savings, mortgage and credit card accounts to JPMC. More importantly, the company did not acquire the assets or liabilities of the bank's holding company or assume the $14 billion of senior unsecured debt and subordinated debt of Washington Mutual's banks. WaMu deal was financially compelling – it was immediately accretive to earnings, and it is expected to add an estimated $2 billion or 50 cents per share to JPMC's 2009 results and increasingly more thereafter. Thus the company's acquisitions not only added significant scale at low price but also enhanced JPMC earnings power significantly.

Weaknesses

Steep climb in credit losses impacting profitability

JPMC's provisions for credit losses continued to climb since 2006. Increase in provisions accelerated in 2008 and 2009. In 2009, JPMC's provision for credit losses rose steeply to $32.01 billion from $19.44 billion in 2008 or $3.27 billion in 2006.Provision for credit losses increased across business divisions. Increasing trend in provision for credit losses though could weaken in 2010 is likely to be substantial impacting its performance.

Over dependence on the US market makes it vulnerable to domestic economic situation

For a firm with assets of $2.03 trillion and operations in more than 60 countries, JPMC is over dependent on a single geography i.e., the US. Since 2003, the firm has been dependent on the US for about 72% revenues and profits. The US, JPMC's largest geographical market, accounted for 75.5% of the total revenues in 2009, compared to 74.1% in 2008. When compared with its major competitor Goldman Sachs, JPMC's dependence on the US is too high. For instance, Goldman Sachs' dependence on the Americas declined from 62.7% in 2003 to 56% in 2009. Over dependence on the US market makes it relatively vulnerable to domestic economic situation.

Opportunities

Buoyant asset management market

The global asset management industry has been growing at a positive rate over the last five years. The sector grew by 19% in 2007 to reach a value of $72,470 billion representing a compound annual growth rate (CAGR) of 13.3% for 2003-07. The global asset management and custody banks sector is estimated to be worth $116.1 trillion by the end of 2012, an increase of 60.2% since 2007. The main factor driving this growth is the need for private individuals to make provision for their pension requirements to counter the widespread weakening of government pension products. JPMC is a global leader in investment and wealth management, with assets under supervision of $1.5 trillion at the end of financial year 2008. Moreover, On May 30, 2008, JPMorgan Chase merged with The Bear Stearns Companies, Inc. The merger resulted in the addition of a new client segment, Bear Stearns Brokerage. A positive outlook in the global asset management market would enable JPMC to improve its top line further as it intends to increase its business in this segment further, both in mature as well as emerging markets.

Growth in the US credit card market

At the end of 2009, Chase cards, JPMC's credit card service division had more than 145 million cards in circulation and $163 billion in managed loans. Customers used Chase cards to meet more than $328 billion worth of their spending needs in 2009. With the acquisition of WaMu, JPMC became the nation’s leading MasterCard and Visa issuer. The credit card transaction value in the US is forecast to grow to $1.8 trillion by 2011. The transaction frequency per year per credit card is expected to touch 31 in 2011. Being one of the largest credit card issuers in the US, the company is well set to gain from the growth in the US credit card market.

Increasing prospects for commercial banking

Year 2009, saw JPMC aggressively expand its commercial banking relationships. In 2009, the company added over 1,700 new Commercial Banking clients and expanded more than 7,600 relationships. Having successfully completed WaMu integration in 2009, JPMC’s commercial banking is well-positioned to grow. The business already is taking advantage of Chase’s retail branch network to expand its offerings into five new states – California, Washington, Oregon, Georgia and Florida. JPMC intends to cover these new markets by supporting a full range of clients, from middle market companies to large corporations. It is expected to achieve this by hiring commercial bankers – more than 50 employees by the end of 2010 alone – to serve these additional markets. Consequently, the company is expected to sustain growth momentum in its commercial banking division.

Threats

Increased governmental and regulatory scrutiny and negative publicity may affect business prospects

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to compensation, business practices, past actions and other matters has increased dramatically in the past several years. The financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or elected officials. Press coverage and other public statements that assert some form of wrongdoing often results in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of the company's senior management from its business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on the company's reputation and on the morale and performance of its employees, which could adversely affect its businesses and results of operations.

Economic uncertainties in Europe

Since the start of 2010, sovereign debt crisis in Europe has been spreading from Greece to other European countries. As of the first week of June 2010, Hungary was the latest addition to the list of European countries on the verge of bankruptcy. The debt crisis in Europe has shaken the confidence of investors, traders within Europe and outside of Europe as well. Due to the crisis, many economists have revised down their projections for European economic growth in 2010. Since, JPMC has substantial exposure to European clients; the company is expected to see decline in revenue from this region.

Increases in FDIC insurance premiums and other proposed fees likely to affect margins

Federal Deposit Insurance Corporation (FDIC) insurance premiums increased in the last twelve to eighteen months as higher levels of bank failures in 2008 and 2009 have dramatically increased resolution costs of the FDIC and depleted the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC has increased, and may further increase in the future, assessment rates of insured institutions. In November 2009, the FDIC adopted a rule requiring banks to prepay three years of estimated premiums to replenish the depleted insurance fund. There have also been proposals to change the basis on which these assessment rates are determined. Moreover, the Obama Administration has suggested the imposition of other fees on banking institutions. If there are additional bank or financial institution failures, JPMC may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and prepayments, and any future increases or other required fees, could adversely impact JPMC's earnings.