



People's United Financial (PBCT)

Updated April 27th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price: \$18	5 Year CAGR Estimate: 14.0%	Quality Percentile: N/A
Fair Value Price: \$23	5 Year Growth Estimate: 5.0%	Momentum Percentile: N/A
% Fair Value: 77%	5 Year Valuation Multiple Estimate: 5.3%	Total Return Percentile: N/A
Dividend Yield: 3.7%	5 Year Price Target \$30	Valuation Percentile: N/A

Overview & Current Events

People's United Financial is a diversified financial services company, which provides commercial and retail banking and wealth management services via its network of approximate 400 branches in the Northeast. It has total assets of \$44 B and a market cap of \$6.4 B.

The company has more than doubled its total assets during the last decade thanks to organic growth, geographic expansion and a series of acquisitions. In the last five years, it has grown its loans and its deposits at a 9% average annual rate. While this growth pace seems aggressive, the bank has maintained a conservative strategy. As a result, its average annual write-offs are only 0.18% of its portfolio, much lower than the industry average of 0.9%.

Due to the almost record-low interest rates that have prevailed for many years, most banks have incurred stagnant or falling net interest income. However, People's United Financial has grown its net interest income at a 3% average annual pace in the last five years thanks to the growth of its loan portfolio. Moreover, as the Fed has eventually begun to raise interest rates aggressively, People's United Financial is poised to enjoy significant expansion of its net interest margin in the upcoming years. The beginning of the new trend was already evident last year, when the net interest margin climbed from 2.80% to 2.98%. In addition, management expects this margin to rise to about 3.10% this year.

Finally, the company will significantly benefit from the recent tax reform. According to its management, its tax rate will fall from the high 20s to 21%-23% and will thus provide an additional boost to the earnings this year.

The only point of concern is the fact that People's United Financial is poised to surpass the \$50 B threshold in total assets at the end of next year, given its current growth pace. Surpassing this threshold will result in increased compliance costs. However, the bank has already initiated a project to ensure for a smooth transition. In addition, there is a pending legislation, which will raise the level of this threshold if it is voted in. Therefore, the company may avoid increased compliance expenses for many years.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.42	\$0.30	\$0.24	\$0.57	\$0.72	\$0.74	\$0.84	\$0.86	\$0.92	\$0.95	\$1.25	\$1.60
DPS	\$0.58	\$0.61	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.75

Thanks to strong business momentum and a tailwind from the reduced tax rate, the analysts expect strong EPS growth this year, from \$0.95 to \$1.25. The results of the company last year fulfilled the guidance that the management had offered at the beginning of the year. Moreover, the company has not missed the analysts' EPS estimates for 8 consecutive quarters. Therefore, it is reasonable to expect People's United Financial to meet or exceed the analysts' estimates this year.

During the last five years, the company has grown its EPS at a 5.7% average annual rate. Going forward and given the tailwind from the rising interest rates, it is conservative and reasonable to expect 5.0% average annual growth. If this occurs, the EPS will grow from \$1.25 for fiscal 2018 to \$1.60 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	41.0	NMF	NMF	22.3	17.0	19.0	17.5	18.2	17.3	19.0	14.4	18.6
Avg. Yld.	3.4%	3.7%	4.3%	5.0%	5.2%	4.6%	4.5%	4.3%	4.3%	3.8%	3.7%	2.5%

During the Great Recession, People’s United Financial depressed earnings caused an abnormally high P/E ratio. If these abnormal levels are excluded, the stock has traded at a 7-year average P/E of 18.6. Surprisingly, it is now trading at a P/E of 14.4. The market has not rewarded the stock yet for its high EPS growth this year. Therefore, the stock has P/E expansion potential ahead. If it reverts to its average P/E within the next five years, it will enjoy a 5.3% annualized boost.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	74.3%	76.0%	79.2%	81.1%	83.4%	86.2%	87.1%	87.9%	87.3%	86.9%	86.5%	86.0%
Payout	138%	203%	258%	111%	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	56.0%	46.9%
Std. Dev.	57.8%	31.9%	19.4%	29.3%	17.5%	15.2%	14.0%	18.6%	22.7%	17.6%	17.5%	17.0%

People’s United Financial has raised its dividend for 25 consecutive years. However, it has raised its dividend by only \$0.01 per year in each of the last nine years. Nevertheless, thanks to the growth achieved in recent years, the payout ratio has dropped to a reasonable 56% and hence the company may begin to announce more meaningful dividend hikes in the future. If the company’s payout ratio falls below ~50%, the company should be able to cover dividends with earnings even through a Great Recession level event.

As a recession has not shown up for nine consecutive years and interest rates are on the rise, investors should note that People’s United Financial is vulnerable to recessions. In the Great Recession, its EPS plunged 54%, from \$0.52 in 2007 to \$0.24 in 2010. This is a significant risk factor to keep in mind.

Final Thoughts & Recommendation

People’s United Financial has strong momentum in its business performance and an attractive valuation right now. Therefore, as long as a recession does not show up in the next five years, the stock is likely to offer a 14.0% average annual return to its shareholders over this period, thanks to 5.0% EPS growth, a 3.7% dividend and a 5.3% annualized gain from the expansion of its P/E ratio. This makes People’s United a buy at current levels.

Total Return Breakdown by Year

