Tompkins Financial (TMP)

Updated April 26th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	8.1%	**Quality Percentile:**	N/A
Fair Value Price:	$81	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	N/A
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.7%	**Total Return Percentile:**	N/A
Dividend Yield:	2.4%	**5 Year Price Target**	$104	**Valuation Percentile:**	N/A

Overview & Current Events

Tompkins Financial is a regional financial services holding company, headquartered in Ithaca, NY. It has a market cap of $1.2 B, total assets of $6.6 B and it offers a wide range of services, such as checking and deposit accounts, time deposits, loans, credit cards, insurance services and wealth management.

In its last earnings report, Tompkins Financial reported earnings-per-share (EPS) of $3.43 for 2017, which were 12% lower than those of 2016. However, the decrease resulted from a write-down that was required due to the recent tax reform. Excluding this non-recurring item, the EPS of the company increased 13% on an annual basis and reached $4.42, an all-time high level. The company fired on all cylinders; net interest income grew 11.4% over last year, the total loans increased 9.7% and the non-performing assets remained at historically low levels, finishing the year at 0.38% of total assets.

Even better, the company will greatly benefit from the recent tax reform. More precisely, its tax rate will pronouncedly fall, from about 35% to 21%. This change will provide an approximate 21% boost to the EPS of the company. In the last earnings release, the management stated that it would take advantage of the benefit from the reduced tax rate and make investments in order to improve the customer-facing technology and the overall quality of its staff. As the performance momentum of the company is strong even before these investments take place, the future prospects of the stock certainly look promising.

Finally, the company will greatly benefit from the rising interest rates. While its net interest income climbed 11.4% last year, its increase almost fully resulted from the increase in the total loans of the company while the net interest margin increased only slightly, from 3.30% to 3.42%. However, as the Fed is determined to keep raising interest rates in the upcoming years, Tompkins Financial will enjoy a gradual expansion of its net interest margin. Therefore, the rising interest rates will be another growth driver for the company for the foreseeable future.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.53	$2.96	$3.11	$3.20	$3.22	$3.46	$3.48	$3.87	$3.91	$3.43	***$5.49***	***$7.00***
DPS	$1.20	$1.24	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.83	***$1.92***	***$2.52***

Thanks to the above mentioned 21% boost from the tax reform, the analysts expect 24% adjusted EPS growth this year, from $4.42 to $5.49. Moreover, excluding the non-recurring write-off of last year, Tompkins Financial has grown its EPS at a 6.4% average annual rate in the last nine years and at a 5.0% average rate in the last five years. Therefore, it is reasonable to expect the company to grow its EPS by at least 5.0% per year in the next five years. If this growth rate materializes, EPS will grow to $7.00 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.5	13.7	12.4	12.3	12.2	12.9	12.7	14.0	17.7	24.2	***14.4***	***14.9***
Avg. Yld.	2.9%	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	***2.4%***	***2.4%***

Tompkins Financial has a 10-year average P/E ratio of 14.9. The stock is currently trading very close to this average so it is reasonably valued. As the stock is likely to revert towards its average P/E ratio in the long run, it is likely to receive a 0.7% annualized gain thanks to expansion of its P/E over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	92.4%	92.3%	91.7%	91.2%	90.9%	90.9%	90.7%	90.9%	91.2%	91.4%	***91.5%***	***91.0%***
Payout	47.4%	41.9%	42.8%	43.8%	45.3%	44.5%	46.6%	43.9%	45.3%	53.4%	***35.0%***	***36.0%***
Std. Dev.	56.2%	45.7%	30.7%	32.6%	20.9%	21.3%	20.9%	22.7%	25.8%	26.0%	***26.0%***	***25.0%***

Tompkins Financial has raised its dividend for 31 consecutive years. This exceptional streak is a testament to the strength of its business model and its execution. The company continuously tries to compete efficiently with online lenders on prices but at the same time it tries to offer great service to its customers in order to offer them a much better total experience than its online competitors. As Tompkins Financial has a strong balance sheet and a markedly low payout ratio, it has ample room to keep growing its dividend at a meaningful pace for several years.

The company also exhibited remarkable resilience in the Great Recession. In the worst financial crisis of the last 80 years, when most banks incurred losses or saw their earnings collapse, Tompkins Financial grew its EPS 17%, from $2.53 in 2008 to $2.96 in 2009. Given the absence of a recession for nine years in a row and the rising interest rates, the defensive behavior of Tompkins Financial during economic downturns is particularly important.

Final Thoughts & Recommendation

Tompkins Financial currently has very strong momentum in its business performance. It posted record results last year and is likely to continue to grow its earnings in the upcoming years. Over the next five years, the stock is likely to offer an 8.1% average annual return thanks to 5.0% EPS growth, a 2.4% dividend and a 0.7% annualized P/E expansion. Tompkins Financial is an example of a high-quality business with decent growth prospects trading at a fair price. It is certainly worth holding at current levels. Investors interested in getting exposure to smaller banks should consider Tompkins Financial as a buy. The one thing holding this stock back from a better recommendation is mediocre total returns. If the valuation multiple were to decline significantly, Tompkins Financial would be a stronger buy.

Total Return Breakdown by Year