



People's United Financial (PBCT)

Updated August 20th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price: \$19	5 Year CAGR Estimate: 13.5%	Volatility Percentile: 33.9%
Fair Value Price: \$24	5 Year Growth Estimate: 5.0%	Momentum Percentile: 52.6%
% Fair Value: 79%	5 Year Valuation Multiple Estimate: 4.8%	Valuation Percentile: 92.4%
Dividend Yield: 3.7%	5 Year Price Target: \$31	Total Return Percentile: 89.4%

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 almost \$45 billion and trades with a market capitalization of \$6.5 billion.

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 six years, it has grown its loans and its deposits at an 8% 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 interest rates are now on the rise, People's United Financial is poised to enjoy expansion of its net interest margin in the upcoming years. It has already enhanced its net interest margin from 2.96% in Q2-2017 to 3.05% in Q1-2018 and 3.1% in Q2-2018 thanks to the upward repricing of floating-rate loans and the fact that the new yields have exceeded the total portfolio yield for six consecutive quarters.

In July, People's United Financial reported (7/19/18) its financial results for the second quarter of fiscal 2018. Thanks to a 10% increase in its net interest income and a pronounced decrease in its tax rate, from 27.8% in 2017 to 21.8% in Q2, the company increased its earnings per share by 63%, from \$0.19 in Q2-2017 to \$0.31 in Q2-2018. In addition, management announced the all-cash acquisition of Vend Lease, a Baltimore-based equipment finance company. This acquisition will enable People's United Financial to enhance its network of specialty finance experts.

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	\$1.29	\$1.65
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

As we mentioned in our previous research report, People's United Financial has not missed the analysts' earnings-per-share estimates for 8 consecutive quarters. As a result, we expected it to meet or exceed the analysts' estimates this year. Indeed, in the last four months, analysts have raised their earnings-per-share estimates for this year from \$1.25 to \$1.29. We have updated our own earnings-per-share estimate accordingly.

During the last five years, the company has grown its earnings per share 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 earnings per share will grow from \$1.29 for fiscal 2018 to \$1.65 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	14.7	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%	2.4%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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. While the stock has gained 5% since our previous report, in April, it is still trading at a low P/E ratio of 14.7. Thus, if it reverts to its average P/E within the next five years, it will enjoy a 4.8% 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%	86.8%	87.0%
Payout	138%	203%	258%	111%	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	54.3%	45.5%
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%

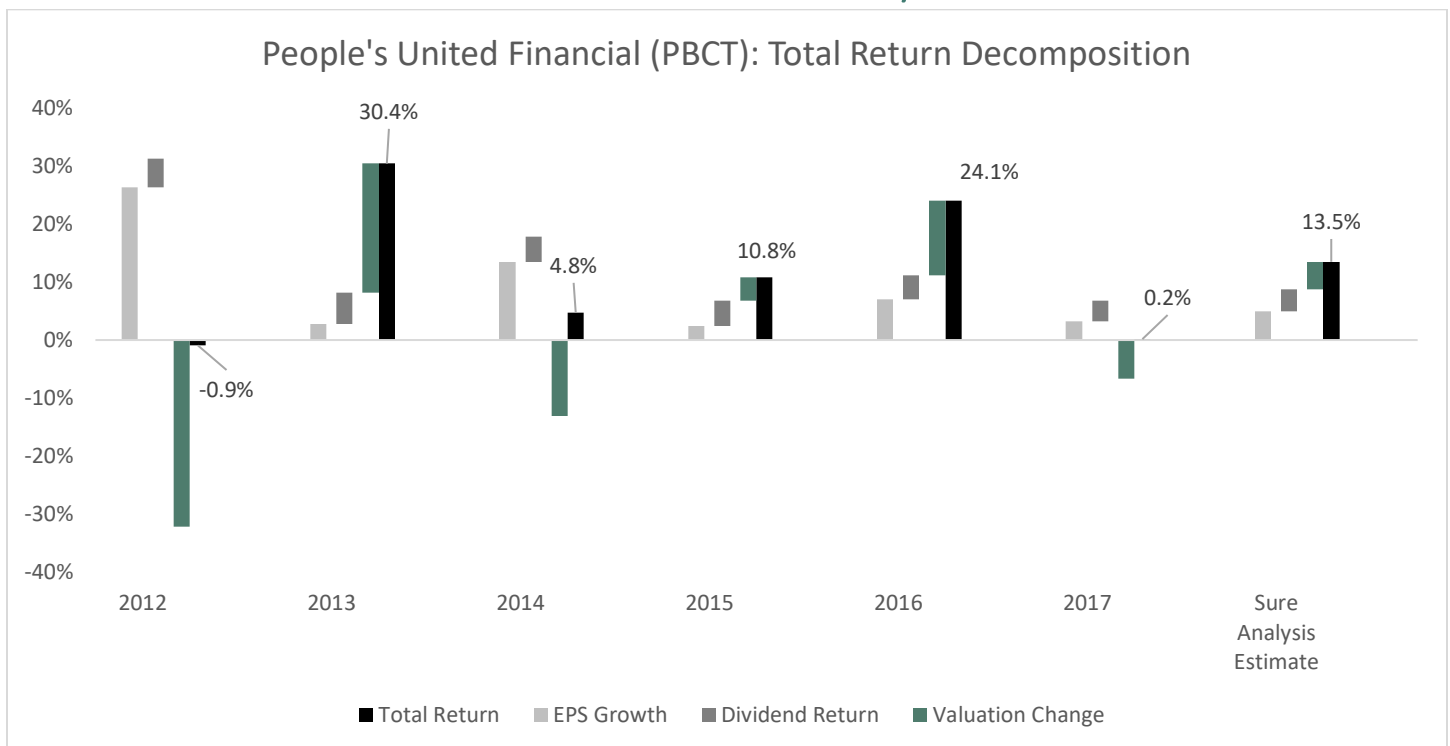
People’s United Financial has raised its dividend for 25 consecutive years. However, it has raised its dividend by only \$0.01 per year in each of the last nine years. Nevertheless, thanks to the growth achieved in recent years, the payout ratio has dropped to a reasonable 54% and hence the company may 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 a markedly 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 13.5% average annual return to its shareholders over this period, thanks to 5.0% EPS growth, a 3.7% dividend and a 4.8% 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



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