Tompkins Financial (TMP)

Updated July 23rd, 2018 by Nick McCullum

Key Metrics

Current Price:	$91	**5 Year CAGR Estimate:**	5.0%	**Volatility Percentile:**	59.6%
Fair Value Price:	$81	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	66.1%
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Valuation Percentile:**	39.7%
Dividend Yield:	2.1%	**5 Year Price Target**	$104	**Total Return Percentile:**	25.2%

Overview & Current Events

Tompkins Financial is a regional financial services holding company, headquartered in Ithaca, NY. It trades with a market capitalization of $1.2 billion, operates with total assets of $6.6 billion 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 late July, Tompkins Financial reported (7/20/18) financial results for the second quarter of fiscal 2018. The quarter saw the company generate $22.1 million of net income, an increase of 30.3% over the $16.9 million reported in the prior year's period. On a year-to-date basis, Tompkins Financial generated $42.5 million of net income, a 30.2% increase over last year's $32.6 million. On a per-share basis, Tompkins Financial generated $1.43 of diluted earnings-per-share in the quarter, up 28.8% from the prior year's period, which reflects strong company-wide growth and was partially offset by share repurchases. For the six-month reporting period, diluted earnings-per-share of $2.76 increased by 29.6%.

Clearly, Tompkins Financial's performance so far in this fiscal year has been extremely strong. Drivers of this robust performance include strong loan growth (total loans of $4.8 billion were up 8.4% over the prior year's quarter), expanding net interest margins, and a significant reduction in the company's effective tax rate. More specifically, the company's second quarter tax rate of 20.7% fell significantly from the 32.7% in last year's quarter. Because this drop in tax rate was due to the one-time effect of federal tax reform, investors should realize that continued ~30% growth in net income and earnings-per-share is unlikely for Tompkins Financial.

In a separate but concurrent press release, Tompkins Financial announced (7/20/18) a new stock repurchase program which allows the company to repurchase up to 400,000 shares of its outstanding common stock. The buyback program is expected to be completed over the next 24 month, and will be completed "*from time to time in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities law.*" For context, Tompkins Financial had about 15 million shares of common stock outstanding at the end of the most recent financial reporting period. This new share repurchase program represents about 2.7% of the public float of Tompkins Financial.

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	$4.42	***$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 aforementioned boost from the tax reform, we 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 a 5.0% rate in the last five years. Therefore, it is reasonable to expect EPS growth of at least 5.0% per year in the next five years. If this 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	***16.6***	***14.9***
Avg. Yld.	2.9%	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	***2.1%***	***2.4%***

Tompkins Financial's stock price has risen meaningfully since our last quarterly research report, which has sent its price-to-earnings ratio surging from 14.4 to 16.6. The company is now trading above its long-term average price-to-earnings ratio. Accordingly, we are estimating a 2.1% headwind to the company's total returns from valuation contraction moving forward.

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%***

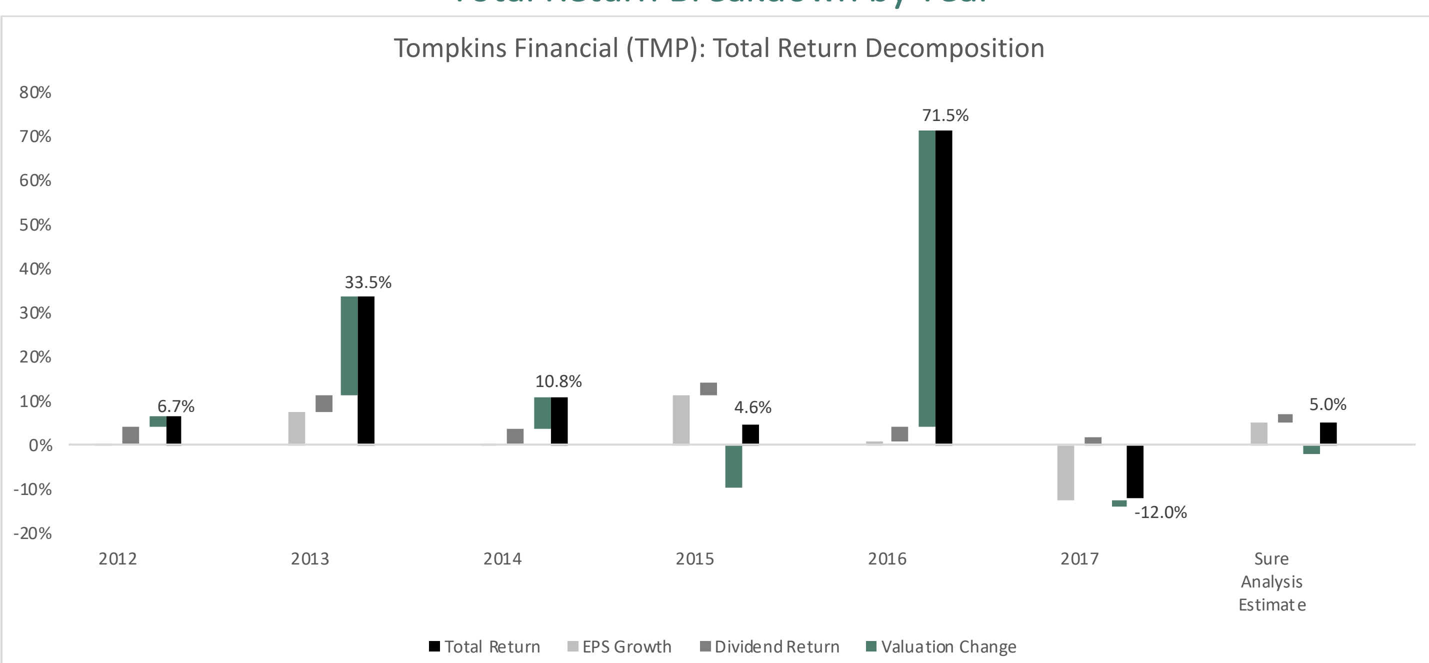
Tompkins Financial has raised its dividend for 31 consecutive years. This exceptional streak is a testament to the strength of its business model and its successful execution. Because of its strong balance sheet and markedly low payout ratio, it has ample room to keep growing its dividend at a meaningful 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 5.0% average annual return thanks to 5.0% EPS growth combined with valuation contraction that roughly offsets its dividend yield. Because of this mid-single digit total return estimate, Tompkins Financial fails to earn a buy recommendation from Sure Dividend at this time. Still, investors who already own shares of Tompkins Financial ought to continue holding them, particularly if their cost basis is significantly below today's market price and the shares are held within a taxable investment account.

Total Return Breakdown by Year



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.