



People's United Financial (PBCT)

Updated October 19th, 2018 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---------------------------------|-------|
| Current Price: | \$16 | 5 Year CAGR Estimate: | 10.3% | Volatility Percentile: | 34.6% |
| Fair Value Price: | \$17 | 5 Year Growth Estimate: | 5.0% | Momentum Percentile: | 24.8% |
| % Fair Value: | 95% | 5 Year Valuation Multiple Estimate: | 0.9% | Growth Percentile: | 30.4% |
| Dividend Yield: | 4.4% | 5 Year Price Target | \$21 | Valuation Percentile: | 62.4% |
| Dividend Risk Score: | C | Retirement Suitability Score: | C | Total Return Percentile: | 60.8% |

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 over 400 branches in the Northeast. It has total assets of \$44 billion and trades with a market capitalization of \$6.2 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%.

As interest rates are in a steady uptrend, 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, 3.1% in Q2-2018 and 3.15% in Q3-2018 thanks to the upward repricing of floating-rate loans and the fact that the new yields have exceeded the total portfolio yield for seven consecutive quarters.

People's United Financial reported its financial results for the third quarter of fiscal 2018 yesterday. Thanks to an 8% increase in its net interest income and a pronounced decrease in its tax rate, from 27.8% in 2017 to 21.6% in Q2, the company grew its earnings per share by 27%, from \$0.26 in Q3-2017 to \$0.33 in Q3-2018. In addition, it completed the acquisition of First Connecticut Bancorp, though the core system conversion will be performed in January. Overall, the report was in line with expectations and positive, as it marked another quarter of record earnings. The only point of concern was the fact that the average loans remained flat vs. Q2 due to heating competition.

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 |
| Shares | 330.1 | 332.3 | 352.6 | 348.7 | 338.4 | 312.0 | 298.3 | 300.4 | 304.0 | 332.9 | 325.0 | 300.0 |

People's United Financial has not missed the analysts' earnings-per-share estimates for nine consecutive quarters. We have maintained our expectations for earnings-per-share of \$1.29 this year. In 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 rising interest rates, it is reasonable to expect 5.0% average annual growth.

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 | 12.4 | 13.0 |
| Avg. Yld. | 3.4% | 3.7% | 4.3% | 5.0% | 5.2% | 4.6% | 4.5% | 4.3% | 4.3% | 3.8% | 4.4% | 3.6% |

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. However, as the cycle of rising interest rates unwinds, it is prudent to expect a lower valuation level. We thus assume a P/E ratio of 13.0 for 2023, in

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order to be on the safe side. As the stock is now trading at a P/E ratio of 12.4, it is likely to enjoy a 0.9% annualized gain thanks to the expansion of its P/E ratio 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 | 74.3% | 76.0% | 79.2% | 81.1% | 83.4% | 86.2% | 87.1% | 87.9% | 87.3% | 86.9% | 86.5% | 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% |

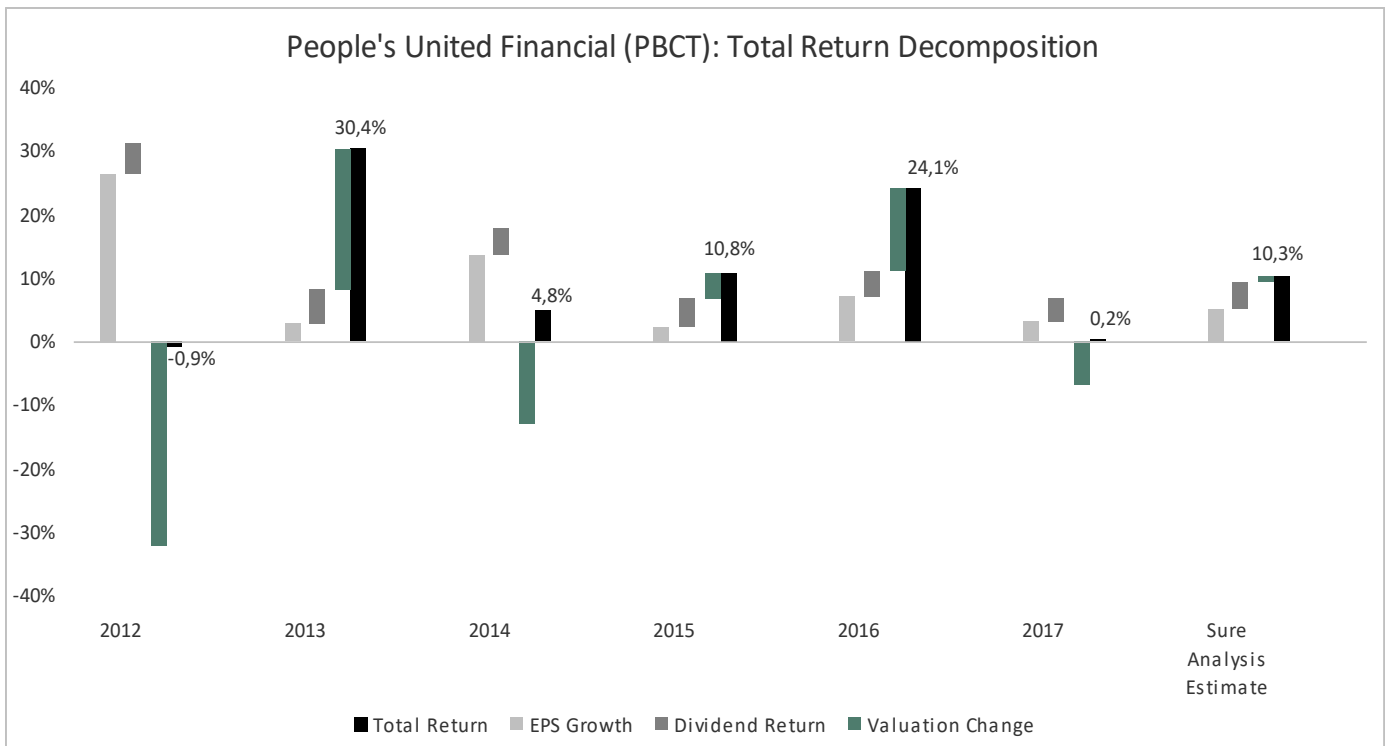
People's United Financial has raised its dividend for 25 consecutive years but has raised it by only \$0.01 per year in each of the last nine years. Nevertheless, thanks to the growth achieved in recent years, the payout ratio has dropped to a reasonable 54% and hence the company may begin to announce more meaningful dividend hikes in the future. The company's overall dividend safety and above-average yield allows it to earn C ratings for both Dividend Safety and Retirement Suitability.

As a recession has not occurred 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 earnings-per-share 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 promising growth prospects and a reasonable 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 10.3% average annual return thanks to 5.0% earnings-per-share growth, a 4.4% dividend and a 0.9% annualized gain from the expansion of its P/E ratio. This earns People's United a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Revenue | 940 | 885.9 | 964 | 1221 | 1249.1 | 1230.3 | 1242.1 | 1275.3 | 1314.9 | 1453.4 |
| SG&A Exp. | 368.5 | 371.5 | 418.2 | 488.6 | 485.4 | 494.7 | 510.9 | 521.3 | 525.4 | 584.6 |
| D&A Exp. | 61.3 | 65.7 | 73.2 | 65 | 65.9 | 66.5 | 64.4 | 63.2 | 60.5 | 69.1 |
| Net Profit | 137.8 | 101.2 | 82.5 | 192.4 | 245.3 | 232.4 | 251.7 | 260.1 | 281 | 337.2 |
| Net Margin | 14.7% | 11.4% | 8.6% | 15.8% | 19.6% | 18.9% | 20.3% | 20.4% | 21.4% | 23.2% |
| Free Cash Flow | 174.2 | 42 | 148 | 131.1 | 429.4 | 295.4 | 296.5 | 248 | 293.2 | 573 |
| Income Tax | 67 | 43.1 | 39.5 | 93 | 124 | 115.2 | 128.9 | 130.4 | 128.5 | 129.9 |

Balance Sheet Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 20168 | 21257 | 25037 | 27558 | 30324 | 33214 | 35997 | 38947 | 40610 | 44453 |
| Cash & Equivalents | 345.1 | 3418 | 354.7 | 748.8 | 470 | 453.3 | 971.6 | 668.5 | 602.2 | 845.5 |
| Goodwill & Int. | 1535.8 | 1515.2 | 1962 | 2174.2 | 2153.5 | 2127.3 | 2102.5 | 2087.8 | 2142.1 | 2560 |
| Total Liabilities | 14994 | 16157 | 19818 | 22343 | 25286 | 28645 | 31364 | 34215 | 35468 | 38634 |
| Long-Term Debt | 368.4 | 196.6 | 690.5 | 519.1 | 1838.3 | 4369.9 | 3326.2 | 4496.9 | 4126.6 | 3883.8 |
| Total Equity | 5173.8 | 5100.7 | 5219.3 | 5215.4 | 5038.8 | 4568.4 | 4633.1 | 4731.6 | 4897.8 | 5575.8 |
| D/E Ratio | 0.0712 | 0.0385 | 0.1323 | 0.0995 | 0.3648 | 0.9565 | 0.7179 | 0.9504 | 0.8025 | 0.6673 |

Profitability & Per Share Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.8% | 0.5% | 0.4% | 0.7% | 0.8% | 0.7% | 0.7% | 0.7% | 0.7% | 0.8% |
| Return on Equity | 2.9% | 2.0% | 1.6% | 3.7% | 4.8% | 4.8% | 5.5% | 5.6% | 5.8% | 6.4% |
| ROIC | 2.7% | 1.9% | 1.5% | 3.3% | 3.9% | 2.9% | 3.0% | 3.0% | 3.0% | 3.6% |
| Shares Out. | 330.1 | 332.3 | 352.6 | 348.7 | 338.4 | 312.0 | 298.3 | 300.4 | 304.0 | 332.9 |
| Revenue/Share | 2.85 | 2.67 | 2.73 | 3.50 | 3.69 | 3.94 | 4.16 | 4.25 | 4.33 | 4.37 |
| FCF/Share | 0.53 | 0.13 | 0.42 | 0.38 | 1.27 | 0.95 | 0.99 | 0.83 | 0.96 | 1.72 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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