Tompkins Financial (TMP)

Updated November 16th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	8.0%	**Volatility Percentile:**	60.4%
Fair Value Price:	$81	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	36.6%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.5%	**Growth Percentile:**	30.4%
Dividend Yield:	2.5%	**5 Year Price Target**	$103	**Valuation Percentile:**	53.6%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	40.8%

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 $6.7 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 mid-October, Tompkins Financial reported (10/19/18) financial results for the third quarter of fiscal 2018. In the quarter, the company grew its pre-tax earnings by 8.3% and its earnings-per-share by 19.3%. The latter were boosted by a decrease in the tax rate thanks to the recent tax reform. In the first nine months of the year, the company has grown its earnings-per-share by 26% over last year. Overall, it has achieved record earnings in the first nine months of the year. But, net interest margin shrank from 3.4% in Q3 2017 to 3.35% in Q3 2018 which caused Tompkins Financial to miss analysts' earnings-per-share estimates of $1.40 by $0.04. The stock plunged 7% upon its earnings release.

Tompkins Financial's performance so far in this fiscal year has been strong. Drivers of robust performance include strong loan growth (total loans of $4.8 billion were up 8.9% over the prior year's quarter) and a significant reduction in the company's effective tax rate. However, as most of this year's growth has come from the one-time effect of the recent tax reform, investors should not expect similar growth in the upcoming years. Instead they should expect earnings-per-share growth in line with the historical performance of the company.

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	***$5.44***	***$6.94***
DPS	$1.20	$1.24	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.83	***$1.94***	***$2.40***
Shares	10.6	10.7	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.2	***15.3***	***16.0***

Due to the negative surprise in the results of the third quarter, we have lowered our earnings-per-share estimate for this year by 1%, from $5.49 to $5.44. Nevertheless, Tompkins Financial is still poised to grow its earnings-per-share by 23% this year, mostly thanks to the aforementioned boost from the tax reform. Moreover, excluding the non-recurring write-off of last year, Tompkins Financial has grown its earnings-per-share 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 earnings-per-share growth of at least 5.0% per year in the next five years. If this materializes, earnings-per-share will grow to $6.94 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	***14.5***	***14.9***
Avg. Yld.	2.9%	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	***2.5%***	***2.4%***

In our last research report, in July, we mentioned the overvalued status of Tompkins Financial. Since then, the stock has lost 13% and is now trading at a P/E ratio of 14.5, which is slightly lower than its historical average of 14.9. Thus, the stock has become reasonably valued. If it reverts to its average valuation level over the next five years, it will enjoy a minor 0.5% annualized gain.

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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%	***91.0%***	***91.0%***
Payout	47.4%	41.9%	42.8%	43.8%	45.3%	44.5%	46.6%	43.9%	45.3%	53.4%	***35.7%***	***34.6%***
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 32 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.

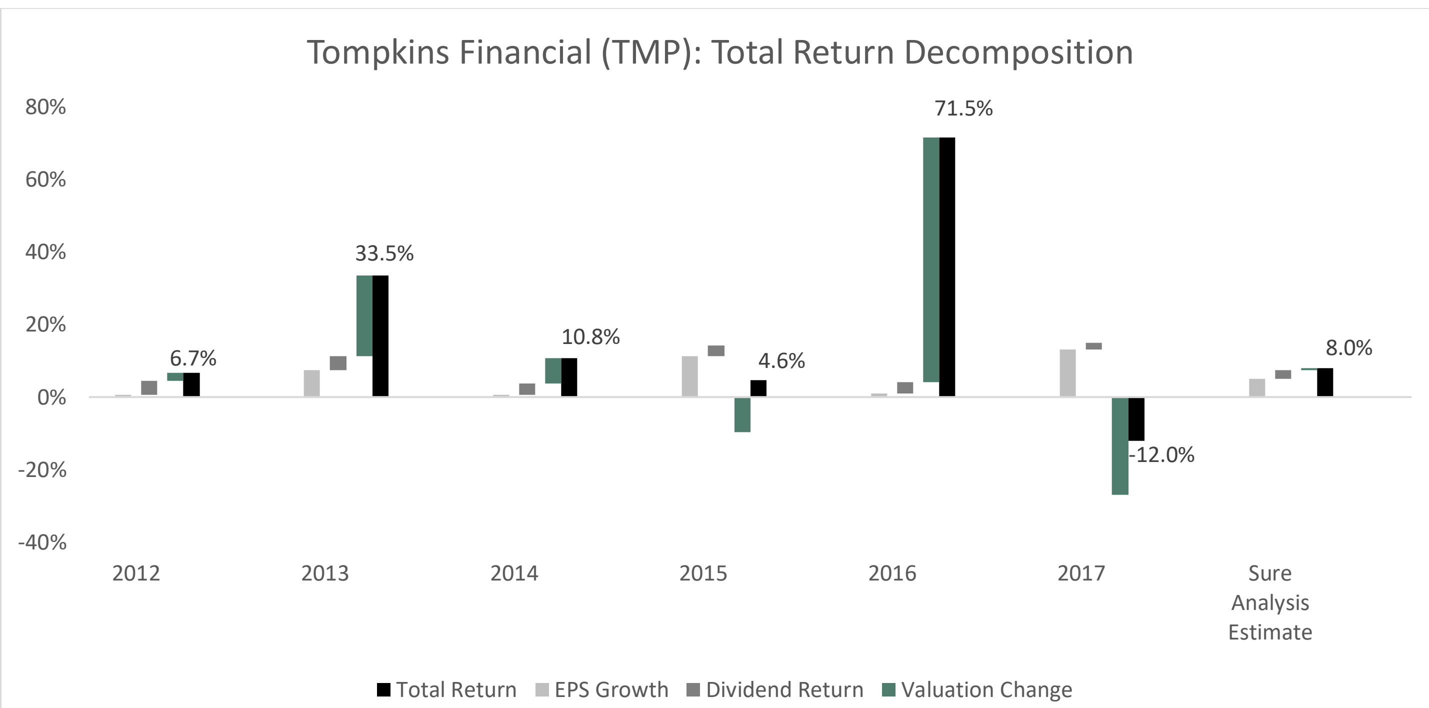
The company also exhibited remarkable resilience in the Great Recession. In the worst financial crisis of the last 80 years, when most banks incurred losses or saw their earnings collapse, Tompkins Financial grew its earnings-per-share 17%, from $2.53 in 2008 to $2.96 in 2009. Given the absence of a 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 strong momentum in its business performance. It has posted record results this year and is likely to continue to grow its earnings in the upcoming years.

In addition, thanks to its recent correction, the stock has become reasonably valued. As a result, it can offer an 8.0% average annual return over the next five years and thus earns a hold rating at its current price. If the recent negative stock price momentum persists, investors should consider buying the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	136	153	158	159	189	231	235	240	249	271
SG&A Exp.	51	59	61	72	84	93	107	105	115	123
D&A Exp.	6	5	5	5	7	8	8	8	9	10
Net Profit	30	32	34	35	31	51	52	58	59	52
Net Margin	21.9%	20.8%	21.4%	22.2%	16.5%	22.0%	22.2%	24.3%	23.8%	19.4%
Free Cash Flow	59	19	61	69	55	77	69	76	75	51
Income Tax	14	15	16	16	11	21	25	29	27	43

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2868	3153	3260	3400	4837	5003	5270	5690	6237	6648
Cash & Equivalents	52	45	50	49	119	83	56	58	64	84
Accounts Receivable	32	63	57	52	100	106	86	82	84	83
Goodwill & Int. Ass.	47	46	46	48	111	108	107	104	104	102
Total Liabilities	2648	2908	2987	3101	4396	4545	4780	5174	5687	6072
Long-Term Debt	275	209	244	186	156	369	394	574	922	1088
Shareholder's Equity	218	244	272	298	440	456	488	515	548	575
D/E Ratio	1.26	0.86	0.90	0.63	0.35	0.81	0.81	1.11	1.68	1.89

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.1%	1.1%	1.1%	1.1%	0.8%	1.0%	1.0%	1.1%	1.0%	0.8%
Return on Equity	14.4%	13.8%	13.1%	12.4%	8.5%	11.3%	11.0%	11.6%	11.2%	9.4%
ROIC	6.6%	6.7%	7.0%	7.1%	5.8%	7.1%	6.1%	5.9%	4.6%	3.3%
Shares Out.	10.6	10.7	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.2
Revenue/Share	11.57	14.26	14.54	14.45	14.74	15.85	15.86	16.17	16.70	17.95
FCF/Share	4.98	1.74	5.64	6.22	4.26	5.29	4.64	5.14	4.99	3.37

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