



# People's United Financial (PBCT)

Updated January 18<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$16.5	<b>5 Year CAGR Estimate:</b>	12.0%	<b>Volatility Percentile:</b>	33.3%
<b>Fair Value Price:</b>	\$19	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	33.3%
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.7%	<b>Growth Percentile:</b>	32.0%
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$24	<b>Valuation Percentile:</b>	72.8%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	70.5%

## Overview & Current Events

People's United Financial is a diversified financial services company that provides commercial and retail banking and wealth management services via its network of over 400 branches in the Northeast. It has total assets of \$48 billion and trades with a market capitalization of approximately \$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.

During the last two years, People's United financial has greatly benefited from the steady uptrend of interest rates. The bank has consistently enhanced its net interest margin, from 2.96% in Q2-2017 to 3.17% in the most recent quarter. However, the Fed is likely to slow the pace of interest rate hikes going forward. As a result, this tailwind is likely to somewhat attenuate in the upcoming years.

In mid-January, People's United Financial reported (1/17/19) its financial results for the fourth quarter of fiscal 2018. It increased its earnings by 28% over last year, mostly thanks to the acquisition of First Connecticut and a steep decrease in its tax rate. Its earnings-per-share grew 16% due to the acquisition-related issuance of new shares. In the quarter, its loans and its deposits increased 9% over previous quarter thanks to the acquisition of First Connecticut. If the impact of the acquisition is excluded, loans and deposits grew 1% and 2%, respectively.

Overall, it was another quarter with record earnings, with the company exceeding the analysts' earnings-per-share estimates (\$0.36 vs. \$0.34). Moreover, People's United Financial acquired VAR Technology Finance, which focuses on serving the technological sector. People's United Financial also announced the acquisition of BSB Bancorp in November. This acquisition will enhance the presence of the company in the Greater Boston area.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.30	\$0.24	\$0.57	\$0.72	\$0.74	\$0.84	\$0.86	\$0.92	\$0.95	\$1.31	<b>\$1.45</b>	<b>\$1.85</b>
<b>DPS</b>	\$0.61	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	<b>\$0.71</b>	<b>\$0.76</b>
<b>Shares</b>	332.3	352.6	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8	<b>400.0</b>	<b>420.0</b>

People's United Financial has grown its earnings-per-share for 9 consecutive years and has not missed analysts' earnings-per-share estimates for 10 consecutive quarters. In the last five years, the company has grown its earnings-per-share at a 9.3% average annual rate. However, the results of last year benefited from a steep decrease in the tax rate, from 28% to 19%. Going forward, we expect approximate 11% earnings-per-share growth this year, mostly thanks to strong momentum from the integration of First Connecticut, and 5.0% average annual growth beyond this year.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	N/A	N/A	22.3	17.0	19.0	17.5	18.2	17.3	19.0	13.8	<b>11.4</b>	<b>13.0</b>
<b>Avg. Yld.</b>	3.7%	4.3%	5.0%	5.2%	4.6%	4.5%	4.3%	4.3%	3.8%	3.9%	<b>4.3%</b>	<b>3.2%</b>

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.



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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 an 8-year average P/E of 18.0. 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 2024. As the stock is now trading at a P/E ratio of 11.4, it is likely to enjoy a 2.7% annualized gain thanks to P/E expansion over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	203%	258%	111%	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	53.4%	49.0%	41.1%

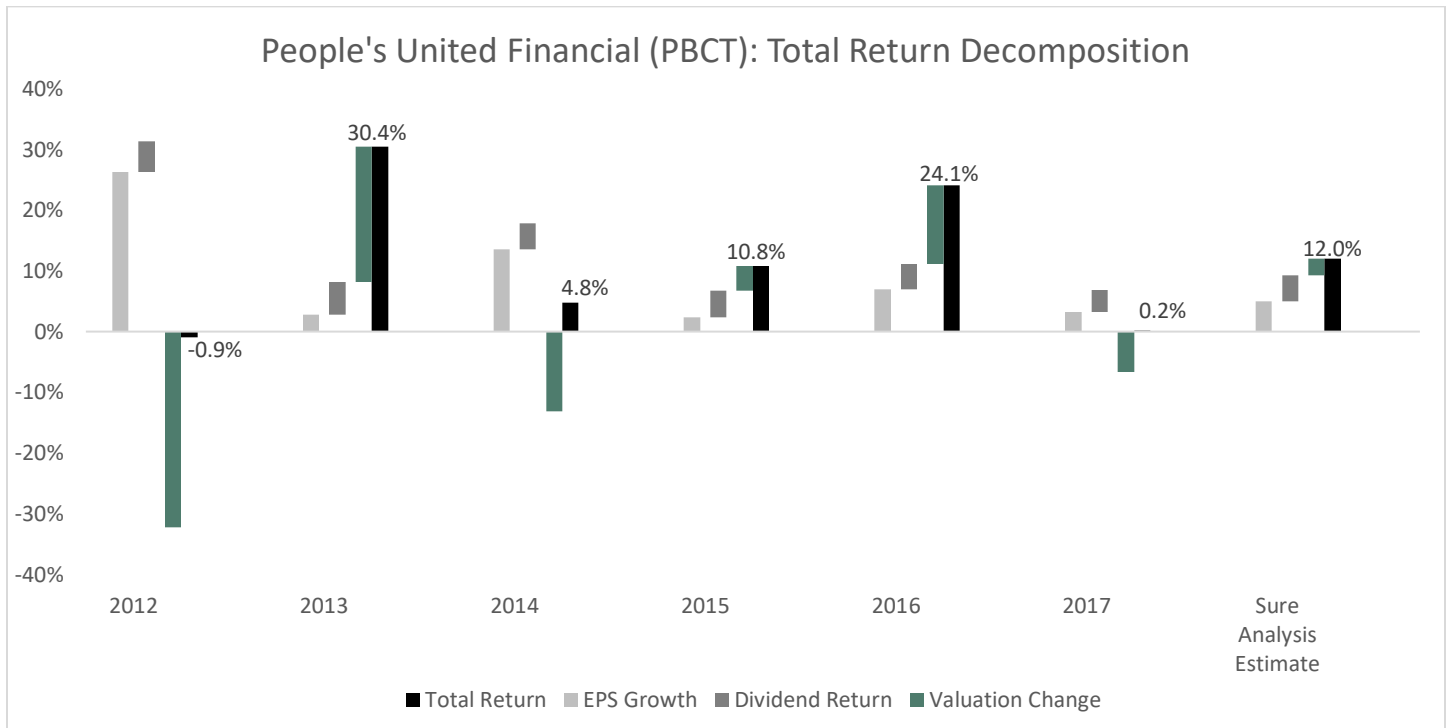
People's United Financial has raised its dividend for 25 consecutive years but has raised it by only \$0.01 per year in each of the last nine years. Nevertheless, thanks to the growth achieved in recent years, the payout ratio has dropped to a reasonable 53% and hence the company may begin to announce more meaningful dividend hikes in the future.

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, the stock is likely to offer a 12.0% average annual return over the next five years. 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
<b>Revenue</b>	940	885.9	964	1221	1249.1	1230.3	1242.1	1275.3	1314.9	1453.4
<b>SG&amp;A Exp.</b>	368.5	371.5	418.2	488.6	485.4	494.7	510.9	521.3	525.4	584.6
<b>D&amp;A Exp.</b>	61.3	65.7	73.2	65	65.9	66.5	64.4	63.2	60.5	69.1
<b>Net Profit</b>	137.8	101.2	82.5	192.4	245.3	232.4	251.7	260.1	281	337.2
<b>Net Margin</b>	14.7%	11.4%	8.6%	15.8%	19.6%	18.9%	20.3%	20.4%	21.4%	23.2%
<b>Free Cash Flow</b>	174.2	42	148	131.1	429.4	295.4	296.5	248	293.2	573
<b>Income Tax</b>	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
<b>Total Assets</b>	20168	21257	25037	27558	30324	33214	35997	38947	40610	44453
<b>Cash &amp; Equivalents</b>	345.1	3418	354.7	748.8	470	453.3	971.6	668.5	602.2	845.5
<b>Goodwill &amp; Int.</b>	1535.8	1515.2	1962	2174.2	2153.5	2127.3	2102.5	2087.8	2142.1	2560
<b>Total Liabilities</b>	14994	16157	19818	22343	25286	28645	31364	34215	35468	38634
<b>Long-Term Debt</b>	368.4	196.6	690.5	519.1	1838.3	4369.9	3326.2	4496.9	4126.6	3883.8
<b>Total Equity</b>	5173.8	5100.7	5219.3	5215.4	5038.8	4568.4	4633.1	4731.6	4897.8	5575.8
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.8%	0.5%	0.4%	0.7%	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%
<b>Return on Equity</b>	2.9%	2.0%	1.6%	3.7%	4.8%	4.8%	5.5%	5.6%	5.8%	6.4%
<b>ROIC</b>	2.7%	1.9%	1.5%	3.3%	3.9%	2.9%	3.0%	3.0%	3.0%	3.6%
<b>Shares Out.</b>	330.1	332.3	352.6	348.7	338.4	312.0	298.3	300.4	304.0	332.9
<b>Revenue/Share</b>	2.85	2.67	2.73	3.50	3.69	3.94	4.16	4.25	4.33	4.37
<b>FCF/Share</b>	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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