Tompkins Financial Corporation (TMP)

Updated February 5th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	10.4%	**Volatility Percentile:**	52.5%
Fair Value Price:	$82	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	38.3%
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Growth Percentile:**	60.2%
Dividend Yield:	2.6%	**5 Year Price Target**	$112	**Valuation Percentile:**	63.3%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	59.0%

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 and has total assets of $6.7 billion. The company offers a wide range of services, including: checking and deposit accounts, time deposits, loans, credit cards, insurance services, and wealth management.

In late January, Tompkins Financial reported (1/25/19) financial results for the fourth quarter of fiscal 2018. In the quarter, net interest margin slightly decreased, from 3.41% to 3.37%, as funding costs rose faster than asset yields. Nevertheless, net interest income rose 2.4% thanks to 3.5% loan growth over the prior year. The company thus grew its net interest income for a 15th consecutive quarter and grew its earnings-per-share by 7.0%.

The company grew its pre-tax income by 9.4% and its adjusted earnings-per-share by 20.6% over last year in fiscal 2018. Results were boosted by a steep decrease in tax rate thanks to tax reform. Tompkins Financial achieved record fiscal year earnings. Nevertheless, as net interest margin shrank, Tompkins Financial missed analysts' earnings-per-share estimates of $1.34 by $0.11. As a result, the stock plunged 5% upon its earnings release.

Tompkins Financial's performance was remarkably strong last year. Drivers of robust performance include strong loan growth and a significant reduction in the company's effective tax rate. However, a big portion of last year's growth came from the one-time effect of the recent tax reform; investors should not expect similar growth in upcoming years. Instead, expect earnings-per-share growth near the historical performance of the company.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.96	$3.11	$3.20	$3.22	$3.46	$3.48	$3.87	$3.91	$4.42	$5.33	***$5.57***	***$7.63***
DPS	$1.24	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.83	$1.94	***$2.02***	***$2.42***
Shares	10.7	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	***15.4***	***16.0***

As last year's earnings greatly benefited from the one-time effect of the tax reform, it is prudent to focus on historical growth before last year. Excluding the non-recurring write-off of 2017, Tompkins Financial grew its earnings-per-share at a 6.4% average annual rate during 2008-2017 and a 6.5% rate during 2012-2017. Therefore, it is reasonable to expect 6.5% annual earnings-per-share growth in the next five years. If this materializes, earnings-per-share will grow from an expected $5.57 this year to $7.63 in 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.7	12.4	12.3	12.2	12.9	12.7	14.0	17.7	24.2	15.3	***13.8***	***14.7***
Avg. Yld.	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	***2.6%***	***2.2%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 13.8, which is lower than its historical average of 14.7. If the stock reverts to its average valuation level over the next five years, it will enjoy a 1.3% annualized gain thanks to the expansion of its price-to-earnings ratio.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	41.9%	42.8%	43.8%	45.3%	44.5%	46.6%	43.9%	45.3%	53.4%	36.4%	***36.3%***	***31.7%***

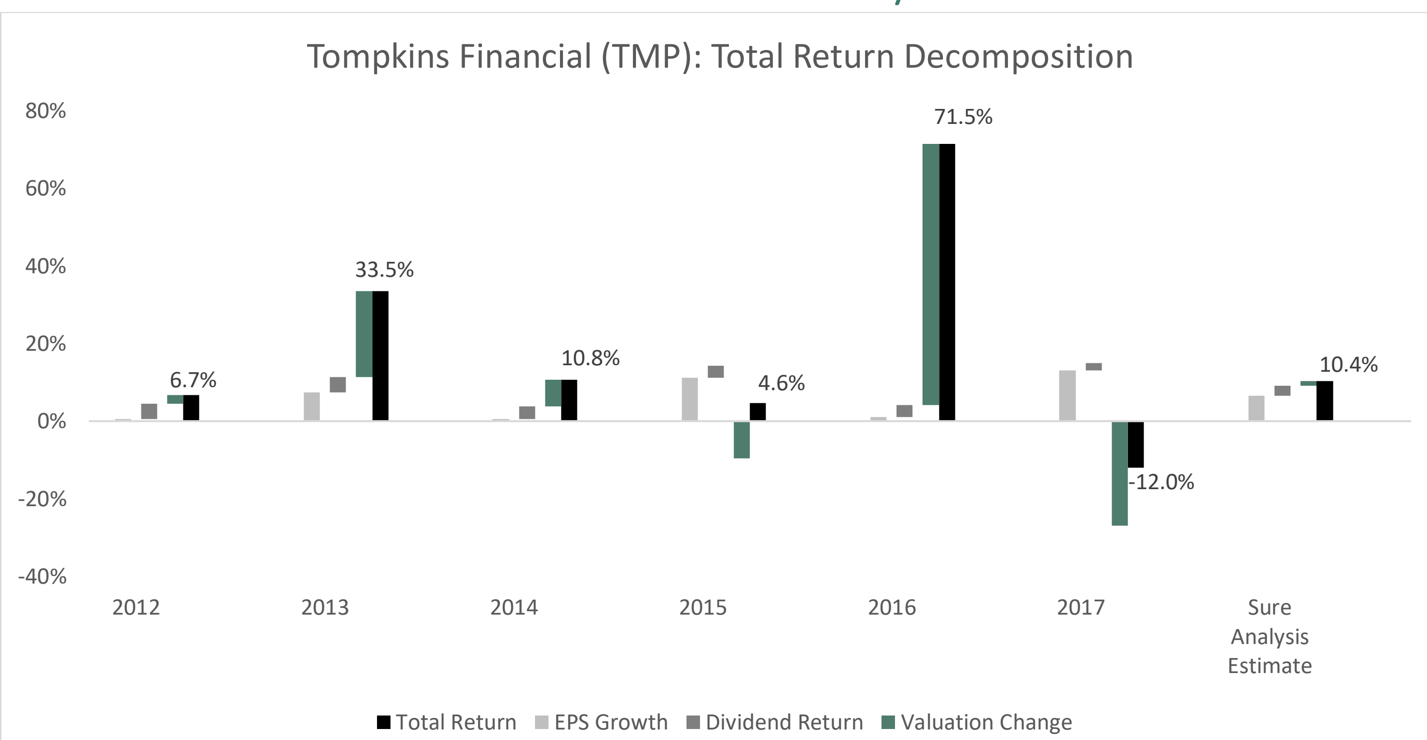
Tompkins Financial has a conservative portfolio of assets, with its non-performing assets remaining near historically low levels and representing only 0.42% of total assets. This compares favorably to the most recent Federal Reserve Board Peer Group Average of 0.61%. Moreover, Tompkins Financial has 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 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 rising interest rates, the defensive behavior of Tompkins Financial during economic downturns is particularly important.

Final Thoughts & Recommendation

Tompkins Financial posted record results last year and is likely to continue to grow its earnings at a decent pace in the upcoming years. In addition, thanks to its 15% correction since last summer, the stock has become attractive. As a result, it can offer a 10.4% average annual return over the next five years and thus maintains its hold rating at its current price. The stock is on the verge of earning a buy rating. If it falls to the low $70s, investors should consider purchasing the stock.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	153	156	157	187	228	232	238	247	267	289
SG&A Exp.	59	68	70	82	104	105	103	113	119	110
D&A Exp.	5	5	5	7	8	8	8	9	10	N/A
Net Profit	32	34	35	31	51	52	58	59	52	82
Net Margin	20.8%	21.7%	22.5%	16.8%	22.3%	22.4%	24.6%	24.0%	19.7%	28.5%
Free Cash Flow	19	61	69	55	77	69	76	75	51	N/A
Income Tax	15	16	16	11	21	25	29	27	43	22

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3153	3260	3400	4837	5003	5270	5690	6237	6648	6758
Cash & Equivalents	45	50	50	119	83	56	58	64	84	80
Accounts Receivable	63	57	52	100	106	86	82	84	83	82
Goodwill & Int. Ass.	46	46	48	111	108	107	104	104	102	100
Total Liabilities	2908	2987	3101	4396	4545	4780	5174	5687	6072	6138
Long-Term Debt	209	244	211	156	369	394	574	922	1088	1093
Shareholder's Equity	244	272	298	440	456	488	515	548	575	619
D/E Ratio	0.86	0.90	0.71	0.35	0.81	0.81	1.11	1.68	1.89	1.76

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.1%	1.1%	1.1%	0.8%	1.0%	1.0%	1.1%	1.0%	0.8%	1.2%
Return on Equity	13.8%	13.1%	12.4%	8.5%	11.3%	11.0%	11.6%	11.2%	9.4%	13.8%
ROIC	6.7%	7.0%	6.9%	5.7%	7.1%	6.1%	5.9%	4.6%	3.3%	4.9%
Shares Out.	10.7	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3
Revenue/Share	14.26	14.37	14.26	14.54	15.62	15.68	15.99	16.53	17.72	19.11
FCF/Share	1.74	5.64	6.22	4.26	5.29	4.64	5.14	4.99	3.37	N/A

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