Tompkins Financial Corporation (TMP)

Updated May 3rd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$82	**5 Year CAGR Estimate:**	8.9%	**Volatility Percentile:**	47.6%
Fair Value Price:	$81	**5 Year Growth Estimate:**	6.5%	**Momentum Percentile:**	47.8%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Growth Percentile:**	63.7%
Dividend Yield:	2.5%	**5 Year Price Target**	$112	**Valuation Percentile:**	50.6%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	48.2%

Overview & Current Events

Tompkins Financial is a regional financial services holding company headquartered in Ithaca, NY. It trades with a market capitalization of $1.3 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 April, Tompkins Financial reported (4/26/19) financial results for the first quarter of fiscal 2019. Net interest margin slightly decreased, from 3.42% in last year's quarter to 3.34%, due to reduced interest expense last year, which was related to certain acquired deposits. Net interest income decreased 1.5%, mainly due to higher cost on interest-bearing deposits, which resulted from higher interest rates. On the other hand, non-interest income increased 8.8% thanks to strong growth in insurance revenue.

Overall, the company grew its earnings 3% over prior year's quarter thanks to growth in loans and deposits, higher fee income and improved credit quality. As a result, it posted earnings-per-share of $1.37, which exceeded the analysts' consensus of $1.28 by 7%. It was the best first quarter in the history of the company. Total loans and deposits increased 1.8% and 1.2%, respectively, over the same period last year. Moreover, total non-performing loans were down 8.9% compared to the same period last year.

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	***$5.55***	***$7.60***
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 $5.55 this year to $7.60 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	***14.8***	***14.7***
Avg. Yld.	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	***2.5%***	***2.2%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 14.8, which is almost equal to its historical average of 14.7. If the stock trades at its average valuation level in five years, it will incur a mild 0.1% annualized drag due to the contraction 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%	***36.4%***	***31.8%***

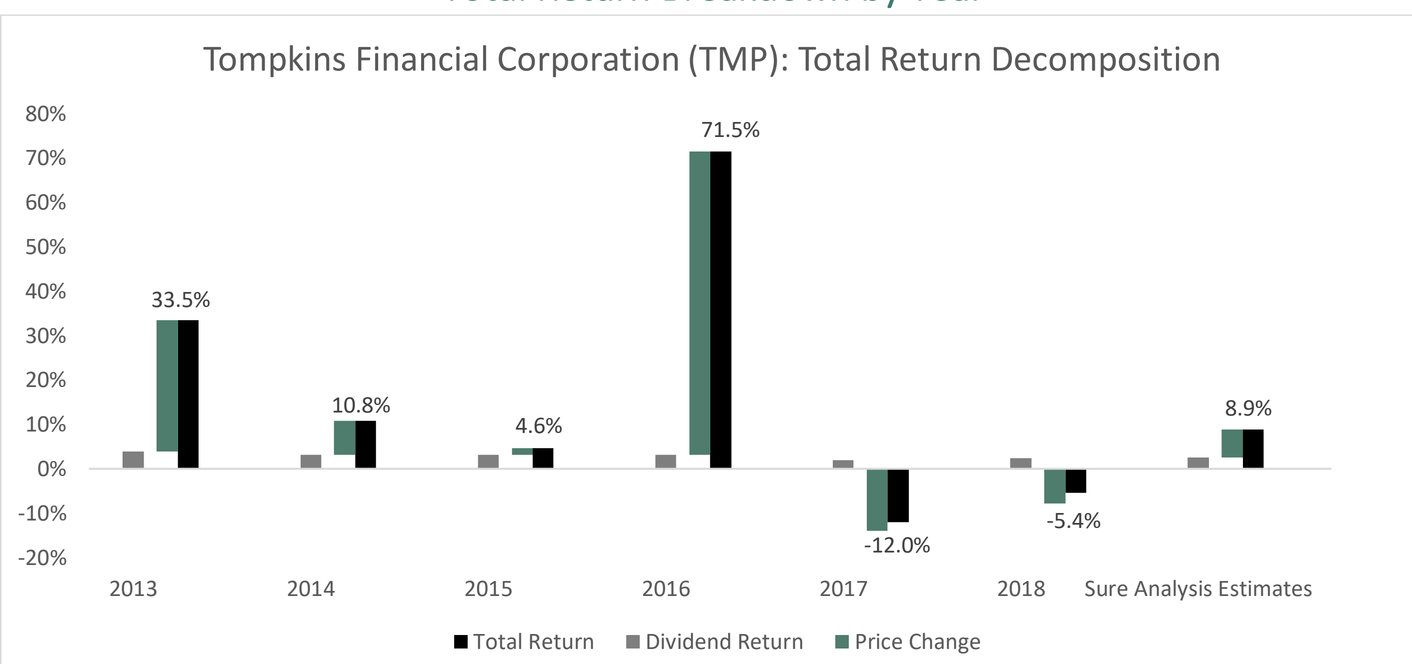
Tompkins Financial has a conservative portfolio of assets, with its non-performing assets remaining near historically low levels and representing only 0.36% of total assets, down from 0.42% at the end of last year. This compares favorably to the most recent Federal Reserve Board Peer Group Average of 0.59%. 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 a whole decade and the multiple interest rate hikes in the last two years, 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. Since our last research report, in February, in which we stated that the stock was on the verge of earning a buy rating, the stock has advanced 6.5% and hence it has become fairly valued. As a result, it can now offer an 8.9% average annual return over the next five years, driven by 6.5% annual earnings-per-share growth and a 2.5% dividend, which will be slightly offset by a 0.1% annualized contraction of its price-to-earnings ratio. The stock thus maintains its hold rating at its current price.

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.