New York Community Bancorp (NYCB)

Updated July 5th, 2019 by Josh Arnold

Key Metrics

Current Price:	$10	**5 Year CAGR Estimate:**	12.9%	**Volatility Percentile:**	64.7%
Fair Value Price:	$11	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	31.3%
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Growth Percentile:**	35.6%
Dividend Yield:	6.6%	**5 Year Price Target**	$14	**Valuation Percentile:**	70.5%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	79.3%

Overview & Current Events

New York Community Bancorp is the parent of a state-chartered bank called New York Community Bank. The wholly-owned subsidiary operates 240 branches in New York, New Jersey, Ohio, Florida, and Arizona. The holding company was founded in 1993 but the banking operations of the company can be traced to 1859. The bank focuses on multi-family loans in New York City, particularly in buildings that are rent-controlled. That book of business is about three-quarters of its entire lending portfolio. The ~$50 billion asset company has a market capitalization of $4.8 billion.

NYCB reported Q1 earnings on 4/30/19, and results were somewhat disappointing, as revenue fell and earnings missed estimates. The bank's loan portfolio grew 4% on an annualized basis as all of its major loan categories registered growth. However, most of the growth in the loan book was due to specialty finance, which soared 63%.

Deposits also grew very nicely in Q1, adding $837 million, good for an 11% annualized growth rate. The bank reported growth in CDs, savings accounts, and non-interest-bearing accounts. The bank used significant deposit growth in Q1 to purchase investment securities and pay down borrowings, which should reduce its interest expense later this year. Net interest margin came in at 2.03%, a decline of six basis points year-over-year.

Adjusted operating expenses fell 4% in Q1 from Q4 of 2018 as NYCB has been hard at work trying to increase its operating leverage. That helped send its adjusted efficiency ratio down 1.17% to 48.75% in Q1, which is an outstanding efficiency ratio, particularly for a relatively small bank. For context, many of the largest banks are in the mid-50s.

Overall, earnings-per-share came in at $0.19 in Q1, unchanged from the year-ago period. We see essentially flat earnings-per-share for this year at $0.78, which would represent a fractional decline against 2018. We see slimmer lending margins as roughly offsetting savings in expenses, leading to similar earnings year-to-year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.13	$1.24	$1.09	$1.13	$1.08	$1.09	-$0.11	$1.01	$0.81	$0.79	***$0.78***	***$1.00***
DPS	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$0.68	$0.68	$0.68	***$0.68***	***$0.68***
Shares	433	436	437	439	441	443	485	487	488	474	***467***	***470***

NYCB's growth prospects are somewhat murky. The bank's leverage to New York City with its multi-family loan portfolio makes its results more volatile than a diversified bank that has lots of different types of lending strategies. Recently, New York City passed stricter regulations that make it more difficult for landlords to raise rents on rent-controlled units, which is where NYCB is heavily leveraged. This could crimp the bank's customers' ability to improve properties over time and raise prices, which may cause some of them to lose the ability to service their loans over time. NYCB has been prudent in its underwriting standards, so risks are still somewhat low, but the possibility of lower growth because of this is noticeable.

On the bright side, NYCB's deposit mix is very strong for an environment where rates are moving around. About 40% of its deposits are in time deposits, so those rates are locked in until maturity. In addition, strong deposit growth should help NYCB pay down more expensive borrowings and improve margins, along with strong expense controls. In total, we see 5% earnings-per-share growth from today's relatively low level.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.0	13.2	13.8	11.6	13.5	14.6	---	15.0	16.7	14.6	***13.1***	***14.0***
Avg. Yld.	8.9%	6.1%	6.7%	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	***6.6%***	***4.9%***

We see fair value for NYCB at 14 times earnings based upon its historical trading range, as well as peer valuations. Today, the stock trades for 13.1 times our estimate of 2019 earnings-per-share, so it is slightly undervalued according to that metric. Should the multiple reflate, we see a 1.3% tailwind to total annual returns.

The yield, however, is likely the main draw for investors at 6.6%. That is high not only on an absolute basis, but relative to its own high yields in the past. However, we see the payout as flat in the coming years, so the rising share price should produce a lower yield over time. Still, we don't see the yield much under 5% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	88%	81%	92%	88%	93%	92%	---	67%	84%	86%	***87%***	***68%***

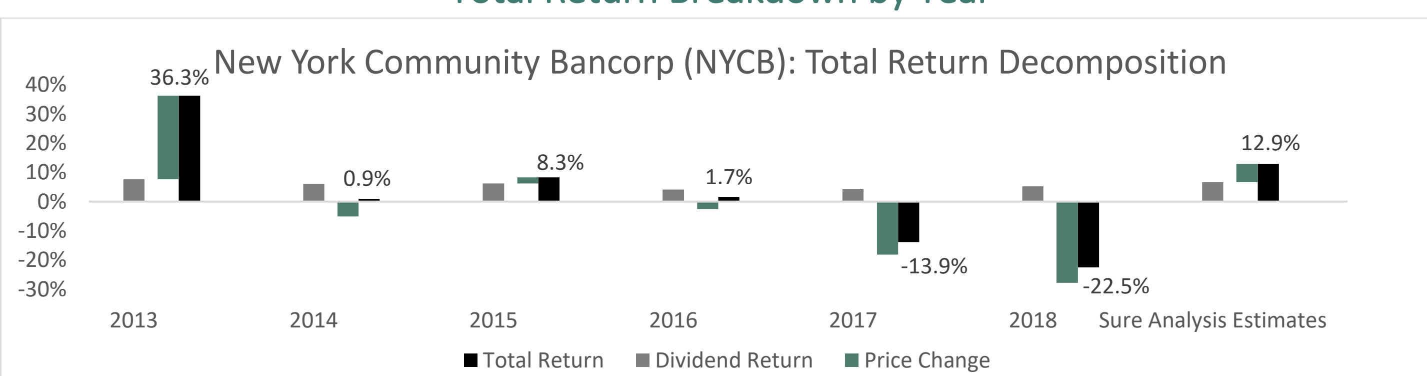
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results. On the other hand, the focus on these rent-controlled apartments should make its recession performance quite strong and indeed, during the Great Recession, NYCB continued to grow earnings. That is quite an attractive trait, and a rare one, for a bank.

The payout ratio is currently very high so we don't see any dividend growth anytime soon. We think NYCB may struggle a bit to pay its current payout of $0.68 and thus, raises aren't an option until earnings rebound significantly. The payout was cut in 2016 and could be cut again, but we don't see that as an immediate risk given where earnings are today.

Final Thoughts & Recommendation

NYCB offers investors what should be strong total annual returns, but with some measure of risk involved. We like the stock for its very high yield of 6.6%, and we think earnings will rebound moderately from current trough levels, adding 5% annually. The stock appears to be essentially fairly valued today as well, meaning we expect 12.9% total returns annually in the next five years. However, stricter regulations on NYCB's lending market in New York City are a concern, as well as the very high payout ratio. The bank's recession track record is outstanding and expense controls are working well, but given the high leverage to a niche lending market, we see the risks of owning NYCB today as higher than we'd like. As such, we rate NYCB as a hold despite very high total return prospects.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	923	1501	1408	1445	1375	1357	628	1439	1366	1123
SG&A Exp.	310	447	470	489	484	495	523	546	561	447
D&A Exp.	39	51	50	45	44	36	37	35	33	32
Net Profit	399	541	480	501	476	485	-47	495	466	422
Net Margin	43.2%	36.1%	34.1%	34.7%	34.6%	35.8%	-7.5%	34.4%	34.1%	37.6%
Free Cash Flow	204	-118	789	537	1339	649	-455	671	1299	531
Income Tax	195	296	255	280	272	288	-85	282	202	135

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	42154	41191	42024	44145	46688	48559	50318	48927	49124	51899
Cash & Equivalents	2671	1928	2002	2427	645	564	538	558	2528	1475
Goodwill & Int. Ass.	2542	2514	2605	2613	2693	2671	2686	2670	2442	2437
Total Liabilities	36787	35664	36459	38489	40953	42777	44383	42803	42329	45244
Long-Term Debt	10040	9411	9835	9201	11231	10541	13822	12023	12464	13708
Shareholder's Equity	5367	5526	5566	5656	5736	5782	5935	6124	6293	6152
D/E Ratio	1.87	1.70	1.77	1.63	1.96	1.82	2.33	1.96	1.83	2.06

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.1%	1.3%	1.2%	1.2%	1.0%	1.0%	-0.1%	1.0%	1.0%	0.8%
Return on Equity	8.3%	9.9%	8.7%	8.9%	8.3%	8.4%	-0.8%	8.2%	7.5%	6.8%
ROIC	2.8%	3.6%	3.2%	3.3%	3.0%	2.9%	-0.3%	2.6%	2.5%	2.1%
Shares Out.	433	436	437	439	441	443	485	487	488	474
Revenue/Share	2.62	3.46	3.23	3.30	3.13	3.08	1.40	2.97	2.80	2.30
FCF/Share	0.58	-0.27	1.81	1.23	3.05	1.47	-1.01	1.38	2.67	1.09

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