Tompkins Financial Corporation (TMP)

Updated July 26th, 2019 by Josh Arnold

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	2.2%	**Volatility Percentile:**	44.7%
Fair Value Price:	$64	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	34.5%
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Growth Percentile:**	25.6%
Dividend Yield:	2.5%	**5 Year Price Target**	$77	**Valuation Percentile:**	23.2%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	11.5%

Overview & Current Events

Tompkins Financial is a regional financial services holding company headquartered in Ithaca, NY that can trace its roots back a staggering 181 years. It trades with a market capitalization of $1.2 billion and has total assets of $6.7 billion, which produce $285 million in annual revenue. The company offers a wide range of services, including: checking and deposit accounts, time deposits, loans, credit cards, insurance services, and wealth management to its customers in New York and Pennsylvania.

Tompkins reported Q2 earnings on 7/19/19 and results were largely in line with expectations. Net interest income was down fractionally against the year-ago period at $52.3 million. NII benefited from growth in average loans and higher loan yields. Average loans rose 1.7% in the first half of the year while asset yields rose 26bps in the same period.

Average total deposits were up 2.1% in the first half, but deposit costs rose slightly. This caused net interest margin to decline fractionally to 3.34%. Tompkins cited competition for deposits as the cause for declining margins.

Tompkins pointed out it sold $152 million in lower-yielding securities in June, near the end of the quarter, and used the proceeds to pay down short-term borrowings. The transaction should boost net interest income in the second half of the year as Tompkins paid down debt with low-yield assets.

Noninterest income was up 2% in Q2 as fees in its various non-banking businesses rose and helped boost revenue.

Noninterest expense rose 2.4% thanks to higher salary expense. However, this kept a lid on earnings, which fell from $1.43 per share to $1.27 per share in Q2. Earnings-per-share is down 4.7% thus far in 2019.

Management also pointed out that the environment for interest rates is unfavorable for Tompkins at this point, as was evidenced by Q2 results. The combination of competition for deposits and lower market yields for loans has Tompkins struggling to grow margins. With average loans rising slowly, we are more cautious on 2019 and beyond. As a result, we've lowered our estimate for 2019 to $5.30 in earnings-per-share, down from $5.55.

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	***$5.30***	***$6.45***
DPS	$1.24	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	***$2.00***	***$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. However, we are more cautious on Tompkins' ability to grow in the near-term given its comments on the interest rate environment.

As a result, we've lowered our growth estimate from 6.5% to 4% as we see a low single digit growth rate in loans being largely offset by the slowly-rising share count. Given that the yield curve is now inverted, we don't see a lot of additional deterioration, but it may take some time before Tompkins sees any material improvement in its lending spreads. Slow rates of expense growth will help, but the revenue outlook is murky today.

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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	***15.0***	***12.0***
Avg. Yld.	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	***2.5%***	***3.1%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 15.0, which is high by its own normalized historical standards, but also very high against the banking industry. We see fair value, given the new, weaker outlook, as 12 times earnings. If the stock trades at its average valuation level in five years, it will incur a meaningful 4.3% annualized drag on total returns due to the contraction of its price-to-earnings ratio. We don't believe investors will continue to pay a premium for Tompkins now that its growth outlook has deteriorated.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	42%	43%	44%	45%	45%	47%	44%	45%	53%	36%	***38%***	***38%***

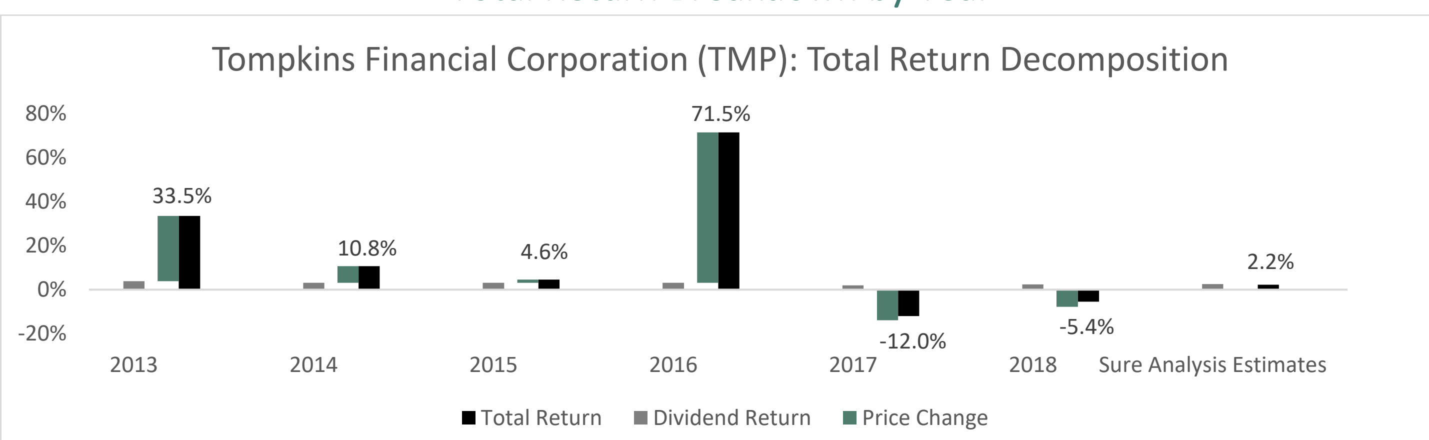
Tompkins Financial has raised its dividend for 32 consecutive years, and we don't see this streak in jeopardy by any means. Because of its strong balance sheet and low payout ratio, it has ample room to keep growing its dividend at a meaningful pace for the foreseeable future.

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. Tompkins' competitive advantage, if it has one, is its focus on targeted local markets in the Northeast US. The local bank feel is something consumers in small communities gravitate towards, which benefits Tompkins.

Final Thoughts & Recommendation

Tompkins Financial posted record results last year and is likely to continue to grow its earnings at a moderate pace in the upcoming years. However, we are lowering Tompkins from hold to sell given the low projected total returns. We have concerns about the valuation and the company's near-term growth outlook, which we think will weigh not only on earnings, but the valuation investors are willing to pay. We think investors interested in owning Tompkins will get the opportunity to do so at a lower price.

Total Return Breakdown by Year



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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.