



# New York Community Bancorp (NYCB)

Updated September 29<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$13	<b>5 Year CAGR Estimate:</b>	3.9%	<b>Volatility Percentile:</b>	69.7%
<b>Fair Value Price:</b>	\$9	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	87.5%
<b>% Fair Value:</b>	135%	<b>5 Year Valuation Multiple Estimate:</b>	-5.9%	<b>Growth Percentile:</b>	40.4%
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$12	<b>Valuation Percentile:</b>	14.4%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	19.7%

## 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 \$53 billion asset company has a market capitalization of \$5.9 billion.

NYCB posted Q2 earnings on 7/31/19 and results were as expected. Earnings came to \$0.19 per share, which was flat against last year's Q2. Earnings for the first half are down fractionally to \$0.38 from \$0.40 last year.

The bank's loan portfolio grew 4% on an annualized basis in Q2, driven by its multi-family portfolio, as well as its commercial and industrial portfolio. Deposits were up 10% on an annualized basis, rising \$1.6 billion so far this year.

Net interest margin was down 3bps in Q2 to 2.00%. Excluding prepayments, NIM was actually slightly worse, declining 6bps to 1.89% in Q2. The bank said it expects lower short-term interest rates to benefit its NIM moving forward.

Operating expenses were better in Q2, as NYCB's efficiency ratio came in at 48.2%. That's an outstanding efficiency ratio, but is also necessary due to NYCB's low NIM.

Total assets came to \$52.8 billion in Q2, up 3% annualized, compared to the end of 2018. The increase was driven by the loan portfolio, as mentioned, and to a lesser degree, the securities portfolio. NYCB said it generally deploys excess cash into securities, but is holding more cash than normal due to what it calls extraordinarily low interest rates. NYCB increased its cash position by \$238 million to \$1.2 billion compared to Q1.

We're reiterating our estimate of \$0.78 in earnings-per-share for this year after the in-line Q2.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.13	\$1.24	\$1.09	\$1.13	\$1.08	\$1.09	-\$0.11	\$1.01	\$0.81	\$0.79	<b>\$0.78</b>	<b>\$1.00</b>
<b>DPS</b>	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.68	\$0.68	\$0.68	<b>\$0.68</b>	<b>\$0.68</b>
<b>Shares<sup>1</sup></b>	433	436	437	439	441	443	485	487	488	474	<b>467</b>	<b>470</b>

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. 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

<sup>1</sup> Share count in millions

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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.

## 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	16.3	12.0
Avg. Yld.	8.9%	6.1%	6.7%	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	5.4%	5.7%

We see fair value for NYCB at 12 times earnings based primarily upon peer valuations, which is down from 14. Today, the stock trades for 16.3 times our estimate of 2019 earnings-per-share, so it is meaningfully overvalued according to that metric. Should the multiple deflate, we see a -5.9% headwind to total annual returns. The yield, however, is likely the main draw for investors at 5.4%.

## 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%

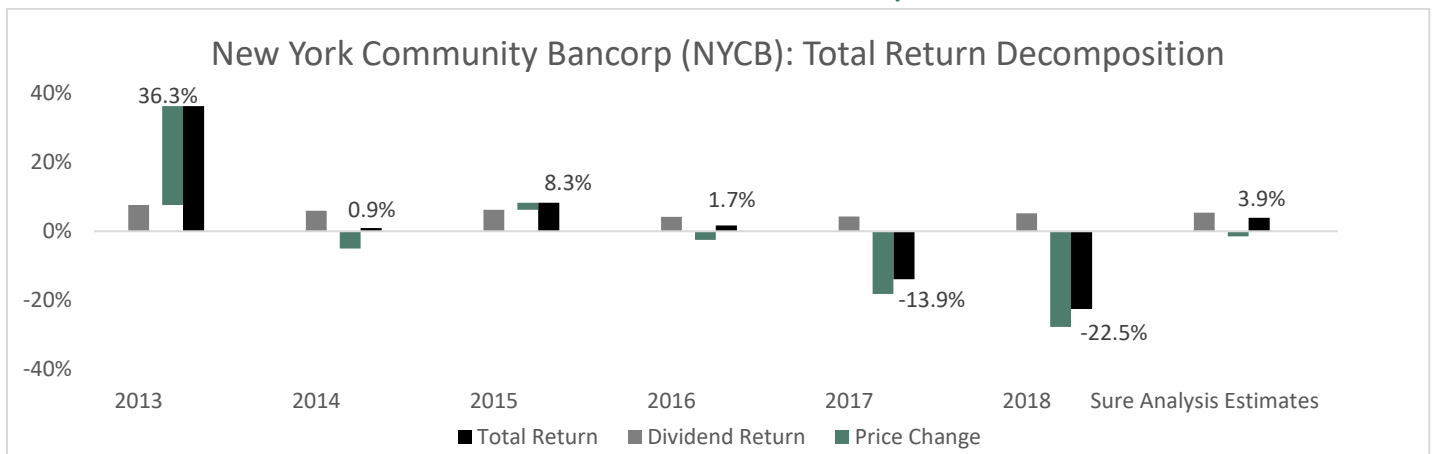
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results, and is a disadvantage. On the other 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 could be relatively weak total annual returns, and with some measure of risk involved. The stock's yield is certainly attractive, but shares are well in excess of fair value after the recent rally. 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 sell despite the strong yield.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	42154	41191	42024	44145	46688	48559	50318	48927	49124	51899
<b>Cash &amp; Equivalents</b>	2671	1928	2002	2427	645	564	538	558	2528	1475
<b>Goodwill &amp; Int. Ass.</b>	2542	2514	2605	2613	2693	2671	2686	2670	2442	2437
<b>Total Liabilities</b>	36787	35664	36459	38489	40953	42777	44383	42803	42329	45244
<b>Long-Term Debt</b>	10040	9411	9835	9201	11231	10541	13822	12023	12464	13708
<b>Shareholder's Equity</b>	5367	5526	5566	5656	5736	5782	5935	6124	6293	6152
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	1.1%	1.3%	1.2%	1.2%	1.0%	1.0%	-0.1%	1.0%	1.0%	0.8%
<b>Return on Equity</b>	8.3%	9.9%	8.7%	8.9%	8.3%	8.4%	-0.8%	8.2%	7.5%	6.8%
<b>ROIC</b>	2.8%	3.6%	3.2%	3.3%	3.0%	2.9%	-0.3%	2.6%	2.5%	2.1%
<b>Shares Out.</b>	433	436	437	439	441	443	485	487	488	474
<b>Revenue/Share</b>	2.62	3.46	3.23	3.30	3.13	3.08	1.40	2.97	2.80	2.30
<b>FCF/Share</b>	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.

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