



People's United Financial (PBCT)

Updated October 18th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$15.80	5 Year CAGR Estimate:	10.3%	Volatility Percentile:	51.0%
Fair Value Price:	\$18	5 Year Growth Estimate:	5.0%	Momentum Percentile:	36.3%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Growth Percentile:	41.1%
Dividend Yield:	4.5%	5 Year Price Target	\$22	Valuation Percentile:	80.1%
Dividend Risk Score:	C	Retirement Suitability Score:	A	Total Return Percentile:	76.9%

Overview & Current Events

People's United Financial is a diversified financial services company that provides commercial and retail banking and wealth management services via its network of over 400 branches in the Northeast. It has total assets of \$52 billion and trades with a market capitalization of approximately \$6.2 billion.

The company has more than doubled its total assets during the last decade thanks to organic growth, geographic expansion, and a series of acquisitions. In the last six years, it has grown its loans and its deposits at an 8% average annual rate.

During the last two years, People's United Financial greatly benefited from the steady uptrend of interest rates. The bank consistently enhanced its net interest margin, from 2.96% in Q2-2017 to 3.20% in the first quarter of this year. However, the Fed has switched to a more dovish stance lately. As a result, the tailwind from rising rates seems to have exhausted its potential, at least in the near future.

In mid-October, People's United Financial reported (10/17/19) financial results for the third quarter of fiscal 2019. Despite declining interest rates, the company reported flat net interest margin of 3.12% thanks to its proactive decrease of deposit rates. Non-interest income rose 15% and operating earnings climbed 19% over last year's quarter but operating earnings-per-share rose only 3%, from \$0.33 to \$0.34, due to the dilution that resulted from recent acquisitions.

People's United Financial is on track to complete the acquisition of United Financial Bancorp in the fourth quarter. This acquisition will enhance the presence of the company in central Connecticut and western Massachusetts.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.30	\$0.24	\$0.57	\$0.72	\$0.74	\$0.84	\$0.86	\$0.92	\$0.95	\$1.31	\$1.33	\$1.70
DPS	\$0.61	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.76
Shares¹	332.3	352.6	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8	394.5	425.0

People's United Financial has grown its earnings-per-share for 9 consecutive years and has not missed analysts' earnings-per-share estimates for 13 consecutive quarters. In the last five years, the company has grown its earnings-per-share at a 9.3% average annual rate. However, last year's results benefited from a steep decrease in the tax rate, from 28% to 19%. Going forward, we expect approximately 5% earnings-per-share growth. Moreover, we have lowered this year's forecast for earnings-per-share from \$1.37 to \$1.33, primarily due to the extensive issuance of new shares.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	22.3	17.0	19.0	17.5	18.2	17.3	19.0	13.8	11.9	13.0
Avg. Yld.	3.7%	4.3%	5.0%	5.2%	4.6%	4.5%	4.3%	4.3%	3.8%	3.9%	4.5%	3.5%

¹ In millions.

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After the Great Recession, People's United Financial's depressed earnings caused abnormally high price-to-earnings ratios. If these abnormal levels are excluded, the stock has traded at an 8-year average price-to-earnings ratio of 18.0. However, we find it prudent to assume a lower fair valuation level, particularly given the small market cap of the stock. We assume a price-to-earnings ratio of 13.0 for 2024. As the stock is now trading at a price-to-earnings ratio of 11.9, the security could enjoy a 1.8% annualized gain thanks to the expansion of its valuation level over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	203%	258%	111%	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	53.4%	53.4%	45.1%

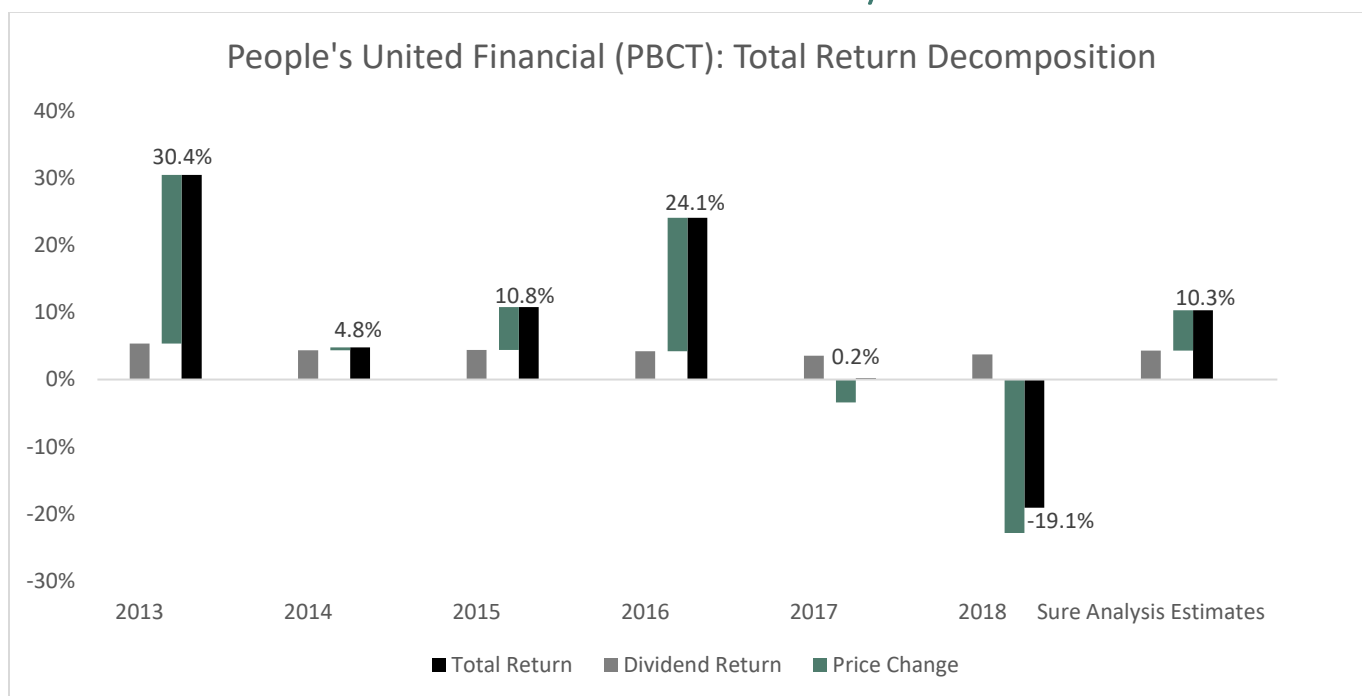
People's United Financial has raised its dividend for 26 consecutive years but has raised it by only \$0.01 per year in each of the last ten years. Thanks to the growth achieved in recent years, the payout ratio has dropped to a reasonable 53% and hence most investors would reasonably expect greater dividend hikes in the upcoming years. However, management seems laser-focused on growth via major acquisitions. In addition, management recently stated that it intends to repurchase up to 20 million shares to partly offset the dilution from recent acquisitions. Consequently, it is prudent to continue to expect lackluster dividend hikes for the foreseeable future.

As a recession has not occurred for a whole decade, investors should note that People's United Financial is vulnerable to recessions. In the Great Recession, its earnings-per-share plunged 54%, from \$0.52 in 2007 to \$0.24 in 2010. This is a significant risk factor to keep in mind.

Final Thoughts & Recommendation

While the current dovish stance of the Fed is a negative development for People's United Financial, the stock still has promising growth prospects, mostly thanks to its recent acquisitions. Moreover, the stock has a reasonable valuation and a reliable 4.5% dividend yield. Therefore, in the absence of a recession, the stock could offer a 10.3% average annual return over the next five years. It thus maintains its buy rating from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	886	964	1221	1249	1230	1242	1275	1315	1453	1602
SG&A Exp.	372	418	489	485	495	511	521	534	593	640
D&A Exp.	66	73	65	66	67	64	63	61	69	58
Net Profit	101	83	192	245	232	252	260	281	337	468
Net Margin	11.4%	8.6%	15.8%	19.6%	18.9%	20.3%	20.4%	21.4%	23.2%	29.2%
Free Cash Flow	42	148	131	429	295	297	248	294	574	501
Income Tax	43	40	93	124	115	129	130	129	130	108

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	21257	25037	27558	30324	33214	35997	38947	40610	44453	47877
Cash & Equivalents	3418	355	781	601	474	1014	715	614	883	932
Goodwill & Int.	1515	1962	2174	2154	2127	2103	2088	2142	2560	2866
Total Liabilities	16157	19818	22343	25286	28645	31364	34215	35468	38634	41343
Long-Term Debt	197	691	519	1838	4370	3326	4497	4127	3884	3311
Total Equity	5101	5219	5215	5039	4568	4633	4732	4898	5576	6290
D/E Ratio	0.04	0.13	0.10	0.36	0.96	0.72	0.95	0.80	0.67	0.51

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.5%	0.4%	0.7%	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%	1.0%
Return on Equity	2.0%	1.6%	3.7%	4.8%	4.8%	5.5%	5.6%	5.8%	6.4%	7.9%
ROIC	1.9%	1.5%	3.3%	3.9%	2.9%	3.0%	3.0%	3.0%	3.6%	4.8%
Shares Out.	332.3	352.6	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8
Revenue/Share	2.67	2.73	3.50	3.69	3.94	4.16	4.25	4.33	4.37	4.56
FCF/Share	0.13	0.42	0.38	1.27	0.95	0.99	0.83	0.97	1.72	1.43

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

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