Tompkins Financial Corporation (TMP)

Updated October 27th, 2019 by Josh Arnold

Key Metrics

Current Price:	$87	**5 Year CAGR Estimate:**	-0.1%	**Volatility Percentile:**	41.8%
Fair Value Price:	$61	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	73.6%
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Growth Percentile:**	27.8%
Dividend Yield:	2.4%	**5 Year Price Target**	$74	**Valuation Percentile:**	12.9%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	6.8%

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 $1.3 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 Q3 earnings on 10/18/19 and results were somewhat weaker than expected, causing us to lower our earnings-per-share estimate for this year once again.

Net interest income was flat against the same quarter last year at $53 million. Net interest margin was 3.43%, which is a strong number, and was actually up year-over-year from 3.35% via lower funding costs. Tompkins bucked the trend of banks that have been suffering from the inverted yield curve and has seen its margins improve. However, it wasn't enough to send net interest income up on a dollar basis.

Noninterest income was up 5% year-over-year at 26.7% of total revenue thanks to higher fee income from insurance, wealth management, deposit services, and card services.

Noninterest expense was $46 million in Q3, up fractionally from the year-ago period. Normal increases in salaries and wages were the culprit for the increase, partially offset by reduced deposit insurance from the FDIC.

Earnings-per-share came to $1.34 in Q3, down -1.5% from the $1.36 showing in last year's Q3. We're lowering our estimate for earnings-per-share in 2019 from $5.30 to $5.10 on relatively weak Q3 results.

We also note that Tompkins' capital position is somewhat weaker than many of its competitors. Its common equity tier 1 ratio is 9.43%, and while that's a year-over-year improvement from 8.89%, many banks are in the 11%+ area. This means Tompkins' ability to return capital to shareholders is relatively impaired, and its buffer for downturns is thinner.

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	***$5.10***	***$6.20***
DPS	$1.24	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	***$2.08***	***$2.53***
Shares[1]	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 continue to expect 4% growth 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

[1] Share count in millions

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.

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.

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	***17.0***	***12.0***
Avg. Yld.	3.1%	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	***2.4%***	***3.4%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 17.0, which is high by its own normalized historical standards, but also very high against the banking industry. Indeed, the share price has soared while earnings estimates have fallen, creating a very expensive stock. We see fair value as 12 times earnings. If the stock trades at its average valuation level in five years, it will incur a meaningful -6.7% annualized drag on total returns due to the contraction of its price-to-earnings ratio. With shares trading at 141% of our estimate of fair value, 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%	***41%***	***41%***

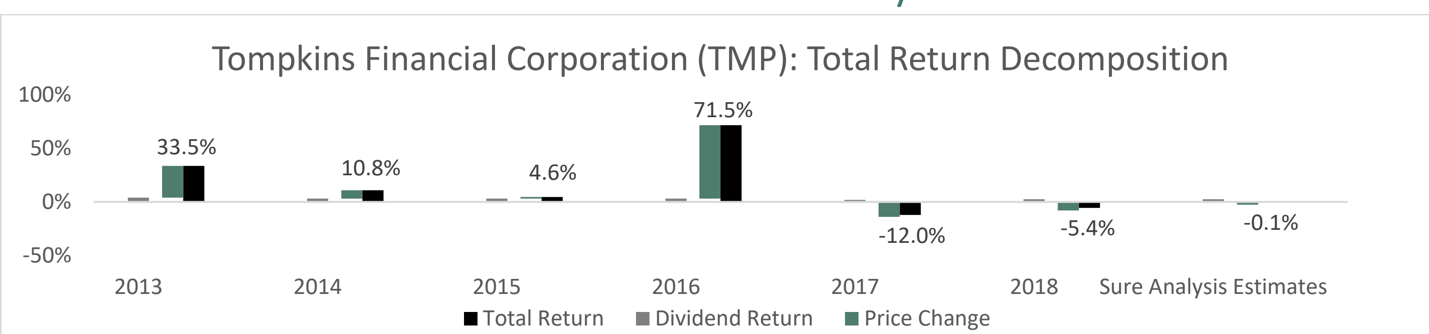
Tompkins Financial has raised its dividend for 32 consecutive years, and we don't see this streak in jeopardy by any means. Because of its low payout ratio, it has ample room to keep growing its dividend at a meaningful pace for the foreseeable future.

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, 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 U.S. 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 reiterate Tompkins at a sell rating given essentially no 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.