



New York Community Bancorp (NYCB)

Updated February 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	8.2%	Market Cap:	\$5.2B
Fair Value Price:	\$10	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/07/20
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	02/24/20
Dividend Yield:	6.1%	5 Year Price Target	\$13	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

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 238 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 \$54 billion asset company has a market capitalization of \$5.2 billion.

NYCB reported fourth quarter and full-year earnings on January 29th and results were better than expected. However, expectations for the bank were low heading in thanks to a weak Q3 report, so shares failed to rally on the news.

Earnings-per-share came to \$0.20 in Q4, up from \$0.19 in Q3 as net income rose from \$90.8 million to \$93 million. Net interest income was up \$6.6 million, or 3%, to \$242.5 million from Q3. Net interest margin rose 5bps as well, and was up to 2.04% in Q4 from Q3, driven primarily by lower funding costs. Lower short-term rates helped offset some of the damage caused to banks in 2019 by a flat yield curve, and NYCB benefited in Q4. Prepayment income also rose 26% in Q4 to nearly \$18 million, adding 14bps to net interest margin during the quarter.

Noninterest expense was \$126 million compared to \$123 million, and the bank's efficiency ratio remains outstanding at 48.5% of revenue. NYCB operates with low lending margins, but its low operating costs afford it the ability to remain quite profitable, nonetheless.

Total assets were up 3% to \$53.6 billion from the end of 2018 and grew 8% on an annualized basis since the end of Q3. Total loans were up 4% year-over-year to \$41.9 billion. Growth was driven by the multi-family portfolio and specialty finance, both of which grew strongly. Total deposits rose 3% year-over-year to \$31.7 billion, bringing the bank's loan-to-deposit ratio to 132%, the highest in our coverage universe.

Credit quality remains strong, and we see \$0.85 in earnings-per-share for 2020 on a rebound in lending margins and portfolio growth.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.24	\$1.09	\$1.13	\$1.08	\$1.09	-\$0.11	\$1.01	\$0.81	\$0.79	\$0.77	\$0.85	\$1.08
DPS	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Shares¹	436	437	439	441	443	485	487	488	474	467	460	450

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.

¹ Share count in millions

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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 2019's level. We note that the bank's loan-to-deposit ratio is extremely high, meaning risks are higher, and the runway for additional growth is essentially nothing due to already-high leverage.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.2	13.8	11.6	13.5	14.6	---	15.0	16.7	14.6	14.9	13.0	12.0
Avg. Yld.	6.1%	6.7%	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	5.9%	6.1%	5.2%

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 13 times our estimate of 2020 earnings-per-share, so it is somewhat overvalued according to that metric. Should the multiple deflate, we see a -1.6% headwind to total annual returns. The yield, however, is likely the main draw for investors at 6.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	81%	92%	88%	93%	92%	---	67%	84%	86%	88%	80%	63%

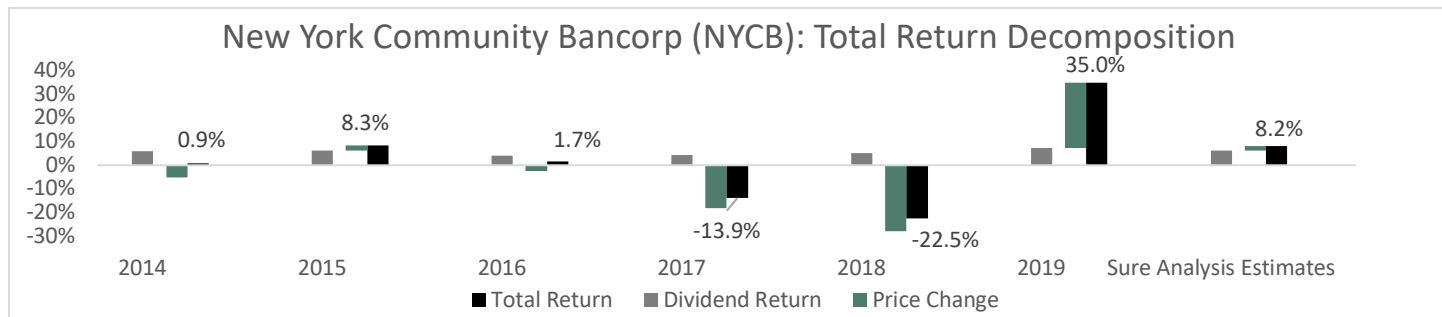
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results and is a *disadvantage*. On the other 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 reasonably strong total annual return potential with some measure of risk involved. The stock's yield is certainly attractive, but shares are still in excess of our estimate of fair value despite a recent selloff. Stricter regulations on NYCB's lending market in New York City are a concern, as well as the very high payout ratio, and the extreme loan-to-deposit 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.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1501	1408	1445	1375	1357	628	1439	1366	1123	1042
SG&A Exp.	447	470	489	484	495	523	546	561	447	422
D&A Exp.	51	50	45	44	36	37	35	33	32	
Net Profit	541	480	501	476	485	-47	495	466	422	395
Net Margin	36.1%	34.1%	34.7%	34.6%	35.8%	-7.5%	34.4%	34.1%	37.6%	37.9%
Free Cash Flow	-118	789	537	1339	649	-455	671	1299	531	
Income Tax	296	255	280	272	288	-85	282	202	135	128

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	41191	42024	44145	46688	48559	50318	48927	49124	51899	53641
Cash & Equivalents	1928	2002	2427	645	564	538	558	2528	1475	742
Goodwill & Int. Ass.	2514	2605	2613	2693	2671	2686	2670	2442	2437	2426
Total Liabilities	35664	36459	38489	40953	42777	44383	42803	42329	45244	46929
Long-Term Debt	9411	9835	9201	11231	10541	13822	12023	12464	13708	14558
Shareholder's Equity	5526	5566	5656	5736	5782	5935	6124	6293	6152	6209
D/E Ratio	1.70	1.77	1.63	1.96	1.82	2.33	1.96	1.83	2.06	2.17

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.3%	1.2%	1.2%	1.0%	1.0%	-0.1%	1.0%	1.0%	0.8%	0.7%
Return on Equity	9.9%	8.7%	8.9%	8.3%	8.4%	-0.8%	8.2%	7.5%	6.8%	6.4%
ROIC	3.6%	3.2%	3.3%	3.0%	2.9%	-0.3%	2.6%	2.5%	2.1%	1.9%
Shares Out.	436	437	439	441	443	485	487	488	474	467
Revenue/Share	3.46	3.23	3.30	3.13	3.08	1.40	2.97	2.80	2.30	2.24
FCF/Share	-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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