Tompkins Financial Corporation (TMP)

Updated February 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	-3.0%	**Market Cap:**	$1.3B
Fair Value Price:	$62	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	02/07/20
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	02/18/20
Dividend Yield:	2.4%	**5 Year Price Target**	$62	**Years Of Dividend Growth:**	33
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.0%

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 $6.6 billion, which produce $290 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 Q4 and full-year earnings on January 31st, and results beat on the bottom line, but narrowly missed top line expectations. Total loans rose 1.7% year-over-year to $4.9 billion, while deposits were up 6.6% during the same period to $5.2 billion. That puts Tompkins' loan-to-deposit ratio at 94%, which is very high, and we see this as a disadvantage for growth moving forward, as the bank already has a lot of leverage from its loan book.

On the plus side, net interest margin rose 10bps year-over-year despite a flat yield curve, and came in at 3.44%. Tompkins' high net interest margin is due in part to its very high loan-to-deposit ratio, but even so, its level of net interest margin is impressive in the current rate environment.

Subsequent to the end of the quarter, the bank authorized a new 400k share repurchase program, good for about 3% of the current float, which should be executed in the next two years.

Our initial estimate for 2020 earnings-per-share is $5.20, reflecting what we believe will be a tougher year thanks to rising non-performing loans, as well as a tough comparable to 2019 noninterest expenses, which were lowered thanks to a one-time FDIC credit.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.11	$3.20	$3.22	$3.46	$3.48	$3.87	$3.91	$4.42	$5.33	$5.37	***$5.20***	***$5.20***
DPS	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	***$2.08***	***$2.53***
Shares[1]	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0	***14.6***	***13.0***

As 2018 earnings greatly benefited from the one-time effect of the tax reform, it is prudent to focus on historical growth before that point. 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 much more cautious on Tompkins' ability to grow in the near-term given the interest rate environment, and other factors.

As a result, we have lowered our growth forecast to 0% as Tompkins is seeing deteriorating credit quality, already has very high leverage, and expenses are rising. Given that the yield curve is still very flat, we don't see a lot of additional deterioration in margins, but it may take some time before Tompkins sees any material improvement in its lending spreads. Given this, the outlook for revenue and margins is somewhat unfavorable. The bank's new share repurchase program should help, but only at ~1% per year via a lower float. We actually think the new repurchase program will ultimately destroy shareholder value due to the excessively high valuation of the stock as well.

[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.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.4	12.3	12.2	12.9	12.7	14.0	17.7	24.2	15.3	15.1	***16.6***	***12.0***
Avg. Yld.	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	***2.4%***	***4.1%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 16.6, 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 -6.2% annualized drag on total returns due to the contraction of its price-to-earnings ratio. With shares trading at 138% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	43%	44%	45%	45%	47%	44%	45%	53%	36%	38%	***40%***	***49%***

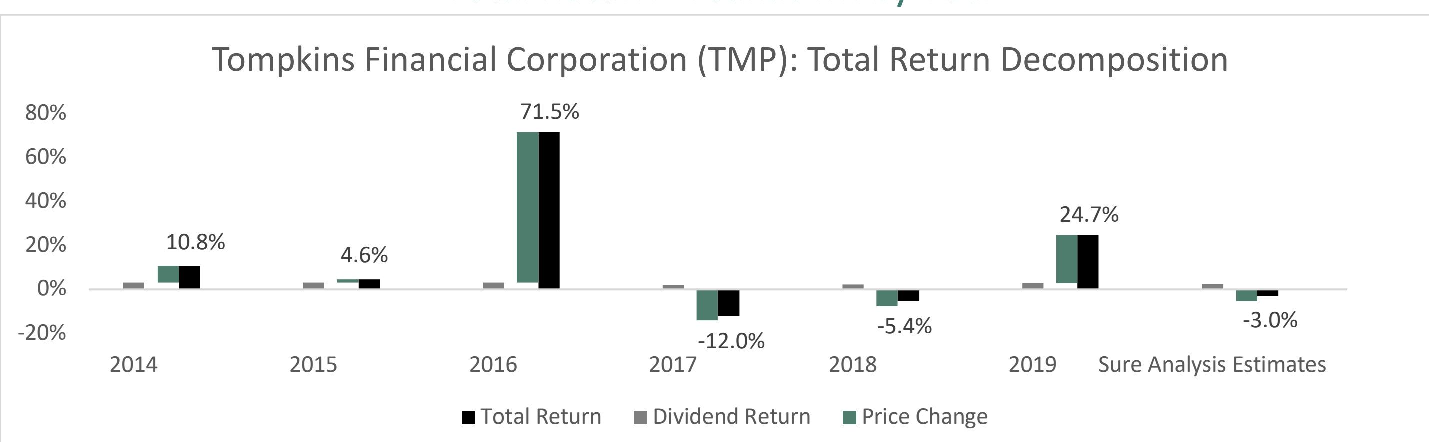
Tompkins Financial has raised its dividend for 33 consecutive years, and we don't see this streak in jeopardy by any means. Because of its low payout ratio, it has ample room to keep growing its dividend at a meaningful pace for the foreseeable future.

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 once again in 2019. However, we reiterate Tompkins at a sell rating given negative projected total returns. We have deep 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 may get the opportunity to do so at a lower price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	156	157	187	228	232	238	247	267	289	
SG&A Exp.	68	70	82	104	105	103	113	119	110	
D&A Exp.	5	5	7	8	8	8	9	10	N/A	
Net Profit	34	35	31	51	52	58	59	52	82	
Net Margin	21.7%	22.5%	16.8%	22.3%	22.4%	24.6%	24.0%	19.7%	28.5%	
Free Cash Flow	61	69	55	77	69	76	75	51	N/A	
Income Tax	16	16	11	21	25	29	27	43	22	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3260	3400	4837	5003	5270	5690	6237	6648	6758	
Cash & Equivalents	50	50	119	83	56	58	64	84	80	
Accounts Receivable	57	52	100	106	86	82	84	83	82	
Goodwill & Int. Ass.	46	48	111	108	107	104	104	102	100	
Total Liabilities	2987	3101	4396	4545	4780	5174	5687	6072	6138	
Long-Term Debt	244	211	156	369	394	574	922	1088	1093	
Shareholder's Equity	272	298	440	456	488	515	548	575	619	
D/E Ratio	0.90	0.71	0.35	0.81	0.81	1.11	1.68	1.89	1.76	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.1%	1.1%	0.8%	1.0%	1.0%	1.1%	1.0%	0.8%	1.2%	
Return on Equity	13.1%	12.4%	8.5%	11.3%	11.0%	11.6%	11.2%	9.4%	13.8%	
ROIC	7.0%	6.9%	5.7%	7.1%	6.1%	5.9%	4.6%	3.3%	4.9%	
Shares Out.	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	
Revenue/Share	14.37	14.26	14.54	15.62	15.68	15.99	16.53	17.72	19.11	
FCF/Share	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.