Tompkins Financial Corporation (TMP)

Updated May 4th, 2020 by Josh Arnold

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	1.0%	**Market Cap:**	$1.0 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	05/08/20
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	05/18/20
Dividend Yield:	3.1%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	33
Dividend Risk Score:	B	**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 billion and has total assets of $6.7 billion, which produce nearly $300 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 first quarter earnings on May 1st, with revenue meeting expectations, while earnings missed consensus. Total loans ended the quarter at $4.9 billion, up 3.1% year-over-year, as Tompkins continued to lend through the crisis. Total deposits came to $5.4 billion, up 8.4% year-over-year, with noninterest-bearing deposits at $1.4 billion, up nearly 6% from the year-ago period. This puts the bank's loan-to-deposit ratio at 91%, which is quite high, and will limit future growth.

Net interest margin came to 3.44%, up from 3.34% in last year's Q1, an impressive performance given the way rates have behaved in the past year. The gain was from improved borrowing and funding costs as net interest income rose 2% year-over-year to $53 million.

Noninterest income was 26.4% of total revenue in Q1, down from 27.2% in last year's Q1, at $19 million. The decline year-over-year of -2.3% was due to a one-time incentive payment received in last year's Q1 related to the bank's card services business that did not reoccur. Noninterest expense was up 3.5% from last year's Q1 thanks to higher salaries and wages.

We've cut our estimates for this year on projected weakness from COVID-19, and now expect $3.60 in earnings for 2020.

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	***$3.60***	***$5.00***
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

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[1] Share count in millions

program should help, but only at ~1% per year via a lower float. We actually think the new repurchase program may ultimately destroy shareholder value due to the excessively high valuation of the stock as well.

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	***13.6***	***12.0***
Avg. Yld.	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	***3.1%***	***4.2%***

We are using an estimate of earnings power of $5.00 per share for our valuation and fair value calculations, rather than actual 2020 estimates.

Tompkins Financial is currently trading at a price-to-earnings power ratio of 13.6, 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 drag on total returns due to the contraction of its price-to-earnings ratio. With shares trading at 114% 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%	***58%***	***51%***

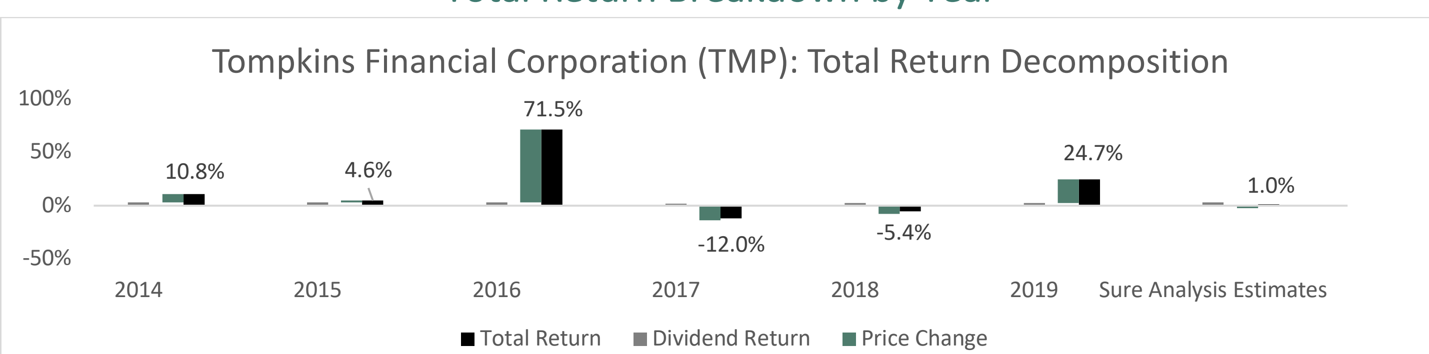
Tompkins Financial has raised its dividend for 33 consecutive years, and we don't see this streak in jeopardy by any means. Because of its low payout ratio, it has ample room to keep growing its dividend.

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 2020 promises to be much tougher. 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.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	156	157	187	228	232	238	247	267	283	283
SG&A Exp.	68	70	82	104	105	103	112	119	126	129
D&A Exp.	5	5	7	8	8	8	9	10	11	12
Net Profit	34	35	31	51	52	58	59	52	82	82
Net Margin	21.7%	22.5%	16.8%	22.3%	22.4%	24.6%	24.0%	19.7%	29.1%	28.9%
Free Cash Flow	61	69	55	77	69	76	75	51	89	96
Income Tax	16	16	11	21	25	29	27	43	22	21

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,260	3,400	4,837	5,003	5,270	5,690	6,237	6,648	6,758	6,726
Cash & Equivalents	50	50	119	83	56	58	64	84	80	138
Accounts Receivable	57	52	100	106	86	82	84	83	82	101
Goodwill & Int. Ass.	46	48	111	108	107	104	104	102	100	99
Total Liabilities	2,987	3,101	4,396	4,545	4,780	5,174	5,687	6,072	6,138	6,063
Long-Term Debt	244	211	156	369	394	574	922	1,088	1,093	675
Shareholder's Equity	272	298	440	456	488	515	548	575	619	662
D/E Ratio	0.90	0.71	0.35	0.81	0.81	1.11	1.68	1.89	1.76	1.02

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%	1.2%
Return on Equity	13.1%	12.4%	8.5%	11.3%	11.0%	11.6%	11.2%	9.4%	13.8%	12.8%
ROIC	7.0%	6.9%	5.7%	7.1%	6.1%	5.9%	4.6%	3.3%	4.9%	5.4%
Shares Out.	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0
Revenue/Share	14.37	14.26	14.54	15.62	15.68	15.99	16.53	17.72	18.70	18.88
FCF/Share	5.64	6.22	4.26	5.29	4.64	5.14	4.99	3.37	5.89	6.38

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