



# People's United Financial (PBCT)

Updated August 2<sup>nd</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$11	<b>5 Year CAGR Estimate:</b>	14.0%	<b>Market Cap:</b>	\$4.5 B
<b>Fair Value Price:</b>	\$14	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	7/31/20
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.4%	<b>Dividend Payment Date:</b>	8/15/20
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$17	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	1.4%

## 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 \$62 billion and trades with a market capitalization of \$4.5 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 a 9% average annual rate. On November 1<sup>st</sup>, 2019, People's United Financial completed the acquisition of United Financial, which has enhanced the presence of the company in central Connecticut and western Massachusetts.

Just like all the other banks, People's United Financial is now facing a strong headwind, namely the coronavirus crisis. The pandemic has caused millions of people to lose their jobs and has caused financial stress to numerous companies. As a result, all the banks have increased their provisions for loan losses.

In late July, People's United Financial reported (7/23/20) financial results for the second quarter of fiscal 2020. The net interest margin of the company slipped from 3.12% to 3.05% sequentially but the amount of loans grew 3% and thus net interest income grew 2% sequentially. On the other hand, non-interest income slumped -28%, from \$123.8 million to \$89.6 million, due to the decreased customer activity caused by the pandemic and the numerous fee waivers related to the pandemic. As a result, operating earnings-per-share fell -27% sequentially, from \$0.33 to \$0.24. It is also remarkable that the provision for credit losses increased from \$8.5 million to \$80.8 million due to the pandemic. Nevertheless, we believe that the bank is still on track to meet our earnings-per-share forecast.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$0.24	\$0.57	\$0.72	\$0.74	\$0.84	\$0.86	\$0.92	\$0.95	\$1.31	\$1.39	<b>\$1.10</b>	<b>\$1.34</b>
<b>DPS</b>	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	<b>\$0.72</b>	<b>\$0.77</b>
<b>Shares<sup>1</sup></b>	352.6	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8	425.0	<b>420.0</b>	<b>420.0</b>

People's United Financial has grown its earnings-per-share for nine consecutive years and has not missed analysts' earnings-per-share estimates for 16 consecutive quarters. In the last five years, the company has grown its earnings-per-share at a 10.6% average annual rate. However, this period includes a steep decrease in the tax rate, from 28% to 19%. While the pandemic will take its toll on the earnings this year, we expect it to attenuate from next year. We thus expect 4% earnings-per-share growth over the next five years, primarily thanks to the recent acquisitions and our expectations for somewhat higher interest rates in the long run, which will enhance People's net interest margin. We also expect non-interest income to recover as soon as the pandemic subsides and banks return to their normal operating mode.

<sup>1</sup> 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	---	22.3	17.0	19.0	17.5	18.2	17.3	19.0	13.8	11.7	10.0	13.0
Avg. Yld.	4.3%	5.0%	5.2%	4.6%	4.5%	4.3%	4.3%	3.8%	3.9%	4.4%	6.5%	4.4%

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 16.7. 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 2025. As the stock is now trading at a price-to-earnings ratio of 10.0, the security could enjoy a 5.4% annualized gain thanks to the expansion of its valuation level over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	258%	111%	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	53.4%	51.1%	65.5%	57.7%

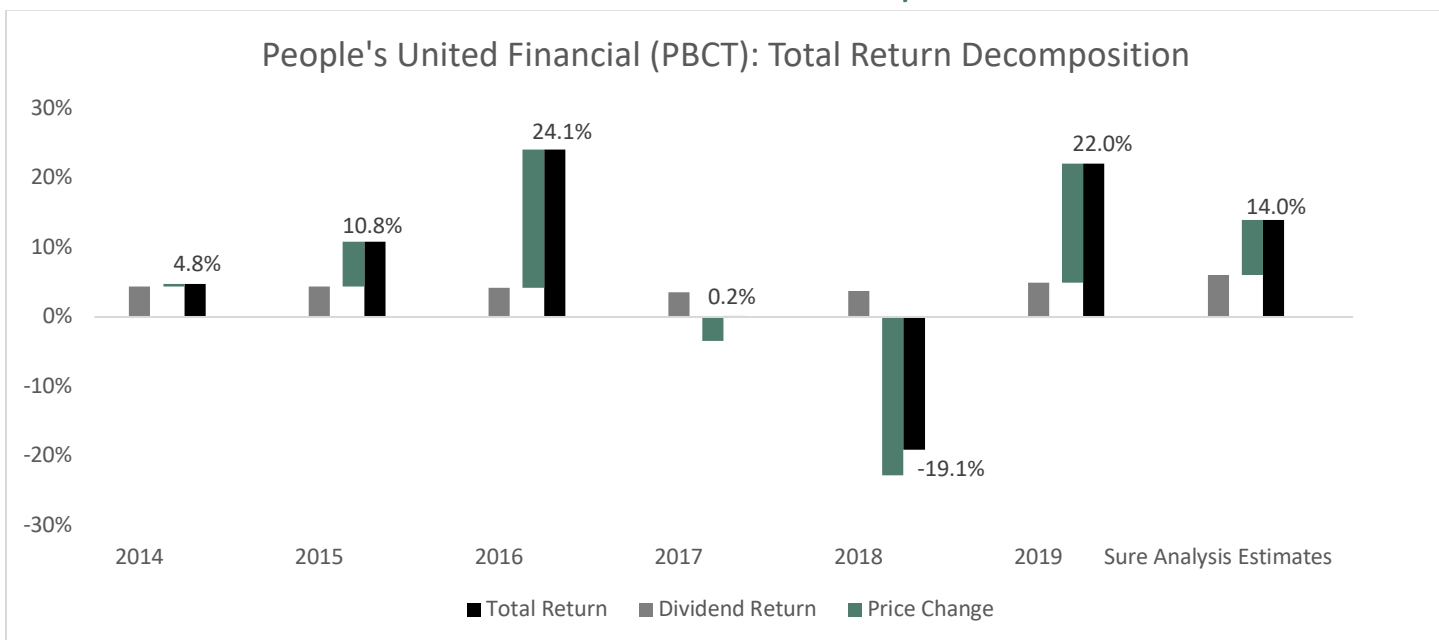
People's United Financial has raised its dividend for 27 consecutive years but has raised it by only \$0.01 per year in each of the last ten years. Due to the dip in the earnings expected this year, the payout ratio has risen to 65.5% and hence investors should not expect more generous dividend hikes in the next few years, particularly given that management seems laser-focused on growth via major acquisitions.

Given the fierce recession caused by the coronavirus, 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.

## Final Thoughts & Recommendation

Due to the severe recession that has resulted from the coronavirus, People's United Financial is now trading near its 5-year lows. However, we expect the economy to begin to recover by next year. As a result, we expect the stock to offer a 14.0% average annual return over the next five years thanks to its 6.5% dividend yield, its recent acquisitions and its cheap valuation. We thus rate the stock as a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	964	1221	1249	1230	1242	1275	1315	1453	1602	1843
SG&A Exp.	418	489	485	495	511	521	534	593	640	754
D&A Exp.	73	65	66	67	64	63	61	69	58	74
Net Profit	83	192	245	232	252	260	281	337	468	520
Net Margin	8.6%	15.8%	19.6%	18.9%	20.3%	20.4%	21.4%	23.2%	29.2%	28.2%
Free Cash Flow	148	131	429	295	297	248	294	574	501	173
Income Tax	40	93	124	115	129	130	129	130	108	132

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	25037	27558	30324	33214	35997	38947	40610	44453	47877	58590
Cash & Equivalents	355	781	601	474	1014	715	614	883	932	801
Goodwill & Int.	1962	2174	2154	2127	2103	2088	2142	2560	2866	3285
Total Liabilities	19818	22343	25286	28645	31364	34215	35468	38634	41343	50643
Long-Term Debt	691	519	1838	4370	3326	4497	4127	3884	3311	4119
Total Equity	5219	5215	5039	4568	4633	4732	4898	5576	6290	7703
D/E Ratio	0.13	0.10	0.36	0.96	0.72	0.95	0.80	0.67	0.51	0.52

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.4%	0.7%	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%	1.0%	1.0%
Return on Equity	1.6%	3.7%	4.8%	4.8%	5.5%	5.6%	5.8%	6.4%	7.9%	7.4%
ROIC	1.5%	3.3%	3.9%	2.9%	3.0%	3.0%	3.0%	3.6%	4.8%	4.8%
Shares Out.	352.6	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8	425.0
Revenue/Share	2.73	3.50	3.69	3.94	4.16	4.25	4.33	4.37	4.56	4.64
FCF/Share	0.42	0.38	1.27	0.95	0.99	0.83	0.97	1.72	1.43	0.44

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

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