



New York Community Bancorp (NYCB)

Updated November 27th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$9.65	5 Year CAGR Estimate:	11.3%	Market Cap:	\$4.5 B
Fair Value Price:	\$9.80	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/05/21 ¹
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	02/17/21 ²
Dividend Yield:	7.0%	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 \$50+ billion asset company has a market capitalization of \$4.5 billion.

New York Community Bancorp reported third quarter earnings on October 28th, 2020 with results largely coming in even with expectations. The company saw earnings-per-share of 23 cents in Q3, up from 21 cents in the second quarter, and up from 19 cents in the year-ago period. Pre-provision net revenue was \$167 million, up 6% sequentially and 22% year-over-year. Net interest income was \$282 million, up 6% sequentially and 19% year-over-year. Net interest margin remains low at 2.29% but did improve 11bps from Q2.

Total loans and leases held for investment rose 3% on an annualized basis from the end of 2019 to \$48 billion. Growth was driven by multifamily and specialty finance portfolios, which were partially offset by a small decline in the commercial real estate portfolio.

Q3's provision for credit losses came to \$13 million, down from \$17.6 million in Q2, but still up significantly from just \$4.8 million in the same period last year. Loan deferrals declined significantly during the quarter as \$3.1 billion in loan deferrals were made eligible to come off of deferral, and 95% of them are now current.

We are reiterating earnings-per-share of \$0.85 for this year after Q3 results.

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	\$1.14
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
Shares³	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.

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

¹ Estimated date

² Estimated date

³ Share count in millions

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see 6% 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. In addition, NYCB has tremendously high exposure to the markets in and surrounding New York City, which has had one of the worst outbreaks of COVID-19 in the US. This is a further risk for NYCB moving forward should another outbreak occur, but thus far, it is weathering the storm quite well. We note credit quality improved rapidly in Q3.

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	11.4	11.5
Avg. Yld.	6.1%	6.7%	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	5.9%	7.0%	5.2%

We see fair value for NYCB at 11.5 times earnings based primarily upon peer valuations, which is down from 14. Today, the stock trades for 11.4 times our estimate of 2020 earnings-per-share, so it is fairly valued in our view. The yield, however, is likely the main draw for investors at 7%, several times that of other banks as well as the broader market.

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%	60%

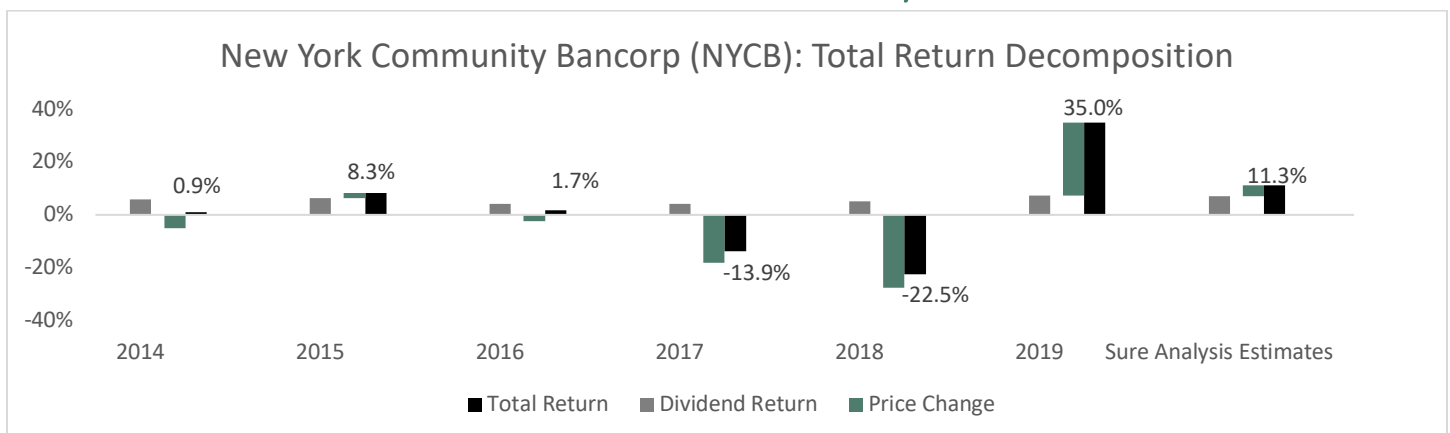
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results and is a *disadvantage*. On the other 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 strong total annual return potential with some measure of risk involved. The stock's yield is certainly attractive and shares now trade near our estimate of fair value. COVID-19 cases in New York continue to be a risk, but New York Community Bancorp is weathering the challenging conditions in 2020 very well. With projected returns of more than 11%, we are upgrading the stock from hold to 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	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	27
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	510
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	1.10

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

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