Tompkins Financial Corporation (TMP)

Updated November 9th, 2020 by Josh Arnold

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	4.8%	**Market Cap:**	$811 M
Fair Value Price:	$60	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date:**	02/02/21[1]
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	02/13/21[2]
Dividend Yield:	4.0%	**5 Year Price Target**	$57	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	3.8%

Overview & Current Events

Tompkins Financial is a regional financial services holding company headquartered in Ithaca, NY that can trace its roots back more than 180 years. It trades with a market capitalization of $811 million and has total assets of nearly $8 billion, which produce about $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 third quarter earnings on October 23rd, with results coming in better than expected on both the top and bottom lines. Net interest income came to $58.3 million, up from $53.2 million in the year-ago period. Gains were made from higher average loans, which rose $382 million, or 8%, year-over-year. This activity was primarily driven by Paycheck Protection Program loans, which generally had very low yields.

On a period-end basis, loans were up 11% year-over-year to $5.4 billion, Total deposits soared 23% year-over-year to $6.6 billion. The gain in deposits was split roughly evenly between interest-bearing and non-interest-bearing.

Net interest margin was 3.26% in Q3, down from 3.43% in last year's Q3. The decline was due to some deposits shifting from non-interest-bearing to interest-bearing, as well as lower rates on earning assets. Lower funding costs partially offset these headwinds.

Noninterest income was down -3.3% year-over-year due to lower card service fees and service charges on deposit accounts, but these improved sequentially from Q2. Noninterest expense was up 1.5% year-over-year, primarily attributable to normal salary and benefits increases.

Earnings came to $1.63 per share in Q3, up 21.6% year-over-year. We've boosted our estimate for 2020 to $5.00 in earnings-per-share after a strong Q3, but note that we continue to see growth struggles for Tompkins moving forward.

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	***$5.00***	***$4.75***
DPS	$1.33	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	***$2.16***	***$2.63***
Shares[3]	10.8	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0	***15.0***	***14.5***

As 2018 earnings greatly benefited from the one-time effect of 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 -1% 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

[1] Estimated date
[2] Estimated date
[3] 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.

deterioration in margins, but it may take some time before Tompkins sees any material improvement in its lending spreads. Participation in the PPP in 2020 is producing net interest margin deterioration, making this even tougher. 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.

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	***10.9***	***12.0***
Avg. Yld.	3.4%	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	***4.0%***	***4.6%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 10.9, which is below its own normalized historical standards, and more in line with peers. We see fair value as 12 times earnings. If the stock trades at this valuation level in five years, it will produce a small tailwind to total returns. With shares trading at 91% of our estimate of fair value, Tompkins' value proposition has improved materially since our last update, as has the yield.

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%	***43%***	***55%***

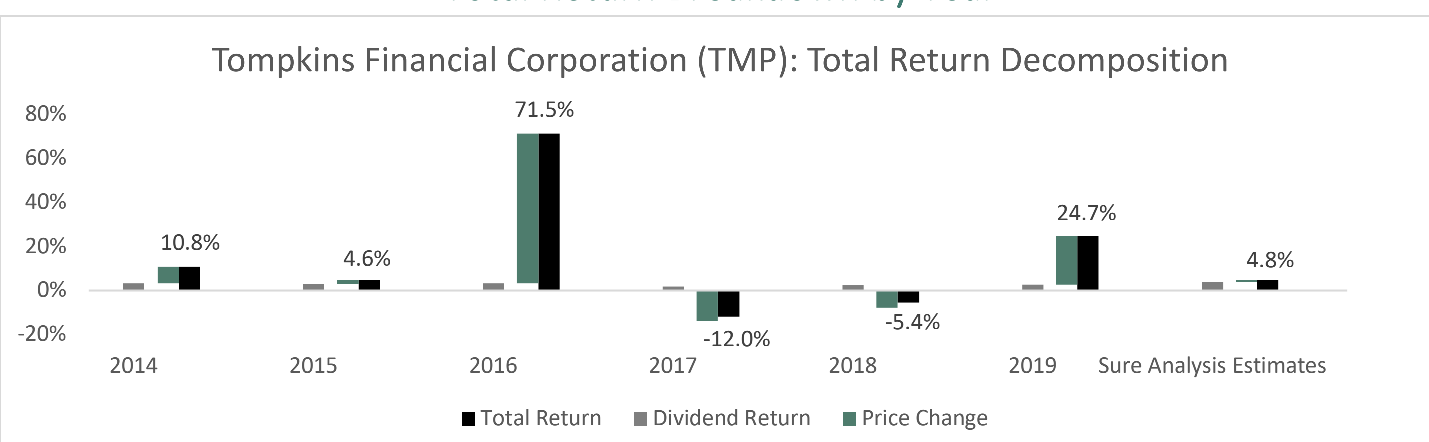
Tompkins Financial has raised its dividend for 34 consecutive years, and we don't see this streak in jeopardy by any means. Because of its low payout ratio, it has ample room to keep growing its dividend.

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. Tompkins has performed very well in 2020.

Final Thoughts & Recommendation

While we have concerns about Tompkins' ability to grow longer-term, this year is proving to be a boon for the company's results. The valuation has improved markedly since our last update, and the yield is now 4%. However, with a murky growth outlook, we rate Tompkins a hold with total projected returns at 4.8% annually.

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	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.