



New York Community Bancorp (NYCB)

Updated January 30th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$10.50	5 Year CAGR Estimate:	12.4%	Market Cap:	\$4.9 B
Fair Value Price:	\$13	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/04/21
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	02/16/21
Dividend Yield:	6.5%	5 Year Price Target	\$15	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 \$56+ billion asset company has a market capitalization of \$4.9 billion.

NYCB reported fourth quarter and full year earnings on January 27th, 2021 with results coming in better than expectations on both the top and bottom lines. In addition, guidance for 2021 was very strong.

Earnings-per-share came to 27 cents in Q4, up from 23 cents in Q3, and just 20 cents in the year-ago period, marking 35% year-over-year growth. Net interest income was up 6% quarter-over-quarter and 28% year-over-year to \$287 million. Prepayment income nearly doubled from Q3 levels to \$21 million, and total interest expense fell -13% from Q3. NYCB was a big beneficiary of rate movements in Q4. Indeed, as most other banks saw their net interest margin decline in Q4, NYCB managed an 18bps boost to NIM from Q3 to 2.47%. This was also 43bps higher than last year's Q4, which is an extraordinary result considering the shape of the yield curve and how low rates are today.

Total loans and leases were up 1% in Q4 to \$42.9 billion, driven by even more multi-family lending, which is NYCB's core business. Deposits were up 9% in Q4, but to only \$32.4 billion, meaning the bank's loan-to-deposit ratio is now at 132%, which is one of the highest in our entire coverage universe.

NYCB's guidance for 2021 was quite strong, stating it expects double-digit earnings growth, NIM expansion, and mid-single digit loan growth. Our initial estimate is therefore \$1.10 in earnings-per-share for this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.09	\$1.13	\$1.08	\$1.09	-\$0.11	\$1.01	\$0.81	\$0.79	\$0.77	\$0.87	\$1.10	\$1.34
DPS	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Shares¹	437	439	441	443	485	487	488	474	467	464	460	440

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. In recent years, 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. Some of this occurred in 2019, but we note 2020 seems to have seen this headwind abate somewhat. 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 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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see 4% earnings-per-share growth from 2021'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, and 2021 looks bright.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.8	11.6	13.5	14.6	---	15.0	16.7	14.6	14.9	11.4	9.5	11.5
Avg. Yld.	6.7%	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	5.9%	6.8%	6.5%	4.4%

We see fair value for NYCB at 11.5 times earnings based primarily upon peer valuations. Today, the stock trades for just 9.5 times our estimate of 2021 earnings-per-share, so it is quite undervalued in our view. We see a sizable tailwind from the valuation, and investors get a massive current yield as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	92%	88%	93%	92%	---	67%	84%	86%	88%	78%	62%	51%

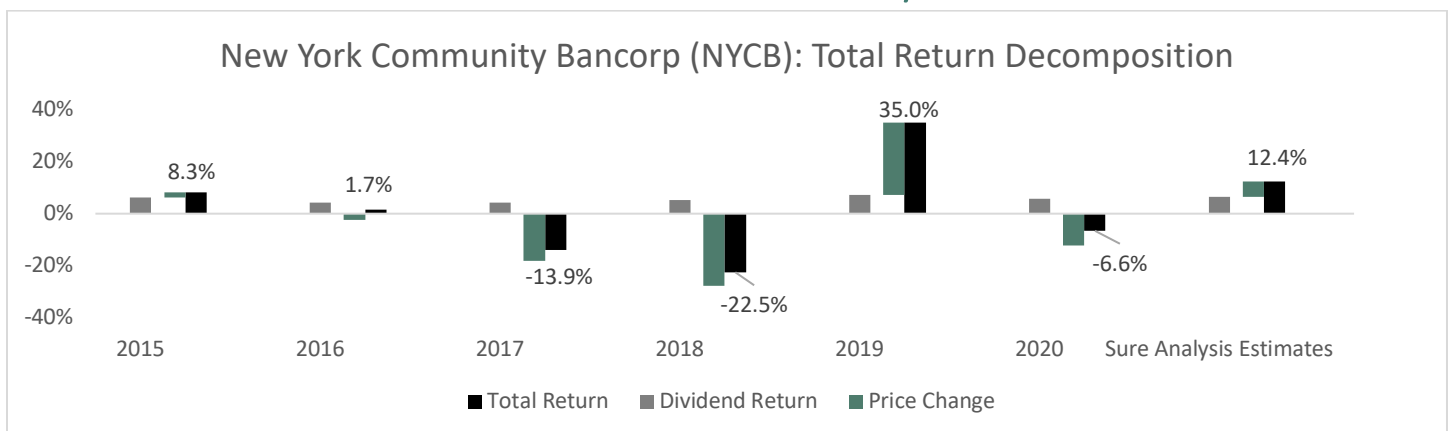
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results and is a *disadvantage*. On the other 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 has improved greatly in the past two years, and NYCB is in a much better position to afford its current payout. We don't foresee any cuts upcoming, and while the bank could raise the payout, there have been no signs of any appetite for that from management.

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 well under 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 very well. With projected returns of more than 12%, we are reiterating the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1408	1445	1375	1357	628	1439	1366	1123	1042	1161
SG&A Exp.	470	489	484	495	523	546	561	447	422	425
D&A Exp.	50	45	44	36	37	35	33	32	27	---
Net Profit	480	501	476	485	-47	495	466	422	395	511
Net Margin	34.1%	34.7%	34.6%	35.8%	-7.5%	34.4%	34.1%	37.6%	37.9%	44.0%
Free Cash Flow	789	537	1339	649	-455	671	1299	531	510	---
Income Tax	255	280	272	288	-85	282	202	135	128	77

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	42024	44145	46688	48559	50318	48927	49124	51899	53641	56306
Cash & Equivalents	2002	2427	645	564	538	558	2528	1475	742	1948
Goodwill & Int. Ass.	2605	2613	2693	2671	2686	2670	2442	2437	2426	2426
Total Liabilities	36459	38489	40953	42777	44383	42803	42329	45244	46929	49464
Long-Term Debt	9835	9201	11231	10541	13822	12023	12464	13708	13758	16084
Shareholder's Equity	5566	5656	5736	5782	5935	6124	6293	6152	6209	6339
D/E Ratio	1.77	1.63	1.96	1.82	2.33	1.96	1.83	2.06	2.17	2.35

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.2%	1.2%	1.0%	1.0%	-0.1%	1.0%	1.0%	0.8%	0.7%	0.9%
Return on Equity	8.7%	8.9%	8.3%	8.4%	-0.8%	8.2%	7.5%	6.8%	6.4%	8.1%
ROIC	3.2%	3.3%	3.0%	2.9%	-0.3%	2.6%	2.5%	2.1%	1.9%	2.4%
Shares Out.	437	439	441	443	485	487	488	474	467	464
Revenue/Share	3.23	3.30	3.13	3.08	1.40	2.97	2.80	2.30	2.24	2.51
FCF/Share	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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