



People's United Financial (PBCT)

Updated January 22nd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	10.3%	Market Cap:	\$6.1 B
Fair Value Price:	\$17	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	1/29/21
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.3%	Dividend Payment Date:	2/15/21
Dividend Yield:	5.2%	5 Year Price Target	\$19	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	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 \$63 billion and trades with a market capitalization of \$6.1 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 1st, 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, banks have increased their provisions for loan losses in the last 12 months.

In late January, People's United Financial reported (1/21/21) financial results for the fourth quarter of fiscal 2020. The net interest margin of the company slipped from 2.97% to 2.84% sequentially due to depressed interest rates and excess liquidity and thus net interest income slipped 2% sequentially. On the other hand, non-interest income rose 1% and loan deferrals decreased sharply, from 3.5% to 0.6% of the total loans. Overall, operating earnings-per-share edged up from \$0.34 in the third quarter to \$0.35 and exceeded the analysts' consensus by \$0.05. We applaud the steep decrease in loan deferrals and the fairly resilient performance of the bank amid the pandemic thanks to the quality of its loan portfolio.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.57	\$0.72	\$0.74	\$0.84	\$0.86	\$0.92	\$0.95	\$1.31	\$1.39	\$1.27	\$1.33	\$1.47
DPS	\$0.63	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.72	\$0.73	\$0.78
Shares¹	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8	425.0	420.4	415.0	400.0

People's United Financial grew its earnings-per-share for nine consecutive years, until the pandemic struck, and has not missed analysts' earnings-per-share estimates for 18 consecutive quarters. In the last five years, the company has grown its earnings-per-share at an 8.1% average annual rate. However, this period includes a steep decrease in the tax rate, from 28% to 19%. While the pandemic took its toll on the earnings in 2020, we expect it to attenuate in the second half of this year thanks to the massive distribution of vaccines. We thus expect 2% 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 continue to recover when the pandemic subsides and banks return to their normal operating mode.

¹ 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.



People's United Financial (PBCT)

Updated January 22nd, 2021 by Aristofanis Papadatos

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	22.3	17.0	19.0	17.5	18.2	17.3	19.0	13.8	11.7	9.7	10.5	13.0
Avg. Yld.	5.0%	5.2%	4.6%	4.5%	4.3%	4.3%	3.8%	3.9%	4.4%	5.8%	5.2%	4.1%

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 a 9-year average price-to-earnings ratio of 15.9. However, we find it prudent to assume a lower fair valuation level, particularly given the 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 10.5, the security could enjoy a 4.3% annualized gain thanks to the expansion of its valuation level over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

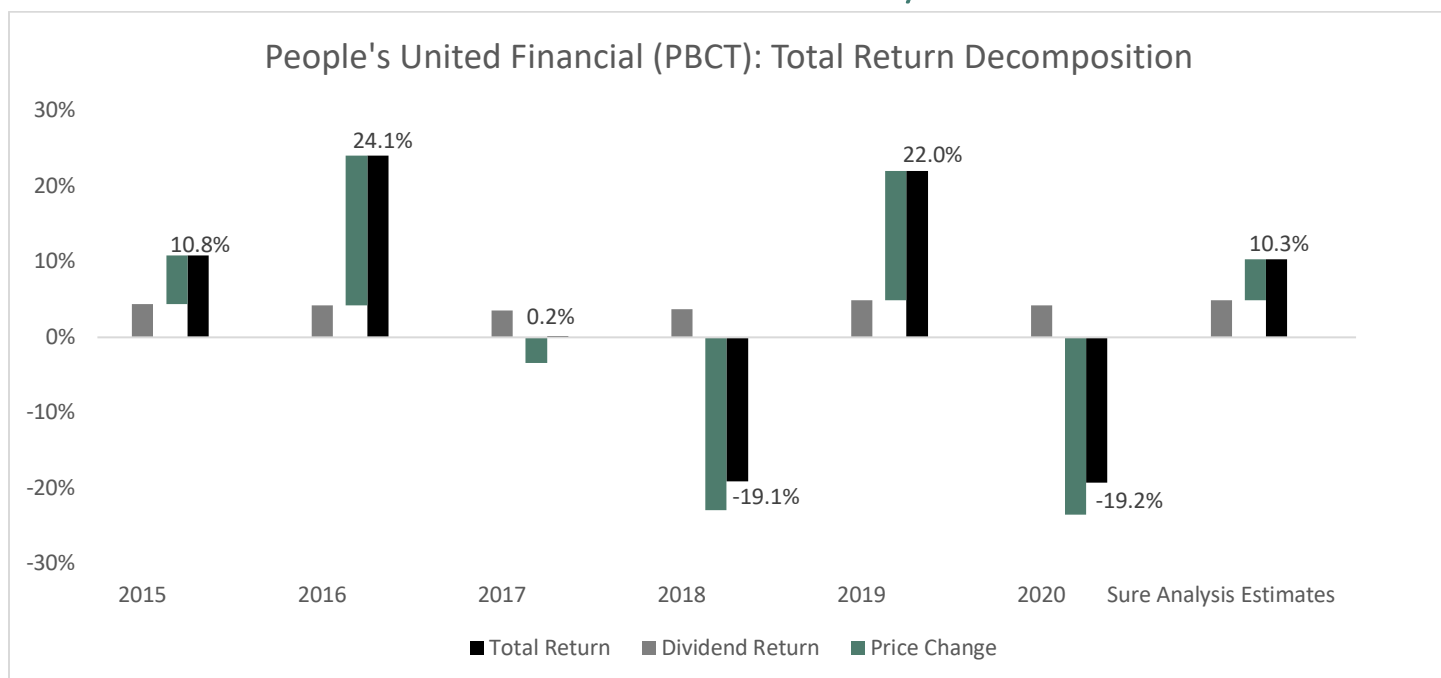
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	111%	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	53.4%	51.1%	56.7%	54.9%	53.3%

People's United Financial has raised its dividend for 28 consecutive years but has raised it by only \$0.01 per year in each of the last ten years. The payout ratio currently stands at 55% but 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 market's optimism over the impact of the massive distribution of vaccines, People's United Financial has rallied 40% in the last four months. Nevertheless, the stock remains attractive in our view. We expect it to offer a 10.3% average annual return over the next five years thanks to its 5.2% dividend yield, its recent acquisitions and its cheap valuation. We thus maintain our buy rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



People's United Financial (PBCT)

Updated January 22nd, 2021 by Aristofanis Papadatos

Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.7%	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%	1.0%	1.0%
Return on Equity	3.7%	4.8%	4.8%	5.5%	5.6%	5.8%	6.4%	7.9%	7.4%
ROIC	3.3%	3.9%	2.9%	3.0%	3.0%	3.0%	3.6%	4.8%	4.8%
Shares Out.	348.7	338.4	312.0	298.3	300.4	304.0	332.9	372.8	425.0
Revenue/Share	3.50	3.69	3.94	4.16	4.25	4.33	4.37	4.56	4.64
FCF/Share	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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.