Tompkins Financial Corporation (TMP)

Updated February 4th, 2021 by Josh Arnold

Key Metrics

Current Price:	$73	**5 Year CAGR Estimate:**	-0.5%	**Market Cap:**	$1.0 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	02/08/21
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Dividend Payment Date:**	02/16/21
Dividend Yield:	3.0%	**5 Year Price Target**	$59	**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 $1.0 billion and has total assets of nearly $8 billion, which produce almost $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 fourth quarter and full year earnings on January 29th, 2021 with results coming in mixed. Net interest income was $58 million in Q4, up from $53 million in the same period a year ago. For the year, net interest income was $225 million, up 7% year-over-year.

Average loans for the year were up 8%, or $398 million, including a $466 million increase from Paycheck Protection Program loans, and a decline in loan volumes elsewhere. Asset yields were down 47bps for the year, reflecting lower prevailing interest rates for loans. Average total deposits were up $1 billion for 2020, or 20% from 2019.

Net interest margin was 3.12% for Q4, down from 3.44% in the same period a year ago. Lower average funding costs weren't enough to offset declining loan yields.

Noninterest income was $19 million, up 4.8% year-over-year in Q4. For the year, it was down -2% on reduced card services fees. Noninterest expense was $46 million in Q4, up fractionally year-over-year. The increase was due to annual increases in wages, which made up the entire increase in 2020 and then some, offsetting declines elsewhere.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.20	$3.22	$3.46	$3.48	$3.87	$3.91	$4.42	$5.33	$5.37	$5.20	***$4.95***	***$4.95***
DPS	$1.40	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	$2.10	***$2.16***	***$2.50***
Shares[1]	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0	14.9	***14.7***	***14.3***

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 boosted our growth forecast to 0% 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 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 with fractional declines in the float annually. We note that 2020 results showed small expense declines outside of wages, but we are still very cautious on Tompkins' ability to grow from here.

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[1] Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.3	12.2	12.9	12.7	14.0	17.7	24.2	15.3	15.1	13.2	***14.7***	***12.0***
Avg. Yld.	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	***3.0%***	***4.2%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 14.7, which is quite elevated against its peers. We see fair value as 12 times earnings. If the stock trades at this valuation level in five years, it will produce a modest headwind to total returns. With shares trading at 123% of our estimate of fair value, Tompkins' value proposition has deteriorated materially since our last update, as has the yield, which is back to just 3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	44%	45%	45%	47%	44%	45%	53%	36%	38%	40%	***44%***	***51%***

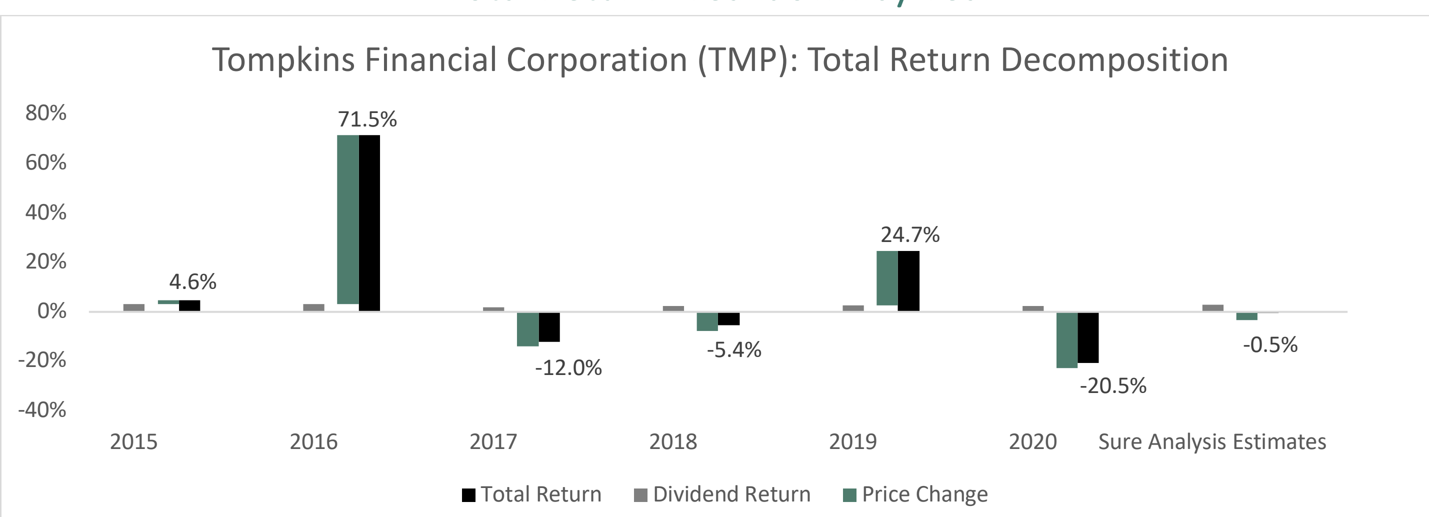
Tompkins Financial has raised its dividend for 34 consecutive years, and we don't see this streak in jeopardy by any means. Because of its low payout ratio, it has ample room to keep growing its dividend, even with a weak earnings growth outlook.

The company also exhibited remarkable resilience in the Great Recession. In the worst financial crisis of the last 90 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 performed well in 2020, but credit quality did deteriorate some during the year, unsurprisingly.

Final Thoughts & Recommendation

We have concerns about Tompkins' ability to grow longer-term. The valuation has also deteriorated given the massive rally since our last update, and the yield is now down to 3%. With a murky growth outlook, we are downgrading Tompkins from hold to sell as total projected returns are now negative.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	157	187	228	232	238	247	267	283	283	299
SG&A Exp.	70	82	104	105	103	112	119	126	129	117
D&A Exp.	5	7	8	8	8	9	10	11	12	---
Net Profit	35	31	51	52	58	59	52	82	82	78
Net Margin	22.5%	16.8%	22.3%	22.4%	24.6%	24.0%	19.7%	29.1%	28.9%	25.9%
Free Cash Flow	69	55	77	69	76	75	51	89	96	---
Income Tax	16	11	21	25	29	27	43	22	21	20

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,400	4,837	5,003	5,270	5,690	6,237	6,648	6,758	6,726	7,622
Cash & Equivalents	50	119	83	56	58	64	84	80	138	388
Accounts Receivable	52	100	106	86	82	84	83	82	101	110
Goodwill & Int. Ass.	48	111	108	107	104	104	102	100	99	97
Total Liabilities	3,101	4,396	4,545	4,780	5,174	5,687	6,072	6,138	6,063	6,904
Long-Term Debt	211	156	369	394	574	922	1,088	1,093	675	278
Shareholder's Equity	298	440	456	488	515	548	575	619	662	716
D/E Ratio	0.71	0.35	0.81	0.81	1.11	1.68	1.89	1.76	1.02	0.39

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	0.8%	1.0%	1.0%	1.1%	1.0%	0.8%	1.2%	1.2%	1.1%
Return on Equity	12.4%	8.5%	11.3%	11.0%	11.6%	11.2%	9.4%	13.8%	12.8%	11.3%
ROIC	6.9%	5.7%	7.1%	6.1%	5.9%	4.6%	3.3%	4.9%	5.4%	6.6%
Shares Out.	11.1	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0	14.9
Revenue/Share	14.26	14.54	15.62	15.68	15.99	16.53	17.72	18.70	18.88	20.30
FCF/Share	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.