



People's United Financial (PBCT)

Updated April 26th, 2021 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|----------------------------------|---------|
| Current Price: | \$18 | 5 Year CAGR Estimate: | 7.4% | Market Cap: | \$7.7 B |
| Fair Value Price: | \$18 | 5 Year Growth Estimate: | 4.0% | Ex-Dividend Date: | 4/30/21 |
| % Fair Value: | 100% | 5 Year Valuation Multiple Estimate: | 0.0% | Dividend Payment Date: | 5/15/21 |
| Dividend Yield: | 4.1% | 5 Year Price Target | \$22 | Years Of Dividend Growth: | 29 |
| 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 \$64 billion and trades with a market capitalization of \$7.7 billion.

The company has more than doubled its total assets over the last decade thanks to organic growth, geographic expansion, and acquisitions. In the last six years, it has grown its loans and its deposits at a 9% average annual rate.

On February 22nd, 2021, People's United Financial agreed to be acquired by M&T Bank (MTB) in an all-stock deal. The shareholders of People's United Financial will receive 0.118 shares of M&T Bank for each share they own. As a result, they will own 28% of the combined company after the completion of the deal, which is expected in the fourth quarter. The two banks have minimum geographic overlap, and they will cover more than 20% of U.S. population. The stock of People's United Financial jumped 15% on the day of the announcement of the deal.

In late April, People's United Financial reported (4/22/21) financial results for the first quarter of fiscal 2021. The net interest margin of the company slipped from 2.84% to 2.74% sequentially due to depressed interest rates and excess liquidity but net interest income edged up 1% sequentially thanks to higher loans. Operating earnings-per-share grew 6%, from \$0.35 in the fourth quarter to \$0.37, and exceeded the analysts' consensus by \$0.03. Thanks to an improved business outlook, the bank reduced its loan loss provisions by \$13.6 million. We applaud the steep decrease in loan deferrals and the 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 | \$1.62 |
| 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 | 425.0 | 425.0 |

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 19 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%.

As People's United Financial is on track to be acquired by M&T Bank, its future growth will depend on the growth prospects of the combined company. While the pandemic took its toll on the earnings of both banks in 2020, we expect it to attenuate in the second half of this year thanks to the massive distribution of vaccines. As a result, we expect the combined bank to grow its earnings-per-share by 4% per year on average over the next five years, assisted also by our expectations for somewhat higher interest rates in the long run, which will enhance 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.



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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 | 13.5 | 13.5 |
| Avg. Yld. | 5.0% | 5.2% | 4.6% | 4.5% | 4.3% | 4.3% | 3.8% | 3.9% | 4.4% | 5.8% | 4.1% | 3.6% |

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. The stock is now trading at a price-to-earnings ratio of 13.5. As the bank is on track to be acquired by M&T Bank and is now trading at the agreed transaction price (based on the current stock price of M&T), we consider its current valuation fair. In other words, we do not expect valuation to affect the future return of People's United Financial.

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% | 48.4% |

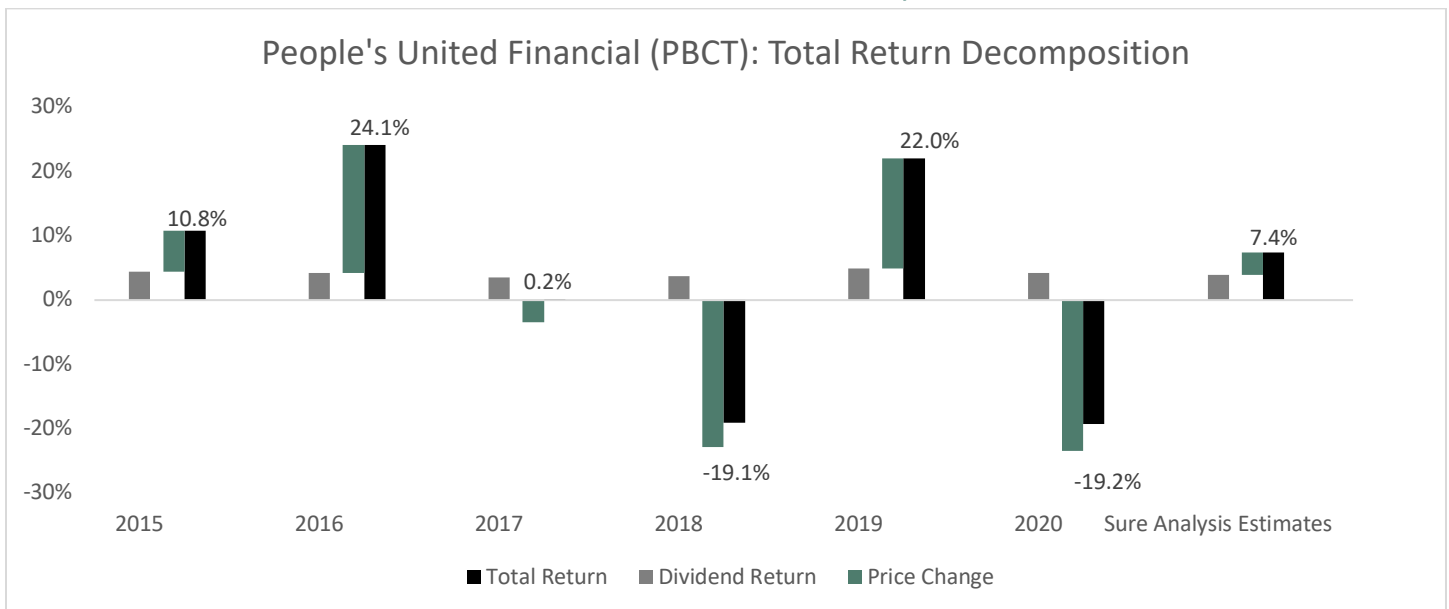
People's United Financial has raised its dividend for 29 consecutive years but has raised it by only \$0.01 per year in each of the last eleven years. As the bank is poised to be acquired by M&T Bank, its future dividend growth will depend on the dividend growth of the combined bank. M&T Bank has grown its dividend at a 5.2% average annual rate over the last decade.

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 and the announced takeover of People's United Financial by M&T Bank, the former has rallied 30% since our last research report, in January. As a result, the stock has become less attractive and could now offer a 7.4% average annual return over the next five years. We thus lower our rating from "buy" to "hold", which also coincides with our rating for M&T Bank.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 1221 | 1249 | 1230 | 1242 | 1275 | 1315 | 1453 | 1602 | 1843 | 1993 |
| SG&A Exp. | 489 | 485 | 495 | 511 | 521 | 534 | 593 | 640 | 754 | 783 |
| D&A Exp. | 65 | 66 | 67 | 64 | 63 | 61 | 69 | 58 | 74 | 84 |
| Net Profit | 192 | 245 | 232 | 252 | 260 | 281 | 337 | 468 | 520 | 220 |
| Net Margin | 15.8% | 19.6% | 18.9% | 20.3% | 20.4% | 21.4% | 23.2% | 29.2% | 28.2% | 11.0% |
| Free Cash Flow | 131 | 429 | 295 | 297 | 248 | 294 | 574 | 501 | 173 | 797 |
| Income Tax | 93 | 124 | 115 | 129 | 130 | 129 | 130 | 108 | 132 | 129 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 27,558 | 30,324 | 33,214 | 35,997 | 38,947 | 40,610 | 44,453 | 47,877 | 58,590 | 63,092 |
| Cash & Equivalents | 781 | 601 | 474 | 1,014 | 715 | 614 | 883 | 932 | 717 | 4,091 |
| Goodwill & Int. | 2,174 | 2,154 | 2,127 | 2,103 | 2,088 | 2,142 | 2,560 | 2,866 | 3,285 | 2,851 |
| Total Liabilities | 22,343 | 25,286 | 28,645 | 31,364 | 34,215 | 35,468 | 38,634 | 41,343 | 50,643 | 55,489 |
| Long-Term Debt | 519 | 1,838 | 4,370 | 3,326 | 4,497 | 4,127 | 3,884 | 3,311 | 4,119 | 1,579 |
| Total Equity | 5,215 | 5,039 | 4,568 | 4,633 | 4,732 | 4,898 | 5,576 | 6,290 | 7,703 | 7,359 |
| D/E Ratio | 0.10 | 0.36 | 0.96 | 0.72 | 0.95 | 0.80 | 0.67 | 0.51 | 0.52 | 0.21 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.7% | 0.8% | 0.7% | 0.7% | 0.7% | 0.7% | 0.8% | 1.0% | 1.0% | 0.4% |
| Return on Equity | 3.7% | 4.8% | 4.8% | 5.5% | 5.6% | 5.8% | 6.4% | 7.9% | 7.4% | 2.9% |
| ROIC | 3.3% | 3.9% | 2.9% | 3.0% | 3.0% | 3.0% | 3.6% | 4.8% | 4.8% | 2.1% |
| Shares Out. | 348.7 | 338.4 | 312.0 | 298.3 | 300.4 | 304.0 | 332.9 | 372.8 | 425.0 | 420.4 |
| Revenue/Share | 3.50 | 3.69 | 3.94 | 4.16 | 4.25 | 4.33 | 4.37 | 4.56 | 4.64 | 4.72 |
| FCF/Share | 0.38 | 1.27 | 0.95 | 0.99 | 0.83 | 0.97 | 1.72 | 1.43 | 0.44 | 1.89 |

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

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