



New York Community Bancorp (NYCB)

Updated May 3rd, 2021 by Josh Arnold

Key Metrics

Current Price:	\$12	5 Year CAGR Estimate:	11.9%	Market Cap:	\$5.6 B
Fair Value Price:	\$14	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/06/21
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Dividend Payment Date:	05/18/21
Dividend Yield:	5.7%	5 Year Price Target	\$18	Years Of Dividend Growth:	0
Dividend Risk Score:	D	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 \$58 billion asset company has a market capitalization of \$5.6 billion.

NYCB reported first quarter earnings on April 26th, 2021, and results beat expectations on the top and bottom lines. The company's commercial real estate portfolio performed well in Q1, reversing previous declines, and growing 11% on an annualized basis to \$7 billion. NYCB also said its current pipeline for loan originations is \$1.7 billion.

The bank saw total revenue rise to \$332 million, up 27% year-over-year. Net interest income was up 30% year-over-year at \$318 million. Net interest margin was 2.33% on an adjusted basis, up 3bps from Q4, but up 41bps from the year-ago period. Provisions for credit losses were \$3.6 million, down from \$20.6 million in the year-ago period. Earnings-per-share came to 29 cents, up from 20 cents in last year's Q1.

The company also announced in late April that it was buying Flagstar Bancorp (FBC) in an all-stock transaction with an implied valuation of \$2.6 billion. FBC shareholders will get 4.0151 shares of NYCB for each share they own. The combined company will be run by NYCB's current CEO, and the deal should close by the end of 2021. The company also said it would be able to maintain its current dividend.

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	\$1.20	\$1.53
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	680	680

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 see 5% 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

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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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, although that market is showing signs of improving in 2021.

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	10.0	11.5
Avg. Yld.	6.7%	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	5.9%	6.8%	5.7%	3.9%

We see fair value for NYCB at 11.5 times earnings based primarily upon peer valuations. Today, the stock trades for 10 times our estimate of 2021 earnings-per-share, so it is somewhat undervalued in our view. We see a tailwind from the valuation, and investors get a nearly-6% 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%	57%	44%

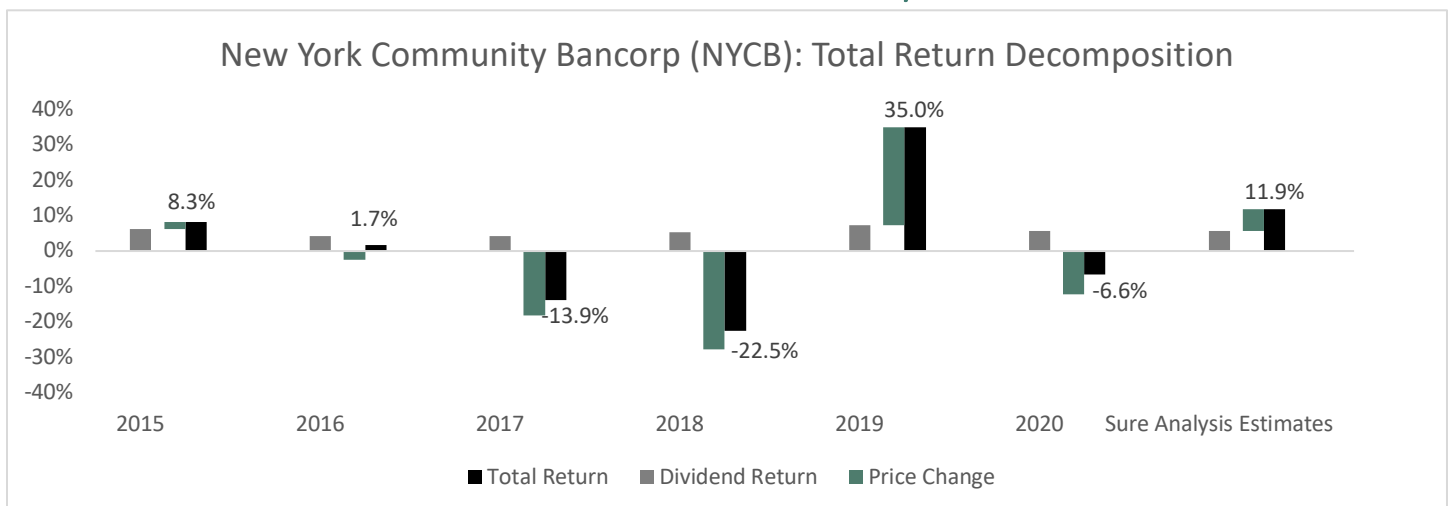
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results and is a *disadvantage*. On the other 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. The Flagstar deal would indicate growth is favored by management instead of dividend increases.

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 trade 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, and signs of a rebound are appearing. With projected returns of nearly 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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