Tompkins Financial Corporation (TMP)

Updated May 8th, 2021 by Josh Arnold

Key Metrics

Current Price:	$80	**5 Year CAGR Estimate:**	-0.8%	**Market Cap:**	$1.2 B
Fair Value Price:	$72	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	05/10/21
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	05/17/21
Dividend Yield:	2.7%	**5 Year Price Target**	$65	**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 $1.2 billion and has total assets of just over $8 billion, which produce more than $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 first quarter earnings on April 30th, 2021, with results coming in ahead of expectations on both the top and bottom lines. Diluted earnings-per-share came to $1.72, which was the best earnings result for any quarter in the company's history. It was also up 225% year-over-year.

The primary reason for the boosted earnings was that provisions for credit losses fell from $16.3 million in the year-ago period to a credit of $2.5 million, most of which flowed directly into earnings.

Total loans were $5.3 billion as of the end of the quarter, up 7%, or $355 million, year-over-year. Loan growth was entirely attributable to Paycheck Protection Program loans. Total deposits were $6.9 billion at the end of the quarter, up 28%, or $1.5 billion, year-over-year. That left Tompkins at a loan-to deposit ratio of 77% at the end of the quarter.

Net interest income was $55 million, up from $53 million in the year-ago period. Net interest income benefited from lower rates paid on deposits, but that was somewhat offset by lower prevailing loan rates.

We've boosted our estimate of earnings-per-share to $6.00 on the credit loss provision release in Q1 but note that it will likely be extremely difficult for Tompkins to repeat that result in subsequent years.

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	***$6.00***	***$5.42***
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 of the credit loss reserve release in Q1, we've reduced our growth estimate to -2% 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, although the loan book is growing as a result. Given this, the outlook for revenue and margins is somewhat unfavorable. The bank's new share repurchase program should help, but only with

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[1] Share count in millions

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, particularly after 2021's Q1 reserve release.

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	***13.3***	***12.0***
Avg. Yld.	3.6%	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	***2.7%***	***3.8%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 13.3, 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 111% of our estimate of fair value, Tompkins' value proposition still isn't particularly enticing, especially with earnings almost certainly peaking in 2021.

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%	***36%***	***46%***

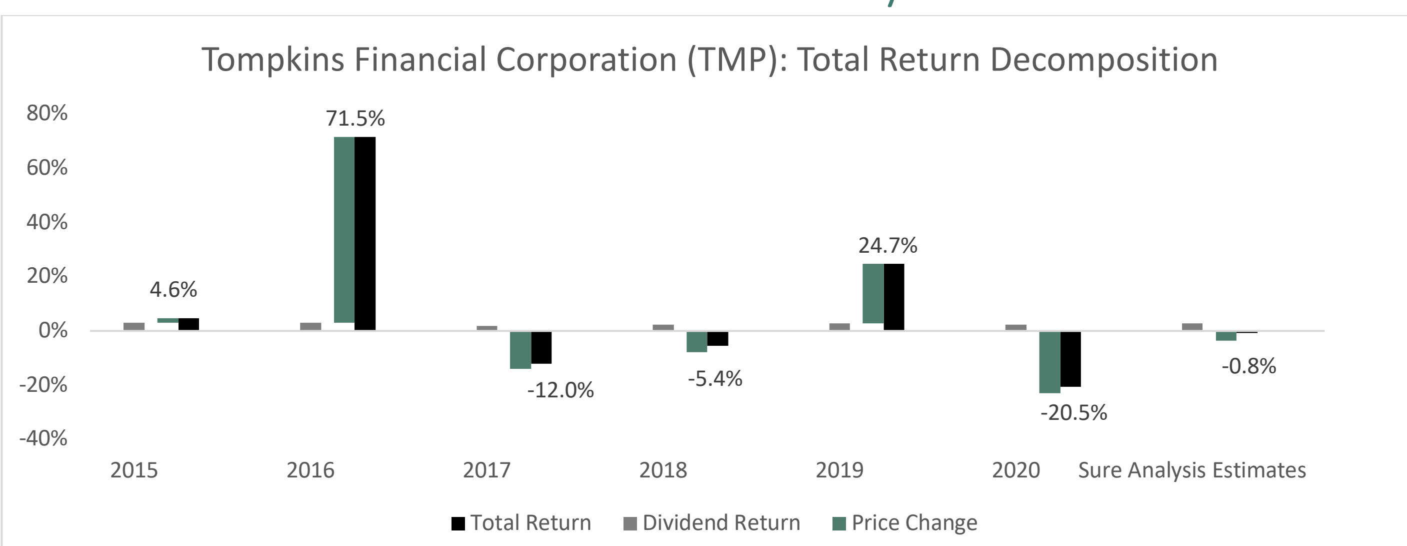
Tompkins Financial has raised its dividend for 34 consecutive years, and we don't see this streak in jeopardy by any means. Due to its low payout ratio, it has ample room to keep growing its dividend, even with weak earnings growth.

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. 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 is still elevated, and the yield is now even lower at 2.7%. With a murky growth outlook, we are reiterating the stock at a sell rating.

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.