



TrustCo Bank Corp NY (TRST)

Updated July 22nd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	9.6%	Market Cap:	\$635 M
Fair Value Price:	\$36	5 Year Growth Estimate:	4.5%	Ex-Dividend Date¹:	09/04/2021
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date²:	10/01/2021
Dividend Yield:	4.1%	5 Year Price Target	\$45	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	4.6%

Overview & Current Events

TrustCo Bank Corp. NY is a financial holding company which provides personal and business banking services for individuals, partnerships, and corporations. The company's products include savings accounts, retirement accounts, money market accounts, savings accounts, mortgages, building loans, auto loans, and more. The bank was founded in 1902 and is headquartered in Glenville, New York. The company operates 148 banking offices across the USA. TrustCo trades on the NYSE under the ticker symbol TRST and has a market capitalization of \$635 million. The bank has \$6.1 billion in savings and loans assets.

TrustCo released second quarter results on July 21st and earned net income of \$14.4 million, a 27% increase compared to second quarter 2020 net income of \$11.3 million. Diluted earnings per share of \$0.75 also grew 29% compared to \$0.58 earned in the same prior year period. For the first half of the fiscal 2021 year, TRST generated \$1.48 diluted EPS compared to \$1.27 in the first half of 2020, a 16.5% year-over-year gain. Average loans grew 3.8% YoY to \$158.6 million. Average residential loans grew 5.3% to \$193.9 million. Average residential loans remain TrustCo's primary lending focus. Return on average assets and return on average equity for Q2 2021 were 0.95% and 10.1%, compared to 0.82% and 8.2% in Q2 2020. The number of full-time equivalent employees decreased from the prior year due to a strategic realignment and the impact of COVID-19 on the labor market. The corporation repurchased 20,000 shares under the Repurchase Plan.

Leadership reports that loans in deferral are no longer material. Also, TrustCo funded 663 Paycheck Protection Program (PPP) loans totaling \$46 million in 2020 and another \$23 million in H1 2021. At the end of the second quarter, the bank has 526 PPP loans of \$32 million outstanding.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.95	\$2.00	\$2.10	\$2.35	\$2.20	\$2.25	\$2.25	\$3.20	\$3.00	\$2.70	\$2.90	\$3.61
DPS	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30	\$1.36	\$1.36	\$1.36	\$1.36	\$1.43
Shares³	18.7	18.8	18.9	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.2	18.9

TRST has produced a consistent stream of growth over the last decade, which has been dulled due to results in 2020 which have suffered somewhat due to the COVID-19 pandemic. In the past nine and five years, the company has compounded earnings per share by 3.8% and 4.2% on average, respectively. If not for COVID, an earnings growth rate of 6% would have been reasonable. We estimate, going forward, that TrustCo can continue compounding earnings at around 4.5% per year on average.

TrustCo will achieve this growth primarily through boosting their loan portfolio, namely the residential mortgage loan portfolio which make up the bulk of their assets. Further, continued geographic expansion of the bank's operations can add to organic growth. The Florida region reached over \$1 billion in deposits and \$1 billion in loans in Q1 2021. We also

¹ Estimate

² Estimate

³ In millions

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anticipate a minor tailwind to earnings as the company attempts to repurchase shares after receiving approval to buy back up to 2% of outstanding shares.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.2	13.8	14.1	14.6	14.7	14.8	18.5	13.3	13.4	11.6	11.4	12.5
Avg. Yld.	3.8%	4.8%	4.4%	3.9%	4.0%	3.9%	3.2%	3.2%	3.4%	4.4%	4.1%	3.2%

Over the last nine and five years, TRST has traded at an average PE of 14.2 and 14.3, respectively. We are expecting multiple expansion will bring up TRST's PE closer to it's 10-year average PE, to 12.5. We estimate a gain of 1.9% compounded over the next five years as the valuation multiple expands. Dividend growth has not been a priority for TrustCo, and we are estimating a 1% growth in the dividend going forward, much lower than earnings growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

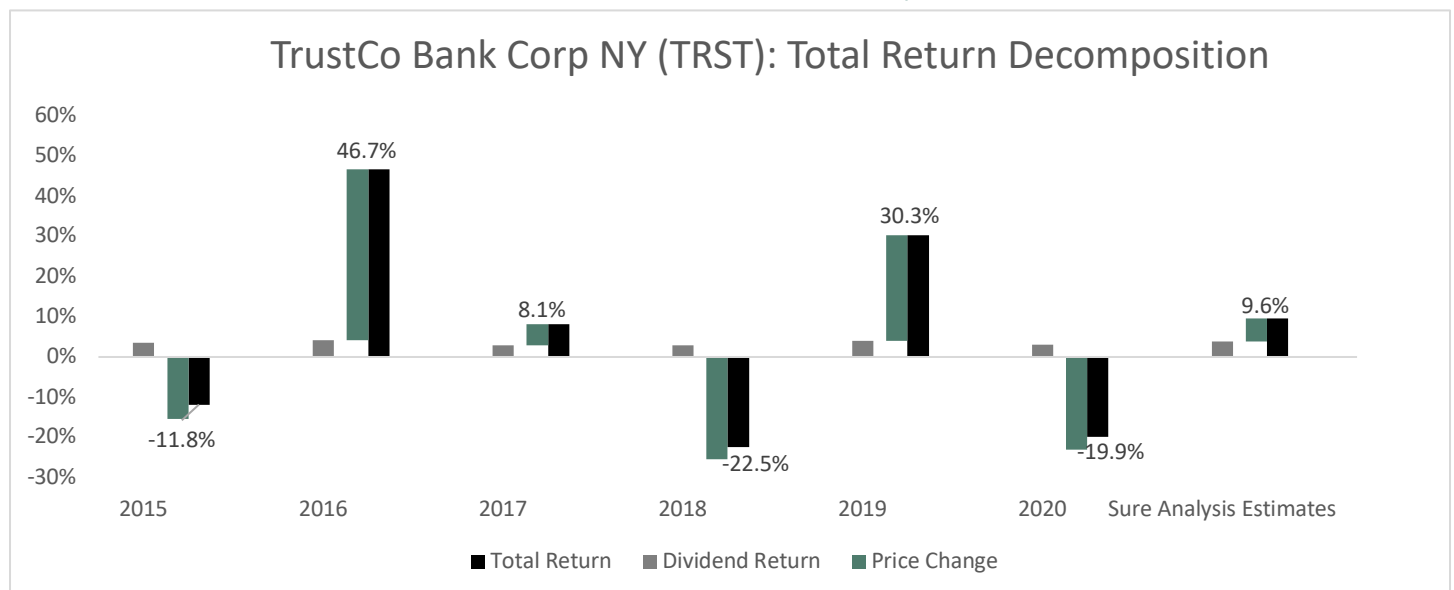
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	67%	65%	62%	55%	59%	58%	58%	43%	45%	50%	47%	40%

Today TrustCo's payout ratio of around 47% is quite stable and we see no immediate threat. However, the great financial crisis of '08 was brutal to TrustCo, who primarily specializes in residential mortgages. The payout became unsustainable at the time and the dividend was slashed to less than half of its pre-'08 dividend and has barely grown since. TrustCo Bank Corp NY is not recession resistant. We do not see TrustCo as having a strong competitive advantage in its field, as they are a small bank and also do not possess large geographical diversification.

Final Thoughts & Recommendation

We estimate TRST can earn total returns of 9.6% over the next five years, as it will gain from earnings growth, valuation expansion, and the strong dividend. We see earnings growth of roughly 4.5%, a 1.9% gain due to valuation expansion, and the dividend is yielding 4.1%. The company is trading at a 9% discount to our fair value and has strong expected returns. Today we rate shares a Buy. That said, the company has an elevated chance of a dividend reduction during another recession, so it is not suitable for all income investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	153	156	156	161	161	165	173	179	174	171
SG&A Exp.	41	44	44	45	47	51	54	55	59	58
D&A Exp.	5	5	5	5	5	4	4	4	10	10
Net Profit	33	38	40	44	42	43	43	61	58	52
Net Margin	21.6%	24.1%	25.6%	27.4%	26.2%	25.8%	25.0%	34.4%	33.2%	30.7%
Free Cash Flow	56	54	64	46	56	53	58	64	60	58
Income Tax	19	22	24	27	25	26	34	18	19	17

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,244	4,347	4,521	4,644	4,735	4,869	4,908	4,959	5,221	5,902
Cash & Equivalents	44	56	46	44	42	49	44	49	48	47
Total Liab.	3,905	3,988	4,160	4,251	4,322	4,436	4,450	4,469	4,683	5,334
Long-Term Debt	148	160	204	189	191	209	243	162	149	215
Total Equity	339	359	362	393	413	433	458	490	538	568
D/E Ratio	0.44	0.45	0.56	0.48	0.46	0.48	0.53	0.33	0.28	0.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.8%	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%	1.2%	1.1%	0.9%
Return on Equity	11.1%	10.8%	11.0%	11.7%	10.5%	10.1%	9.7%	13.0%	11.3%	9.5%
ROIC	7.6%	7.5%	7.3%	7.7%	7.1%	6.8%	6.4%	9.1%	8.6%	7.1%
Shares Out.	18.7	18.8	18.9	19.0	19.1	19.2	19.3	19.3	19.4	19.3
Revenue/Share	9.01	8.33	8.26	8.51	8.46	8.63	8.98	9.25	9.00	8.85
FCF/Share	3.30	2.90	3.37	2.45	2.95	2.76	3.02	3.31	3.09	3.02

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

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