



People's United Financial (PBCT)

Updated January 24th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	6.6%	Market Cap:	\$7.8 B
Fair Value Price:	\$18	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	1/31/22
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	2/15/22
Dividend Yield:	3.8%	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 \$7.8 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. The two banks have minimum geographic overlap, and they will cover more than 20% of the U.S. population. The deal has been approved by the shareholders of People's United Financial as well as New York and Connecticut state regulators and hence it will almost certainly close in the first half of the year. Approval remains pending from the Board of Governors of the Fed.

In mid-January, People's United Financial reported (1/20/22) financial results for the fourth quarter of fiscal 2021. The net interest margin of the company slipped from 2.64% to 2.51% sequentially due to depressed interest rates but operating earnings-per-share grew 9%, from \$0.33 in the third quarter to \$0.36, primarily thanks to a reversal in provision for loan losses amid improved economic conditions. This is also the primary factor behind the record earnings-per-share of \$1.48 in 2021. As this growth factor is not in place this year, we expect earnings-per-share to decrease approximately -8% this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.72	\$0.74	\$0.84	\$0.86	\$0.92	\$0.95	\$1.31	\$1.39	\$1.27	\$1.48	\$1.36	\$1.65
DPS	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.72	\$0.73	\$0.73	\$0.78
Shares¹	338.4	312.0	298.3	300.4	304.0	332.9	372.8	425.0	420.4	425.4	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 22 consecutive quarters. In the last five years, the company has grown its earnings-per-share at a 10.0% average annual rate. However, this period includes a steep decrease in the tax rate, from 28% to 19%, and the aforementioned tailwind from the reversal of loan loss provisions in 2021.

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, it has begun to subside 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	17.0	19.0	17.5	18.2	17.3	19.0	13.8	11.7	9.7	11.6	14.0	13.5
Avg. Yld.	5.2%	4.6%	4.5%	4.3%	4.3%	3.8%	3.9%	4.4%	5.8%	4.3%	3.8%	3.5%

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 15.5. The stock is now trading at a price-to-earnings ratio of 14.0, which is higher than our assumed fair earnings multiple of 13.5. If the stock reaches our fair valuation level, it will incur a -0.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	88.9%	87.8%	78.6%	77.9%	73.9%	72.6%	53.4%	51.1%	56.7%	49.3%	53.7%	47.3%

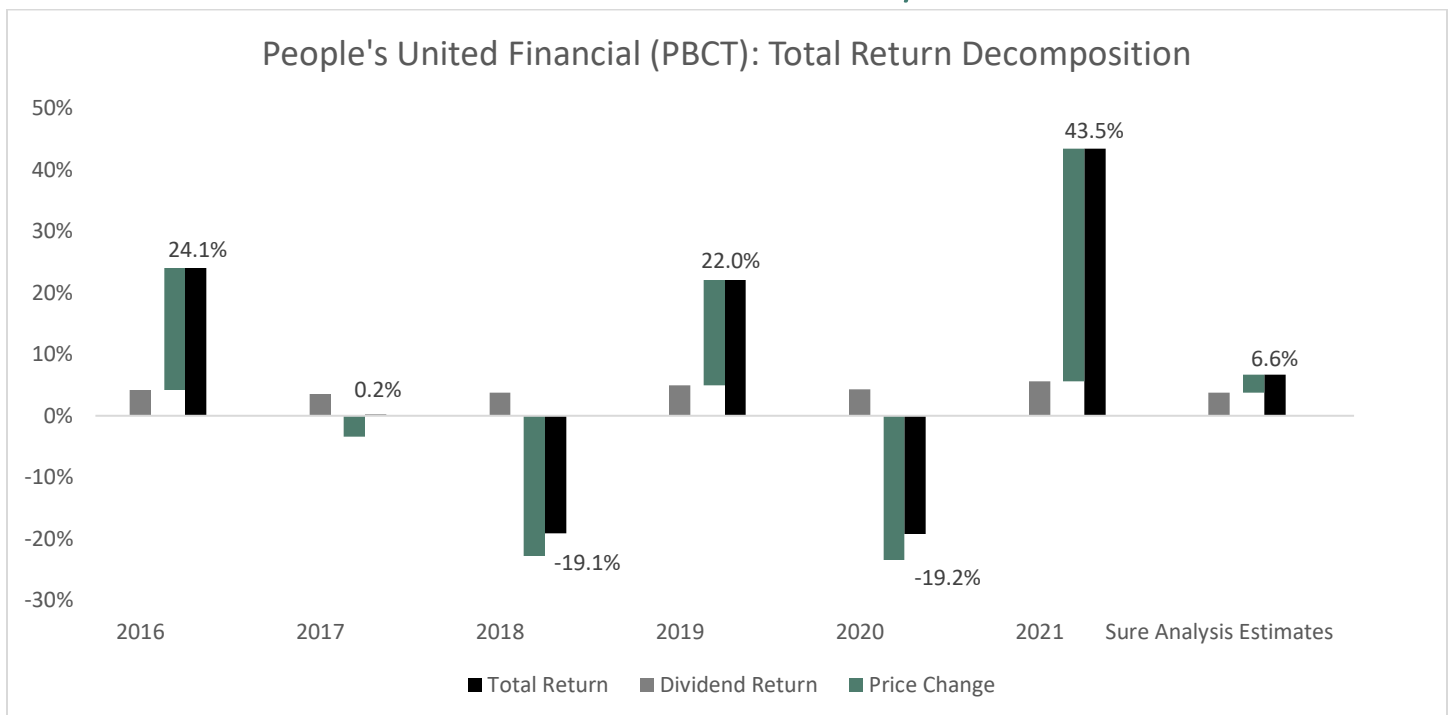
People's United Financial has raised its dividend for 29 consecutive years but has raised it by only \$0.01 per year in each of the last eleven years. As the bank is poised to be acquired by M&T Bank, its future dividend growth will depend on the dividend growth of the combined bank. M&T Bank has grown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

People's United Financial has nearly doubled off its bottom in 2020. As a result, the stock has become less attractive but it could still offer a 6.6% average annual return over the next five years. The stock would receive a hold rating, but we note that M&T Bank presently has a sell rating and hence People's United Financial receives a sell rating as well.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%	1.0%	1.0%	0.4%
Return on Equity	4.8%	4.8%	5.5%	5.6%	5.8%	6.4%	7.9%	7.4%	2.9%
ROIC	3.9%	2.9%	3.0%	3.0%	3.0%	3.6%	4.8%	4.8%	2.1%
Shares Out.	338.4	312.0	298.3	300.4	304.0	332.9	372.8	425.0	420.4
Revenue/Share	3.69	3.94	4.16	4.25	4.33	4.37	4.56	4.64	4.72
FCF/Share	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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