Tompkins Financial Corporation (TMP)

Updated May 14th, 2022, by Josh Arnold

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	1.9%	**Market Cap:**	$1.1 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	08/07/22[1]
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	08/15/22
Dividend Yield:	3.2%	**5 Year Price Target**	$67	**Years Of Dividend Growth:**	35
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Sell

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 $1.1 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 29th, 2022. Noninterest income of $20 million, in line with the year-ago period, and 26.1% of revenue. The bank noted that all fee-related categories showed higher revenue in Q1 compared to the year-ago period.

Net interest income was down 1.2% from Q4, driven by a decline in net deferred loan fees from the Paycheck Protection Program, which totaled $2 million in Q1. That was down from $3.2 million.

Net interest margin was 3.04% for the first quarter of 2022, compared to 3.01% reported for both the same period in 2021 and the fourth quarter of 2021.

Average loans for the quarter were down $235 million, or 4.5%, from the year-ago period. That was mainly due to commercial loans and average PPP loans declining. Asset yields were down eight basis points as well, but up two basis points from the fourth quarter.

Earnings-per-share came to $1.60 in Q1, down from $1.72 a year ago. This was due to reduced PPP income, and a smaller recapture of prior credit loss provisions, which was expected. We now see $5.80 in earnings-per-share for this year following Q1 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.22	$3.46	$3.48	$3.87	$3.91	$4.42	$5.33	$5.37	$5.20	$6.25	***$5.80***	***$6.10***
DPS	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	$2.10	$2.19	***$2.28***	***$2.52***
Shares[2]	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0	14.9	14.6	***14.5***	***14.5***

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, including what we view as unsustainably high earnings for 2021. Earnings in 2021 were boosted by credit loss recoveries that will not reoccur, and we've come in with a much lower estimate of earnings for 2022 as a result. In conjunction with this, we've boosted our growth estimate from 0% to +1%.

[1] Estimated date

[2] Share count in millions

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Given the state of the yield curve, 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 is producing net interest margin deterioration, making this even tougher, although the loan book is growing as a result, particularly once the PPP loans have fully worked their way off the balance sheet. Given this, the outlook for revenue and margins is somewhat unfavorable. The bank's share repurchase program should help, but only with fractional declines in the float annually.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.2	12.9	12.7	14.0	17.7	24.2	15.3	15.1	13.2	12.8	***12.4***	***11.0***
Avg. Yld.	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	2.7%	***3.2%***	***3.8%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 12.4, which is ahead of where we see fair value at 11 times earnings. With shares trading at 113% of our estimate of fair value, Tompkins' value proposition still isn't particularly enticing, especially with earnings almost certainly having peaked in 2021. The yield is 3.2% as well, which means we see the yield rising as the valuation declines in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45%	45%	47%	44%	45%	53%	36%	38%	40%	35%	***39%***	***41%***

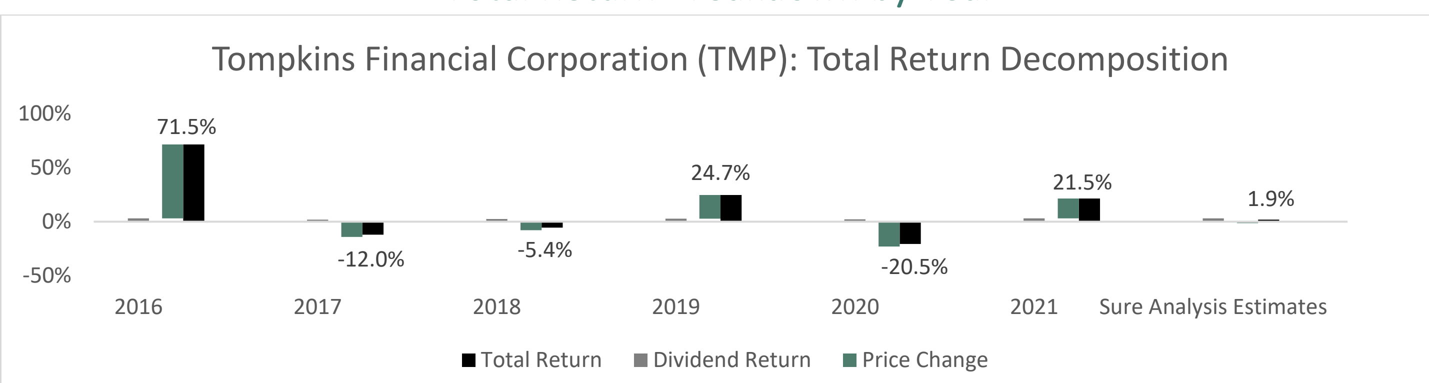
Tompkins Financial has raised its dividend for 35 consecutive years, and we don't see this streak in jeopardy by any means. Due to its low payout ratio, it has ample room to keep growing its dividend, even with weak earnings growth, or even earnings contraction from 2021's high base.

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 now ahead of our estimate of fair value, and the yield is now 3.2%. With a murky growth outlook of just +1%, we are reiterating the stock at a sell rating given poor projected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	187	228	232	238	247	267	283	283	296	303
SG&A Exp.	82	104	105	103	112	119	126	129	136	120
D&A Exp.	7	8	8	8	9	10	11	12	12	12
Net Profit	31	51	52	58	59	52	82	82	78	89
Net Margin	16.8%	22.3%	22.4%	24.6%	24.0%	19.7%	29.1%	28.9%	26.2%	29.5%
Free Cash Flow	55	77	69	76	75	51	89	96	97	116
Income Tax	11	21	25	29	27	43	22	21	20	25

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,837	5,003	5,270	5,690	6,237	6,648	6,758	6,726	7,622	7,820
Cash & Equivalents	119	83	56	58	64	84	80	138	388	63
Accounts Receivable	100	106	86	82	84	83	82	101	110	116
Goodwill & Int. Ass.	111	108	107	104	104	102	100	99	97	96
Total Liabilities	4,396	4,545	4,780	5,174	5,687	6,072	6,138	6,063	6,904	7,091
Long-Term Debt	156	369	394	574	922	1,088	1,093	675	278	124
Shareholder's Equity	440	456	488	515	548	575	619	662	716	728
LTD/E Ratio	0.35	0.81	0.81	1.11	1.68	1.89	1.76	1.02	0.39	0.17

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	1.0%	1.0%	1.1%	1.0%	0.8%	1.2%	1.2%	1.1%	1.2%
Return on Equity	8.5%	11.3%	11.0%	11.6%	11.2%	9.4%	13.8%	12.8%	11.3%	12.4%
ROIC	5.7%	7.1%	6.1%	5.9%	4.6%	3.3%	4.9%	5.4%	6.6%	9.7%
Shares Out.	14.3	14.7	14.8	14.9	15.1	15.3	15.3	15.0	14.9	14.6
Revenue/Share	14.54	15.62	15.68	15.99	16.53	17.72	18.70	18.88	20.07	20.66
FCF/Share	4.26	5.29	4.64	5.14	4.99	3.37	5.89	6.38	6.57	7.95

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