



TrustCo Bank Corp NY (TRST)

Updated July 25th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	13.0%	Market Cap:	\$611 M
Fair Value Price:	\$43	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	08/17/2021
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date²:	10/01/2022
Dividend Yield:	4.3%	5 Year Price Target	\$53	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

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, mortgages, building loans, auto loans, and more. The bank was founded in 1902 and is headquartered in Glenville, New York. The company operates 144 banking offices across the USA. TrustCo trades on the NYSE under the ticker symbol TRST and has a market capitalization of \$611 million. The bank has \$6.2 billion in savings and loans assets.

On November 16th, 2021, TrustCo announced a 2.8% increase to the quarterly cash dividend to \$0.35 per share.

TrustCo released second quarter results on July 21st, 2022. Net income of \$17.9 million for the second quarter was a 24% increase compared to the second quarter 2021 net income of \$14.4 million. Diluted earnings per share of \$0.933 also grew 24% compared to \$0.748 earned in the same prior year period.

Average loans grew 4.6% year-over-year or by \$196.2 million. Average residential loans grew 5.3%, or by \$202.0 million. Average residential loans remain TrustCo's primary lending focus. Return on average assets and return on average equity for the quarter were 1.15% and 12.08%, compared to 0.95% and 10.05% in the first quarter of 2021. The number of full-time equivalent employees increased from the prior year, from 769 to 793.

TrustCo also repurchased 75,000 shares of stock under their stock repurchase plan.

Following continued strength in the second quarter, we are increasing our 2022 earnings per share forecast to \$3.60.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.00	\$2.10	\$2.35	\$2.20	\$2.25	\$2.25	\$3.20	\$3.00	\$2.72	\$3.20	\$3.60	\$4.38
DPS	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30	\$1.36	\$1.36	\$1.36	\$1.37	\$1.40	\$1.47
Shares³	18.8	18.9	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.3	19.2	18.9

TRST has produced a consistent stream of growth over the last decade, despite the earnings choppiness caused by the COVID-19 pandemic. In the past nine and five years, the company has compounded earnings per share by 5.4% and 7.3% on average, respectively. We estimate, going forward, that TrustCo can continue compounding earnings at around 4.0% 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. For example, The Florida region surpassed over \$1 billion in deposits and \$1 billion in loans in in 2021. We also anticipate a miniscule tailwind to earnings as the company attempts to repurchase shares after receiving approval to buy back up to 1% of outstanding shares.

¹ Estimate

² Estimate

³ 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	Now	2027
Avg. P/E	13.8	14.1	14.6	14.7	14.8	18.5	13.3	13.4	11.6	12.1	9.0	12.0
Avg. Yld.	4.8%	4.4%	3.9%	4.0%	3.9%	3.2%	3.2%	3.4%	4.4%	4.0%	4.3%	2.8%

Over the last nine and five years, TRST has traded at an average PE of 14.1 and 13.8, respectively. We are expecting multiple expansion will bring up TRST's PE closer to its 10-year average PE, to 12.0. We estimate an annual gain of 4.0% 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

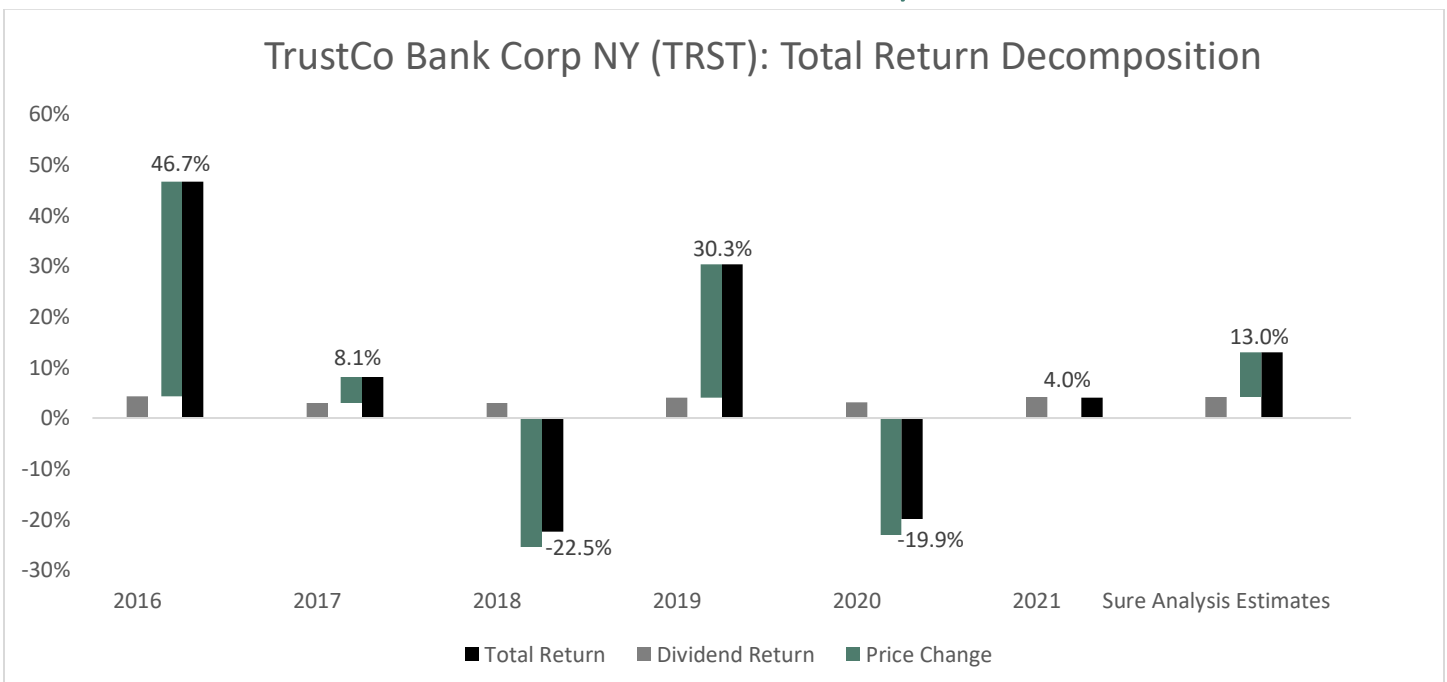
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	65%	62%	55%	59%	58%	58%	43%	45%	50%	43%	39%	34%

Today TrustCo's payout ratio of around 39% 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 13.0% annually over the next five years, as it will gain from earnings growth, valuation expansion, and the strong dividend. We see earnings growth of roughly 4.0%, a 5.9% annual gain due to valuation expansion, and the dividend is yielding 4.3%. The company is trading at a 25% discount to our fair value and has strong expected returns. We are reiterating our buy rating on TrustCo. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	156	156	161	161	165	173	179	174	171	178
SG&A Exp.	44	44	45	47	51	54	55	59	58	62
D&A Exp.	5	5	5	5	4	4	4	10	10	
Net Profit	38	40	44	42	43	43	61	58	52	62
Net Margin	24.1%	25.6%	27.4%	26.2%	25.8%	25.0%	34.4%	33.2%	30.7%	34.5%
Free Cash Flow	54	64	46	56	53	58	64	60	58	
Income Tax	22	24	27	25	26	34	18	19	17	21

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,347	4,521	4,644	4,735	4,869	4,908	4,959	5,221	5,902	6,197
Cash & Equivalents	56	46	44	42	49	44	49	48	47	48
Total Liab.	3,988	4,160	4,251	4,322	4,436	4,450	4,469	4,683	5,334	5,595
Long-Term Debt	160	204	189	191	209	243	162	149	215	245
Total Equity	359	362	393	413	433	458	490	538	568	601
LTD/E Ratio	0.45	0.56	0.48	0.46	0.48	0.53	0.33	0.28	0.38	0.41

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%	1.2%	1.1%	0.9%	1.0%
Return on Equity	10.8%	11.0%	11.7%	10.5%	10.1%	9.7%	13.0%	11.3%	9.5%	10.5%
ROIC	7.5%	7.3%	7.7%	7.1%	6.8%	6.4%	9.1%	8.6%	7.1%	7.6%
Shares Out.	18.8	18.9	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.3
Revenue/Share	8.33	8.26	8.51	8.46	8.63	8.98	9.25	9.00	8.85	9.26
FCF/Share	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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