



New York Community Bancorp (NYCB)

Updated August 3rd, 2022, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|---------|--|-------|----------------------------------|----------|
| Current Price: | \$10.30 | 5 Year CAGR Estimate: | 12.4% | Market Cap: | \$5.0 B |
| Fair Value Price: | \$13 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date: | 08/05/22 |
| % Fair Value: | 79% | 5 Year Valuation Multiple Estimate: | 4.8% | Dividend Payment Date: | 08/18/22 |
| Dividend Yield: | 6.6% | 5 Year Price Target | \$15 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | D | Retirement Suitability Score: | C | Rating: | Buy |

Overview & Current Events

New York Community Bancorp is the parent of a state-chartered bank called New York Community Bank. The wholly owned subsidiary operates 236 branches in New York, New Jersey, Ohio, Florida, and Arizona. The holding company was founded in 1993 but the banking operations of the company can be traced to 1859. The bank focuses on multi-family loans in New York City, particularly in buildings that are rent controlled. That book of business is about three-quarters of its entire lending portfolio. The bank has a market capitalization of \$5 billion.

NYCB reported second quarter earnings on July 27th, 2022, and results were better than expected on both revenue and earnings. Earnings-per-share on an adjusted basis came to 35 cents, three cents better than expected. Revenue was up almost 9% to \$377 million, which was \$23 million better than estimated. On an adjusted dollar basis, earnings came to \$166 million, up 6% year-over-year. Pre-provision net revenue was \$239 million, up 15% year-over-year. The bank's efficiency ratio was 35.57%, which was better than the 37.11% of the year-ago period.

Loan growth was 15% on an annualized basis, with total loans ending the period at \$1.8 billion. The bank continues to grow loans in the multi-family segment, as well as specialty finance.

Total deposits continue to grow, adding \$3.3 billion during the quarter, up 35% on an annualized basis from Q1. Wholesale borrowings continued to decline, falling \$2.3 billion, or 28% on an annualized basis, from the end of 2021 as the company diversifies into cheaper sources of funds.

Net interest margin was 2.52%, up nine basis points from the prior quarter. Net interest income was \$359 million, up 8% year-over-year. We reiterate our estimate of \$1.30 in earnings-per-share for this year.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.13 | \$1.08 | \$1.09 | -\$0.11 | \$1.01 | \$0.81 | \$0.79 | \$0.77 | \$0.87 | \$1.24 | \$1.30 | \$1.51 |
| DPS | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$0.68 | \$0.68 | \$0.68 | \$0.68 | \$0.68 | \$0.68 | \$0.68 | \$0.68 |
| Shares¹ | 439 | 441 | 443 | 485 | 487 | 488 | 474 | 467 | 464 | 465 | 467 | 472 |

NYCB's growth prospects are somewhat murky. The bank's leverage to New York City with its multi-family loan portfolio makes its results more volatile than a diversified bank that has lots of different types of lending strategies. In recent years, New York City passed stricter regulations that make it more difficult for landlords to raise rents on rent-controlled units, which is where NYCB is heavily leveraged. This could crimp the bank's customers' ability to improve properties over time and raise prices, which may cause some of them to lose the ability to service their loans. Some of this occurred in 2019, but we note 2020 saw this headwind abate somewhat. NYCB has been prudent in its underwriting standards, so risks are still somewhat low, but the possibility of lower growth because of this is noticeable. We note 2021 results showed improving credit quality, and first half 2022 results were even better, so this concern may have passed for the time being.

On the bright side, NYCB's deposit mix is very strong for an environment where rates are moving around. About 40% of its deposits are in time deposits, so those rates are locked in until maturity. In addition, strong deposit growth should

¹ Share count in millions

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help NYCB pay down more expensive borrowings and improve margins, along with strong expense controls. In total, we forecast 3% earnings-per-share growth from 2022's level. We note that the bank's loan-to-deposit ratio is extremely high, meaning risks are higher, and the runway for additional growth is essentially nothing due to already-high leverage. In addition, NYCB has tremendously high exposure to the markets in and surrounding New York City.

Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 11.6 | 13.5 | 14.6 | --- | 15.0 | 16.7 | 14.6 | 14.9 | 11.4 | 9.7 | 7.9 | 10.0 |
| Avg. Yld. | 7.6% | 6.8% | 6.3% | 5.8% | 4.5% | 5.0% | 5.9% | 5.9% | 6.8% | 5.6% | 6.6% | 4.5% |

We see fair value for NYCB at 10 times earnings based primarily upon peer valuations. The stock has traded with a wide range of valuations in the past decade, between 10 and 17. Today, however, the stock trades for just 7.9 times our estimate of 2022 earnings-per-share, so it is significantly undervalued in our view. We see a tailwind from the valuation, and investors get a 6.6% current yield as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 88% | 93% | 92% | --- | 67% | 84% | 86% | 88% | 78% | 55% | 52% | 45% |

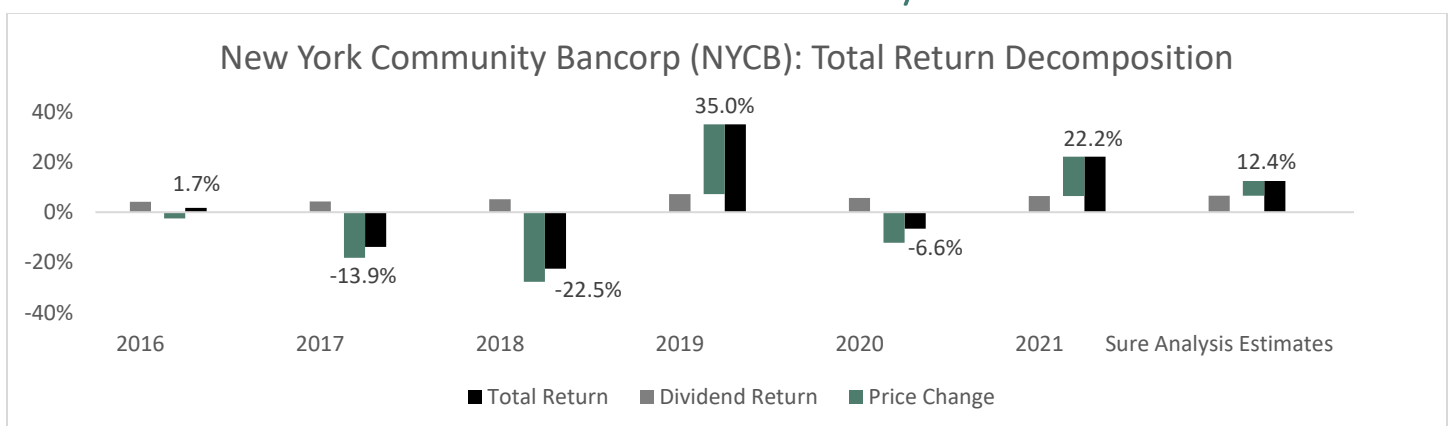
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results and is a *disadvantage*. On the other hand, the focus on these rent-controlled apartments should make its recession performance quite strong and indeed, during the Great Recession, NYCB continued to grow earnings. That is quite an attractive trait, and a rare one, for a bank.

The payout ratio has improved greatly in the past two years, and NYCB is in a much better position to afford its current payout. We don't foresee any cuts upcoming, and while the bank could raise the payout, there have been no signs of any appetite for that from management. The Flagstar deal, which is yet to close, would indicate growth is favored by management instead of dividend increases.

Final Thoughts & Recommendation

NYCB offers investors strong total annual return potential with some measure of risk involved. The stock's yield is certainly attractive and shares trade well under our estimate of fair value. With projected returns of 12.4%, stemming from the 6.6% yield, 3% growth, and 4%+ valuation tailwind, we are reiterating the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 1445 | 1375 | 1357 | 628 | 1439 | 1366 | 1123 | 1042 | 1161 | 1350 |
| SG&A Exp. | 489 | 484 | 495 | 523 | 546 | 561 | 447 | 422 | 425 | 430 |
| D&A Exp. | 45 | 44 | 36 | 37 | 35 | 33 | 32 | 27 | 24 | 21 |
| Net Profit | 501 | 476 | 485 | -47 | 495 | 466 | 422 | 395 | 511 | 596 |
| Net Margin | 34.7% | 34.6% | 35.8% | -7.5% | 34.4% | 34.1% | 37.6% | 37.9% | 44.0% | 44.1% |
| Free Cash Flow | 537 | 1339 | 649 | -455 | 671 | 1299 | 531 | 510 | 334 | 286 |
| Income Tax | 280 | 272 | 288 | -85 | 282 | 202 | 135 | 128 | 77 | 210 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 44145 | 46688 | 48559 | 50318 | 48927 | 49124 | 51899 | 53641 | 56306 | 59527 |
| Cash & Equivalents | 2427 | 645 | 564 | 538 | 558 | 2528 | 1475 | 742 | 1948 | 2211 |
| Goodwill & Int. Ass. | 2613 | 2693 | 2671 | 2686 | 2670 | 2442 | 2437 | 2426 | 2426 | 2426 |
| Total Liabilities | 38489 | 40953 | 42777 | 44383 | 42803 | 42329 | 45244 | 46929 | 49464 | 52483 |
| Long-Term Debt | 9201 | 11231 | 10541 | 13822 | 12023 | 12464 | 13708 | 13758 | 15284 | 16562 |
| Shareholder's Equity | 5656 | 5736 | 5782 | 5935 | 6124 | 6293 | 6152 | 6209 | 6339 | 6541 |
| LTD/E Ratio | 1.63 | 1.96 | 1.82 | 2.33 | 1.96 | 1.83 | 2.06 | 2.05 | 2.23 | 2.35 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|------|------|------|-------|------|------|------|------|------|------|
| Return on Assets | 1.2% | 1.0% | 1.0% | -0.1% | 1.0% | 1.0% | 0.8% | 0.7% | 0.9% | 1.0% |
| Return on Equity | 8.9% | 8.3% | 8.4% | -0.8% | 8.2% | 7.5% | 6.8% | 6.4% | 8.1% | 9.3% |
| ROIC | 3.3% | 3.0% | 2.9% | -0.3% | 2.6% | 2.5% | 2.1% | 1.9% | 2.4% | 2.6% |
| Shares Out. | 439 | 441 | 443 | 485 | 487 | 488 | 474 | 467 | 464 | 465 |
| Revenue/Share | 3.30 | 3.13 | 3.08 | 1.40 | 2.97 | 2.80 | 2.30 | 2.24 | 2.51 | 2.91 |
| FCF/Share | 1.23 | 3.05 | 1.47 | -1.01 | 1.38 | 2.67 | 1.09 | 1.10 | 0.72 | 0.62 |

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

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