Tompkins Financial Corporation (TMP)

Updated October 29th, 2022, by Josh Arnold

Key Metrics

Current Price:	$83	**5 Year CAGR Estimate:**	-1.9%	**Market Cap:**	$1.2 B
Fair Value Price:	$66	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date:**	11/07/22
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	11/15/22
Dividend Yield:	2.9%	**5 Year Price Target**	$63	**Years Of Dividend Growth:**	36
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 $310 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 third quarter earnings on October 28th, 2022, and results were worse than expected on both the top and bottom lines. The bank reported earnings-per-share of $1.48, which was seven cents lower than estimates. Revenue was up 2.4% year-over-year to $79 million, but missed estimates by $0.7 million.

Total loans were $5.2 billion at quarter-end, p $46 million over the prior quarter, an annualized increase of 3.6%. Net interest margin was 3.04%, down from 3.09% from the second quarter, but was up from 2.89% in the comparable period a year ago.

Total deposits were $6.9 billion, up 2.5% from the second quarter, but down 2.2% from the same period a year ago.

Net interest income was $58 million, in line with the prior quarter as higher funding costs on deposits and other borrowings were offset by higher interest income on loans and securities.

The company boosted the dividend for the 36th consecutive year, adding 5.3% to a new annualized rate of $2.40 per share.

We now see $6.00 in earnings-per-share for this year after weak Q3 earnings.

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	***$6.00***	***$5.71***
DPS	$1.46	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	$2.10	$2.19	***$2.40***	***$2.65***
Shares[1]	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 lower estimate of earnings for 2022 as a result. In conjunction with this, we've lowered our growth estimate from 0% to -1%.

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 temporarily produced net interest margin deterioration, making this even tougher, although the loan book grew as a result. Given this, the

[1] Share count 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.

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	***13.8***	***11.0***
Avg. Yld.	3.7%	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	2.7%	***2.9%***	***4.2%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 13.8, which is ahead of where we see fair value at 11 times earnings. With shares trading at 126% 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 2.9% 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%	***40%***	***46%***

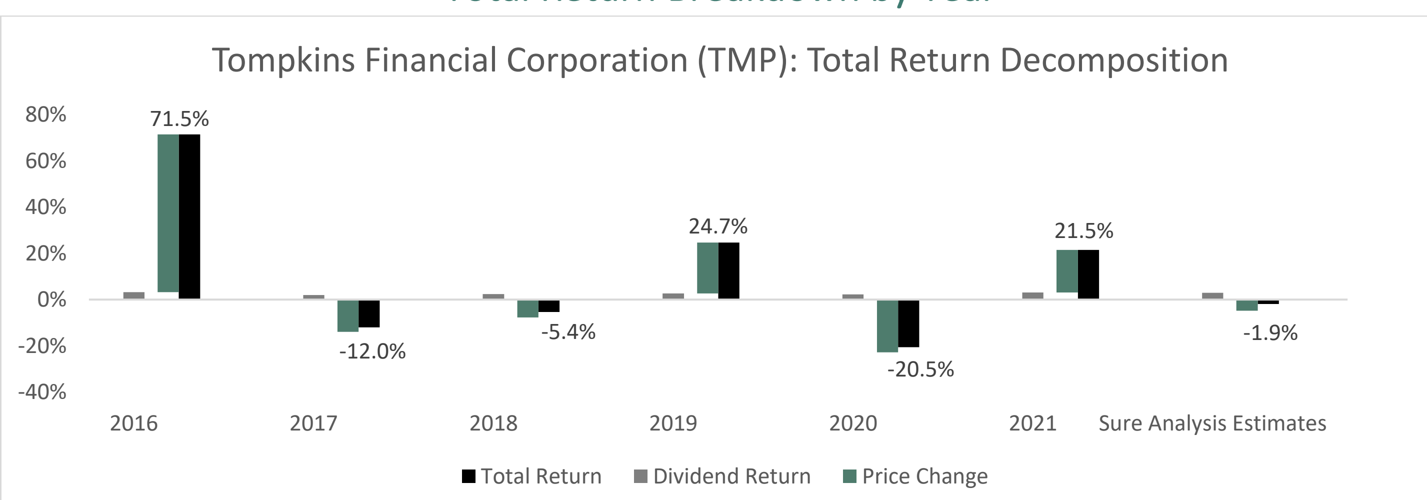
Tompkins Financial has raised its dividend for 36 consecutive years, and we don't see this streak in jeopardy by any means. Due to its low payout ratio, it has ample room to keep growing its dividend, even with weak earnings growth, or even earnings contraction from 2021's high base.

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 ahead of our estimate of fair value, driving a 4.5% headwind to total returns, and the yield is now 2.9%. With -1% earnings contraction forecast, we see -1.9% total returns ahead. Given this, 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.