



New York Community Bancorp (NYCB)

Updated November 6th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$8.90	5 Year CAGR Estimate:	12.3%	Market Cap:	\$4.1 B
Fair Value Price:	\$12.50	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	11/04/22
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.0%	Dividend Payment Date:	11/17/22
Dividend Yield:	7.6%	5 Year Price Target	\$13	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	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 \$4.1 billion.

New York Community Bancorp reported third quarter earnings on October 26th, 2022, and results were weaker than expected for both the top and bottom lines. Adjusted earnings-per-share came to 31 cents, which was a penny light against estimates. Revenue was 3% higher year-over-year to \$343 million, but missed estimates by more than \$11 million.

Loans held for investment rose \$3.2 billion, or 9% on an annualized basis to \$49 billion, in comparison to the December 2021 quarter.

Total deposits were up \$6.6 billion, up 25% on an annualized basis to \$41.7 billion against the December quarter. That puts the bank's loan-to-deposit ratio at 118%, extremely high by any standard.

Net interest income was \$326 million, missing estimates and declining quarter-over-quarter. The bank said higher interest rates led to higher cost of funds, which soared 49bps quarter-over-quarter to 1.41%.

We now see \$1.25 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	\$1.25	\$1.25
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 2022 results have shown similar improvement, 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 0% 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	7.1	10.0
Avg. Yld.	7.6%	6.8%	6.3%	5.8%	4.5%	5.0%	5.9%	5.9%	6.8%	5.6%	7.6%	5.4%

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 7.1 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 7.6% 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%	54%	54%

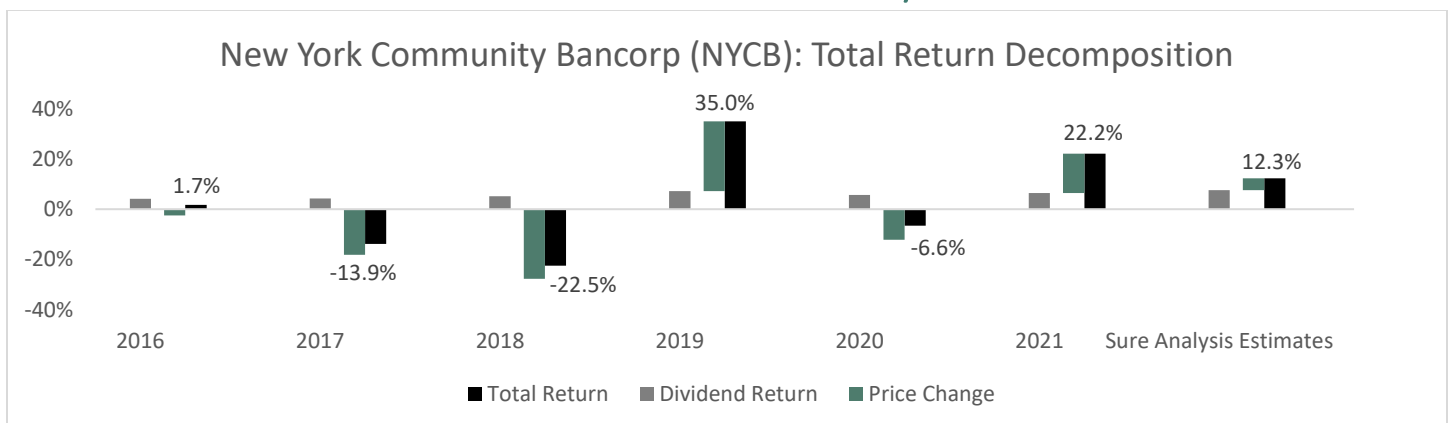
NYCB doesn't necessarily have a competitive advantage, as those are difficult to come by in banking. Indeed, we suggest that the bank's leverage to a narrow sliver of the New York City real estate market makes its results more volatile than most other banks' results and is a *disadvantage*. On the other 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 12.3%, stemming from the 7.6% yield, no growth, and 7% 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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