



# M&T Bank Corporation (MTB)

Updated January 20<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$156	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Market Cap:</b>	\$25 B
<b>Fair Value Price:</b>	\$183	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	02/24/23 <sup>1</sup>
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.2%	<b>Dividend Payment Date:</b>	03/31/23
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$245	<b>Years Of Dividend Growth:</b>	5
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

M&T Bank Corporation is a regional bank with branches in New York, Maryland, Pennsylvania and West Virginia. The company has more than 800 total branches spread out amongst these four states and employs about 23,000 people. Almost half of M&T Bank's loan book is composed of commercial real estate (47% of portfolio), with the remainder of loans consisting of consumer real estate (8%), commercial loans (29%) and consumer loans (16%).

On January 19<sup>th</sup>, 2023, M&T Bank reported fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue grew 66.2% to \$2.51 billion, which was \$140 million more than expected. Adjusted earnings-per-share of \$4.57 compared to \$3.50 in the previous year and was \$0.13 above estimates. For 2022, revenue increased 36% to \$8.2 billion while adjusted earnings-per-share of \$14.42 was up slightly from \$14.11.

The increase in revenue was once again largely due to the addition of People's United. Average loans increased 39% to \$129.4 billion year-over-year and were higher by 1.5% sequentially. The company recorded a provision for credit losses of \$90 million for the quarter, compared to provision for credit losses of \$115 million in the third quarter of 2022 and a \$15 million recapture in the fourth quarter of 2021. Loans 90 days or more overdue totaled \$477 million, representing just 0.4% of total loans outstanding. This was a 2.9% increase on a sequential basis. Net interest margin of 4.06% was up 148 basis points from the same period a year ago and higher by 38 basis points from the third quarter of 2022. Total deposits increased 24.3% to \$163.5 billion. Noninterest expense of \$1.41 billion was an increase of 52% year-over-year and 10% higher than the prior quarter. Compared to the prior year, Common Equity Tier 1 ratio was 10.4% versus 11.4%, return on average common equity was 12.6% versus 10.9%, and average return on assets was 1.53% versus 1.15%.

Analyst expect the company to earn \$18.30 in 2023. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$8.20	\$7.41	\$7.61	\$7.79	\$9.26	\$13.52	\$14.11	\$9.94	\$14.11	\$14.42	<b>\$18.30</b>	<b>\$24.49</b>
<b>DPS</b>	\$2.80	\$2.80	\$2.80	\$2.80	\$3.00	\$3.55	\$4.10	\$4.40	\$4.50	\$4.80	<b>\$4.80</b>	<b>\$5.17</b>
<b>Shares<sup>2</sup></b>	131	132	160	156	150	142	131	128	129	172	<b>172</b>	<b>165</b>

Earnings per share declined almost 43% in 2009, though it rebounded quickly in the ensuing years. Since this time, there have only been two other years (2014, 2020) where earnings did not grow. M&T Bank has largely recovered from the Covid-19 pandemic. The company has compounded at 7% annually over the last decade. We feel a growth rate of 6% is appropriate given the lateness of the cycle and due to earnings-per-share starting at a high base.

Though many of its larger banking peers were forced to cut their dividend during the last recession, M&T Bank maintained its payment to shareholders. From 2008 through 2016, the dividend was flat. The bank increased its dividend 6.7% on May 15<sup>th</sup>, 2018 and then 25% on August 21<sup>st</sup>, 2018. Shareholders received a 9.1% increase for the December

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> In millions of shares

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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31<sup>st</sup>, 2021. Based on the company's dividend history, we feel comfortable forecasting that dividends can grow at a rate of ~1.5% going forward.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.3	16.3	17.1	15.3	17.4	13.7	11.8	11.8	11.1	10.1	8.5	10.0
Avg. Yld.	2.6%	2.3%	2.3%	2.4%	1.9%	2.0%	2.5%	3.7%	3.2%	3.3%	3.1%	2.1%

Shares of M&T Bank have fallen \$10, or 6%, since our October 19<sup>th</sup>, 2022 update. Using the current share price and estimates for earnings-per-share for 2023, the stock has a price-to-earnings multiple of 8.5. We reaffirm our 2028 target P/E of 10. If the stock were to revert to our target by 2028, then valuation would be a 3.2% tailwind to total returns over this period of time. M&T Bank's stock yields 3.1%, almost twice the average yield for the S&P 500.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	38%	37%	36%	32%	26%	29%	44%	33%	33%	26%	21%

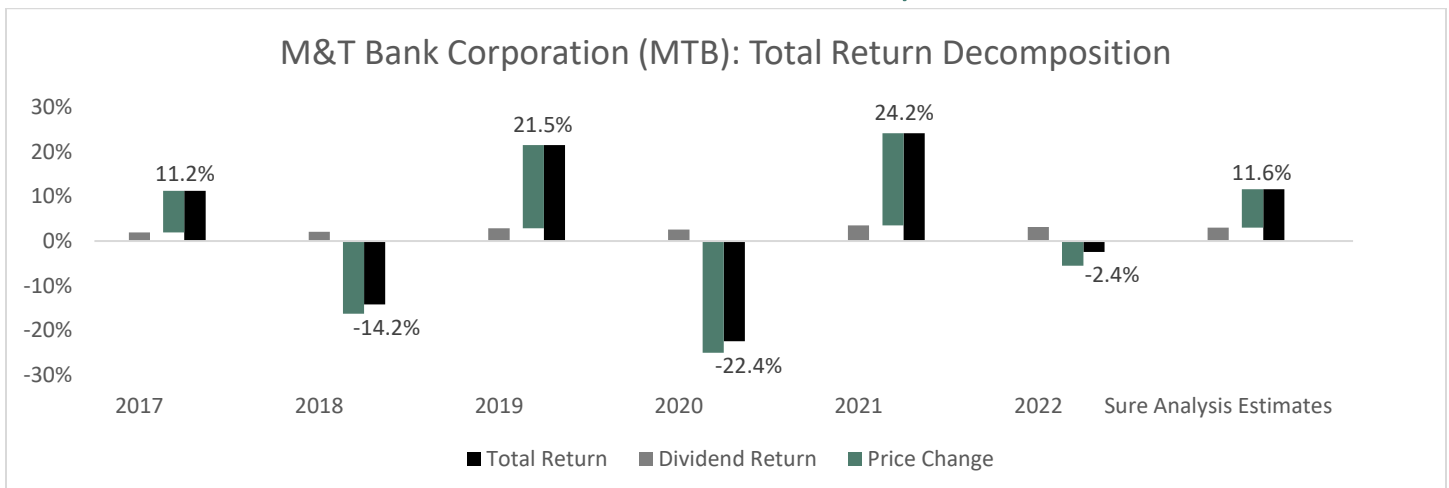
Due to increasing earnings and low dividend growth, M&T Bank's payout ratio has declined in the last decade. The bank is expected to have a very low payout ratio going forward, leaving the company plenty of room to pay its dividend as well as offer the potential for payout growth. We believe that the dividend can be considered relatively safe, though we see modest dividend growth in future years. The company has the vast majority of its debt due over the next 5 years, but has ample capital to address this issue.

We consider M&T Bank's ability to maintain its dividend payments during the last recession as an advantage over its competitors, many of which were forced to cut their payments to shareholders.

## Final Thoughts & Recommendation

M&T Bank Corporation is now expected to return 11.6% through 2028, up from our previous estimate of 6.3%. This projected return stems from a 6% earnings growth rate, a starting yield of 3.2%, and a low single-digit contribution from multiple expansion. M&T Bank continues to benefit from the acquisition of People's United Financial. Higher interest rates continue to act as a tailwind to results as well. We have raised our 2028 price target \$45 to \$245 due to earnings estimates for the year and now view shares of M&T Bank as a buy due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	4,555	4,456	4,668	5,296	5,632	5,928	6,192	5,955	5,992	8,043
<b>SG&amp;A Exp.</b>	1,425	1,508	1,661	1,810	1,820	1,907	2,036	2,066	2,180	2,968
<b>D&amp;A Exp.</b>	204	199	175	201	197	179	301	320	324	
<b>Net Profit</b>	1,138	1,066	1,080	1,315	1,408	1,918	1,929	1,353	1,859	1,992
<b>Net Margin</b>	25.0%	23.9%	23.1%	24.8%	25.0%	32.4%	31.2%	22.7%	31.0%	24.8%
<b>Free Cash Flow</b>	803	1,026	1,660	1,076	2,703	1,992	2,180	617	2,566	
<b>Income Tax</b>	627	576	595	743	916	590	618	416	596	619

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	85162	96686	122788	123449	118593	120097	119873	142601	155107	200730
<b>Cash &amp; Equivalents</b>	3224	7761	8962	6321	6500	9711	8623	25217	43210	26476
<b>Acc. Receivable</b>	5282	5618	5962	5323	5013	4774	5644	6702	7088	
<b>Goodwill &amp; Int.</b>	3593	3560	4733	4691	4665	4640	4622	4607	4597	8699
<b>Total Liab.</b>	73857	84350	106615	106963	102343	104637	104156	126414	137204	175412
<b>Accounts Payable</b>	1369	1568	1871	1811	1594	1637	2337	2166	2128	4377
<b>Long-Term Debt</b>	3709	7607	10736	8573	7720	12236	6885	4382	3485	7519
<b>Total Equity</b>	10424	11104	14942	15255	15019	14229	14467	14937	16153	23307
<b>LTD/E Ratio</b>	0.33	0.62	0.66	0.52	0.48	0.79	0.44	0.27	0.19	0.30

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.4%	1.2%	1.0%	1.1%	1.2%	1.6%	1.6%	1.0%	1.2%	1.1%
<b>Return on Equity</b>	11.5%	9.9%	8.3%	8.7%	9.3%	13.1%	13.4%	9.2%	12.0%	10.1%
<b>ROIC</b>	8.0%	6.1%	4.6%	5.1%	5.7%	7.4%	7.7%	6.3%	8.9%	7.3%
<b>Shares Out.</b>	131	132	160	156	150	142	131	129	129	172
<b>Revenue/Share</b>	35.14	32.40	33.94	33.67	36.92	41.13	46.05	46.27	46.52	49.03
<b>FCF/Share</b>	6.19	7.46	12.07	6.84	17.72	13.82	16.21	4.79	19.92	1.1%

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

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