Tompkins Financial Corporation (TMP)

Updated February 1st, 2023, by Josh Arnold

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	-0.2%	**Market Cap:**	$1.1 B
Fair Value Price:	$62	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	02/06/23
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	02/15/23
Dividend Yield:	3.2%	**5 Year Price Target**	$62	**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 fourth quarter and full-year earnings on January 27th, 2023, and results were weak. Tompkins reported earnings-per-share of $1.36, which missed estimates by six cents. In addition, revenue fell 1.7% to $75.64 million, which was $1.95 million lower than expected.

Total loans at the end of the year were $5.3 billion, up $61 million over Q3, and up $193 million from the year-ago period. Excluding PPP loans, total loans were up 5.3% year-over-year.

Total deposits were $6.6 billion, down $189 million year-over-year. Noninterest bearing deposits were $2.2 billion, up fractionally year-over-year.

Net interest margin was 3.02% for the Q4, down from 3.04% in Q3, and up slightly from 3.01% a year ago.

Net interest income was $57.3 million for Q4, down from $58.1 million in Q3, and down from $57.8 million in the year-ago period. Full-year net interest income was $230 million, up from $224 million in 2021.

We see $5.60 in earnings-per-share for this year as an initial estimate.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.46	$3.48	$3.87	$3.91	$4.42	$5.33	$5.37	$5.20	$6.25	$5.89	***$5.60***	***$5.60***
DPS	$1.54	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	$2.10	$2.19	$2.31	***$2.40***	***$2.65***
Shares[1]	14.7	14.8	14.9	15.1	15.3	15.3	15.0	14.9	14.6	14.4	***14.2***	***13.8***

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 2023 as a result. In conjunction with this, we're estimating no growth going forward.

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

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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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.9	12.7	14.0	17.7	24.2	15.3	15.1	13.2	12.8	13.2	***13.4***	***11.0***
Avg. Yld.	3.5%	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	2.7%	3.0%	***3.2%***	***4.3%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 13.4, which is ahead of where we see fair value at 11 times earnings. With shares trading at 122% 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 3.2% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	45%	47%	44%	45%	53%	36%	38%	40%	35%	39%	***43%***	***47%***

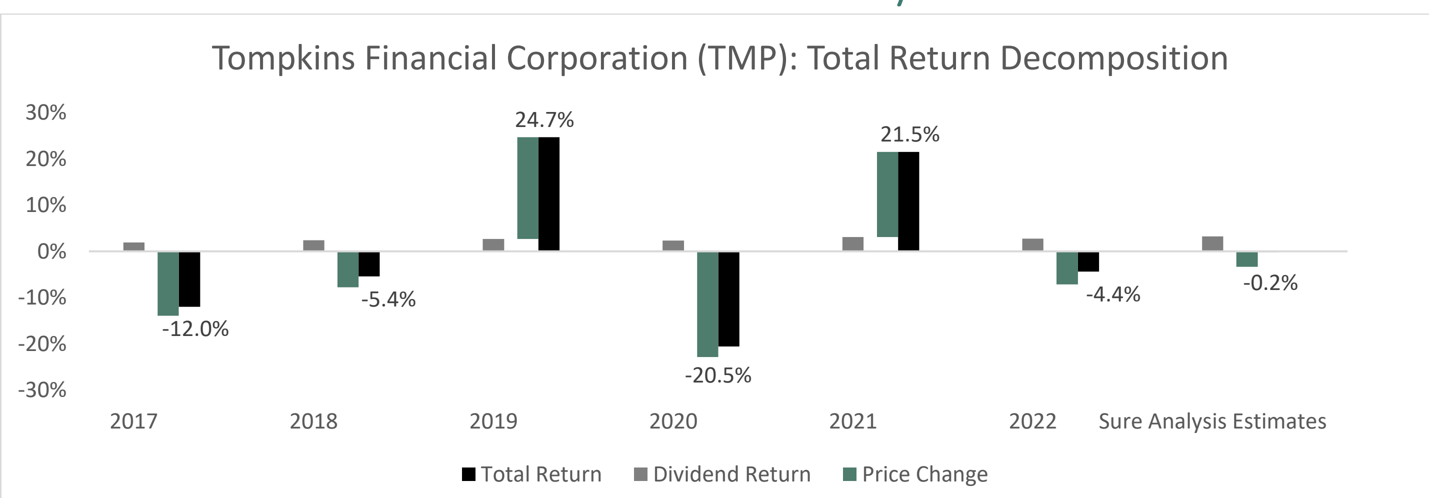
Tompkins Financial has raised its dividend for 36 consecutive years, and we don't see this streak in jeopardy by any means. Due to its modest payout ratio, it has ample room to keep growing its dividend, even with weak earnings growth, or even earnings contraction in 2023.

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 3.9% headwind to total returns, and the yield is now 3.2%. With 0% earnings growth forecast, we see -0.2% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	228	232	238	247	267	283	283	296	303	308
SG&A Exp.	104	105	103	112	119	126	129	136	120	123
D&A Exp.	8	8	8	9	10	11	12	12	12	
Net Profit	51	52	58	59	52	82	82	78	89	85
Net Margin	22.3%	22.4%	24.6%	24.0%	19.7%	29.1%	28.9%	26.2%	29.5%	27.6%
Free Cash Flow	77	69	76	75	51	89	96	97	116	
Income Tax	21	25	29	27	43	22	21	20	25	25

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,003	5,270	5,690	6,237	6,648	6,758	6,726	7,622	7,820	7671
Cash & Equivalents	83	56	58	64	84	80	138	388	63	78
Accounts Receivable	106	86	82	84	83	82	101	110	116	181
Goodwill & Int. Ass.	108	107	104	104	102	100	99	97	96	95
Total Liabilities	4,545	4,780	5,174	5,687	6,072	6,138	6,063	6,904	7,091	7053
Long-Term Debt	369	394	574	922	1,088	1,093	675	278	124	291
Shareholder's Equity	456	488	515	548	575	619	662	716	728	616
LTD/E Ratio	0.81	0.81	1.11	1.68	1.89	1.76	1.02	0.39	0.17	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.0%	1.0%	1.1%	1.0%	0.8%	1.2%	1.2%	1.1%	1.2%	1.1%
Return on Equity	11.3%	11.0%	11.6%	11.2%	9.4%	13.8%	12.8%	11.3%	12.4%	12.7%
ROIC	7.1%	6.1%	5.9%	4.6%	3.3%	4.9%	5.4%	6.6%	9.7%	9.7%
Shares Out.	14.7	14.8	14.9	15.1	15.3	15.3	15.0	14.9	14.6	14.4
Revenue/Share	15.62	15.68	15.99	16.53	17.72	18.70	18.88	20.07	20.66	21.4
FCF/Share	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.