



TrustCo Bank Corp NY (TRST)

Updated October 30th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	10.3%	Market Cap:	\$481 M
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Ex-Dividend Date¹:	12/01/2023
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.9%	Dividend Payment Date²:	01/01/2024
Dividend Yield:	5.7%	5 Year Price Target	\$34	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

TrustCo Bank Corp. NY is a financial holding company which provides personal and business banking services for individuals, partnerships, and corporations. The company's products include savings accounts, retirement accounts, money market accounts, mortgages, building loans, auto loans, and more. The bank was founded in 1902 and is headquartered in Glenville, New York. The company operates 143 banking offices across the USA. TrustCo trades on the NYSE under the ticker symbol TRST and has a market capitalization of \$481 million. The bank has \$6.1 billion in savings and loans assets.

On November 15th, 2022, TrustCo announced a 2.9% increase to the quarterly cash dividend to \$0.36 per share.

TrustCo reported third quarter results on October 23rd, 2023. Net income of \$14.7 million for the third quarter was a 24% decrease compared to third quarter 2022 net income of \$19.4 million. Diluted earnings per share of \$0.77 also declined by 24% compared to \$1.01 earned in the same prior year period.

Average loans grew 7.4% year-over-year or by \$338 million. Average residential loans grew 5.3%, or by \$219 million. Average residential loans remain TrustCo's primary lending focus. Return on average assets and return on average equity were 0.96% and 9.32%, compared to 1.24% and 12.78% in the third quarter of 2022. The number of full-time equivalent employees increased from the prior year, from 753 to 764.

Book value per share at quarter-end equaled \$32.80, which represents a 6.2% increase compared to \$30.89 a year ago.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.10	\$2.35	\$2.20	\$2.25	\$2.25	\$3.20	\$3.00	\$2.72	\$3.19	\$3.93	\$3.22	\$3.38
DPS	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30	\$1.36	\$1.36	\$1.36	\$1.37	\$1.41	\$1.44	\$1.51
Shares³	18.9	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.3	19.1	19.0	18.5

TRST has produced a consistent stream of growth over the last decade, despite the earnings choppiness caused by the COVID-19 pandemic. In the past nine and five years, the company has compounded earnings per share by 6.6% and 11.8% on average, respectively. We estimate, going forward, that TrustCo can continue growing earnings-per-share at around 1.0% per year on average.

TrustCo will achieve this growth primarily through boosting their loan portfolio, namely the residential mortgage loan portfolio which make up the bulk of their assets. The bank also expects net interest margin gains going forward due to current mortgage rates greatly exceeding the yield on its existing portfolio of mortgages. Further, continued geographic expansion of the bank's operations can add to organic growth. For example, The Florida region surpassed over \$1 billion in deposits and \$1 billion in loans in 2021.

We also anticipate a miniscule tailwind to earnings as the company attempts to repurchase shares after receiving approval to buy back up to 1% of outstanding shares.

¹ Estimate

² Estimate

³ 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.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.1	14.6	14.7	14.8	18.5	13.3	13.4	11.6	12.1	9.8	7.9	10.0
Avg. Yld.	4.4%	3.9%	4.0%	3.9%	3.2%	3.2%	3.4%	4.4%	3.8%	4.0%	5.7%	4.5%

Over the last nine and five years, TRST has traded at an average PE of 13.7 and 12.0, respectively. Given the current banking environment, we peg fair value for TRST at 10.0 times earnings. We estimate an annual gain of 4.9% compounded over the next five years as the valuation multiple expands. Dividend growth has not been a priority for TrustCo, and we estimate 1% growth in the dividend going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

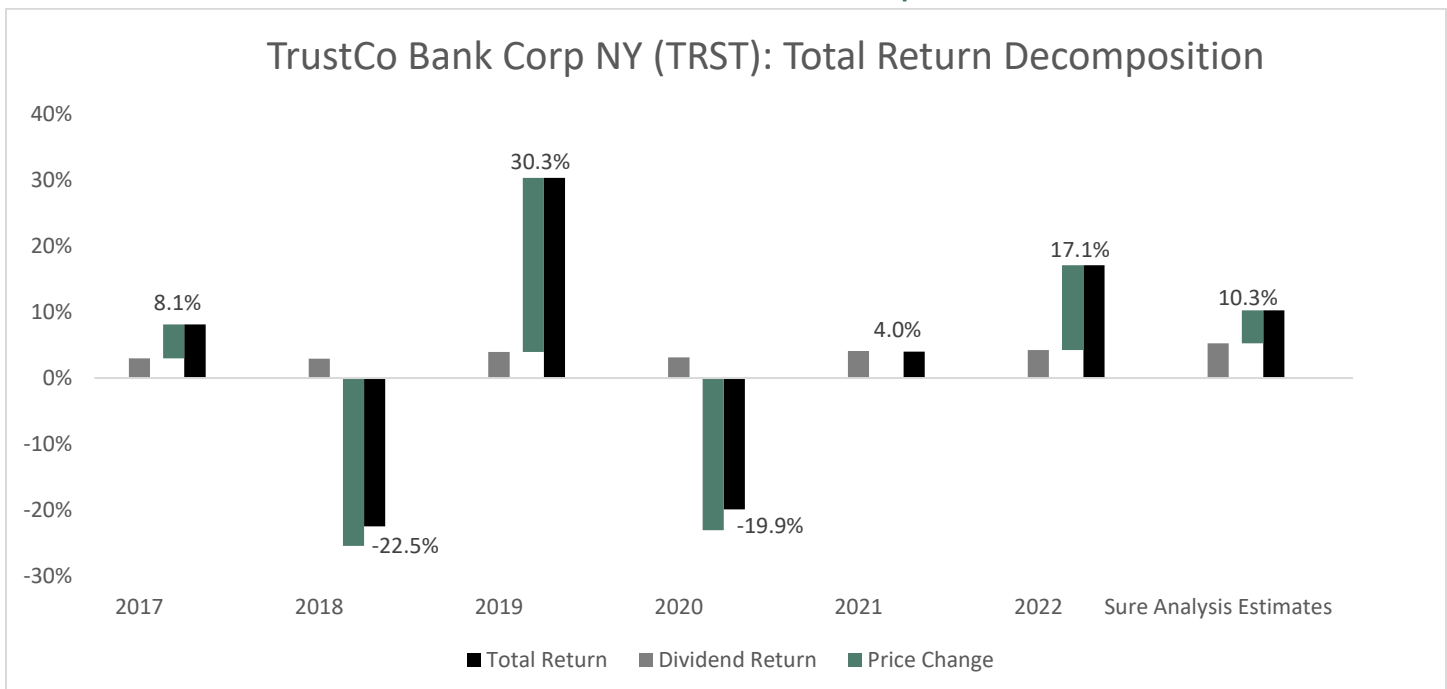
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	62%	55%	59%	58%	58%	43%	45%	50%	43%	36%	45%	45%

Today TrustCo's payout ratio of around 45% appears quite stable and we see no immediate threat to the dividend. However, the great financial crisis of 2008 was brutal to TrustCo, who primarily specializes in residential mortgages. The payout became unsustainable at the time and the dividend was slashed to less than half of its pre-2008 dividend and has barely grown since. TrustCo Bank Corp NY is not recession resistant. We do not see TrustCo as having a strong competitive advantage in its field, as they are a small bank and also do not possess large geographical diversification.

Final Thoughts & Recommendation

We estimate TRST can generate total returns of 10.3% annually over the next five years, as it will benefit from earnings growth, valuation expansion, and the strong dividend. We see earnings growth of roughly 1.0%, a 4.9% annual gain due to valuation expansion, and the dividend is yielding 5.7%. The company is trading at a 21% discount to our fair value estimate. We are upgrading TrustCo to a buy rating. That said, the company has an elevated chance of a dividend reduction during another recession, so it is not suitable for all income investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	156	161	161	165	173	179	174	171	178	199
SG&A Exp.	44	45	47	51	54	55	59	58	62	51
D&A Exp.	5	5	5	4	4	4	10	10	11	
Net Profit	40	44	42	43	43	61	58	52	62	75
Net Margin	25.6%	27.4%	26.2%	25.8%	25.0%	34.4%	33.2%	30.7%	34.5%	37.7%
Free Cash Flow	64	46	56	53	58	64	60	58	53	
Income Tax	24	27	25	26	34	18	19	17	21	24

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,521	4,644	4,735	4,869	4,908	4,959	5,221	5,902	6,197	6,000
Cash & Equivalents	46	44	42	49	44	49	48	47	48	43
Total Liab.	4,160	4,251	4,322	4,436	4,450	4,469	4,683	5,334	5,595	5,400
Long-Term Debt	204	189	191	209	243	162	149	215	245	123
Total Equity	362	393	413	433	458	490	538	568	601	600
LTD/E Ratio	0.56	0.48	0.46	0.48	0.53	0.33	0.28	0.38	0.41	0.20

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.0%	0.9%	0.9%	0.9%	1.2%	1.1%	0.9%	1.0%	1.2%
Return on Equity	11.0%	11.7%	10.5%	10.1%	9.7%	13.0%	11.3%	9.5%	10.5%	12.5%
ROIC	7.3%	7.7%	7.1%	6.8%	6.4%	9.1%	8.6%	7.1%	7.6%	9.6%
Shares Out.	18.9	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.3	19.1
Revenue/Share	8.26	8.51	8.46	8.63	8.98	9.25	9.00	8.85	9.26	10.42
FCF/Share	3.37	2.45	2.95	2.76	3.02	3.31	3.09	3.02	2.73	

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

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