Financial Institutions, Inc. (FISI)

Updated December 1st, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$267.0 M
Fair Value Price:	$16	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/13/2023
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	01/02/2024
Dividend Yield:	7.1%	**5 Year Price Target**	$23	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Financial Institutions is a chartered institution serving New York individuals, municipalities, and businesses. Its offerings include diverse checking and savings accounts, like money market options, certificates of deposit, and individual retirement and NOW accounts. They extend various loans, encompassing term loans, credit lines, commercial loans for capital needs, business expansion, equipment purchase, agricultural and residential mortgages, home equity loans, and consumer loans. The company also delivers personal and commercial insurance solutions, from auto and homeowners to worker's compensation, bonds, and more. Additionally, they offer financial services such as life insurance, annuities, and retirement plans.

On October 26th, 2023, the company announced results for the third quarter of 2023. Financial Institutions reported Q3 non-GAAP EPS of $0.88, beating estimates by $0.05. The company reported revenues of $52.16 million for the quarter, down 6.4% year-over-year. In the third quarter of 2023, FISI reported a mix of positive developments and challenges in its financial performance. The CEO highlighted the company's successful deposit gathering, which grew by 5.6%, driven by contributions from retail, commercial, and Banking-as-a-Service (BaaS) lines. BaaS deposits reached approximately $77 million, reflecting growing momentum with fintech clients. The period also saw the addition of numerous new customers through a marketing campaign, particularly in Upstate New York metros like Buffalo and Rochester.

Total loans grew to $4.43 billion, showing a 0.8% increase from June 30, 2023, and a 14.6% rise from the previous year, indicating strong customer trust and lending expansion. However, net interest income witnessed a downturn, decreasing by 1.6% from the previous quarter to $41.7 million, mainly due to the current rising interest rate environment. Noninterest income also fell to $10.5 million, a decline influenced by the non-recurring nature of certain gains in the previous year. Despite these financial headwinds, FISI maintained robust credit quality metrics, and the company reported low levels of non-performing loans and assets, with respective ratios of 0.21% and 0.16%, as of September 30, 2023, reflecting effective risk management and credit control.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.75	$2.00	$1.90	$2.10	$2.13	$2.39	$2.96	$2.30	$4.78	$3.56	***$3.26***	***$4.57***
DPS	$0.74	$0.77	$0.80	$0.81	$0.85	$0.96	$1.00	$1.04	$1.08	$1.16	***$1.20***	***$1.53***
Shares[1]	13.8	13.9	14.1	14.5	15.1	16.0	16.0	16.1	15.9	15.5	***15.7***	***16.8***

In the third quarter of 2023, FISI demonstrated solid financial growth alongside some challenges. However, we maintain our EPS estimate of $3.26 in 2023, and with a projected growth rate of 7.0% over the next five years, it leads to our estimated EPS of $4.57 by 2028. Moreover, the company has a solid record of paying dividends despite operating in a dynamic macro environment, as Financial Institutions have paid increasing dividends for the past 13 years. We expect the company to maintain its dividend growth and have forecasted a compound annual dividend growth rate of 5.0%, leading to a dividend of $1.53 in 2028.

[1] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.9	11.6	12.9	13.4	14.7	12.8	10.0	8.7	6.3	7.6	***5.2***	***5.0***
Avg. Yld.	6.6%	5.6%	4.9%	4.5%	5.3%	6.3%	5.6%	6.4%	5.6%	7.8%	***7.1%***	***6.7%***

The regional bank trades at a forward P/E of 5.2, considerably lower than the long-term average P/E of 11.0 and the five-year average P/E of 9.1. Even though the high-interest rate environment will benefit the company in the near term, we assign a P/E multiple of 5.0 to the stock, which is a fair reflection of its value. Accordingly, with an expected EPS of $4.57 and P/E of 5.0, our target price for the stock stands at $23 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

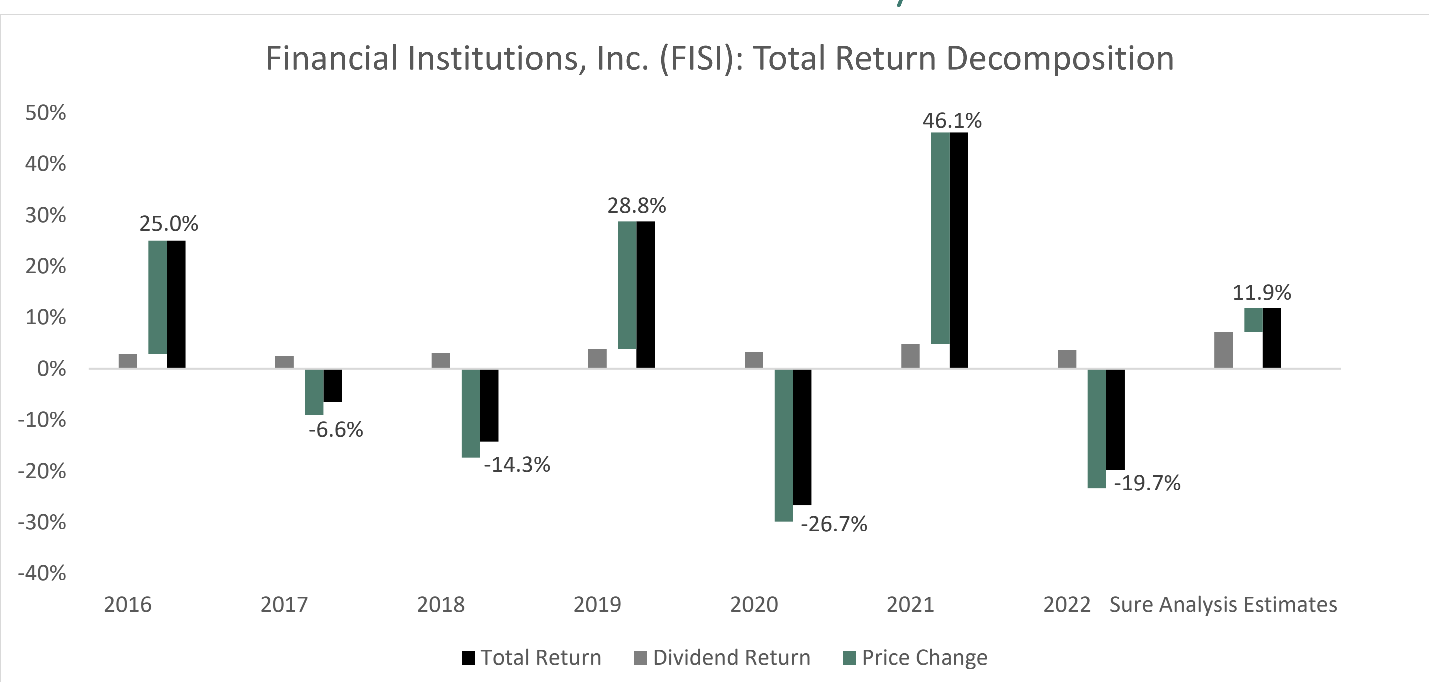
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42%	39%	42%	39%	40%	40%	34%	45%	23%	33%	***37%***	***34%***

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 37.6%, and we expect the company to maintain and increase its payout in the future. In June 2022, the Company's Board of Directors authorized a new share repurchase program, the 2022 Share Repurchase Program, allowing for the buyback of up to 766,447 shares of common stock. As of September 30, 2023, the company had not repurchased any shares under this program, with all 766,447 shares still available.

Final Thoughts & Recommendation

While Financial Institutions runs a regional banking business, we believe that increased benchmark rates will be the positive catalysts for EPS growth. Indeed, Financial Institutions' dividend growth prospects remain strong throughout the long term under multiple economic uncertainties. Hence, the buy rating is premised upon 11.9% annualized expected total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 7.1% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	116	120	125	138	147	158	170	182	200	212
SG&A Exp.	45	46	53	56	60	72	73	66	67	76
D&A Exp.	4	5	5	6	6	6	8	8	8	8
Net Profit	26	29	28	32	34	40	49	38	78	57
Net Margin	22.1%	24.4%	22.6%	23.1%	22.8%	25.0%	28.8%	21.1%	38.9%	26.6%
Free Cash Flow	34	30	36	39	39	62	54	39	64	125
Income Tax	12	10	11	12	10	10	11	7	20	14

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,929	3,090	3,381	3,710	4,105	4,312	4,384	4,912	5,521	5,797
Cash & Equivalents	60	58	60	71	99	103	113	94	79	130
Goodwill & Int.	50	69	67	76	75	76	75	74	74	73
Total Liabilities	2,674	2,810	3,087	3,390	3,724	3,915	3,945	4,444	5,016	5,392
Long-Term Debt	298	295	332	371	485	509	315	79	104	279
Total Equity	237	262	277	303	364	379	422	451	488	388
D/E Ratio	1.17	1.06	1.13	1.16	1.27	1.28	0.72	0.17	0.21	0.69

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%	0.9%	1.1%	0.8%	1.5%	1.0%
Return on Equity	10.8%	11.7%	10.5%	11.0%	10.1%	10.6%	12.2%	8.8%	16.6%	12.9%
ROIC	5.4%	5.2%	4.7%	4.9%	4.3%	4.5%	5.9%	5.9%	13.4%	8.7%
Shares Out.	13.8	13.9	14.1	14.5	15.1	16.0	16.0	16.1	15.9	15.5
Revenue/Share	8.38	8.63	8.85	9.53	9.76	9.91	10.60	11.33	12.52	13.73
FCF/Share	2.45	2.14	2.52	2.70	2.55	3.90	3.37	2.44	3.99	8.09

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