



# TrustCo Bank Corp NY (TRST)

Updated January 26<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	4.9%	<b>Market Cap:</b>	\$569 M
<b>Fair Value Price:</b>	\$25	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/02/2024
<b>% Fair Value:</b>	119%	<b>5 Year Valuation Multiple Estimate:</b>	-3.3%	<b>Dividend Payment Date<sup>2</sup>:</b>	04/03/2024
<b>Dividend Yield:</b>	4.8%	<b>5 Year Price Target</b>	\$31	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 140 banking offices across the USA. TrustCo trades on the NYSE under the ticker symbol TRST and has a market capitalization of \$569 million. The bank has \$6.2 billion in savings and loans assets.

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

TrustCo reported fourth quarter results on January 22<sup>nd</sup>, 2024. Net income of \$9.8 million for the fourth quarter was a 53% decrease compared to fourth quarter 2022 net income of \$20.9 million. Diluted earnings per share of \$0.52 also declined by 53% compared to \$1.10 earned in the same prior year period.

Average loans grew 6.6% year-over-year or by \$310 million. Average residential loans grew 4.6%, or by \$192 million. Average residential loans remain TrustCo's primary lending focus. Return on average assets and return on average equity were 0.64% and 6.21%, compared to 1.38% and 13.91% in the fourth quarter of 2022. The number of full-time equivalent employees remained flat compared to the prior year, at 750.

Book value per share at year-end equaled \$33.92, which represents a 7.5% increase compared to \$31.54 a year ago.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.35	\$2.20	\$2.25	\$2.25	\$3.20	\$3.00	\$2.72	\$3.19	\$3.93	\$3.08	<b>\$2.54</b>	<b>\$3.09</b>
<b>DPS</b>	\$1.30	\$1.30	\$1.30	\$1.30	\$1.36	\$1.36	\$1.36	\$1.37	\$1.41	\$1.44	<b>\$1.44</b>	<b>\$1.51</b>
<b>Shares<sup>3</sup></b>	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.3	19.1	19.0	<b>19.0</b>	<b>18.5</b>

TRST has produced a consistent stream of growth over the last decade, despite the earnings choppiness caused by the COVID-19 pandemic and the interest rate escalation by the Fed. In the past nine and five years, the company has compounded earnings per share by 4.3% and -0.8% on average, respectively. We estimate, going forward, that TrustCo can continue growing earnings-per-share at around 4.0% per year on average, in-line with its long-term average. TrustCo will achieve this growth primarily through boosting their loan portfolio, namely the residential mortgage loan portfolio which make up the bulk of its 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.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.6	14.7	14.8	18.5	13.3	13.4	11.6	12.1	9.8	7.9	11.9	10.0
Avg. Yld.	3.9%	4.0%	3.9%	3.2%	3.2%	3.4%	4.4%	3.8%	4.0%	4.7%	4.8%	4.9%

Over the last nine and five years, TRST has traded at an average PE of 13.1 and 11.0, respectively. Given the current banking environment, we peg fair value for TRST at 10.0 times earnings. We estimate an annual decline of 3.3% compounded over the next five years as the valuation multiple contracts. 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

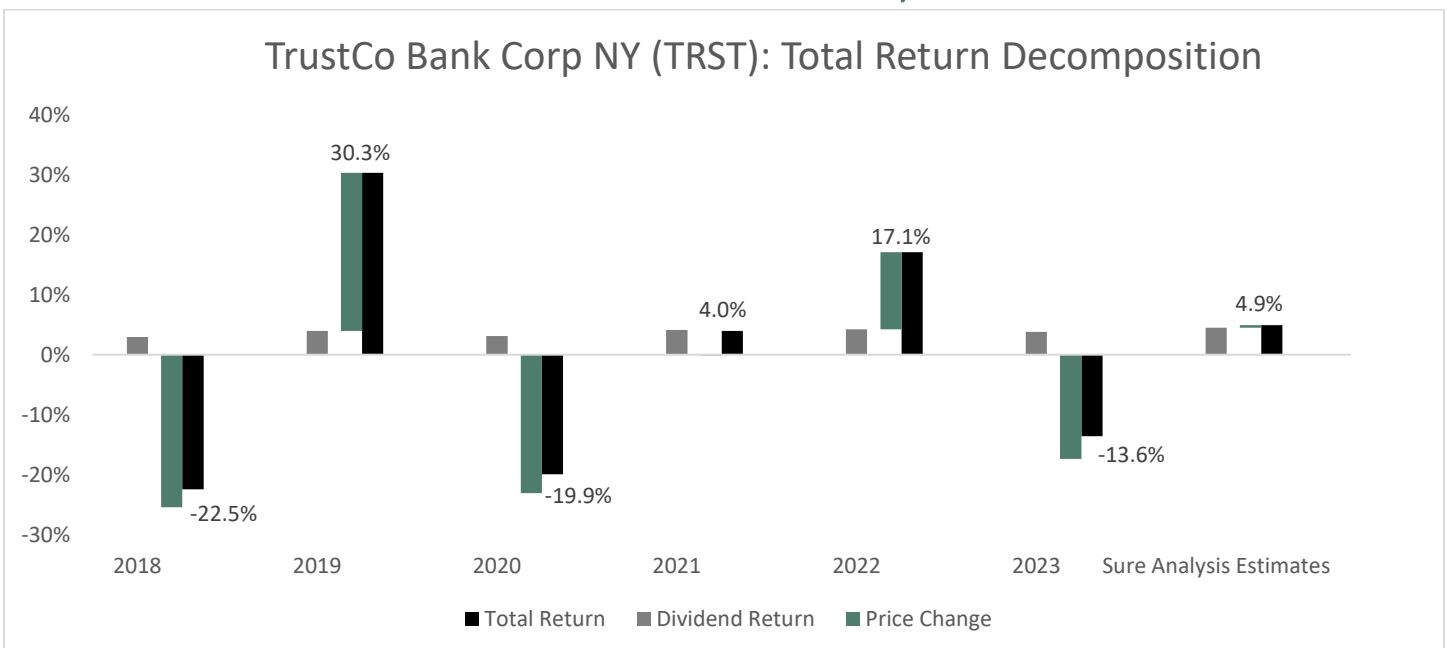
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	55%	59%	58%	58%	43%	45%	50%	43%	36%	46%	57%	49%

Today TrustCo's payout ratio of around 57% 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 4.9% annually over the next five years, as it will benefit from earnings growth, and the strong dividend yield, offset by valuation contraction. We see earnings growth of roughly 4.0%, and the dividend is yielding 5.7%, offset by -3.3% valuation contraction. The company is trading at a 19% premium to our fair value estimate. We are downgrading TrustCo to a hold rating as shares have risen 20% since our last research report, in October, when we rated the stock a buy, and the valuation is no longer attractive. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	161	161	165	173	179	174	171	178	199	190
<b>SG&amp;A Exp.</b>	45	47	51	54	55	59	58	62	51	57
<b>D&amp;A Exp.</b>	5	5	4	4	4	10	10	11		
<b>Net Profit</b>	44	42	43	43	61	58	52	62	75	59
<b>Net Margin</b>	27.4%	26.2%	25.8%	25.0%	34.4%	33.2%	30.7%	34.5%	37.7%	31.1%
<b>Free Cash Flow</b>	46	56	53	58	64	60	58	53		
<b>Income Tax</b>	27	25	26	34	18	19	17	21	24	19

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,644	4,735	4,869	4,908	4,959	5,221	5,902	6,197	6,000	6,168
<b>Cash &amp; Equivalents</b>	44	42	49	44	49	48	47	48	43	49
<b>Total Liab.</b>	4,251	4,322	4,436	4,450	4,469	4,683	5,334	5,595	5,400	5,523
<b>Long-Term Debt</b>	189	191	209	243	162	149	215	245	123	89
<b>Total Equity</b>	393	413	433	458	490	538	568	601	600	645
<b>LTD/E Ratio</b>	0.48	0.46	0.48	0.53	0.33	0.28	0.38	0.41	0.20	0.14

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	1.0%	0.9%	0.9%	0.9%	1.2%	1.1%	0.9%	1.0%	1.2%	1.0%
<b>Return on Equity</b>	11.7%	10.5%	10.1%	9.7%	13.0%	11.3%	9.5%	10.5%	12.5%	9.4%
<b>ROIC</b>	7.7%	7.1%	6.8%	6.4%	9.1%	8.6%	7.1%	7.6%	9.6%	8.1%
<b>Shares Out.</b>	19.0	19.1	19.2	19.3	19.3	19.4	19.3	19.3	19.1	19.0
<b>Revenue/Share</b>	8.51	8.46	8.63	8.98	9.25	9.00	8.85	9.26	10.42	10.00
<b>FCF/Share</b>	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.

### Disclaimer

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