Financial Institutions, Inc. (FISI)

Updated February 23rd, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$298.2 M
Fair Value Price:	$14	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/14/2024
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	04/02/2024
Dividend Yield:	6.3%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Financial Institutions, Inc. (FISI) 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 January 25th, January 2024, the company announced results for the fourth quarter of 2023. Financial Institutions reported non-GAAP EPS of $0.61, missing estimates by $0.10. The company reported revenues of $55.3 million for the quarter, up 2.3% year-over-year. Financial Institutions posted Q4 2023 net income amounting to $9.8 million, lower than the $14.0 million during Q3 and $12.1 million last year, with a diluted EPS at $0.61. Full-year net income was pegged at $50.3 million, lower than the previous year's $56.6 million, equating to a yearly EPS of $3.15. The company saw an increase in deposits by 5.8% year-over-year, amounting to $5.21 billion, while the loan portfolio grew by 10.2% to $4.46 billion. Net interest income fell to $39.9 million for Q4 as strategic repositioning in investment securities led to an after-tax $2.8 million loss but is expected to increase annual interest income.

Additionally, the quarter's noninterest income was $15.4 million, driven notably by company-owned life insurance revenue. Noninterest expenses were $35.0 million for the quarter. Amid the industry pressures, FISI continued to point out its sturdy loan growth and credit quality as part of strategic changes, including organizational restructuring and leadership that would yield reduced annual noninterest expenses by around $6 million in addition to over $1.3 billion to improve company growth by 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.00	$1.90	$2.10	$2.13	$2.39	$2.96	$2.30	$4.78	$3.56	$3.15	***$2.79***	***$3.91***
DPS	$0.77	$0.80	$0.81	$0.85	$0.96	$1.00	$1.04	$1.08	$1.16	$1.20	***$1.20***	***$1.53***
Shares[1]	13.9	14.1	14.5	15.1	16.0	16.0	16.1	15.9	15.5	15.5	***15.7***	***16.7***

Despite these challenges, the company showcased growth in deposits and loans and took significant steps toward organizational restructuring and expense management for future success. Thus, we revised downwards our EPS estimate to $2.79 in 2024, with a projected growth rate of 7.0% over the next five years, leading to our estimated EPS of $3.91 by 2029. 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 2029. We do note that the company has distributed the same dividend amount for five consecutive quarters.

[1] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	11.6	12.9	13.4	14.7	12.8	10.0	8.7	6.3	7.6	5.9	***6.8***	***5.0***
Avg. Yld.	3.3%	3.3%	2.9%	2.7%	3.1%	3.4%	5.2%	3.6%	4.3%	6.5%	***6.3%***	***7.8%***

The regional bank trades at a forward P/E of 6.8, considerably lower than the long-term average P/E of around 10.0 and the five-year average P/E of 7.7. 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 we believe is a fair reflection of its value. Accordingly, with an expected EPS of $3.91 in 2029 and P/E of 5.0, our target price for the stock stands at $20.

Safety, Quality, Competitive Advantage, & Recession Resiliency

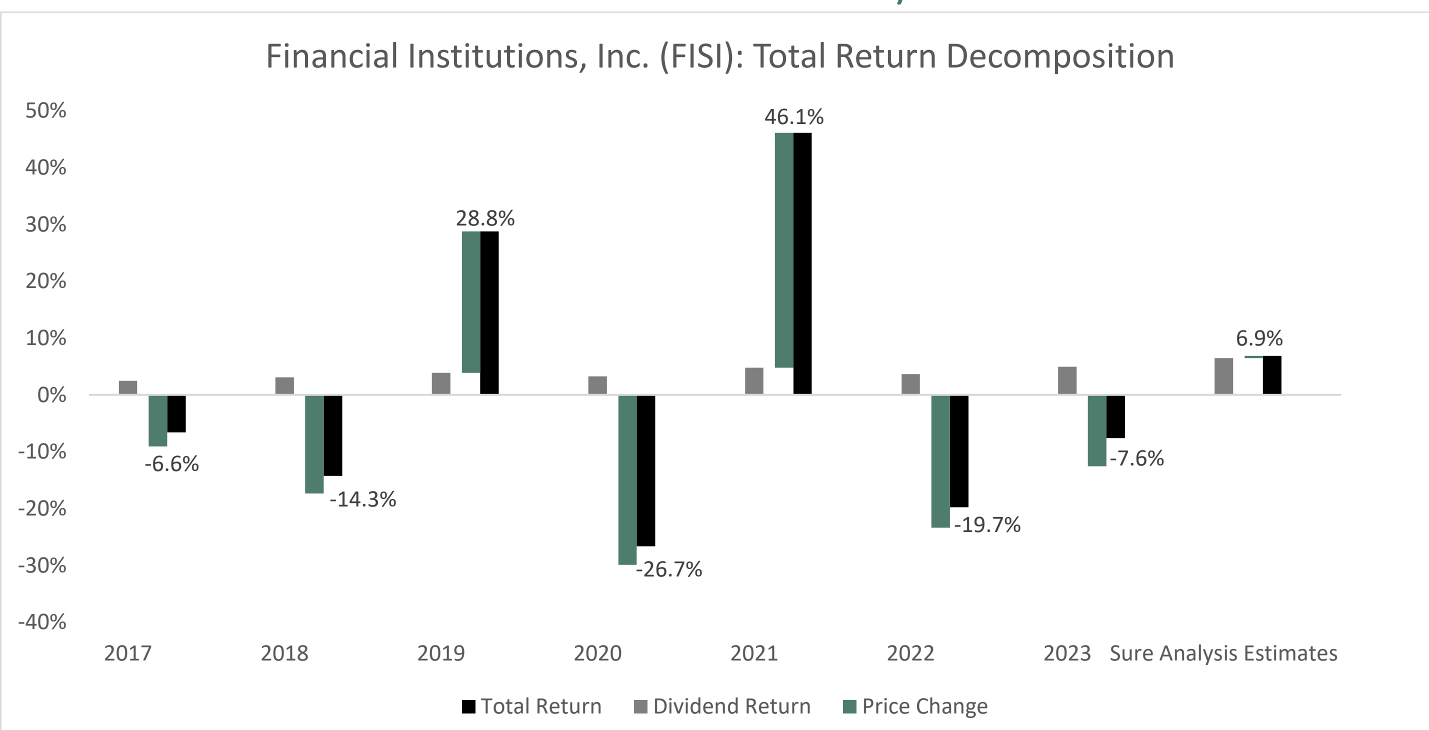
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39%	42%	39%	40%	40%	34%	45%	23%	33%	38%	***43%***	***39%***

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 37.2%, 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, which has not yet been utilized.

Final Thoughts & Recommendation

Financial Institutions' dividend growth prospects remain strong throughout the long-term under multiple economic uncertainties. However, in-light of a likely lower interest rate environment combined with the slower earnings forecast, we revised our rating to hold, premised upon 6.9% annualized expected total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 6.3% 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.