Financial Institutions, Inc. (FISI)

Updated May 28th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$282.48 M
Fair Value Price:	$16	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	06/14/2024
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	07/02/2024
Dividend Yield:	6.7%	**5 Year Price Target**	$22	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

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 April 26th, January 2024, the company announced results for the first quarter of 2024. Financial Institutions reported non-GAAP EPS of $0.11, missing estimates by $0.05. The company reported revenues of $50.98 million for the quarter, which was down 3.3% year-over-year.

The company saw a huge decline in net income as it fell to $2.1 million from last year's $12.1 million. A large fraud event brought with it a pre-tax loss of $18.4 million and approximately $660,000 in legal and consulting fees associated with the matter. Net deposits improved to $5.40 billion, and loans grew to $4.44 billion, up 5% and 4.7%, respectively. NII came in at $40.1 million, a bit better sequentially but down relative to the prior year by $1.7 million. Noninterest income was about flat with the prior year figure at $10.9 million but down 29.1% from the prior quarter level. Non-interest expenses shot up 60.5% to $54.0 million due to fraud costs. The company was, therefore, able to maintain robust credit quality despite net charge-offs to average loans pegged at 0.28% and non-performing assets reached 0.43%. The management still stands firm on the strategic initiatives to better equity and liquidity in line with long-term value generation, recovery, and preventive strategies for fraud.

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	***$3.19***	***$4.47***
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 challenges, the company showcased growth in deposits and loans and took significant steps toward organizational restructuring and expense management for future success. However, we have revised downwards our EPS estimate to $3.19 in 2024, matching the midpoint of analysts' estimates. We have a projected annual growth rate of 7.0% over the next five years, leading to our estimated EPS of $4.47 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.

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	11.6	12.9	13.4	14.7	12.8	10.0	8.7	6.3	7.6	5.9	***5.7***	***5.0***
Avg. Yld.	3.3%	3.3%	2.9%	2.7%	3.1%	3.4%	5.2%	3.6%	4.3%	6.5%	***6.7%***	***6.9%***

The regional bank trades at a forward P/E of 5.7, 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 has benefited 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 $4.47 in 2029 and P/E of 5.0, our target price for the stock stands at $22.

Safety, Quality, Competitive Advantage, & Recession Resiliency

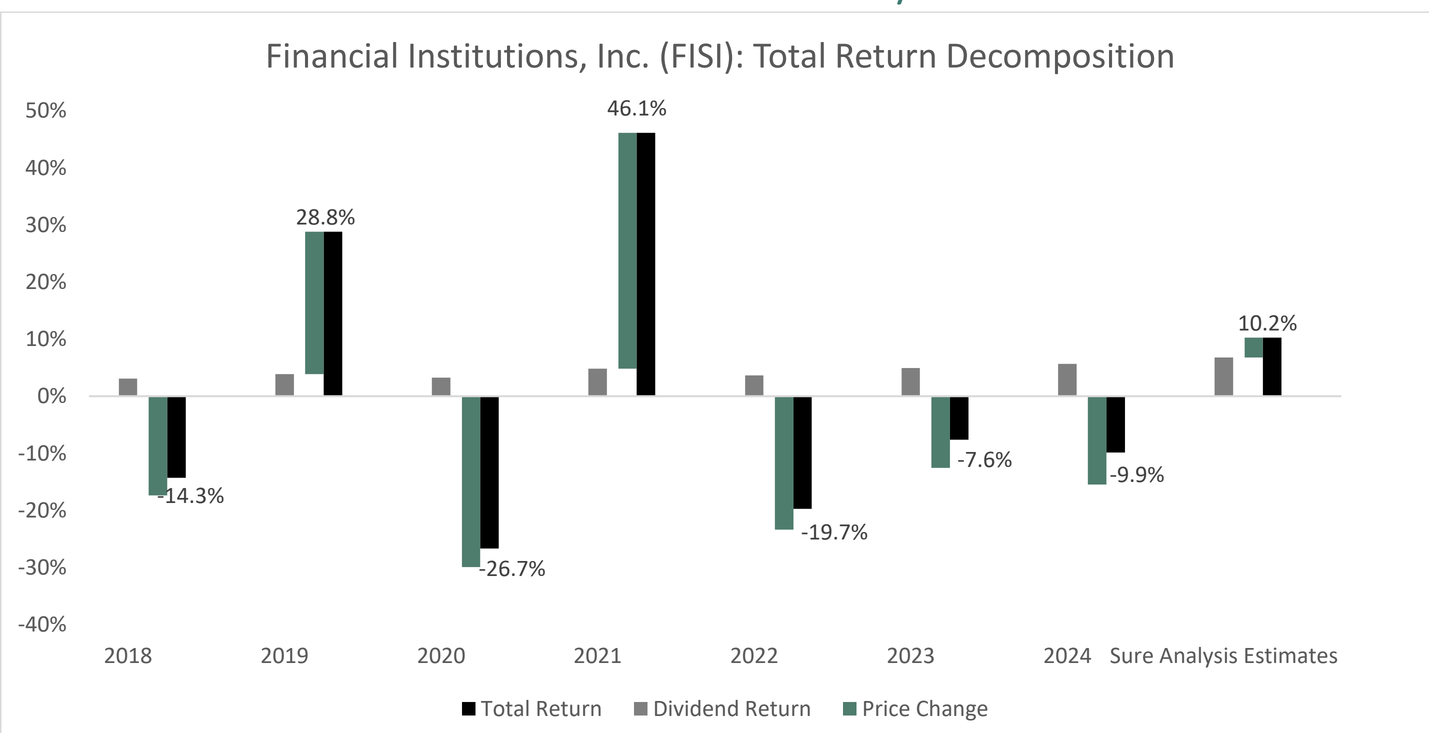
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39%	42%	39%	40%	40%	34%	45%	23%	33%	38%	***38%***	***34%***

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. The last buyback program was announced 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 have 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 buy, premised upon 10.2% annualized expected total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 6.7% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	120	125	138	147	158	170	182	200	212	212
SG&A Exp.	46	53	56	60	72	73	66	67	76	81
D&A Exp.	5	5	6	6	6	8	8	8	8	8
Net Profit	29	28	32	34	40	49	38	78	57	50
Net Margin	24.4%	22.6%	23.1%	22.8%	25.0%	28.8%	21.1%	38.9%	26.6%	23.6%
Free Cash Flow	30	36	39	39	62	54	39	64	125	8
Income Tax	10	11	12	10	10	11	7	20	14	13

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,090	3,381	3,710	4,105	4,312	4,384	4,912	5,521	5,797	6,161
Cash & Equivalents	58	60	71	99	103	113	94	79	130	124
Goodwill & Int.	69	67	76	75	76	75	74	74	73	73
Total Liabilities	2,810	3,087	3,390	3,724	3,915	3,945	4,444	5,016	5,392	5,706
Long-Term Debt	295	332	371	485	509	315	79	104	279	310
Total Equity	262	277	303	364	379	422	451	488	388	438
D/E Ratio	1.06	1.13	1.16	1.27	1.28	0.72	0.17	0.21	0.69	0.68

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	0.9%	0.9%	0.9%	0.9%	1.1%	0.8%	1.5%	1.0%	0.8%
Return on Equity	11.7%	10.5%	11.0%	10.1%	10.6%	12.2%	8.8%	16.6%	12.9%	11.7%
ROIC	5.2%	4.7%	4.9%	4.3%	4.5%	5.9%	5.9%	13.4%	8.7%	6.9%
Shares Out.	13.9	14.1	14.5	15.1	16.0	16.0	16.1	15.9	15.5	15.5
Revenue/Share	8.63	8.85	9.53	9.76	9.91	10.60	11.33	12.52	13.73	13.71
FCF/Share	2.14	2.52	2.70	2.55	3.90	3.37	2.44	3.99	8.09	0.51

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