Tompkins Financial Corporation (TMP)

Updated August 2nd, 2024, by Josh Arnold

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$866 M
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/09/24
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	08/16/24
Dividend Yield:	4.1%	**5 Year Price Target**	$63	**Years Of Dividend Growth:**	37
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

Tompkins Financial is a regional financial services holding company headquartered in Ithaca, NY that can trace its roots back more than 180 years. It trades with a market capitalization of $866 million and has total assets of about $8 billion, which produce about $300 million in annual revenue. The company offers a wide range of services, including checking and deposit accounts, time deposits, loans, credit cards, insurance services, and wealth management to its customers in New York and Pennsylvania.

Tompkins posted second quarter earnings on July 26th, 2024, and results were somewhat weak once again. Net interest margin fell from 2.83% to just 2.73% year-over-year, one of the weakest NIMs in our coverage universe. Total cost of funds was up 10 basis points compared to the first quarter, a sharp change from the 24-basis point gain in Q1.

Total operating expenses were $49.9 million, down $2 million year-over-year.

Total loans were $121 million higher, or 8.7% on an annualized basis, from Q1. Total deposits were $6.3 billion, down $164 million from last year. That has pushed the bank's loan-to-deposit ratio from 87.5% to 91.7%, which is extremely high, and we note investors may use caution with a bank with such a high mark.

We see $4.50 in earnings-per-share for this year after Q2 results, noting that Tompkins continues to post weak results, and that this year's forecasted earnings are roughly in line with that of seven years ago.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.48	$3.87	$3.91	$4.42	$5.33	$5.37	$5.20	$6.25	$5.89	$4.29	***$4.50***	***$5.74***
DPS	$1.62	$1.70	$1.77	$1.82	$1.94	$2.02	$2.10	$2.19	$2.31	$2.40	***$2.44***	***$2.69***
Shares[1]	14.8	14.9	15.1	15.3	15.3	15.0	14.9	14.6	14.4	14.2	***14.1***	***13.8***

As 2018 earnings greatly benefited from the one-time effect of tax reform, it is prudent to focus on historical growth before that point. Excluding the non-recurring write-off of 2017, Tompkins Financial grew its earnings-per-share at a 6.4% average annual rate during 2008-2017 and a 6.5% rate during 2012-2017. However, we are much more cautious on Tompkins' ability to grow in the near-term given the interest rate environment, and other factors, including what we view as unsustainably high earnings for 2021. Earnings in 2021 were boosted by credit loss recoveries that will not reoccur, and 2023 earnings were quite weak. In conjunction with this, we're estimating 5% growth going forward as 2024's base of earnings is quite low.

Given the state of the yield curve, we don't see a lot of additional deterioration in margins, but it may take some time before Tompkins sees any material improvement in its lending spreads. Participation in the PPP temporarily produced net interest margin deterioration, making this even tougher, although the loan book grew as a result. Given this, the outlook for revenue and margins is somewhat unfavorable. The bank's share repurchase program should help, but only with fractional declines in the float annually. Extremely high loan-to-deposit ratios are yet another headwind.

---

[1] Share count 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.

Tompkins Financial Corporation (TMP)

Updated August 2nd, 2024, by Josh Arnold

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.7	14.0	17.7	24.2	15.3	15.1	13.2	12.8	13.2	14.0	***13.1***	***11.0***
Avg. Yld.	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	2.7%	3.0%	4.0%	***4.1%***	***4.3%***

Tompkins Financial is currently trading at a price-to-earnings ratio of 13.1, which is well ahead of where we see fair value at 11 times earnings. With shares trading at 119% of our estimate of fair value, Tompkins' value proposition is much worse than our prior update. The yield is 4.1% now, and we see it potentially rising to 4.3% over time as the share price should move higher more quickly than the dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47%	44%	45%	53%	36%	38%	40%	35%	39%	56%	***54%***	***47%***

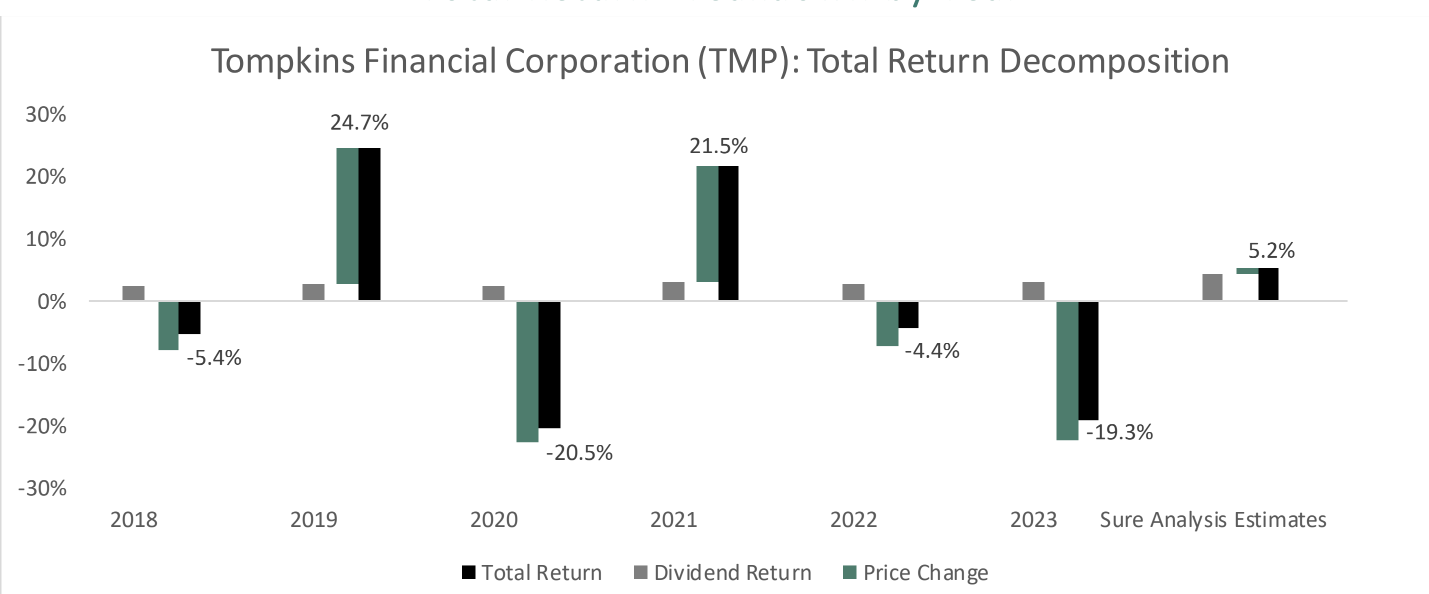
Tompkins Financial has raised its dividend for 37 consecutive years, and we don't see this streak in jeopardy by any means. Due to its modest payout ratio, it has ample room to keep growing its dividend, even with weak earnings growth. We do note that the payout ratio continues to rise given negative earnings growth in recent years, which is something for investors to keep an eye on going forward.

The company also exhibited remarkable resilience in the Great Recession. In the worst financial crisis of the last 90 years, when most banks incurred losses or saw their earnings collapse, Tompkins Financial grew its earnings-per-share 17%, from $2.53 in 2008 to $2.96 in 2009. The defensive behavior of Tompkins Financial during economic downturns is particularly important. Tompkins' competitive advantage, if it has one, is its focus on targeted local markets in the Northeast U.S. The local bank feel is something consumers in small communities gravitate towards, which benefits Tompkins. Tompkins performed well in 2020, but credit quality did deteriorate some during the year, unsurprisingly.

Final Thoughts & Recommendation

We have concerns about Tompkins' ability to grow longer-term. The valuation is now well ahead of fair value, and the yield is 4.1%. With 5% earnings growth forecast, we see 5.2% total returns ahead. With total prospective returns lower from our last update, we reiterate the stock at a hold.

Total Return Breakdown by Year



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.

Tompkins Financial Corporation (TMP)

Updated August 2nd, 2024, by Josh Arnold

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	232	238	247	267	283	283	296	303	308	220
SG&A Exp.	105	103	112	119	126	129	136	120	123	125
D&A Exp.	8	8	9	10	11	12	12	12	12	12
Net Profit	52	58	59	52	82	82	78	89	85	10
Net Margin	22.4%	24.6%	24.0%	19.7%	29.1%	28.9%	26.2%	29.5%	27.6%	4.3%
Free Cash Flow	69	76	75	51	89	96	97	116	95	82
Income Tax	25	29	27	43	22	21	20	25	25	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,270	5,690	6,237	6,648	6,758	6,726	7,622	7,820	7,671	7,820
Cash & Equivalents	56	58	64	84	80	138	388	63	78	80
Accounts Receivable	86	82	84	83	82	101	110	116	181	---
Goodwill & Int. Ass.	107	104	104	102	100	99	97	96	95	95
Total Liabilities	4,780	5,174	5,687	6,072	6,138	6,063	6,904	7,091	7,053	7,150
Long-Term Debt	394	574	922	1,088	1,093	675	278	124	291	602
Shareholder's Equity	488	515	548	575	619	662	716	728	616	669
LTD/E Ratio	0.81	1.11	1.68	1.89	1.76	1.02	0.39	0.17	0.47	0.90

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.1%	1.0%	0.8%	1.2%	1.2%	1.1%	1.2%	1.1%	0.1%
Return on Equity	11.0%	11.6%	11.2%	9.4%	13.8%	12.8%	11.3%	12.4%	12.7%	1.5%
ROIC	6.1%	5.9%	4.6%	3.3%	4.9%	5.4%	6.6%	9.7%	9.7%	0.9%
Shares Out.	14.8	14.9	15.1	15.3	15.3	15.0	14.9	14.6	14.4	14.3
Revenue/Share	15.68	15.99	16.53	17.72	18.70	18.88	20.07	20.66	21.4	15.4
FCF/Share	4.64	5.14	4.99	3.37	5.89	6.38	6.57	7.95	6.61	5.75

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