Eastern Bankshares, Inc. (EBC)

Updated October 29th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$16.81	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$2.7 B
Fair Value Price:	$15.00	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/03/24
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	12/16/24
Dividend Yield:	2.9%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	25
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Eastern Bankshares Inc. provides commercial banking products and services primarily to retail, commercial and small business customers. It provides banking, trust, and investment services, as well as insurance services, through its full-service bank branches and insurance offices. Eastern Bankshares Inc. is based in Boston, Massachusetts. Eastern Bank made a major move to expand its private banking with a $528 million acquisition of Cambridge Trust (CATC), which was completed in July 2024. Simultaneously, the bank sold its insurance business for $510 million to brokerage giant Arthur J. Gallagher & Co. in 2023. As of September 30th, 2024, Eastern Bankshares had total consolidated assets of $25.5 billion, total gross loans of $18.1 billion, and total deposits of $21.2 billion. The company was founded in 1818 and has 1744 employees.

On October 24th, 2024, Eastern Bankshares announced its third-quarter results for the period ending September 30th, 2024. For the quarter, the company reported a net loss of $6.2 million, which contrasts sharply with net income of $26.3 million for the second quarter of 2024. Reported earnings per diluted share for the same periods were $(0.03) and $0.16, respectively, marking a significant change. Despite these declines, operating net income was slightly more robust at $49.7 million, an increase of 36% from $36.5 million in the previous quarter. Net interest income, before the provision for credit losses, increased by $41.2 million, or 32%, to $169.9 million for the third quarter, up from $128.6 million for the second quarter of 2024. This was primarily due to the favorable impact of the Cambridge merger, which enhanced the net interest margin, partially offset by continued high funding costs. The adjusted net interest margin increased by 33 basis points to 2.97%, compared to 2.64% in the second quarter of 2024.

A significant development during the previous quarter was the completion of the merger with Cambridge Bancorp (CATC) on July 12, 2024. This merger added over $25.5 billion in total assets and $8.4 billion in Wealth Management Assets Under Management and Administration. The integration of CATC's assets and operations is expected to enhance Eastern Bankshares' market position and provide substantial growth opportunities. Total deposits increased by $3.7 billion, or 21%, to $21.2 billion at quarter-end, largely reflecting the merger's contribution. This addition solidified Eastern Bankshares' position as the largest independent bank headquartered in Boston. Asset quality ratios weakened, with non-performing loans to total loans increasing from 0.28% to 0.70%, primarily due to the acquired credit deteriorated loans. The merger is also anticipated to result in EPS accretion exceeding 20%, with a net interest margin expected to exceed 3.0%, contributing positively to future financial performance.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	--	--	--	--	--	--	$0.13	$0.90	$1.21	$1.43	***$1.00***	***$1.28***
DPS	--	--	--	--	--	--	$0.00	$0.30	$0.40	$0.41	***$0.48***	***$0.64***
Shares[1]	--	--	--	--	--	--	172	172	166	162	***200***	***195***

We have elected to use CATC's historical information through 2023 for average earnings growth and valuation averages. Based on CATC's historical information, the company has grown earnings by 1.5% per year over the past decade and

[1] 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.

decreased by 4.1% over the past five years. We expect earnings to increase by 5% per year for the next five years. Eastern Bankshares has been able to increase its dividend for 25 consecutive years, including its predecessor banks' streaks. Over the last years, the average annual dividend growth rate is 8.0%. In October 2024, the company increased its quarterly dividend by 9.1% from $0.11 to $0.12 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	--	--	--	--	--	--	--	35.0	46.9	17.0	***16.8***	***15.0***
Avg. Yld.	--	--	--	--	--	--	--	1.5%	2.3%	2.9%	***2.9%***	***3.4%***

As a reference, during the past decade shares of Cambridge Bancorp have traded with an average price-to-earnings ratio of about 13 and today, the merger combination company PE-ratio stands at 16.8. We are using 15 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 2.9% which is below the historical average yield of Cambridge Bancorp over the past decade of 3.2% and above the five-year average of 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	--	--	--	--	--	--	--	33%	33%	29%	***48%***	***50%***

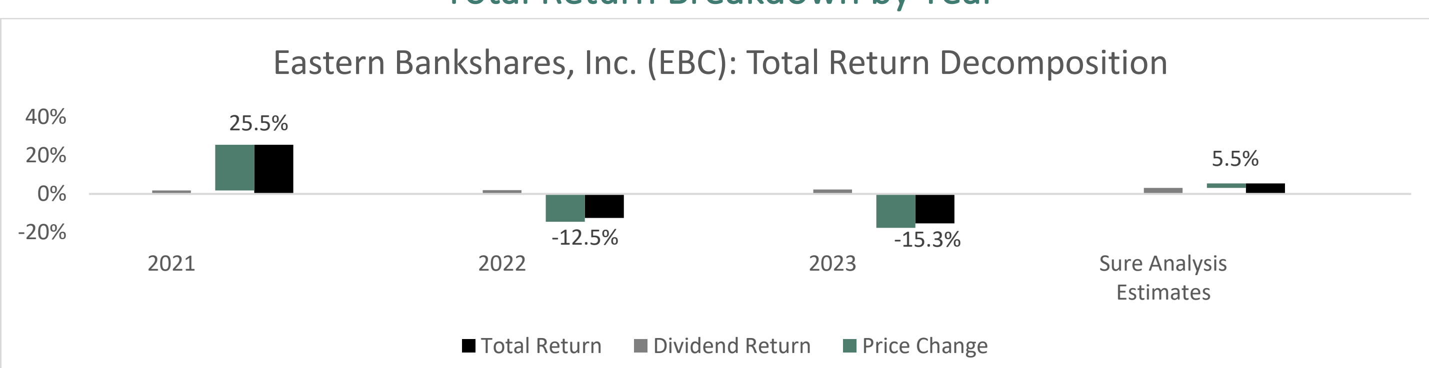
During the past five years, the company's dividend payout ratio has averaged around 40%. Eastern Bankshares dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the 50% levels.

Eastern Bankshares is strategically positioned as a dominant player in the New England banking market, particularly following its merger with Cambridge Bancorp.This combination has solidified EBC's status as the largest independent bank headquartered in Boston, with significant scale advantages. This positions EBC as the largest bank-owned independent investment advisor in Massachusetts, giving it a competitive edge in attracting both retail and commercial clients. The integration of Cambridge Bancorp introduces complexity and potential risks, particularly in managing the combined entity's commercial real estate portfolio, which includes office loans—a sector currently under pressure due to shifts in work patterns and higher interest rates. EBC's capital position remains strong, with a CET1 ratio of 18.6%, the ongoing economic uncertainties and competitive pressures in the deposit market could challenge its ability to maintain this advantage.

Final Thoughts & Recommendation

Eastern Bankshares is a well-established financial institution with deep roots in New England, particularly in Massachusetts. The bank has a robust earnings history and a reputation for prudent management, which has allowed it to maintain a solid dividend yield of 2.9%. We estimate total return potential of 5.5% per year for the next five years based on a 5% earnings-per-share growth, the dividend yield, and a valuation headwind. The shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue					567	589	570	518	638	308
SG&A Exp.					255	264	274	240	249	283
D&A Exp.					20	19	28	23	23	24
Net Profit					123	135	23	155	200	232
Net Margin					21.7%	22.9%	4.0%	29.8%	31.3%	75.3%
Free Cash Flow					196	189	65	169	221	254
Income Tax					35	39	13	30	52	(63)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets					11,378	11,629	15,964	23,512	22,647	21,133
Cash & Equivalents					260	363	2,054	1,232	170	693
Goodwill & Int.					381	378	377	650	568	566
Total Liabilities					9,945	10,029	12,536	20,106	20,175	18,158
Long-Term Debt					166	34	28	34	741	48
Total Equity					1,433	1,600	3,428	3,406	2,472	2,975
LTD/E Ratio					0.12	0.02	0.01	0.01	0.30	0.02

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets						1.2%	0.2%	0.8%	0.9%	1.1%
Return on Equity						8.9%	0.9%	4.5%	6.8%	8.5%
ROIC						8.4%	0.9%	4.5%	6.0%	7.4%
Shares Out.							172	172	166	162
Revenue/Share					2.70	2.80	3.32	3.01	3.85	1.90
FCF/Share					0.93	0.90	0.38	0.98	1.34	1.56

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