



Peoples Financial Services (PFIS)

Updated November 8th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	7.1%	Market Cap:	\$547 M
Fair Value Price:	\$43	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	11/29/24
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	12/13/24
Dividend Yield:	4.9%	5 Year Price Target	\$57	Years Of Dividend Growth:	8
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Peoples Financial Services (PFIS) is the holding company of Peoples Security Bank and Trust Company, a community bank that was founded in 1905 and is headquartered in Scranton, Pennsylvania. It operates 44 branches in Pennsylvania and provides various banking products and services to consumers, municipalities and businesses. Peoples Financial Services has a market capitalization of \$547 million.

On July 1st, 2024, Peoples Financial Services completed its acquisition of FNCB Bancorp in an all-stock deal. As per the terms of the deal, the shareholders of FNCB now own ~29% of the combined entity. Thanks to the merger, the bank grew its total assets from \$3.7 billion to \$5.5 billion and thus it became the 5th largest community bank in Pennsylvania. It also raised its dividend by 51% and thus it is now offering a nearly 10-year high dividend yield of 4.9%. In addition, management expects the acquisition to boost earnings-per-share by ~59% next year.

In early November, Peoples Financial Services reported (11/5/24) financial results for the third quarter of fiscal 2024. Loans and deposits grew 43% and 41%, respectively, vs. the beginning of the year, thanks to the acquisition of FNCB Bancorp. Net interest margin expanded impressively, from 2.44% in the prior year's quarter to 3.26% thanks to the much higher net interest margin of the acquired bank. As a result, net interest income jumped 86% and earnings-per-share surged 56%, from \$1.05 to \$1.64, exceeding the analysts' consensus by a massive \$0.48. Before the recent acquisition of FNCB Bancorp, Peoples Financial Services had one of the narrowest net interest margins in the financial sector, thus revealing the existence of strong competitive forces. However, the bank has greatly improved its net interest margin after the takeover. Moreover, as the Fed has just begun reducing interest rates, the net interest margin of the bank is likely to improve further. We view the recent merger positively, given the expected growth.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.34	\$2.36	\$2.65	\$2.50	\$3.37	\$3.47	\$4.00	\$6.02	\$5.28	\$4.03	\$3.40	\$4.55
DPS	\$1.24	\$1.24	\$1.24	\$1.26	\$1.31	\$1.37	\$1.44	\$1.50	\$1.58	\$1.64	\$2.47	\$2.72
Shares²	7.6	7.5	7.4	7.4	7.4	7.4	7.3	7.2	7.2	7.1	10.0	10.0

Peoples Financial Services has more than doubled its loans and its deposits over the last decade. The bank has grown its earnings-per-share by 6.2% per year on average during this period. Going forward, we expect the bank to keep growing its earnings-per-share at a similar pace, primarily thanks to the recent acquisition of FNCB Bancorp, which is major for the bank given the size of the deal (43% of the market cap of the bank before the merger). In addition, the Fed has provided guidance for a reduction of interest rates from 4.50%-4.75% to 2.75%-3.0% in 2026. As a result, while Peoples Financial Services has been hurt by high deposit costs amid high interest rates in the last two years, it is likely to enjoy an expansion of its net interest margin in the upcoming years. Overall, we expect 6.0% average annual growth of earnings-per-share over the next five years, in line with the historical average of the company.

¹ Estimated date.

² 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	19.9	16.9	14.8	17.6	13.4	13.1	9.6	7.4	9.7	11.0	14.7	12.6
Avg. Yld.	2.7%	3.1%	3.2%	2.9%	2.9%	3.0%	3.7%	3.4%	3.1%	3.7%	4.9%	4.7%

Peoples Financial Services has traded at an average price-to-earnings ratio of 12.6 over the last nine years. We assume this valuation level as fair for this stock. The stock is currently trading at a price-to-earnings ratio of 14.7, which is higher than the historical average of the bank. If the stock trades at its average valuation level in five years, it will incur a -3.0% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	53%	53%	47%	50%	39%	39%	36%	25%	30%	41%	73%	60%

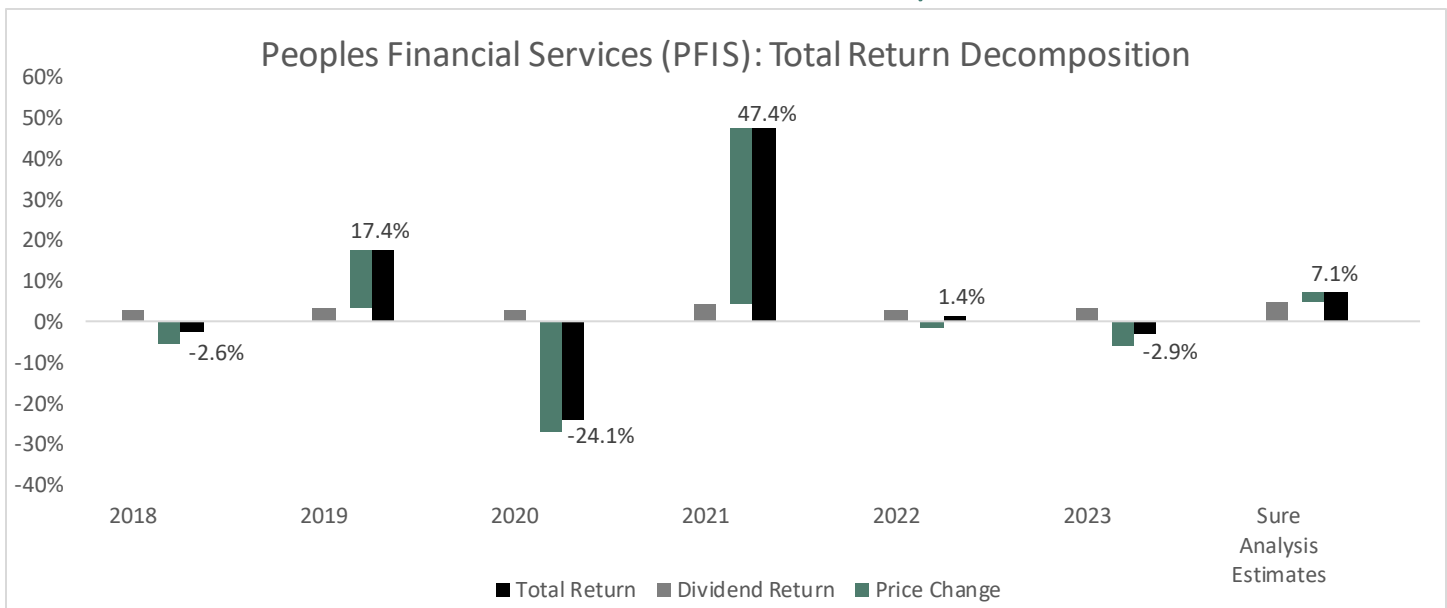
Peoples Financial Services has raised its dividend for 8 consecutive years. Thanks to its recent major acquisition, the bank has raised its dividend by 51% this year and thus it is currently offering a nearly 10-year high dividend yield of 4.9%, which is much higher than the 2.8% median dividend yield of the financial sector. The bank has an elevated payout ratio of 73% but it is likely to improve it in the upcoming years thanks to its promising growth prospects.

Peoples Financial Services is prudently managed and thus it outperformed its peers during the Great Recession. In that crisis, the non-performing loans of the bank increased only modestly, in contrast to what happened to most banks. Peoples Financial Services also proved resilient to the pandemic, as it grew its earnings in 2020 and 2021. Nevertheless, the bank is not immune to downturns. Its earnings-per-share declined -33% between 2021 and 2023 due to the surge of interest rates, which compressed the net interest margin of the bank and caused losses in its investment portfolio.

Final Thoughts & Recommendation

Peoples Financial Services just completed a major acquisition and thus it has promising growth prospects ahead while it is also offering an attractive dividend. It can offer a 7.1% average annual return over the next five years thanks to 6.0% growth of earnings-per-share and its 4.9% dividend, partly offset by a -3.0% valuation drag. It maintains its 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	70	70	75	80	85	91	96	98	108	101
SG&A Exp.	21	22	24	27	30	32	31	31	35	37
D&A Exp.	3	3	3	3	3	4	4	4	4	3
Net Profit	18	18	20	18	25	26	29	44	38	27
Net Margin	25.1%	25.3%	26.2%	22.9%	29.3%	28.4%	30.4%	44.3%	35.2%	27.1%
Free Cash Flow	23	25	21	22	29	31	35	36	35	27
Income Tax	5	5	5	8	3	3	5	10	7	5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,742	1,819	1,999	2,169	2,289	2,475	2,884	3,369	3,554	3,742
Cash & Equivalents	31	33	40	37	33	31	45	38	38	43
Goodwill & Int. Ass.	70	69	68	67	66	66	65	65	64	64
Total Liabilities	1,495	1,570	1,743	1,904	2,010	2,176	2,567	3,029	3,238	3,402
Long-Term Debt	52	99	141	173	124	185	98	36	148	76
Shareholder's Equity	247	249	257	265	279	299	317	340	315	340
LTD/E Ratio	0.21	0.40	0.55	0.65	0.45	0.62	0.31	0.11	0.47	0.22

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.0%	1.0%	0.9%	1.1%	1.1%	1.1%	1.4%	1.1%	0.8%
Return on Equity	7.3%	7.2%	7.7%	7.1%	9.2%	8.9%	9.5%	13.2%	11.6%	8.4%
ROIC	5.9%	5.5%	5.3%	4.4%	5.9%	5.8%	6.5%	11.0%	9.1%	6.2%
Shares Out.	7.6	7.5	7.4	7.4	7.4	7.4	7.3	7.2	7.2	7.1
Revenue/Share	9.30	9.32	10.09	10.88	11.48	12.23	13.14	13.59	14.99	14.11
FCF/Share	3.06	3.29	2.88	3.02	3.86	4.25	4.75	4.96	4.79	3.82

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

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