



# Peoples Financial Services (PFIS)

Updated February 11<sup>th</sup>, 2025 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$52	<b>5 Year CAGR Estimate:</b>	12.7%	<b>Market Cap:</b>	\$509 M
<b>Fair Value Price:</b>	\$74	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	2/28/25
<b>% Fair Value:</b>	71%	<b>5 Year Valuation Multiple Estimate:</b>	7.2%	<b>Dividend Payment Date:</b>	3/14/25
<b>Dividend Yield:</b>	4.8%	<b>5 Year Price Target</b>	\$81	<b>Years Of Dividend Growth:</b>	8
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 \$509 million.

On July 1<sup>st</sup>, 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 5<sup>th</sup> 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 4.8%. In addition, management expects the acquisition to boost earnings-per-share by ~59% this year.

In early February, Peoples Financial Services reported (2/6/24) financial results for the fourth quarter of fiscal 2024. Loans and deposits grew 40% and 28%, respectively, over the prior year's quarter, thanks to the acquisition of FNCB Bancorp. Net interest margin expanded impressively, from 2.30% in the prior year's quarter to 3.25% thanks to the much higher net interest margin of the acquired bank. As a result, net interest income jumped 34% and earnings-per-share surged 62%, from \$0.61 to \$0.99, though they missed the analysts' consensus by \$0.51. 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. We expect nearly all-time high earnings-per-share of \$5.90 this year, roughly in line with the guidance of management for 59% growth.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$2.36	\$2.65	\$2.50	\$3.37	\$3.47	\$4.00	\$6.02	\$5.28	\$4.03	\$3.77	<b>\$5.90</b>	<b>\$6.51</b>
<b>DPS</b>	\$1.24	\$1.24	\$1.26	\$1.31	\$1.37	\$1.44	\$1.50	\$1.58	\$1.64	\$2.06	<b>\$2.47</b>	<b>\$2.72</b>
<b>Shares<sup>1</sup></b>	7.5	7.4	7.4	7.4	7.4	7.3	7.2	7.2	7.1	10.0	<b>10.0</b>	<b>10.0</b>

Peoples Financial Services has more than doubled its loans and its deposits and has grown its earnings-per-share by 5.3% per year on average over the last decade. Going forward, the bank has promising growth prospects 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% by the end of 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. Nevertheless, given the high comparison base formed by the blowout earnings expected this year, we expect 2.0% average annual growth of earnings-per-share beyond this year.

<sup>1</sup> 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.



# Peoples Financial Services (PFIS)

Updated February 11<sup>th</sup>, 2025 by Aristofanis Papadatos

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
<b>Avg. P/E</b>	16.9	14.8	17.6	13.4	13.1	9.6	7.4	9.7	11.0	11.9	<b>8.8</b>	<b>12.5</b>
<b>Avg. Yld.</b>	3.1%	3.2%	2.9%	2.9%	3.0%	3.7%	3.4%	3.1%	3.7%	4.6%	<b>4.8%</b>	<b>3.3%</b>

Peoples Financial Services has traded at an average price-to-earnings ratio of 12.5 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 8.8, which is much lower than the historical average of the bank. If the stock trades at its average valuation level in five years, it will enjoy a 7.2% annualized valuation gain.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>Payout</b>	53%	47%	50%	39%	39%	36%	25%	30%	41%	55%	<b>42%</b>	<b>42%</b>

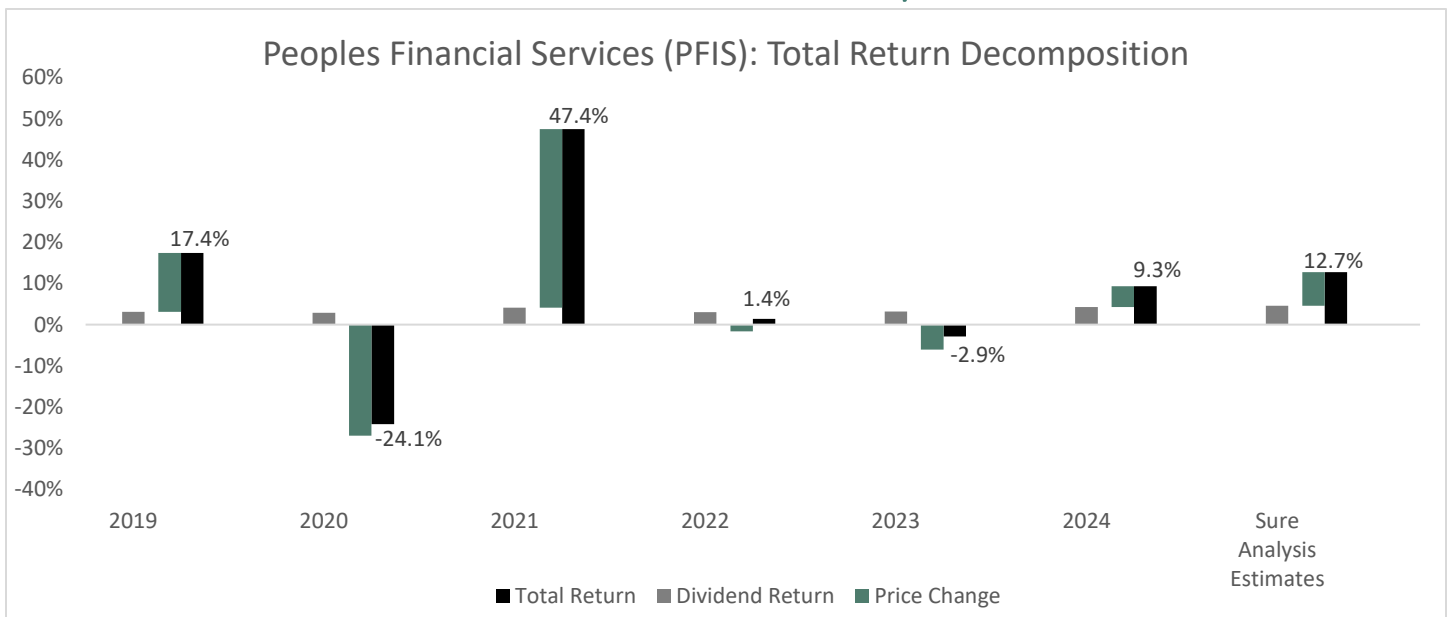
Peoples Financial Services has raised its dividend for 8 consecutive years. Thanks to its recent major acquisition, the bank raised its dividend by 51% last year and thus it is currently offering a nearly 10-year high dividend yield of 4.8%, which is much higher than the 2.9% median dividend yield of the financial sector. The bank also has a healthy payout ratio of 42% and hence it is likely to continue raising its dividend in the upcoming years.

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 12.7% average annual return over the next five years thanks to 2.0% growth of earnings-per-share, its 4.8% dividend and a 7.2% valuation tailwind. It thus receives a buy rating.

## 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.



# Peoples Financial Services (PFIS)

Updated February 11<sup>th</sup>, 2025 by Aristofanis Papadatos

## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	70	75	80	85	91	96	98	108	101	
<b>SG&amp;A Exp.</b>	22	24	27	30	32	31	31	35	37	
<b>D&amp;A Exp.</b>	3	3	3	3	4	4	4	4	3	
<b>Net Profit</b>	18	20	18	25	26	29	44	38	27	
<b>Net Margin</b>	25.3%	26.2%	22.9%	29.3%	28.4%	30.4%	44.3%	35.2%	27.1%	
<b>Free Cash Flow</b>	25	21	22	29	31	35	36	35	27	
<b>Income Tax</b>	5	5	8	3	3	5	10	7	5	

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	1,819	1,999	2,169	2,289	2,475	2,884	3,369	3,554	3,742	
<b>Cash &amp; Equivalents</b>	33	40	37	33	31	45	38	38	43	
<b>Goodwill &amp; Int. Ass.</b>	69	68	67	66	66	65	65	64	64	
<b>Total Liabilities</b>	1,570	1,743	1,904	2,010	2,176	2,567	3,029	3,238	3,402	
<b>Long-Term Debt</b>	99	141	173	124	185	98	36	148	76	
<b>Shareholder's Equity</b>	249	257	265	279	299	317	340	315	340	
<b>LTD/E Ratio</b>	0.40	0.55	0.65	0.45	0.62	0.31	0.11	0.47	0.22	

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	1.0%	1.0%	0.9%	1.1%	1.1%	1.1%	1.4%	1.1%	0.8%	
<b>Return on Equity</b>	7.2%	7.7%	7.1%	9.2%	8.9%	9.5%	13.2%	11.6%	8.4%	
<b>ROIC</b>	5.5%	5.3%	4.4%	5.9%	5.8%	6.5%	11.0%	9.1%	6.2%	
<b>Shares Out.</b>	7.5	7.4	7.4	7.4	7.4	7.3	7.2	7.2	7.1	
<b>Revenue/Share</b>	9.32	10.09	10.88	11.48	12.23	13.14	13.59	14.99	14.11	
<b>FCF/Share</b>	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.

## Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.