



Tompkins Financial Corporation (TMP)

Updated November 3rd, 2024, by Josh Arnold

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	7.3%	Market Cap:	\$927 M
Fair Value Price:	\$54	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/08/24
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Dividend Payment Date:	11/15/24
Dividend Yield:	3.8%	5 Year Price Target	\$79	Years Of Dividend Growth:	38
Dividend Risk Score:	A	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 \$927 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 also sports an extremely impressive 38-year dividend increase streak after boosting its payout for November 2024.

Tompkins posted third quarter earnings on October 25th, 2024, and results were better than expected on both the top and bottom lines, and by some margin for both. Earnings-per-share came to \$1.30, which was nine cents ahead of estimates. Revenue was \$76.6 million, which was about \$1 million ahead of expectations.

Net interest margin was 2.79%, which was up six basis points from the second quarter, and up four basis points from the year-ago period. Total average cost of funds was up five basis points from Q2, and down 10 basis points from the year-ago period.

Total fee-based services revenues were up about 3.2% from the year-ago period, but only by about \$648,000 given its small size in terms of total revenue. Noninterest expenses were flat to the year-ago period, as well as to the second quarter of this year.

Total loans were up \$119 million from Q2, and up \$446 million from the year-ago period. Total deposits were up \$292 million to \$6.6 billion from June, and down \$46 million from the year-ago period. That left the loan-to-deposit ratio at 89.4%, which is extremely high, but down from 91.7% in June. It was elevated from 82.1% in last year's Q3.

We now see \$4.70 in adjusted earnings-per-share for this year with one quarter to go.

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	\$4.70	\$6.91
DPS	\$1.62	\$1.70	\$1.77	\$1.82	\$1.94	\$2.02	\$2.10	\$2.19	\$2.31	\$2.40	\$2.48	\$2.74
Shares¹	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 8% growth going forward as 2024's base of earnings is quite low.

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.



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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.

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	13.8	11.5
Avg. Yld.	3.4%	3.1%	2.6%	2.2%	2.4%	2.5%	3.1%	2.7%	3.0%	4.0%	3.8%	3.4%

Tompkins Financial is currently trading at a price-to-earnings ratio of 13.8, which is well ahead of where we see fair value at 11.5 times earnings. With shares trading at 120% of our estimate of fair value, Tompkins' value proposition is worse than our prior update once again. The yield is 3.8% now, and we see it potentially declining to 3.4% over time as the share price should move higher more quickly than the dividend if our growth forecast comes to fruition.

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%	53%	40%

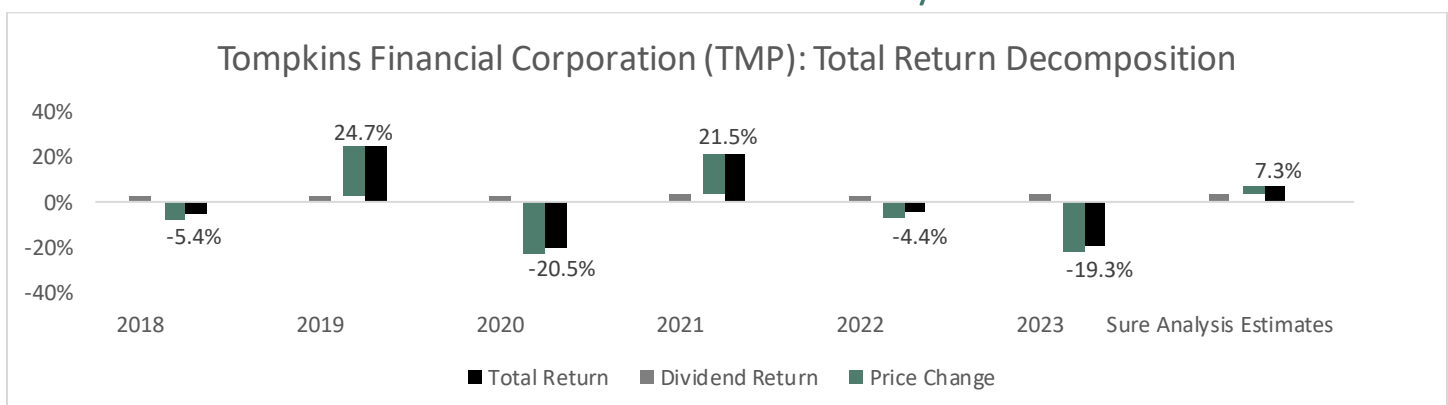
Tompkins Financial has raised its dividend for 38 consecutive years, and we don't see this streak in jeopardy by any means. Due to its modest payout ratio, it has ample room to keep growing its dividend, even with weak earnings growth. We do note that the payout ratio continues to rise given negative 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 still well ahead of fair value, and the yield is 3.8%. With 8% earnings growth forecast, we see 7.3% total returns ahead. With total prospective returns higher from our last update, we are still reiterating the stock at 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	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.

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