

Peoples United (PBCT)

\$16.40 (As of 01/07/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Shares of People's United underperformed the industry in the past six months. Yet, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two and matched in two of the trailing four quarters. People's United is growing through acquisitions, which is likely to continue in the near term, given its strong balance-sheet position and favorable consolidation backdrop in the banking sector. Despite low interest rates, net interest margin (NIM) is likely to further expand due to growth in loans. Also, involvement in steady capital deployment activities continues to enhance shareholders' confidence. However, significant exposure to commercial loans keeps us apprehensive. Also, the company's expense base continues to escalate, which is expected to limit bottom-line expansion to some extent.

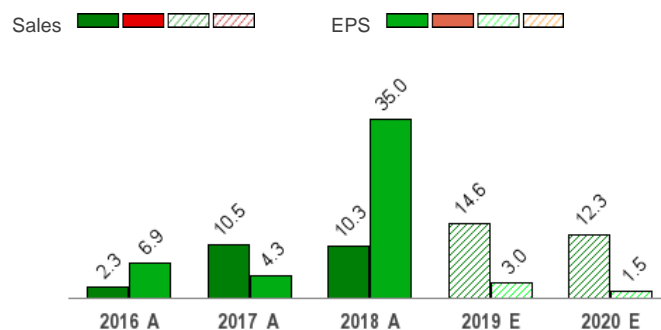
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$18.03 - \$13.81
20 Day Average Volume (sh)	2,431,148
Market Cap	\$6.5 B
YTD Price Change	-3.0%
Beta	1.26
Dividend / Div Yld	\$0.71 / 4.3%
Industry	Financial - Savings and Loan
Zacks Industry Rank	Top 28% (72 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/16/2020
Earnings ESP	0.0%
P/E TTM	12.0
P/E F1	12.0
PEG F1	6.0
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	507 E	510 E	521 E	526 E	2,061 E
2019	427 A	454 A	455 A	489 E	1,836 E
2018	386 A	396 A	399 A	421 A	1,602 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.32 E	\$0.33 E	\$0.35 E	\$0.36 E	\$1.37 E
2019	\$0.33 A	\$0.34 A	\$0.34 A	\$0.33 E	\$1.35 E
2018	\$0.30 A	\$0.32 A	\$0.33 A	\$0.36 A	\$1.31 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

Overview

Founded in 1842 and headquartered in Bridgeport, CT, People's United Financial Inc. is a diversified financial services company operating across Connecticut, Vermont, New Hampshire, Maine, Massachusetts and New York. Effective Feb 23, 2015, the company converted to a bank holding company and simultaneously People's United Bank converted to a national banking association.

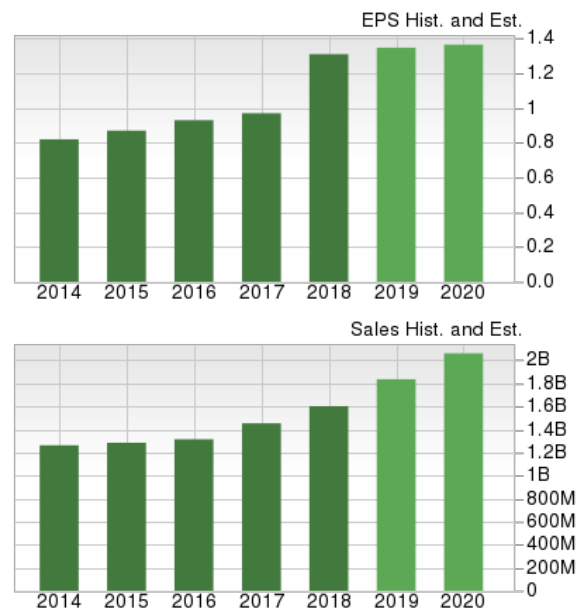
The company's operations are divided into 3 primary business segments that represent its core businesses: Commercial Banking, Retail Banking and Wealth Management. However, it reports through 2 segments:

- **Commercial Banking** segment consists principally of commercial and industrial lending, commercial real estate lending and commercial deposit gathering activities. This segment also includes institutional trust services, corporate trust, insurance services provided through People's United Insurance Agency, Inc. and private banking.
- **Retail Banking** segment includes consumer and small business deposit gathering activities, consumer lending (including residential mortgage and home equity), consumer deposit gathering. Additionally, the segment consists of brokerage, financial advisory services, investment management services and life insurance provided by People's Securities, Inc. and non-institutional trust services.

In addition, the *Treasury* includes People's United's securities portfolio, short-term investments and brokered deposits as well as wholesale borrowings. *Other* includes the residual financial impact from allocation of revenues and expenses, and certain revenues and expenses not attributable to a particular segment, and certain non-recurring items.

In November 2019, the company acquired United Financial Bancorp, while in April, it completed the acquisition of BSB Bancorp. In 2018, People's United acquired First Connecticut Bancorp and its wholly owned subsidiary, Farmington Bank to fortify its presence in Connecticut.

In 2017, the company acquired LEAF Commercial Capital and Suffolk Bancorp. Further, its banking subsidiary acquired Vend Lease Company. In November 2016, People's United Bank acquired Gerstein Fisher.



Reasons To Buy:

- ▲ People's United continues to benefit from a healthy business portfolio that has grown inorganically over time. Since 2016, the company has maintained an acquisition spree fortifying its footprint in various areas. These transactions are anticipated to continue to be accretive to earnings. Recently, the company completed acquisition of United Financial Bancorp in a 100% stock transaction valued at around \$759 million. The transaction is likely to be 7 cents accretive to earnings per share based on fully phased-in cost savings. Given its strong liquidity position, the company remains focused on opportunistic acquisitions that support its long-term growth profile.
- ▲ People's United is focused on acquiring the industry's best deposit franchise. The company's total deposits and loans witnessed a five-year CAGR (2014-2018) of 8.5% and 7.3%, respectively. The increasing trend continued in the first three quarters of 2019 as well. With steady economic recovery and lower commercial tax rate, rising loans and deposits are expected to support the company's growth prospects.
- ▲ People's United continues to see improvement in asset quality. Non-performing assets declined at a five-year CAGR of 4.5% in 2018, with some annual volatility. Further, the ratio of net loan charge-offs to average loans also contracted over the past few years from 0.28% in 2011 to 0.06% in third-quarter 2019. Such impressive improvement in asset quality can prove to be a major tailwind for the company.
- ▲ People's United's NIM benefitted from the rise in interest rates in the prior few years. This led to an improvement in NIM in 2017 and 2018. Further, this trend continued in the first nine months of 2019, despite low interest rate environment. The upside reflected an improvement in loan yields. In addition, the margin is anticipated to improve on decent lending scenario.
- ▲ People's United's capital deployment activities are encouraging. The company hiked its quarterly dividend by 14% in April 2019, marking the 26th consecutive annual dividend hike. In July 2019, the company's board approved repurchase of up to 20 million common shares. With favorable debt/equity ratio and consistently improving quarterly performance, the company's capital-deployment activities seem sustainable, going forward.

People's United remains focused on opportunistic acquisitions that will aid long-term growth. Also, it benefits from loans and deposits growth, relatively higher interest rates and lower tax rate.

Reasons To Sell:

- ▼ Despite undertaking a number of expense-saving initiatives, People's United's operating expenses have witnessed a rise at a five-year CAGR (2014-2018) of 4.3%, with the rising trend continuing in the first nine months of 2019. Notably, expenses have been rising due to merger-related costs, and higher compensation and benefits costs. Though the company is focused on optimizing its branch network and initiated installation of technology to improve efficiencies and reduce costs, elevated expense levels are likely to limit bottom-line expansion.
- ▼ Majority of People's United's loan portfolio — nearly 71% as of Sep 30, 2019 — comprises total commercial loans (commercial and industrial lending as well as commercial real estate lending and equipment financing). Such lack of diversification can be risky for the company in case of any downturn.
- ▼ Shares of People's United have underperformed the industry over the past six months. Also, the company's current-year earnings estimates have remained stable over the past 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

Rising expenses due to merger-related costs and higher compensation costs will likely hurt People's United's profitability. Significant exposure to commercial loans makes us apprehensive.

Last Earnings Report

People's United Q3 Earnings Beat, Revenues Increase

People's United reported third-quarter 2019 operating earnings of 34 cents per share, which surpassed the Zacks Consensus Estimate by a penny. Also, the bottom line increased 3% year over year.

Third-quarter results reflected improvement in loans balance and a strong capital position. Also, higher fee income and decline in provisions supported the company's results. However, elevated expenses and margin contraction were major drags.

Net income available to common shareholders was \$131.6 million compared with \$113.5 million reported in the prior-year quarter.

Revenue Growth Offsets Higher Expenses

Revenues were up 14% year over year to \$454.7 million in the third quarter. However, the top line lagged the Zacks Consensus Estimate of \$455.5 million.

Net interest income, on a fully-taxable basis, totaled \$348.7 million, up 13.8% year over year. Nevertheless, net interest margin contracted 3 basis points (bps) to 3.12%.

Non-interest income climbed 14.8% year over year to \$106 million. Rise in almost all components of income led to this upside. This was partially offset by lower investment management fees and brokerage commissions.

Non-interest expenses jumped 16.6% on a year-over-year basis to \$281.4 million. Rise in mostly all components led to higher expenses.

Efficiency ratio was 56.8% compared with 56.7% in the prior-year quarter. An increase in the ratio indicates decline in profitability.

As of Sep 30, 2019, total loans were \$38.8 billion, up slightly from the prior quarter. However, total deposits dipped approximately 2% sequentially to \$38.6 billion.

Credit Quality: A Mixed Bag

As of Sep 30, 2019, non-performing assets were \$182 million, up 5.2% year over year. Ratio of non-performing loans to total originated loans contracted 1 bp to 0.56%.

However, net loan charge-offs declined 17.1% year over year to \$4.5 million. Net loan charge-offs as a percentage of average total loans were 0.06% on an annualized basis, down 3 bps. Provision for loan losses was \$7.8 million, down 4.9%.

Capital Position and Profitability Ratios

As of Sep 30, 2019, total risk-based capital ratio decreased to 12% from 12.8% recorded a year ago. Tangible equity ratio was 7.8%, up from 7.6%.

The company's profitability ratios were strong as well. Return on average tangible stockholders' equity was 14%, down from the prior-year quarter's 14.5%. Return on average assets of 1.05% edged down from 1.06%.

2019 Outlook (excludes United Financial Bancorp acquisition)

Loan portfolio in the range of 10% to 12% on period-end basis is anticipated. This goal excludes the transactional portion of New York multifamily portfolio, which is in runoff mode. Management expects the runoff in the transactional New York multifamily portfolio to be \$200-\$300 million.

Deposits are projected to grow 10-12% on period-end basis.

Net interest income is projected to grow in the range of 11-13%. This is based on the expectation of NIM in the range of 3.05%-3.15%, on assumption of 25 bps decreases in fed funds during the year. Further, the company expects non-interest income to rise 2-4%.

Management expects expenses (excluding merger-related expenses) to be in the range of \$1.06-\$1.08 billion. Deposits costs are expected to escalate for 2 to 4 quarters further, following the end of the Fed tightening.

The company expects to maintain excellent credit quality with provisions in the range of \$35-\$45 million.

Effective tax rate is expected to remain in the range of 20-22%.

The company expects Common equity tier 1 capital ratio to be between 10% and 10.5%.

Quarter Ending **09/2019**

Report Date	Oct 17, 2019
Sales Surprise	-0.18%
EPS Surprise	3.03%
Quarterly EPS	0.34
Annual EPS (TTM)	1.37

Recent News

People's United on Buyout Spree, Acquires United Financial – Nov 1, 2019

People's United recently closed the deal to acquire United Financial Bancorp, Inc., the holding company for United Bank. The transaction was announced in July 2019.

Jack Barnes, CEO and chairman of People's United noted, "The acquisition allows us to further optimize our existing branch footprint regionally to more efficiently serve our combined customers, and deliver our tailored solutions to additional markets, backed by our expert bankers and personalized technology."

Terms of the Deal

Per terms of the deal, the all-stock transaction was valued at \$759 million at the time of announcement. Further, United Financial shareholders were to receive 0.875 shares of People's United stock for each share of United Financial. The transaction was valued at \$14.74 per United Financial share, based on the closing price of People's United's common stock on Jul 12, 2019.

After-Effects of the Deal

People's United expects this transaction to be accretive to earnings by 7 cents per share based on fully phased-in cost savings, in the upcoming period. Further, the tangible book value earn-back is anticipated to be approximately 2.3 years, and IRR is projected at roughly 18%.

The deal is anticipated to add assets worth \$7.3 billion of United Bank, a full-service community financial services firm, to People's United. It will also help People's United solidify its presence in the Central Connecticut market and strengthen its franchise in Western Massachusetts. Also, the deal is likely to fortify the bank's commercial and retail banking businesses.

Dividend Update

On Oct 17, People's United's board of directors announced quarterly common stock dividend of 17.75 cents per share. The dividend was paid on Nov 15 to common shareholders of record as on Oct 31, 2019.

Valuation

People's United's shares are up 8.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.8% and 15.2% over the past year, respectively.

The S&P 500 Index is up 24.7% in the past year.

The stock is currently trading at 12.02X forward 12 months earnings, which compares to 11.34X for the Zacks sub-industry, 14.77X for the Zacks sector and 18.79X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.37X and as low as 9.76X, with a 5-year median of 16.51X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 12.62X forward earnings.

The table below shows summary valuation data for PBCT

Valuation Multiples - PBCT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.02	11.34	14.77	18.79
	5-Year High	21.37	18.24	16.21	19.34
	5-Year Low	9.76	10.38	12.01	15.17
	5-Year Median	16.51	15.04	13.98	17.44
P/TB TTM	Current	1.69	1.48	3.28	12.42
	5-Year High	2.28	9.77	3.98	12.45
	5-Year Low	1.51	1.14	2.44	6.03
	5-Year Median	1.84	1.44	3.46	9.06
P/S F12M	Current	3.18	2.76	6.53	3.48
	5-Year High	4.53	3.46	6.61	3.48
	5-Year Low	2.83	2.39	5.2	2.54
	5-Year Median	3.6	2.98	6.04	3

As of 01/07/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 254)



Top Peers

BOK Financial Corporation (BOKF)	Neutral
Commerce Bancshares, Inc. (CBSH)	Neutral
Cullen/Frost Bankers, Inc. (CFR)	Neutral
Comerica Incorporated (CMA)	Neutral
East West Bancorp, Inc. (EWBC)	Neutral
SVB Financial Group (SIVB)	Neutral
Synovus Financial Corp. (SNV)	Neutral
Webster Financial Corporation (WBS)	Neutral

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	PBCT Neutral	X Industry	S&P 500	BOKF Neutral	CFR Neutral	WBS Neutral
VGM Score	D	-	-	F	D	D
Market Cap	6.55 B	153.67 M	23.82 B	6.08 B	5.98 B	4.80 B
# of Analysts	8	2	13	4	8	7
Dividend Yield	4.33%	2.24%	1.8%	2.38%	2.97%	3.07%
Value Score	C	-	-	D	B	B
Cash/Price	0.12	0.23	0.04	0.47	0.48	0.06
EV/EBITDA	13.34	11.67	13.92	12.76	5.16	11.17
PEG Ratio	5.99	1.69	2.00	1.98	1.66	1.70
Price/Book (P/B)	0.95	1.24	3.32	1.26	1.60	1.60
Price/Cash Flow (P/CF)	11.61	12.58	13.58	10.24	10.18	10.84
P/E (F1)	11.97	13.11	18.86	11.89	15.73	13.60
Price/Sales (P/S)	2.96	2.94	2.63	2.79	4.01	3.33
Earnings Yield	8.35%	7.62%	5.30%	8.41%	6.36%	7.36%
Debt/Equity	0.56	0.59	0.72	1.47	0.06	0.65
Cash Flow (\$/share)	1.41	1.64	6.94	8.38	9.39	4.81
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	11.96%	13.54%	10.56%	14.34%	13.33%	17.25%
Proj. EPS Growth (F1/F0)	1.30%	2.67%	7.49%	-1.68%	-11.04%	-6.15%
Curr. Cash Flow Growth	24.13%	20.24%	14.83%	27.64%	22.71%	34.35%
Hist. Cash Flow Growth (3-5 yrs)	12.27%	12.84%	9.00%	4.87%	13.19%	9.39%
Current Ratio	0.98	1.01	1.23	0.86	0.62	0.81
Debt/Capital	35.15%	36.95%	42.92%	59.47%	5.71%	38.12%
Net Margin	23.32%	20.43%	11.08%	22.88%	30.76%	27.14%
Return on Equity	8.17%	8.87%	17.16%	11.20%	13.11%	13.49%
Sales/Assets	0.04	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	12.23%	0.00%	4.15%	1.02%	0.65%	1.03%
Momentum Score	B	-	-	F	F	C
Daily Price Chg	-0.85%	-0.34%	-0.22%	-0.29%	-0.21%	-0.74%
1 Week Price Chg	-0.78%	-0.12%	-0.30%	-0.14%	-1.12%	0.55%
4 Week Price Chg	-0.85%	0.14%	2.11%	1.44%	0.28%	4.47%
12 Week Price Chg	3.60%	4.73%	5.70%	11.48%	6.56%	12.44%
52 Week Price Chg	8.25%	9.03%	22.84%	10.49%	2.13%	4.80%
20 Day Average Volume	2,431,148	5,213	1,570,747	122,211	291,288	364,146
(F1) EPS Est 1 week change	0.09%	0.00%	0.00%	0.16%	-0.10%	0.04%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.13%	-1.23%	0.07%
(F1) EPS Est 12 week change	-2.85%	-0.44%	-0.53%	-2.15%	-6.46%	-2.29%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.69%	-0.93%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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