

Peoples United (PBCT)

\$10.56 (As of 04/16/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: D

Summary

Shares of People's United outperformed the industry in the past six months. Though earnings estimates have been revised downward prior to the first quarter earnings release, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. People's United is growing through acquisitions with the help of strong balance-sheet position and favorable consolidation backdrop in the banking sector. Despite low interest rates, net interest margin is likely to further expand due to growth in loans. Also, involvement in steady capital deployment activities enhances shareholders' confidence. However, the company's significant exposure to commercial loans keeps us apprehensive. Also, rising costs, on account of merger-related costs, is likely to limit bottom-line growth.

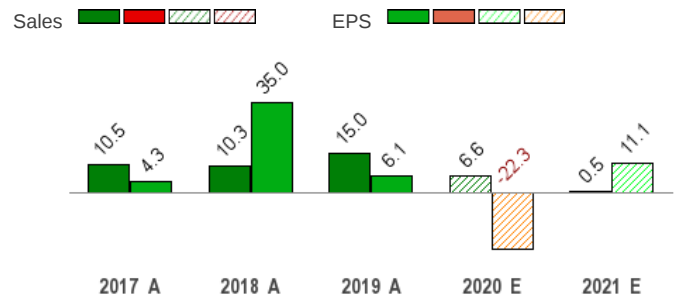
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$17.66 - \$9.37
20 Day Average Volume (sh)	5,152,725
Market Cap	\$4.5 B
YTD Price Change	-37.5%
Beta	1.32
Dividend / Div Yld	\$0.71 / 6.7%
Industry	Financial - Savings and Loan
Zacks Industry Rank	Bottom 43% (144 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.1%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	-17.7%
Expected Report Date	04/23/2020
Earnings ESP	-11.9%
P/E TTM	7.7
P/E F1	9.8
PEG F1	4.9
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	499 E	501 E	504 E	510 E	1,974 E
2020	498 E	492 E	494 E	494 E	1,964 E
2019	427 A	454 A	455 A	507 A	1,843 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.31 E	\$0.30 E	\$0.31 E	\$0.31 E	\$1.20 E
2020	\$0.23 E	\$0.24 E	\$0.27 E	\$0.30 E	\$1.08 E
2019	\$0.33 A	\$0.34 A	\$0.34 A	\$0.37 A	\$1.39 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 04/16/2020. The reports text is as of 04/17/2020.

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.

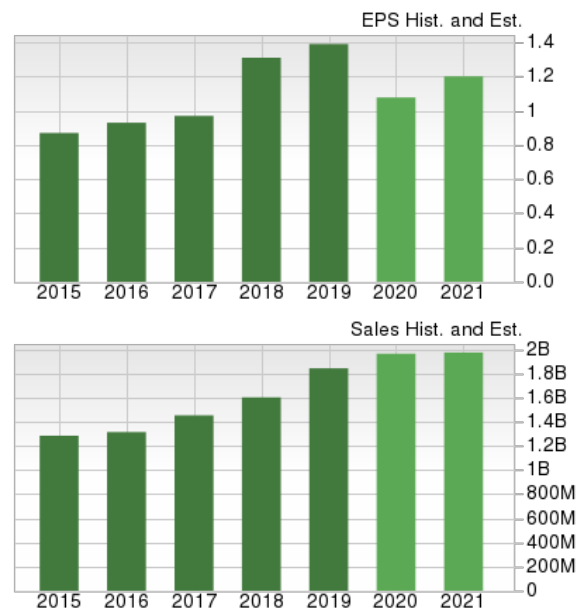
The company's operations are divided into 3 primary business segments that represent its core businesses: Commercial Banking, Retail Banking and Wealth Management. However, it reports through 2 segments:

- **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. In November 2019, 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 in the upcoming period. 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 have both witnessed a five-year CAGR (2015-2019) of 11.3%. With steady economic recovery, rising loans and deposits are expected to support the company's prospects.
- ▲ Strong credit quality is another positive for People's United. Though credit quality displayed weakness in 2016 largely due to continued slump in energy sector loans, the trend has reversed of late. Also, non-performing assets and the ratio of net loan charge-offs to average total loans have been declining over the past several quarters. Asset quality is expected to continue improving in the quarters ahead, driven by a strengthening economy.
- ▲ People's United's net interest margin (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 2019, despite low interest rate environment. The upside reflected an improvement in loan yields. Therefore, 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 loan growth, relatively higher interest rates and improving credit quality.

Reasons To Sell:

- ▼ Despite undertaking a number of expense-saving initiatives, People's United's operating expenses have witnessed a five-year CAGR (2015-2019) of 7.8%. 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 Dec 31, 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 outperformed the industry over the past six months. Despite this favorable trend, the company's current-year earnings estimates have been revised 17.6% downward 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 Q4 Earnings Beat, Revenues Up Y/Y

People's United reported fourth-quarter 2019 operating earnings of 37 cents per share, which surpassed the Zacks Consensus Estimate of 33 cents. Also, the bottom line increased 2.8% year over year.

Fourth-quarter results reflect improvement in loan and deposit balances, and revenues. Also, a strong capital position 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 \$134 million compared with \$129.4 million reported in the prior-year quarter.

In 2019, operating earnings was \$1.39 per share compared with the prior year's figure of \$1.31. The bottom line outpaced the consensus estimate of \$1.35. Net income grew 11.5% to \$506.3 million.

Revenue Growth Offsets Higher Expenses

Revenues were up 20.3% year over year to \$506.9 million in the fourth quarter. Also, the top line beat the Zacks Consensus Estimate of \$487.8 million.

In 2019, net revenues were \$1.8 billion, up 15%. Also, it matched the consensus estimate.

Net interest income, on a fully-taxable basis, totaled \$390.3 million, up 15% year over year. Nevertheless, net interest margin contracted 3 basis points (bps) to 3.14%.

Non-interest income surged 40% year over year to \$124.2 million. Rise in almost all components of income led to this upside.

Non-interest expenses jumped 24% on a year-over-year basis to \$325.7 million. Increase in all components except regulatory assessments and operating lease expense led to higher expenses.

Efficiency ratio was 53.7% compared with 55.1% in the prior-year quarter. A decline in the ratio indicates improved profitability.

As of Dec 31, 2019, total loans were \$43.6 billion, up 12.4% from the prior quarter. Also, total deposits grew 13% sequentially to \$43.6 billion.

Credit Quality Improves

As of Dec 31, 2019, non-performing assets were \$180.4 million, down 2.9% year over year. Ratio of non-performing assets to total originated loans contracted 6 bps to 0.55%.

Also, net loan charge-offs declined 10.7% year over year to \$6.7 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 \$7.3 million, down 26.3%.

Capital Position and Profitability Ratios

As of Dec 31, 2019, total risk-based capital ratio decreased to 12.0% from 12.5% recorded a year ago. Tangible equity ratio was 8.0%, up from 7.6%.

Return on average tangible stockholders' equity was 12.8%, down from the prior-year quarter's 14.9%. Return on average assets of 0.98% declined from 1.11%.

2020 Outlook

Loan portfolio in the range of 2% to 4% on period-end basis is anticipated. The company assumes that residential mortgage balances will remain stable year over year as it continues to remix the balance sheet to focus on higher yielding portfolios. 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 \$300-\$400 million. Also, runoff in the acquired United Financial's portfolio is anticipated to be in the range of \$300-\$400 million for full-year 2020.

Deposits are projected to grow 2-4% on period-end basis. The company continues to focus on gathering core customer deposits while managing to reduce higher cost portfolios.

Net interest income is projected to grow in the range of 9-11%. This is based on the expectation of NIM in the range of 3-3.1%, on assumption of no change in fed funds rate 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 \$1.19-\$1.22 billion.

The company expects to maintain excellent credit quality with provisions in the range of \$20-\$22 million.

Effective tax rate is expected to be 20-22%.

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

Quarter Ending 12/2019

Report Date	Jan 16, 2020
Sales Surprise	3.93%
EPS Surprise	12.12%
Quarterly EPS	0.37
Annual EPS (TTM)	1.38

Recent News

Dividend Update

On Jan 16, People's United's board of directors announced quarterly common stock dividend of 17.75 cents per share. The dividend was paid out on Feb 15 to common shareholders of record as on Feb 1.

Valuation

People's United's shares are down 35.7% in the year-to-date period and 38.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 40.9% and 27.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 36.2% and 22.1%, respectively.

The S&P 500 Index is down 13.6% in the year-to-date period and 4.4% in the past year.

The stock is currently trading at 7.89X forward 12 months earnings, which compares to 10.04X for the Zacks sub-industry, 13.24X for the Zacks sector and 18.65X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.37X and as low as 7.89X, with a 5-year median of 16.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$11 price target reflects 8.28X 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	7.89	10.04	13.24	18.65
	5-Year High	21.37	18.25	16.19	19.34
	5-Year Low	7.89	8.71	11.23	15.19
	5-Year Median	16.21	14.9	13.95	17.45
P/TB TTM	Current	1.01	0.91	2.37	10.5
	5-Year High	2.28	9.89	3.97	12.78
	5-Year Low	0.91	0.84	1.97	6.02
	5-Year Median	1.84	1.46	3.45	9.15
P/S F12M	Current	2.28	2.08	4.93	3.09
	5-Year High	4.53	3.48	6.65	3.44
	5-Year Low	2.28	2.08	4.93	2.54
	5-Year Median	3.6	2.93	6.03	3.01

As of 04/16/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (144 out of 253)



Top Peers

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

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	PBCT Neutral	X Industry	S&P 500	BOKF Underperform	CFR Underperform	WBS Underperform
VGM Score	F	-	-	C	F	D
Market Cap	4.48 B	90.94 M	19.06 B	3.05 B	3.56 B	2.03 B
# of Analysts	9	2	14	6	8	8
Dividend Yield	6.72%	3.22%	2.26%	4.71%	4.99%	7.21%
Value Score	C	-	-	A	F	B
Cash/Price	0.15	0.29	0.06	0.76	0.86	0.11
EV/EBITDA	9.59	7.73	11.49	5.21	0.19	6.85
PEG Ratio	5.23	1.55	2.09	1.25	1.47	1.23
Price/Book (P/B)	0.55	0.74	2.55	0.63	0.95	0.67
Price/Cash Flow (P/CF)	6.59	7.53	10.06	5.21	5.81	4.34
P/E (F1)	10.46	9.31	17.56	7.52	13.94	9.86
Price/Sales (P/S)	1.94	1.85	1.94	1.37	2.38	1.41
Earnings Yield	10.23%	10.74%	5.57%	13.31%	7.17%	10.14%
Debt/Equity	0.53	0.61	0.70	0.99	0.06	0.81
Cash Flow (\$/share)	1.60	1.91	7.01	8.31	9.78	5.12
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	12.67%	13.17%	10.92%	15.98%	13.60%	18.41%
Proj. EPS Growth (F1/F0)	-22.46%	-15.39%	-3.36%	-18.11%	-40.37%	-44.72%
Curr. Cash Flow Growth	20.10%	7.53%	5.93%	7.34%	1.26%	6.12%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	14.12%	8.55%	8.19%	10.10%	10.73%
Current Ratio	0.98	1.00	1.24	0.80	0.63	0.84
Debt/Capital	34.13%	37.04%	42.78%	49.69%	5.67%	43.69%
Net Margin	22.51%	20.15%	11.64%	22.49%	29.62%	26.57%
Return on Equity	8.16%	8.41%	16.74%	10.77%	12.19%	12.99%
Sales/Assets	0.04	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	6.56%	0.00%	-0.14%	-2.08%	-3.24%	-4.61%
Momentum Score	D	-	-	D	C	B
Daily Price Chg	-2.85%	-1.50%	-0.20%	-5.85%	-5.84%	-2.46%
1 Week Price Chg	29.34%	6.93%	16.01%	28.24%	28.52%	25.62%
4 Week Price Chg	-19.51%	-6.46%	14.56%	8.55%	-1.30%	9.58%
12 Week Price Chg	-34.25%	-32.31%	-22.94%	-47.33%	-40.16%	-54.59%
52 Week Price Chg	-38.35%	-28.07%	-15.02%	-49.83%	-44.53%	-57.05%
20 Day Average Volume	5,152,725	5,822	3,220,598	415,274	661,017	1,257,482
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-17.73%	-8.31%	-7.09%	-9.34%	-27.25%	-34.43%
(F1) EPS Est 12 week change	-20.88%	-15.47%	-9.32%	-20.29%	-33.27%	-41.39%
(Q1) EPS Est Mthly Chg	-24.11%	-7.50%	-10.68%	-4.51%	-29.06%	-41.97%

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	D
VGM Score	F

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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