

Peoples United (PBCT)

\$11.17 (As of 08/17/20)

Price Target (6-12 Months): **\$9.50**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: F

Momentum: A

Summary

Shares of People's United have underperformed the industry in the past six months. Yet, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The second-quarter 2020 results reflected higher revenues, elevated expenses and provisions, along with margin pressure. The company's significant exposure to commercial loans keeps us apprehensive. Rising costs on account of merger-related costs might limit bottom-line growth of People's United. Yet, the company is growing through acquisitions aided by a strong balance-sheet position. Despite low-interest rates, some support to net interest margin is expected with growth in loans. Though the company's improving credit quality is a tailwind, stretched valuation remains a concern for People's United.

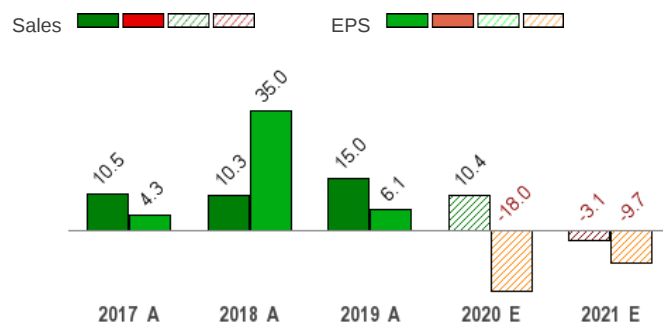
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$17.22 - \$9.37
20 Day Average Volume (sh)	4,918,452
Market Cap	\$4.7 B
YTD Price Change	-33.9%
Beta	1.24
Dividend / Div Yld	\$0.72 / 6.4%
Industry	Financial - Savings and Loan
Zacks Industry Rank	Top 49% (123 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	10/15/2020
Earnings ESP	-0.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	487 E	482 E	490 E	492 E	1,970 E
2020	520 A	495 A	509 E	509 E	2,034 E
2019	427 A	454 A	455 A	507 A	1,843 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.24 E	\$0.20 E	\$0.23 E	\$0.26 E	\$1.03 E
2020	\$0.33 A	\$0.24 A	\$0.28 E	\$0.27 E	\$1.14 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.

P/E TTM	8.7
P/E F1	9.8
PEG F1	4.9
P/S TTM	2.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

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.

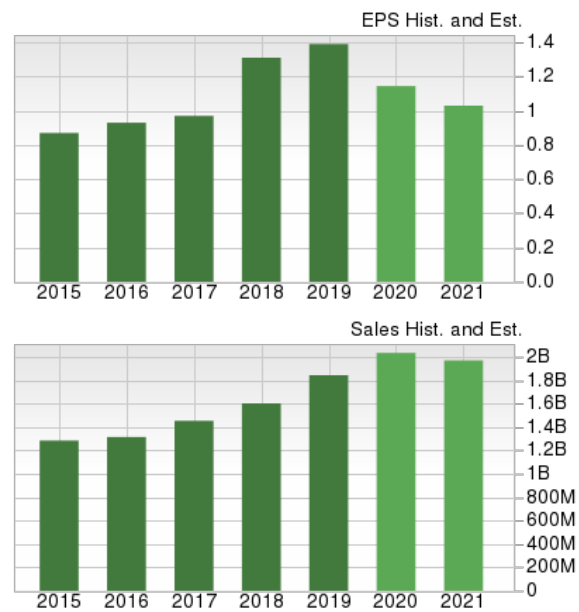
The company's operations are divided into 3 primary business segments that represent its core businesses: Commercial Banking, Retail Banking and Wealth Management. However, it reports through 2 segments:

- **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 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%, with the trend continuing in the first half of 2020. 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 74% as of Jun 30, 2020 — 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. With this unfavorable trend, the company's current-year earnings estimates have been revised 2.6% downward over the past 30 days. Also, the stock seems overvalued when compared with the broader industry. Its current price-to-sales and PEG ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.
- ▼ People's United's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 7.39% has gradually improved over the years, it compares unfavorably with the 14.51% S&P 500 average, highlighting that it is less efficient in using shareholders' funds.

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.

Risks

- 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%. The rising trend continued in the first half of 2020. Notably, deposits form nearly 76% of the company's funding base. With steady economic recovery, rising loans and deposits are expected to support the company's prospects.
 - People's United has experienced rise in net interest margin (NIM) over the past few years. It improved in 2017, 2018 and 2019 on improvement in loan yields. Though interest rates at near-zero level in order to support the U.S. economy from the coronavirus outbreak-induced slowdown might impact the company's NIM, decent lending scenario is likely to support. Notably, NIM declined in the first half of 2020 on lower rates.
 - Amid the coronavirus crisis and its impact on the economy, as of Jun 30, 2020, the company has exposure to total debt of \$2.8 billion. Though the debt level has risen in the past few years, it fell considerably in the second quarter. Also, the company's time-interest-earned ratio of 7.7X has grown consistently over the past few quarters, indicating the company's ability to meet its debt obligations based on current income. Thus, People's United has a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
 - 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 with some volatility. Asset quality is expected to continue improving in the quarters ahead, driven by an expected strengthening economy.
 - People's United's capital deployment activities are encouraging. In April 2020, the company hiked its quarterly dividend payout by 1.4%, marking the 27th 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 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.
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Last Earnings Report

People's United Q2 Earnings Meet Estimates, Costs Rise

People's United reported second-quarter 2020 operating earnings of 24 cents per share, in line with the Zacks Consensus Estimate. However, the bottom line was below the year-ago quarter's 34 cents.

Second-quarter results reflected improvement in loan and deposit balances, and revenues. Also, a strong capital position supported the company's results. However, elevated expenses and margin contraction were headwinds. Further, a drastic increase in provision for credit losses due to the impacts of coronavirus was a major offsetting factor.

After considering certain non-recurring items, net income available to common shareholders was \$86.4 million compared with \$129.7 million reported in the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	-0.13%
EPS Surprise	0.00%
Quarterly EPS	0.24
Annual EPS (TTM)	1.28

Revenue Growth Offsets Higher Expenses

Revenues were up 9% year over year to \$495.2 million in the second quarter. The top line lagged the Zacks Consensus Estimate of \$495.9 million by a slight margin.

Net interest income, on a fully taxable basis, totaled \$413 million, up 16.2% year over year. The rise was mainly due to a considerable fall in interest expenses. Nevertheless, net interest margin contracted 7 basis points (bps) to 3.05%.

Non-interest income declined 15.7% year over year to \$89.6 million. Lower bank service charges, customer interest rate swap and other income led to the downside.

Non-interest expenses jumped 9.2% on a year-over-year basis to \$304 million. Increase in all components, except for operating lease expenses, led to the rise.

Efficiency ratio was 53.5% compared with 55.8% in the prior-year quarter. A decline in the ratio indicates improved profitability.

As of Jun 30, 2020, total loans were \$45.5 billion, up 2.6% from the prior quarter. Also, total deposits grew 11.6% sequentially to \$49.9 billion.

Credit Quality Deteriorates

As of Jun 30, 2020, non-performing assets were \$314.6 million, up 48.2% year over year. Ratio of non-performing assets to total loans was 0.69% compared with 0.55% in the year-ago quarter.

Also, net loan charge-offs more than doubled year over year to \$8.5 million. Net loan charge-offs as a percentage of average total loans were 0.08% on an annualized basis, up 3 bps year over year. Provision for loan losses was \$80.8 million compared with \$7.6 million in the year-ago quarter.

Capital Position and Profitability Ratios

As of Jun 30, 2020, total risk-based capital ratio decreased to 11.8% from 12% recorded a year ago. Also, the ratio of tangible equity to assets was 7.3%, down year over year from 7.7%.

Return on average tangible stockholders' equity was 8.1%, down from the prior-year quarter's 14.1%. Return on average assets of 0.58% declined from 1.04% as of Jun 30, 2020.

2020 Outlook

Looking forward, management expects PPP to have an approximately 3-basis point unfavorable impact on the margin in each of the next two quarters.

Run-off in the acquired United Financial's portfolio is anticipated to be \$200-\$300 million for 2020.

Recent News

Dividend Update

On Jul 23, People's United's board of directors announced a quarterly common stock dividend of 18 cents per share. The dividend was paid on Aug 15 to common shareholders of record as on Aug 3, 2020.

Valuation

People's United's shares are down 33.9% in the year-to-date period and 23.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 30.8% and 15.5% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 22.7% and 6.7%, respectively.

The S&P 500 Index is up 4.6% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 10.42X forward 12 months earnings, which compared to 12.12X for the Zacks sub-industry, 16.81X for the Zacks sector and 22.85X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.37X and as low as 7.49X, with a 5-year median of 15.18X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$9.5 price target reflects 8.88X 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	10.42	12.12	16.81	22.85
	5-Year High	21.37	18.28	16.81	22.85
	5-Year Low	7.49	9.2	11.6	15.25
	5-Year Median	15.18	14.12	14.26	17.58
P/TB TTM	Current	1.1	1.01	3.37	13.18
	5-Year High	2.28	9.88	4	13.2
	5-Year Low	0.97	0.84	2.01	5.96
	5-Year Median	1.81	1.45	3.48	9.57
P/S F12M	Current	2.38	2.21	6.22	3.7
	5-Year High	4.53	3.46	6.67	3.7
	5-Year Low	2.09	2.11	4.97	2.53
	5-Year Median	3.55	2.88	6.06	3.05

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	3
Commerce Bancshares, Inc. (CBSH)	Neutral	3
CullenFrost Bankers, Inc. (CFR)	Neutral	3
Comerica Incorporated (CMA)	Neutral	3
East West Bancorp, Inc. (EWBC)	Neutral	3
SVB Financial Group (SIVB)	Neutral	3
Synovus Financial Corp. (SNV)	Neutral	3
Webster Financial Corporation (WBS)	Neutral	3

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	PBCT	X Industry	S&P 500	BOKF	CFR	WBS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	A	F	C
Market Cap	4.74 B	95.06 M	23.75 B	4.14 B	4.62 B	2.65 B
# of Analysts	7	2	14	6	6	6
Dividend Yield	6.45%	2.98%	1.62%	3.47%	3.86%	5.44%
Value Score	C	-	-	A	D	B
Cash/Price	0.31	0.57	0.07	0.58	1.40	0.11
EV/EBITDA	6.93	6.50	13.49	5.40	-2.54	5.57
PEG Ratio	4.90	1.42	3.03	NA	1.68	NA
Price/Book (P/B)	0.63	0.80	3.18	0.81	1.15	0.88
Price/Cash Flow (P/CF)	6.97	8.30	12.85	7.09	7.52	5.75
P/E (F1)	9.80	12.33	22.17	12.10	15.95	12.71
Price/Sales (P/S)	2.00	2.00	2.49	1.88	2.96	1.93
Earnings Yield	10.21%	8.12%	4.32%	8.26%	6.28%	7.85%
Debt/Equity	0.31	0.57	0.77	0.68	0.06	0.36
Cash Flow (\$/share)	1.60	1.99	6.94	8.31	9.78	5.12
Growth Score	F	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	12.74%	12.52%	10.44%	15.63%	8.31%	16.38%
Proj. EPS Growth (F1/F0)	-17.68%	-18.67%	-5.97%	-30.80%	-32.50%	-43.16%
Curr. Cash Flow Growth	20.10%	6.02%	5.22%	7.34%	1.26%	6.12%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	14.12%	8.52%	8.19%	10.10%	10.73%
Current Ratio	0.92	1.00	1.33	0.78	0.71	0.80
Debt/Capital	22.89%	36.08%	44.59%	40.33%	5.54%	25.62%
Net Margin	20.81%	18.56%	10.13%	17.26%	23.29%	20.01%
Return on Equity	7.39%	7.43%	14.51%	7.65%	7.27%	9.30%
Sales/Assets	0.04	0.04	0.51	0.05	0.04	0.04
Proj. Sales Growth (F1/F0)	10.32%	0.00%	-1.67%	5.53%	2.11%	-3.65%
Momentum Score	A	-	-	A	B	C
Daily Price Chg	-1.67%	0.00%	-0.02%	-1.75%	-2.71%	-0.81%
1 Week Price Chg	0.35%	0.35%	1.09%	0.94%	1.14%	4.81%
4 Week Price Chg	0.72%	2.75%	4.83%	16.16%	7.92%	17.26%
12 Week Price Chg	2.85%	2.64%	13.09%	24.10%	7.40%	18.64%
52 Week Price Chg	-23.70%	-22.69%	2.77%	-24.71%	-14.12%	-36.62%
20 Day Average Volume	4,918,452	3,691	1,932,479	262,103	400,332	619,436
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.63%	6.88%	1.80%	2.03%	26.35%	2.16%
(F1) EPS Est 12 week change	2.91%	2.91%	2.88%	4.18%	34.63%	10.67%
(Q1) EPS Est Mthly Chg	-3.43%	2.65%	0.80%	6.85%	21.56%	-6.19%

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	A
VGM Score	C

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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