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## Flushing Financial (FFIC - $18.28 - NASDAQ) — EMPK Closed, ’21 Story on Track- Buy

| Year | EPS | P/E | PMV | |
|---|---|---|---|---|
| 2023P | $2.40 | 7.9x | $29 | Dividend: $0.84 Current Return: 4.5% |
| 2022P | 2.35 | 8.0 | 27 | Shares O/S: 30.8 million |
| 2021E | 2.05 | 9.2 | 25 | 52-Week Range: $21.39 - $8.86 |
| 2020A | 1.74 | 10.9 | --- | |

**COMPANY OVERVIEW**

Flushing Financial Corporation (FFIC) is a $7 billion-asset bank holding company headquartered in Uniondale, New York. Flushing operates nineteen bank branches across Nassau County on Long Island and the New York City boroughs Queens, Brooklyn, and Manhattan. The bank focuses on commercial lending with particular emphasis on multifamily.

**Reason for Comment:**

Flushing reported Q4 results detailing the condition and operations of the company post-EMPK close. The various moving parts and one-time charges obscure what, to us, seems like a good quarter of loan and net interest income (NII) growth.

- EMPK-specific merger charges of ~$5M, a $7.8M prepayment penalty, and $1.8M of additional merger-related provision expense created a complicated Q4 headline result, and we focus on the forward implications. Due primarily to the merger, Core NII (excluding fair value and purchase accounting adjustments) increased $5.0M (10%) to $54.7M on steady loan yields (3.99% vs. 3.98%). Additionally, declines in cost of funds (77bps vs. 89bps) grew Core Net Interest Margin (NIM) by 8bps to 2.97%. We anticipate lower loan yields going forward due to lower coming on yields of 3.41% vs. the on-book yield of 3.99%, but we also think management has additional offsets from deposit repricing (including $342M of CDs maturing in Q1), an expected full-year 7bps benefit from the balance sheet restructuring, and forgiveness fees from the $151M PPP balance. Overall, we expect relatively stable margins through 2021.
- On expenses, we look at the core operating expense result of $33.5M as the base for run-rate ’21 expenses: adding another month of EMPK and including the $3-3.5M of seasonal Q1 expenses along with some normal expense growth. With all the moving pieces, we reach a low-60s full-year efficiency ratio expectation vs. ~58% experienced in Q4.
- Finally, credit metrics indicated relative stability, with nonperforming assets actually declining to 26bps from 35bps, and net charge offs of $646K vs. $837K. As of 12/31, the company retained $364M of COVID deferred balance ($148M of which was interest-only): down from $846M at 9/30. We have consistently argued that Flushing’s superior historical credit performance, low LTVs, and long operating history give us a degree of credit comfort; we do not see anything here that contradicts that perspective. We will continue to monitor classified and criticized balances ($72M) in future quarters to gauge underlying performance.

**Investment Case:**

We think Flushing’s Q4 results indicate that the Empire merger integration remains on-track. Additionally, we expect the Q4 interim loan growth, $355M pipeline, and PPP forgiveness to help drive higher NII going forward: with some headwinds from lower loan pricing. We have increased our 2021 EPS estimate by $0.05 to $2.05 on the better-than-expected growth performance during Q4, and we continue to recommend Buy on Flushing Financial based on a $25 PMV in 2021.

**Table 1** **Flushing Financial 2019-2025P**

| *Fiscal year end 12/31* *($ millions, except per share)* | 2019 | 2020 | 2021E | 2022P | 2023P | 2024P | 2025P | CAGR '20-'25P |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 176 | $ 209 | $ 249 | $ 262 | $ 276 | $ 290 | $ 305 | *7.8 %* |
| Pretax income | 58 | 60 | 85 | 98 | 101 | 106 | 112 | *13.2* |
| EPS, cont ops | 1.62 | 1.74 | 2.05 | 2.35 | 2.40 | 2.55 | 2.65 | *8.8* |
| TBV / Share | $20.01 | $19.44 | $20.65 | $22.20 | $23.75 | $25.40 | $27.15 | *6.9* |
| P/E Multiple | 11.7x | 10.9x | 9.2x | 8.0x | 7.9x | 7.4x | 7.1x | |
| P/TBV Multiple | 0.9 | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | |

*Source: Company data and g.research estimates*

**Table 2**

**Flushing Financial**
**Private Market Value Analysis**
**2021E-2025P**

| | 2021E | 2022P | 2023P | 2024P | 2025P |
|---|---|---|---|---|---|
| TBV/Share | $20.65 | $22.20 | $23.75 | $25.40 | $27.15 |
| Valuation Multiple | 1.2x | 1.2x | 1.2x | 1.2x | 1.2x |
| Equity PMV | $25 | $27 | $29 | $30 | $33 |
| Market Price % discount / (premium) | *31.5%* | *41.4%* | *51.3%* | *61.8%* | *72.9%* |

*Source: Public data and g.research estimates*

**Flushing Financial Price Performance**


*Source: Public data. As of February 1, 2018, 2017 FFIC had a HOLD recommendation and was changed to a BUY on a BUY on April 26, 2018*

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I, ***Steven Comery, CFA*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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**Important Disclosures**

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Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.
A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.
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