



Community Trust Bancorp (CTBI)

Updated April 23th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price: \$49	5 Year CAGR Estimate: 6.7%	Quality Percentile: N/A
Fair Value Price: \$47	5 Year Growth Estimate: 5.0%	Momentum Percentile: N/A
% Fair Value: 104%	5 Year Valuation Multiple Estimate: -1.0%	Total Return Percentile: N/A
Dividend Yield: 2.7%	5 Year Price Target: \$59	Valuation Percentile: N/A

Overview & Current Events

Community Trust Bancorp is a regional bank, which serves customers in 80 branch locations in 35 counties in Kentucky, Tennessee, and West Virginia. It is the second-largest bank holding company in Kentucky and has a market cap of \$863 million. Due to its small market cap, it does not belong to the S&P 500 index and hence it is not considered a Dividend Aristocrat even though it has raised its dividend for 37 consecutive years.

Community Trust Bancorp has a high-quality loan portfolio, whose non-performing loans have been on a steady decline, from 1.7% in 2013 to 0.9% in 2017. Nevertheless, if the \$0.16 per share benefit from the recent tax reform is excluded from last year's earnings-per-share (EPS), the EPS of the bank have remained almost flat during the last five years. This stagnation has mostly resulted from the steady decrease in the net interest margin of the bank, from 4.0% in 2013 to 3.7% last year. This decline has been caused by the almost record-low interest rates that prevailed for many years until recently. However, since early last year, the Fed has begun to aggressively raise interest rates. Even better for the bank, the Fed is determined to continue to raise interest rates in the upcoming years. As a result, Community Trust Bancorp is poised to enjoy higher net interest margin and hence it is likely to post meaningful EPS growth in the next few years.

In its latest earnings report, the bank exceeded analysts' estimates for EPS but only thanks to its benefit from the tax reform. If its tax benefit is excluded, its performance was lackluster, just like it has been in the last few years. However, thanks to the rising interest rates, the bank is poised to return to its growth trajectory. Moreover, despite the lack of EPS growth, the company has grown its book value by 5.8% per year on average in the last five years and expects to grow it at a similar pace this year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.38	\$1.50	\$1.96	\$2.30	\$2.63	\$2.62	\$2.49	\$2.66	\$2.70	\$2.91	\$3.30	\$4.21
DPS	\$1.05	\$1.09	\$1.10	\$1.12	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.34	\$1.68

Thanks to the improving interest rates, the management and the analysts expect the EPS to grow from \$2.91 to about \$3.30 this year. The company has grown its EPS at an 8.6% average annual rate since 2008. However, in the last six years, it has grown its EPS by only 4.0% per year on average. Therefore, given also the tailwind from the rising rates, it is prudent to assume approximate 5.0% EPS growth for the next few years. If this growth rate materializes, the EPS will grow from \$3.30 this year to \$4.21 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.9	16.3	12.5	10.8	11.3	13.2	14.3	12.8	13.5	16.3	14.8	14.1
Avg. Yld.	3.8%	4.5%	4.5%	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.7%	2.8%

Most bank stocks incurred depressed P/E ratios in the years after the Great Recession, as investors punished these stocks due to their traumatic losses. As a result, most bank stocks had significant upside potential thanks to P/E expansion. However, their valuation has returned to normal levels in the last two years. Community Trust Bancorp is currently trading at a P/E of 14.8, which is higher than its 10-year average P/E of 14.1. As it is reasonable to expect the

stock to revert to its average P/E in the next five years, the stock is likely to incur a 1.0% annualized drag due to P/E contraction until 2023.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	----	----	----	----	----	----	----	----	----	----	----	----
Debt/A	89.6%	89.6%	89.9%	89.8%	89.0%	88.5%	88.0%	87.8%	87.3%	87.2%	87.0%	86.5%
Int. Cov.	----	----	----	----	----	----	----	----	----	----	----	----
Payout	76.1%	72.7%	56.1%	48.7%	43.3%	43.9%	47.4%	45.9%	46.7%	44.7%	40.6%	39.9%
Std. Dev.	59.6%	50.8%	31.3%	35.0%	19.8%	19.6%	19.7%	18.8%	22.2%	24.9%	27.0%	25.0%

Community Trust Bancorp proved that it was well managed in the Great Recession. In the worst financial crisis of the last 80 years, when most banks drastically cut their dividends, this regional bank remained profitable and continued to raise its dividend. Unfortunately for its shareholders, the market punished all the financial stocks indiscriminately in that bear market so the shareholders of the stock did not avoid the short-term pain of a falling stock price. However, those who remained focused on the solid performance of the company easily stayed the course.

As a recession has not shown up for nine consecutive years, it may show up in the upcoming years, particularly given the rising interest rates. Community Trust Bancorp will certainly be affected, as it is not immune to recessions. Nevertheless, as it is well managed, it is likely to prove resilient once again and evolve stronger in the subsequent recovery.

Final Thoughts & Recommendation

After five years of lackluster growth, Community Trust Bancorp is poised to return to growth thanks to rising interest rates. The company is well managed, and the stock is not too overvalued, so it holds some appeal for investors looking to benefit from rising interest rates. In addition, the stock has a low payout ratio and hence it has ample room to keep raising its dividend. With that said, mediocre total returns prevent us from recommending it as a buy.

Total Return Breakdown by Year

