



Community Trust Bancorp (CTBI)

Updated July 20th, 2018 by Nick McCullum

Key Metrics

Current Price: \$50	5 Year CAGR Estimate: 6.2%	Volatility Percentile: 36.3%
Fair Value Price: \$47	5 Year Growth Estimate: 5.0%	Momentum Percentile: 69.8%
% Fair Value: 106%	5 Year Valuation Multiple Estimate: -1.4%	Valuation Percentile: 46.5%
Dividend Yield: 2.6%	5 Year Price Target \$59	Total Return Percentile: 35.5%

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. Community Trust Bancorp operates with a \$4.2 billion balance sheet. 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 reported financial results for the second quarter of 2018 on July 18th. In the quarter, net income of \$11.6 million fell by 26.7% while diluted earnings-per-share of \$0.66 fell significantly from the \$0.89 reported in last year's reporting period. Similarly, the bank's return on average assets of 1.11% fell noticeably from last year's 1.55% while its return on average equity of 8.56% fell from the 12.00% reported in the same period a year ago.

The reason for Community Trust Bancorp's poor financial performance is a unique, one-time accounting charge related to certain customer reimbursements associated with two deposit add-on products. More specifically, management had previously announced that the knowledge of these reimbursements required the creation of an expense accrual accounting entry. More recently, Community Trust Bancorp announced (6/14/18) an increase in the accrual from \$1.2 million to \$4.75 million to reflect a change in the amount management determined to be most likely. In the second quarter, this resulted in a \$2.8 million (or \$0.16 per share) charge to net income. Backing out this one-time accounting charge and Community Trust Bancorp's earnings-per-share of \$0.82 still fell from the \$0.89 reported a year ago, but this is still a significant improvement overall.

Elsewhere, Community Trust Bancorp's fundamental performance was reasonably strong. Net interest income increased by 1.6% quarter-over-quarter and 2.7% year-on-year while the bank's loan portfolio increased by \$50.8 million (or 6.5% on an annualized basis). Looking ahead, we expect Community Trust Bancorp's performance to improve as similar one-time expenses are unlikely moving forward.

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 improving interest rates, management and analysts expect the 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, EPS will grow from \$3.30 this year to \$4.21 in 2023.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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	15.1	14.1
Avg. Yld.	3.8%	4.5%	4.5%	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.6%	2.8%

Most bank stocks have traded at persistently cheap P/E ratios in the years following the Great Recession. Community Trust Bancorp is currently trading at a P/E of 15.1, which is higher than its 10-year average P/E of 14.1. We believe that the mean reversion of this stock's valuation will introduce a 1.4% tailwind to its total returns moving forward.

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%

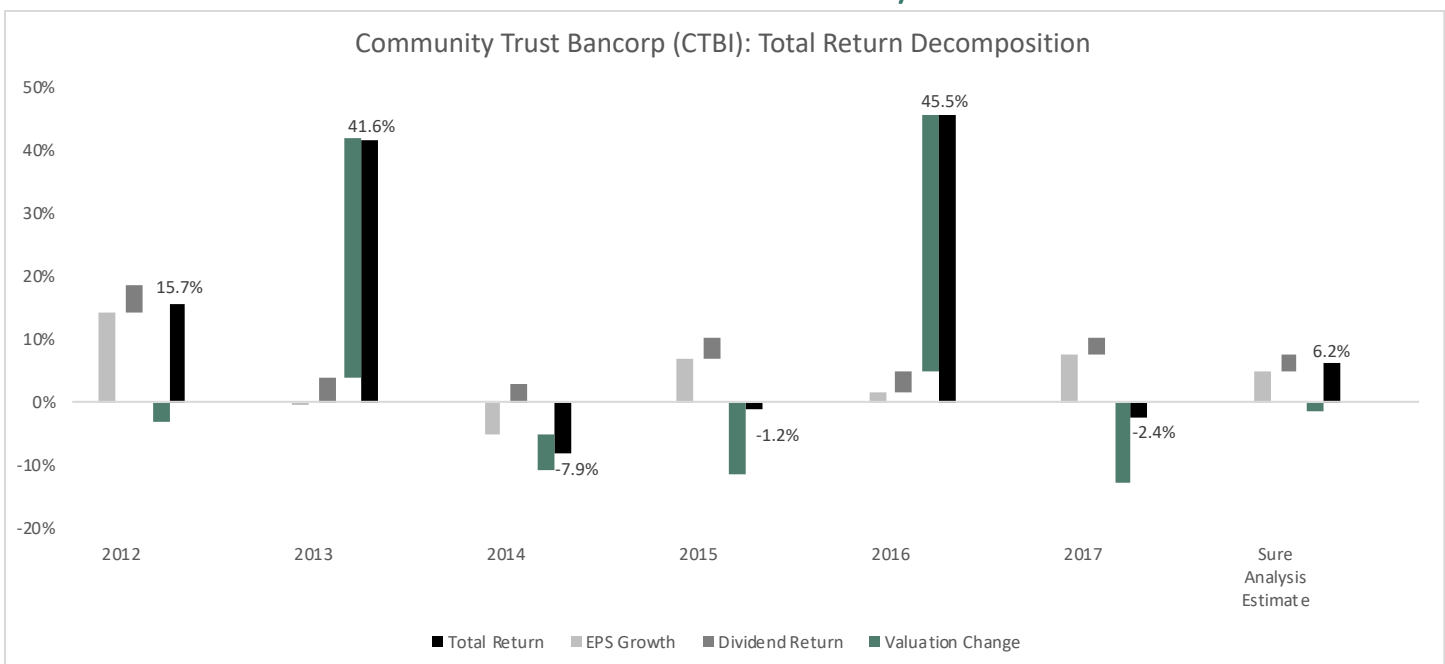
Community Trust Bancorp proved that it was well managed in the Great Recession. In the worst financial crisis of the last 80 years, when most banks cut their dividends, this bank remained profitable and continued raising its dividend.

As a recession has not materialized for nine consecutive years, investors should be watchful. In the event a recession occurs, Community Trust Bancorp will certainly be affected, but should perform well relative to most other banks.

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, the company's mediocre total return profile is far from the most appealing in our investment universe. For that reason, Community Trust Bancorp fails to earn a buy at its current price.

Total Return Breakdown by Year



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