First Financial Corporation Indiana (THFF)

Updated August 10t, 2018 by Nate Parsh

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	1.5%	**Volatility Percentile:**	43.6%
Fair Value Price:	$43	**5 Year Growth Estimate:**	2.3%	**Momentum Percentile:**	63.3%
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Valuation Percentile:**	33.8%
Dividend Yield:	2.0%	**5 Year Price Target**	$49	**Total Return Percentile:**	7.5%

Overview & Current Events

First Financial Corporation Indiana is the holding company for First Financial Bank N.A. The company, which has locations in Indiana and Illinois and can trace its roots back to 1834, offers clients savings accounts, certificates of deposit and life insurance products. First Financial offers home, automobile, agricultural and commercial loans as well. First Financial has a market capitalization of more than $618 million and had sales of almost $142 million in 2017.

First Financial reported 2nd quarter earnings on July 24th. The company earned $1.25 per share, topping estimates by $0.41 and growing 84% year over year. Revenue grew 26% to $43.64 million, $6.7 million above estimates.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.89	$1.73	$2.14	$2.83	$2.48	$2.37	$2.55	$2.35	$3.12	$2.38	***$3.38***	***$3.79***
DPS	$0.89	$0.90	$0.92	$0.94	$0.95	$0.96	$0.98	$0.98	$1.00	$1.00	***$1.02***	***$1.35***

First Financial saw its earnings decrease 8.5% from 2008 to 2009. While the last recession saw earnings drop, this decline was not that extreme as competitors and the company returned to growth the following year. In recent years, First Financial has seen EPS fluctuate wildly. EPS have declined in 2012, 2013, 2015 and 2017. As a result, the company has an earnings per share growth rate of just 2.3% per year over the past decade. Applying the company's earnings growth rate to expected 2018 EPS of $3.28, shares of First Financial could earn $3.79 by 2023.

First Financial's average total loans in the 2nd quarter grew 3.8% to $1.92 billion from the same time last year. Average total deposits increased 1.2% to $2.47 billion while net interest income climbed 15.4%. Net interest margin, a measure of profitability, was 4.32% in the 2nd quarter, higher than last year's 4.05% and the average for the banking industry in the 2nd quarter. After increasing slightly last quarter, First Financial's nonperforming loan declined 7.3% to $18.9 million, less than 1% of total loans.

First Financial pays a semi-annual dividend to shareholders in the months of January and July. The company has raised its dividend an average of 1.5% per year over the past ten years. The company last raised its dividend for this past January's payment by 2%. First Financial issued a special dividend of $1.50 per share on 10/20/2017, though this is not a common occurrence for the company and shouldn't be expected in the future. We are targeting a payout ratio of 35.5% going forward for First Financial. This translates to an annual per share dividend of $1.35 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.5	18.9	13.6	11.2	12.4	13.5	12.9	14.6	12.2	18.4	***14.9***	***12.9***
Avg. Yld.	2.5%	2.7%	3.2%	3.0%	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	***2.0%***	***2.8%***

Shares of First Financial have increased $6, or 13.6% since our April 26th update. Shares now trade with a forward P/E of 14.9. First Financial's stock has traded with an average multiple of 14.6 over the past ten years. However, there have been three years (2008, 2009 and 2017) where the P/E was artificially elevated due to earnings declines. Excluding these outlier years, First Financial has average P/E multiple of 12.9. if shares were to revert to their historical average, investors could see a multiple reversion of 2.8% annually through 2023.

First Financial has increased its dividend for the past 30 years and managed to do so during the last recession. While EPS figures declined in 2009, the company's dividend grew. Investors shouldn't expect the company to have high dividend growth though. We are expecting dividend growth of just 2.3% a year moving forward, in line with EPS growth. Even with the recently issued special dividend, First Financial has not shown a willingness to be more aggressive with its dividend increases. The stock's dividend yield is just above that of the S&P 500 and well below that of the 10-year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	87.5%	87.8%	86.9%	88.3%	87.1%	87.2%	86.9%	86.2%	86.1%	86.2%	***87%***	***86.4%***
Payout	47.1%	52%	43%	33.2%	38.3%	40.5%	38.4%	41.7%	32.1%	42%	***35.5%***	***35.5%***
Std. Dev.	78.8%	60.7%	34.2%	42.1%	24.3%	20.6%	19.7%	19.4%	21.3%	23.4%	***25.6%***	***34.5%***

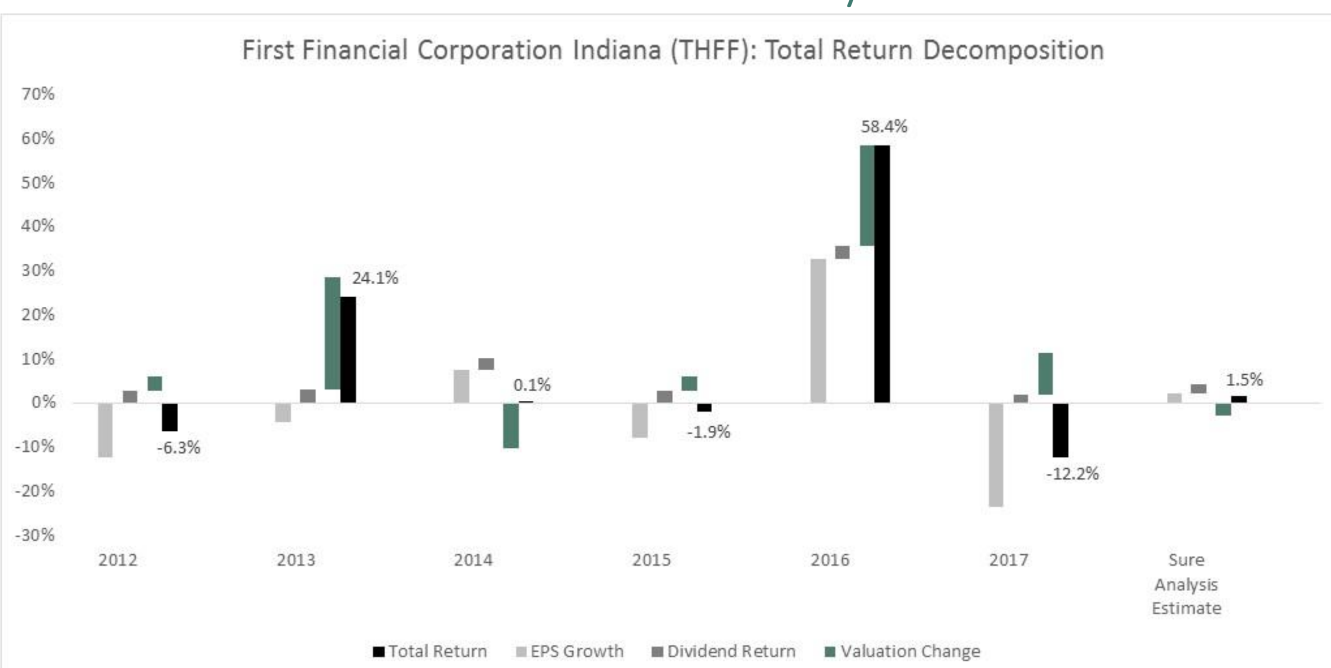
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's EPS total in 2010. Since then, the company has experienced varied earnings growth over the past decade. Investors looking for consistent earnings growth year in and year out will likely be disappointed by First Financial.

Even with a high degree of variance in the company's earnings numbers, First Financial has managed to maintain a very stable dividend payout ratio. The payout ratio has often been around 40%, leaving the company plenty of room to continue to increase dividends. We are expecting the payout ratio to stay around its current level in the future. An acceleration of EPS growth would likely lead to higher dividend growth as well.

Final Thoughts & Recommendation

After 2nd quarter earnings and gains in the stock price, we feel that shareholders of First Financial can expect annual returns of just 1.5% over the next five years. This total return is based off of earnings growth (2.3%), dividends (2.0%) and multiple contraction (-2.8%). While the regional bank's loan and net interest margin gains are solid, we feel that there just is not enough upside in the stock to warrant purchasing or holding First Financial. Investors should note that the current share price is above our 2023 price target of $49. Accordingly, the company earns a strong sell recommendation at current prices.

Total Return Breakdown by Year



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