



Community Trust Bancorp (CTBI)

Updated October 24th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	7.2%	Volatility Percentile:	41.0%
Fair Value Price:	\$43	5 Year Growth Estimate:	5.0%	Momentum Percentile:	31.9%
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Growth Percentile:	30.1%
Dividend Yield:	3.0%	5 Year Price Target	\$55	Valuation Percentile:	44.1%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	36.8%

Overview & Current Events

Community Trust Bancorp is a regional bank, which serves customers in 81 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 \$800 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 38 consecutive years.

In the second quarter, Community Trust Bancorp missed the analysts' estimates by a wide margin due to a non-recurring accounting charge related to customer reimbursements. However, in our last research report, just after the earnings report, we maintained our earnings-per-share growth estimates intact, as we viewed this charge as a temporary issue.

This view proved correct when the company reported (10/17/18) its financial results for the third quarter of 2018. The bank exceeded the analysts' earnings-per-share estimates by a wide margin (\$0.91 vs. \$0.84). In the quarter, the bank grew its net interest income by 3% and its non-interest income by 4% over last year. It also grew its loan portfolio by 1% over last year. Thanks to this growth and a steep decrease in its tax rate, from 35% to 21%, Community Trust Bancorp grew its earnings-per-share by 17% over last year and is poised to post record earnings-per-share 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	\$3.33	\$4.25
DPS	\$1.05	\$1.09	\$1.10	\$1.12	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.68
Shares	16.7	16.7	16.8	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7	18.0

Thanks to improving interest rates and the strong performance of the bank in Q3, we have slightly raised our earnings-per-share estimate for this year, from \$3.30 to \$3.33. The company has grown its earnings-per-share at an 8.6% average annual rate since 2008. However, in the last six years, it has grown its earnings-per-share by only 4.0% per year on average. Therefore, given also the tailwind from rising rates, it is prudent to assume approximate 5.0% earnings-per-share growth for the next five years.

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	13.5	13.0
Avg. Yld.	3.8%	4.5%	4.5%	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	3.0%	3.1%

Community Trust Bancorp is currently trading at a P/E ratio of 13.5, which is slightly lower than its 10-year average P/E of 14.1. Nevertheless, as the cycle of rising interest rates unwinds, we prefer to be conservative and assume a P/E ratio around 13.0 by 2023. In such a case, the stock will incur a mild 0.8% annualized drag due to its P/E contraction over the next five years.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	89.6%	89.6%	89.9%	89.8%	89.0%	88.5%	88.0%	87.8%	87.3%	87.2%	86.8%	86.5%
Payout	76.1%	72.7%	56.1%	48.7%	43.3%	43.9%	47.4%	45.9%	46.7%	44.7%	40.5%	39.5%
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.

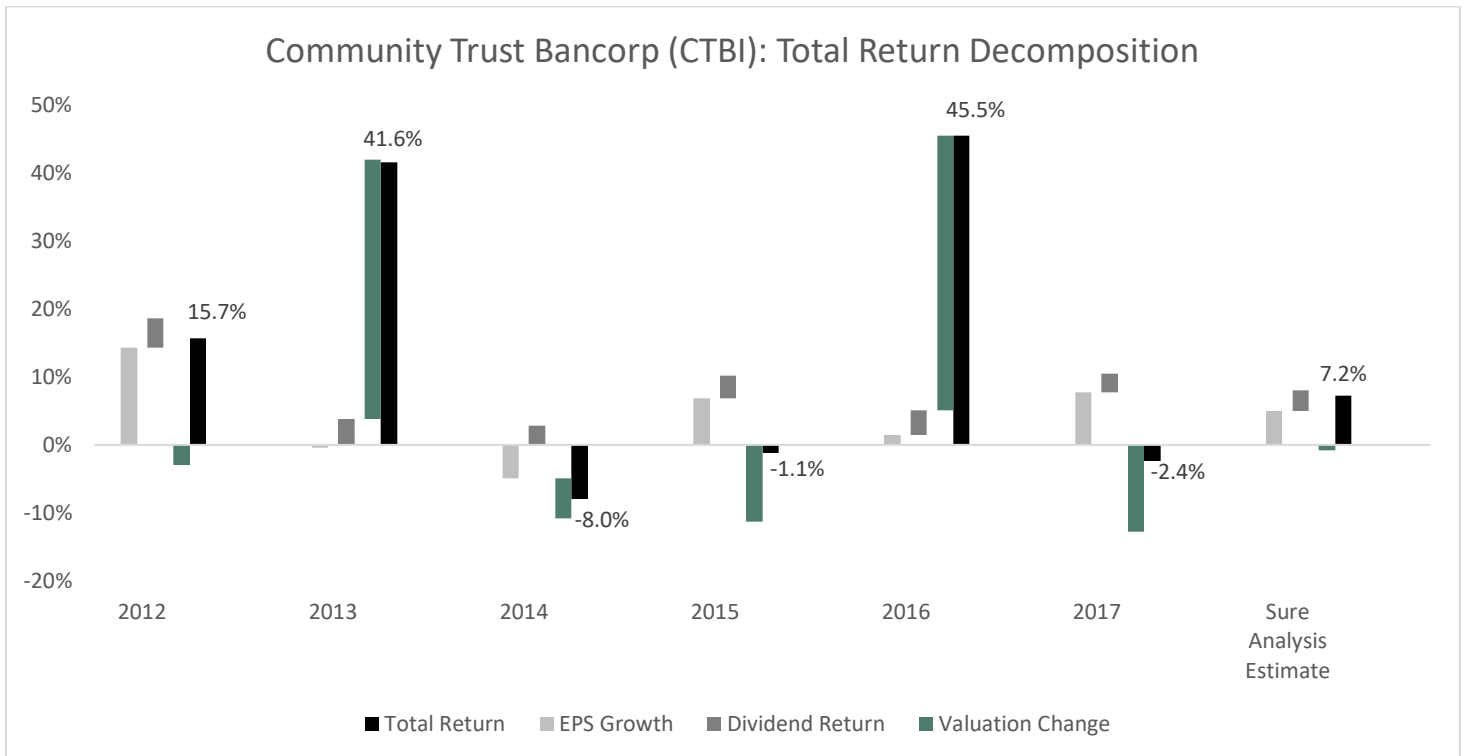
As a recession has not materialized for nine consecutive years, investors should be watchful. In the event a recession occurs, Community Trust Bancorp will certainly be affected, but its business performance will probably be superior to that of most other banks thanks to its conservative loan portfolio.

On the other hand, whenever the market incurs a meaningful correction, Community Trust Bancorp tends to underperform its sector due to its low market cap and its resultant low trading liquidity. Only the investors who can remain focused on the fundamentals and ignore pressure on the stock price should consider purchasing this stock.

Final Thoughts & Recommendation

After five years of lackluster growth, Community Trust Bancorp is poised to return to meaningful growth thanks to rising interest rates. The company is well managed and the stock is reasonably valued 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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	139.9	146.9	160.2	175.3	178.1	184.0	177.2	179.1	181.5	185.9
SG&A Exp.	48.2	55.4	58.6	58.5	60.8	62.6	72.0	66.1	68.0	69.9
D&A Exp.	5.1	5.2	4.4	4.2	4.3	4.6	4.3	3.9	3.9	4.0
Net Profit	23.1	25.1	33.0	38.8	44.9	45.2	43.3	46.4	47.3	51.5
Net Margin	16.5%	17.1%	20.6%	22.2%	25.2%	24.6%	24.4%	25.9%	26.1%	27.7%
Free Cash Flow	51.4	33.5	58.9	61.2	53.6	88.6	55.4	52.7	57.9	60.0
Income Tax	8.3	10.6	14.6	16.8	20.2	20.0	19.1	18.5	19.1	17.0

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2955	3086.7	3355.9	3591.2	3635.7	3581.7	3723.8	3903.9	3932.2	4136.2
Cash & Equivalents	95.0	94.5	132.6	247.7	206.2	107.6	108.8	190.7	145.2	185.1
Goodwill & Int. Ass.	68.5	69.1	70.0	68.9	68.8	69.6	68.9	69.0	69.1	69.0
Total Liabilities	2646	2765.2	3017.2	3224.3	3235.3	3169.2	3275.9	3428.4	3431.6	3605.5
Long-Term Debt	133.6	94.2	92.3	83.0	62.8	62.6	122.5	162.4	62.3	60.2
Shareholder's Equity	308.2	321.5	338.6	366.9	400.3	412.5	447.9	475.6	500.6	530.7
D/E Ratio	0.43	0.29	0.27	0.23	0.16	0.15	0.27	0.34	0.12	0.11

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.8%	0.8%	1.0%	1.1%	1.2%	1.3%	1.2%	1.2%	1.2%	1.3%
Return on Equity	7.6%	8.0%	10.0%	11.0%	11.7%	11.1%	10.1%	10.1%	9.7%	10.0%
ROIC	5.3%	5.8%	7.8%	8.8%	9.8%	9.6%	8.3%	7.7%	7.9%	8.9%
Shares Out.	16.7	16.7	16.8	16.9	17.1	17.2	17.4	17.5	17.6	17.7
Revenue/Share	8.39	8.81	9.54	10.37	10.43	10.67	10.18	10.24	10.33	10.53
FCF/Share	3.09	2.01	3.51	3.62	3.14	5.14	3.19	3.02	3.30	3.40

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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