



Community Trust Bancorp (CTBI)

Updated January 17th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	9.8%	Volatility Percentile:	43.2%
Fair Value Price:	\$46	5 Year Growth Estimate:	5.0%	Momentum Percentile:	36.3%
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Growth Percentile:	31.8%
Dividend Yield:	3.2%	5 Year Price Target	\$58	Valuation Percentile:	62.3%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	54.6%

Overview & Current Events

Community Trust Bancorp is a regional bank with 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 \$743 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 mid-January, Community Trust Bancorp reported (1/16/19) its financial results for the fourth quarter of fiscal 2018. The bank marginally exceeded analysts' earnings-per-share estimates (\$0.89 vs. \$0.88). In the quarter, the bank grew both its loan portfolio and its net interest income by 3%, but non-interest income decreased by 1.4% from last year. As a result, its earnings-per-share increased only 6% over last year, i.e., much less than the realized growth in previous quarters. In the year, the bank grew its earnings-per-share by 15% to a record level thanks to growth in both interest and non-interest income, as well as a steep decrease in its tax rate, from 25% to 16%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.50	\$1.96	\$2.30	\$2.63	\$2.62	\$2.49	\$2.66	\$2.70	\$2.91	\$3.35	\$3.50	\$4.47
DPS	\$1.09	\$1.10	\$1.12	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.48	\$1.76
Shares	16.7	16.8	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8	18.0

Community Trust Bancorp has grown its earnings-per-share at a 9.3% average annual rate during the last decade. However, in the last six years, it has grown its earnings-per-share by only 4.1% per year on average. Given the current business momentum of the bank, we have maintained our forecast for 5.0% earnings-per-share growth over the next five years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.3	12.5	10.8	11.3	13.2	14.3	12.8	13.5	16.3	14.1	12.0	13.0
Avg. Yld.	4.5%	4.5%	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.9%	3.2%	3.0%

Community Trust Bancorp is currently trading at a P/E ratio of 12.0, which is lower than its 10-year average P/E of 13.4. Nevertheless, as the cycle of rising interest rates unwinds, we prefer to be somewhat conservative and assume a P/E ratio around 13.0 by 2024. In such a case, the stock will enjoy a 1.6% annualized gain thanks to its P/E expansion over the next five years.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	72.7%	56.1%	48.7%	43.3%	43.9%	47.4%	45.9%	46.7%	44.7%	40.3%	42.3%	39.4%

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.

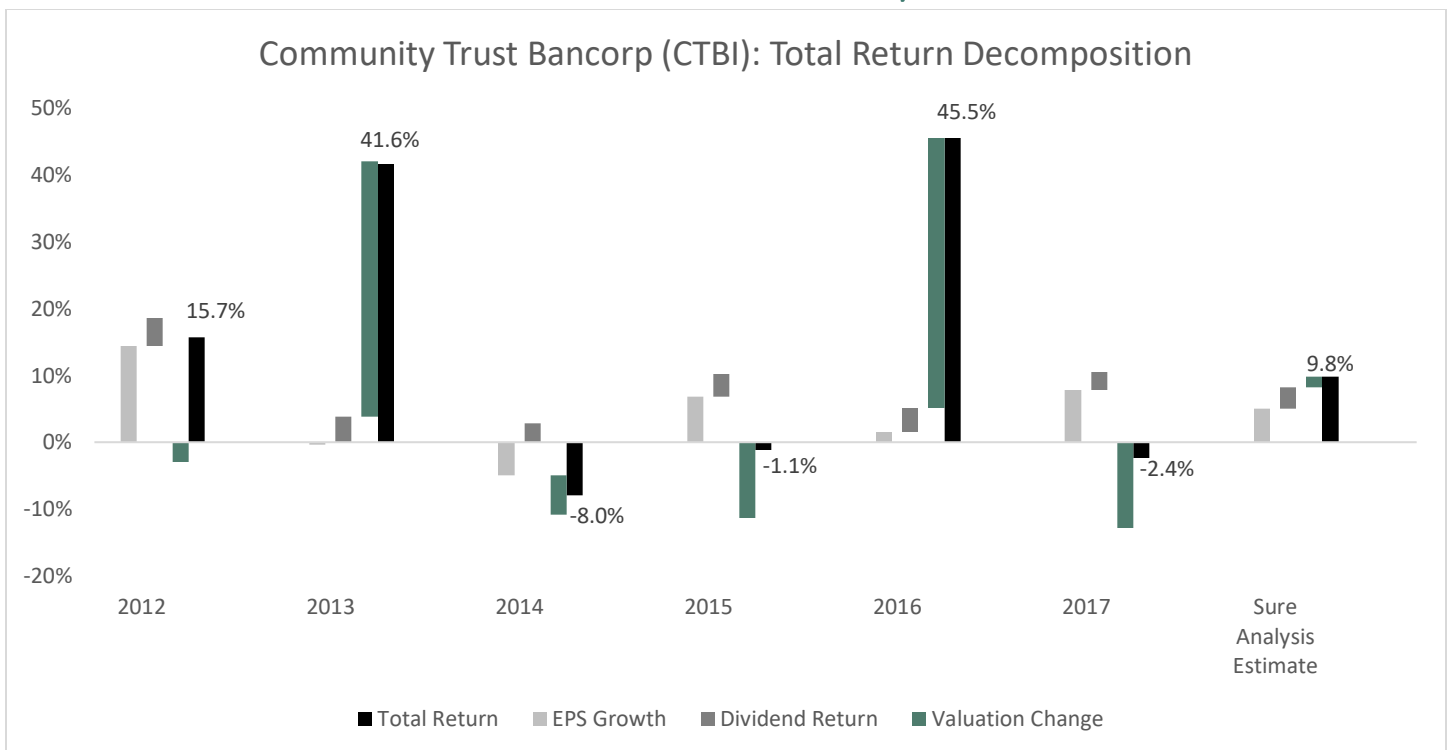
As a recession has not materialized for nine consecutive years and interest rates are on a steady rise, investors should be watchful. In the event a recession occurs, Community Trust Bancorp will certainly be affected, but its business performance will probably be superior to that of most other banks 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 investors who can remain focused on the fundamentals and ignore pressure on the stock price should consider purchasing this stock.

Final Thoughts & Recommendation

Since our last research report, in which we recommended avoiding the stock, Community Trust Bancorp has shed 7%. As a result, it has become more attractive and can now offer a 9.8% average annual return over the next five years. The bank accelerated its growth pattern in 2018 thanks to rising interest rates and its reduced tax rate and will continue to grow thanks to rising rates but at a slower pace due to the absence of the one-time benefit from the tax reform. 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 has ample room to keep raising its dividend. We rate Community Trust Bancorp as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	147	160	175	178	184	177	179	181	186	194
SG&A Exp.	55	59	58	61	63	67	66	68	70	69
D&A Exp.	5	4	4	4	5	4	4	4	4	N/A
Net Profit	25	33	39	45	45	43	46	47	51	59
Net Margin	17.1%	20.6%	22.2%	25.2%	24.6%	24.4%	25.9%	26.1%	27.7%	30.5%
Free Cash Flow	33	59	61	54	89	55	53	58	60	N/A
Income Tax	11	15	17	20	20	19	19	19	17	11

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3087	3356	3591	3636	3582	3724	3904	3932	4136	4202
Cash & Equivalents	95	133	248	206	108	109	191	145	185	65
Goodwill & Int. Ass.	69	70	69	69	70	69	69	69	69	65
Total Liabilities	2765	3017	3224	3235	3169	3276	3428	3432	3606	3637
Long-Term Debt	94	92	83	63	63	123	162	62	60	0
Shareholder's Equity	321	339	367	400	412	448	476	501	531	564
D/E Ratio	0.29	0.27	0.23	0.16	0.15	0.27	0.34	0.12	0.11	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.8%	1.0%	1.1%	1.2%	1.3%	1.2%	1.2%	1.2%	1.3%	1.4%
Return on Equity	8.0%	10.0%	11.0%	11.7%	11.1%	10.1%	10.1%	9.7%	10.0%	10.8%
ROIC	5.8%	7.8%	8.8%	9.8%	9.6%	8.3%	7.7%	7.9%	8.9%	10.3%
Shares Out.	16.7	16.8	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7
Revenue/Share	8.81	9.54	10.37	10.43	10.67	10.18	10.24	10.33	10.53	10.96
FCF/Share	2.01	3.51	3.62	3.14	5.14	3.19	3.02	3.30	3.40	N/A

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

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