First Financial Corporation Indiana (THFF)

Updated February 5th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	6.5%	**Volatility Percentile:**	45.5%
Fair Value Price:	$46	**5 Year Growth Estimate:**	2.3%	**Momentum Percentile:**	39.3%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Growth Percentile:**	9.3%
Dividend Yield:	2.2%	**5 Year Price Target**	$54	**Valuation Percentile:**	63.5%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	25.8%

Overview & Current Events

First Financial Corporation Indiana is the holding company for First Financial Bank N.A. The company has locations in Indiana and Illinois and can trace its roots back to 1834. First Financial offers clients savings accounts, certificates of deposit and life insurance products, as well as home, automobile, agricultural and commercial loans. The company has a market capitalization of more than $523 million.

First Financial reported fourth quarter and full year results on February 1st. The company earned $0.90 per share during the quarter, $0.01 below estimates. Revenue increased 5.3% to $37.83 million, but missed consensus by $0.62 million. Earnings-per-share grew 60% to $3.80 for 2018, $0.42 above expectations. Revenue for 2018 grew 7.5% to $155 million.

First Financial's average loans totaled $1.94 billion during the quarter, up from $1.87 billion during the same period of 2017. Total loans for 2018 grew 2.5% to $1.95 billion. Nonperforming loans declined 23.5% during 2018 and represented just 0.85% of the total loan portfolio. Average total deposits declined slightly for both the quarter and full year. Net interest income increased almost 7% during the fourth quarter and 4.3% for the year. Analysts expect First Financial to earn $3.76 per share in 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.73	$2.14	$2.83	$2.48	$2.37	$2.55	$2.35	$3.12	$2.38	$3.80	***$3.76***	***$4.21***
DPS	$0.90	$0.92	$0.94	$0.95	$0.96	$0.98	$0.98	$1.00	$1.00	$1.02	***$1.02***	***$1.49***
Shares	13.13	13.15	13.20	13.29	13.34	12.94	12.74	12.22	12.25	12.25	***12.25***	***12.25***

First Financial saw its earnings decrease just 8.5% from 2008 to 2009 – excellent performance compared to many financial companies. In recent years, First Financial has seen EPS fluctuate wildly. EPS have declined in 2012, 2013, 2015 and 2017. 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 2019 EPS of $3.76, shares of First Financial could earn $3.79 by 2024.

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 the January 2018 payment. 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 should not be expected to recur 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 $1.49 in 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.9	13.6	11.2	12.4	13.5	12.9	14.6	12.2	18.4	14.2	***11.7***	***12.9***
Avg. Yld.	2.7%	3.2%	3.0%	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	***2.4%***	***2.8%***

Shares of First Financial have decreased $6, or 12.5% since our October 24th update. Based off of estimates for 2019, share have a forward price-to-earnings ratio of 11.7. 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 this target, shareholders would see an additional 2% added to annual returns through 2024.

First Financial has increased its dividend for the past 30 years. While EPS figures declined in 2009, the company's dividend grew. Investors shouldn't expect the company to have high dividend growth though. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	52%	43%	33.2%	38.3%	40.5%	38.4%	41.7%	32.1%	42%	26.8%	***27.1%***	***35.5%***

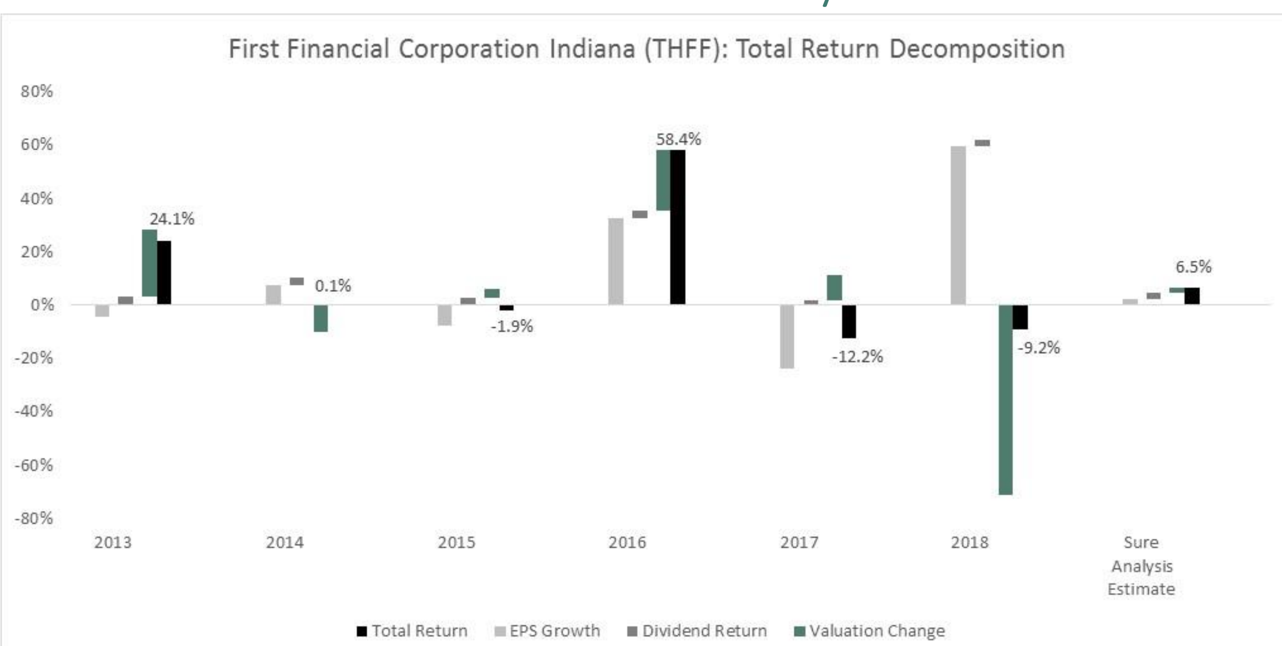
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's EPS total in 2010. Since then, the company has experienced varied earnings growth over the past decade. Investors looking for consistent earnings growth year in and year out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

Higher net interest income for the company. That scenario occurred during the fourth quarter and full year, thanks to the four rate hikes by the Federal Reserve.

Final Thoughts & Recommendation

After fourth quarter and 2018 results, we now anticipate that First Financial Corporation Indiana can offer annual returns of 6.5% through 2024, up from 2.6% previously. The increase in our projections are primarily due to higher than anticipated earnings-per-share results for 2018. First Financial's loan book and net interest income continue to move higher. We have increased our 2024 price target $5 to $54. Shares trade below our fair value estimate, but we continue to feel that First Financial doesn't offer enough growth or income to suit investors and rate it as a hold at current prices. Those looking for exposure to the regional bank sector are encouraged to consider other companies in our coverage universe, such as M&T Bank Corporation (MTB) or KeyCorp (KEY).

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	126.3	126.4	132.5	148.5	147.7	148.6	143.7	151.9	143.8	154.8
SG&A Exp.	42.3	47.7	47.2	58.2	57.1	57.9	61.9	54.0	52.2	51.6
D&A Exp.	4.2	4.6	3.9	5.1	5.5	6.0	5.5	5.0	4.4	N/A
Net Profit	22.7	28.0	37.2	32.8	31.5	33.8	30.2	38.4	29.1	46.6
Net Margin	18.0%	22.2%	28.1%	22.1%	21.3%	22.7%	21.0%	25.3%	20.3%	30.1%
Free Cash Flow	22.7	46.2	41.8	43.5	60.2	52.5	37.8	38.1	47.2	N/A
Income Tax	7.6	12.0	14.4	13.8	13.8	14.2	10.4	19.9	20.6	11.1

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2518.7	2451.1	2954.1	2895.4	3018.7	3002.5	2979.6	2988.5	3000.7	3008.7
Cash & Equivalents	84.4	58.5	134.3	87.2	71.0	78.1	88.7	75.0	74.1	74.4
Acc. Receivable	12.0	11.2	12.9	12.0	11.6	11.6	11.7	12.3	12.9	14.0
Goodwill & Int.	12.0	11.3	42.0	41.5	44.4	43.4	42.7	36.5	36.0	35.6
Total Liabilities	2212.2	2129.4	2607.1	2523.3	2632.5	2608.3	2569.3	2574.1	2587.1	2566.0
Long-Term Debt	363.2	159.9	246.4	160.3	117.9	60.9	46.5	81.1	57.7	69.7
Total Equity	306.5	321.7	347.0	372.1	386.2	394.2	410.3	414.4	413.6	442.7
D/E Ratio	1.19	0.50	0.71	0.43	0.31	0.15	0.11	0.20	0.14	0.16

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.9%	1.1%	1.4%	1.1%	1.1%	1.1%	1.0%	1.3%	1.0%	1.6%
Return on Equity	7.7%	8.9%	11.1%	9.1%	8.3%	8.7%	7.5%	9.3%	7.0%	10.9%
ROIC	3.3%	4.9%	6.9%	5.8%	6.1%	7.0%	6.6%	8.1%	6.0%	9.5%
Shares Out.	13.13	13.15	13.20	13.29	13.34	12.94	12.74	12.22	12.25	12.25
Revenue/Share	9.63	9.64	10.07	11.21	11.10	11.24	11.19	12.33	11.76	12.63
FCF/Share	1.73	3.52	3.17	3.29	4.52	3.97	2.94	3.10	3.86	N/A

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