First Financial Corporation Indiana (THFF)

Updated April 30th, 2019 by Josh Arnold

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	6.4%	**Volatility Percentile:**	48.5%
Fair Value Price:	$46	**5 Year Growth Estimate:**	2.3%	**Momentum Percentile:**	32.8%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Growth Percentile:**	10.3%
Dividend Yield:	2.4%	**5 Year Price Target**	$51	**Valuation Percentile:**	73.7%
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Total Return Percentile:**	39.7%

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 just over $500 million, and produces about $175 million in annual revenue.

First Financial reported Q1 earnings on 4/23/19 and results were slightly weaker than expected. Net interest income rose 7.1% year-over-year as First Financial experienced a couple of tailwinds. First, average loan balances rose 3.4% year-over-year to $1.97 billion. Second, net interest margin rose 25bps from 4.06% to 4.31% year-over-year. This is a huge gain considering the yield curve has flattened materially in the past twelve months. First Financial continues to collect very cheap deposits and lend them prudently, leading to a strong top line performance in Q1.

Noninterest income fell slightly but it is a very small fraction of total revenue, so it didn't have a meaningful impact on Q1's revenue number. On the expense front, First Financial saw its efficiency ratio decline from 63.5% to 62.3% year-over-year. While the number is moving in the right direction, that's a high efficiency ratio, indicating First Financial has some work to do to reduce expenses. Large banks are generally in the mid-50% area, with smaller banks still under 60%.

Total earnings-per-share rose from 73 cents to 79 cents year-over-year. The gain accrued from top line gains thanks to higher net interest margin, as well as higher loan balances. Slightly lower expenses helped as well, but the total earnings-per-share performance was slightly lower than our expectation. As a result, we've marginally reduced our earnings-per-share estimate from $3.76 to $3.65 for 2019, representing a small decline against 2018.

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	***$3.65***	***$4.09***
DPS	$0.90	$0.92	$0.94	$0.95	$0.96	$0.98	$0.98	$1.00	$1.00	$1.02	***$1.02***	***$1.50***
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 – an excellent performance compared to many financial companies. In recent years, First Financial has seen earnings-per-share fluctuate rather wildly. For example, earnings-per-share declined in 2012, 2013, 2015 and 2017, while we expect that to occur again for 2019. 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 earnings-per-share of $3.65, shares of First Financial could earn $4.09 by 2024. We see that small amount of growth accruing in an irregular fashion, mostly from higher loan balances and strong net interest margin performance. First Financial could also see a margin tailwind from lower expenses relative to revenue.

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 36% going forward for First Financial. This translates to an annual per share dividend of $1.50 in 2024.

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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	***11.5***	***12.5***
Avg. Yld.	2.7%	3.2%	3.0%	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	***2.4%***	***2.9%***

Based off of estimates for 2019, shares have a forward price-to-earnings ratio of 11.5. 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 multiple was artificially elevated due to earnings declines. Excluding these outlier years, First Financial has average earnings multiple of 12.9, and we see fair value at 12.5. if shares were to revert to this target, shareholders would see an additional 1.7% added to annual returns through 2024.

First Financial has increased its dividend for the past 30 years. While earnings-per-share figures declined in 2009, the company's dividend grew. Investors shouldn't expect the company to have high dividend growth, however. First Financial has not shown a willingness to be more aggressive with its dividend increases, likely due to irregular earnings performance. We see the yield rising from 2.4% today to 2.9% in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	52%	43%	33%	38%	41%	38%	42%	32%	42%	27%	***28%***	***36%***

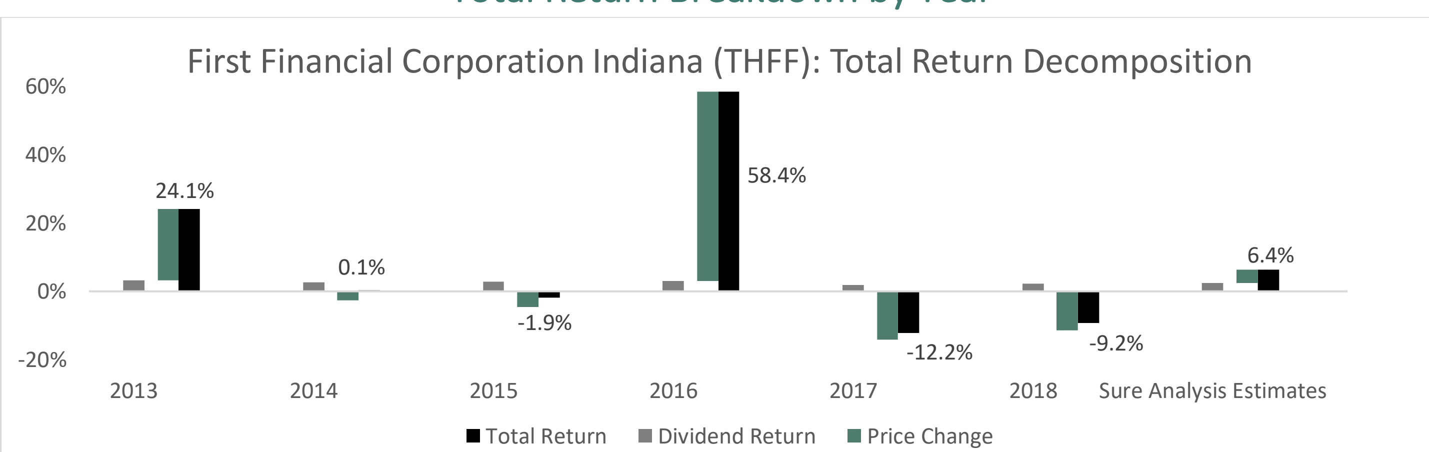
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth year in and year out will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

If First Financial has a competitive advantage, it is the bank's presence in its small home markets. In addition, its net interest margin is very high against other banks. However, First Financial doesn't have any sort of competitive moat from its business model as it competes in the same ways every other small bank does.

Final Thoughts & Recommendation

After Q1 results, we now anticipate that First Financial Corporation Indiana can offer annual returns of 6.4% through 2024, which in line with our last update. However, we have decreased our 2024 price target $3 to $51 thanks to lower earnings-per-share expectations for this year. 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.

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.