First Financial Corporation Indiana (THFF)

Updated July 27th, 2019 by Josh Arnold

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	5.4%	**Volatility Percentile:**	50.4%
Fair Value Price:	$46	**5 Year Growth Estimate:**	2.0%	**Momentum Percentile:**	22.4%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Growth Percentile:**	7.5%
Dividend Yield:	2.4%	**5 Year Price Target**	$50	**Valuation Percentile:**	69.1%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	30.8%

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

First Financial reported Q2 earnings on 7/23/19 and results beat lowered expectations. Average loans came in at $1.98 billion against $1.92 billion in the year-ago period, up 3.3%. Average deposits were essentially flat year-over-year at $2.46 billion.

Net interest income was down slightly year-over-year, recovery gains from previously written down securities helped artificially boost last year's Q2 results. Net interest margin was outstanding at 4.33%.

Nonperforming loans fell as a percentage of total loans from 0.98% to 0.76% as First Financial's credit quality remains strong. Net charge-offs fell markedly as well, and allowance for loan losses fell to 1.01% of loans against 1.04% last year.

Noninterest income rose slightly on an adjusted basis. Noninterest expense was higher year-over-year, primarily attributable to the costs related to the HopFed acquisition. First Financial's efficiency ratio rose to 58% from 50% in the year-ago period.

In total, earnings-per-share came in at $1.02 against $1.25 in the previous year's Q2. However, 2018's Q2 included recovery gains from previously written down securities, which accounted for roughly 40% of earnings-per-share during that quarter. On an operating basis, First Financial's 2019 Q2 was stronger. We've left our earnings-per-share estimate for this year unchanged at $3.65 following Q2 results.

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***	***$4.03***
DPS	$0.90	$0.92	$0.94	$0.95	$0.96	$0.98	$0.98	$1.00	$1.00	$1.02	***$1.04***	***$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, and we expect that to occur again for 2019. The company has an earnings-per-share growth rate of just ~2% 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 $4.03 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 first half 2019 payment. First Financial issued a special dividend of $1.50 per share on 10/20/2017, though this is not a common

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occurrence for the company and should not be expected to recur in the future. We are targeting a mid-30% payout ratio going forward for First Financial. This translates to an annual per share dividend of $1.50 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	***11.9***	***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%***	***3.0%***

Based off of estimates for 2019, shares have a forward price-to-earnings ratio of 11.9. 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 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% 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 3.0% 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%	***29%***	***37%***

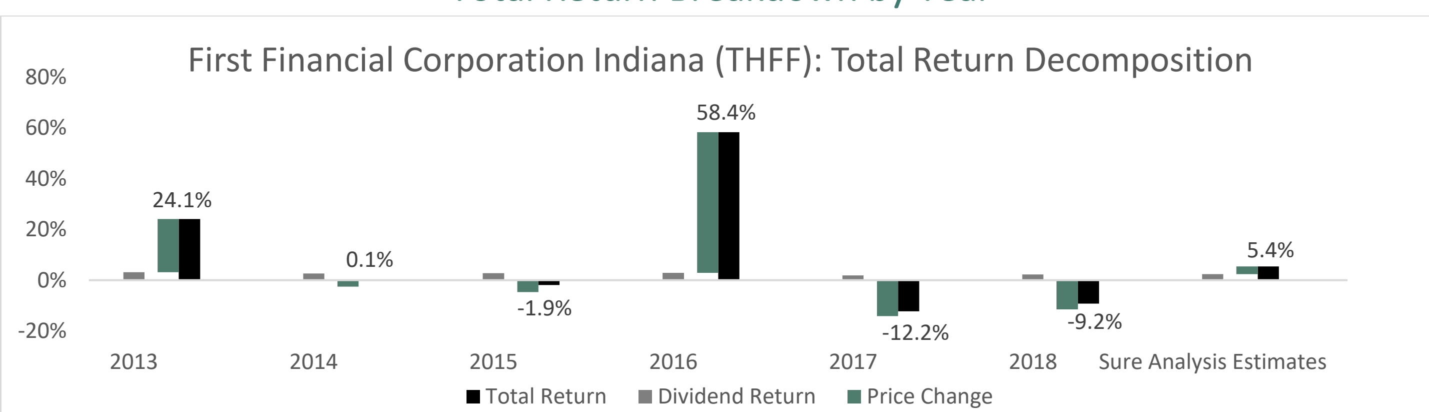
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth year in and year out will 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 Q2 results, we now anticipate that First Financial Corporation Indiana can offer annual returns of 5.4% through 2024, which in line with our last update. 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.