



Community Trust Bancorp (CTBI)

Updated October 17th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	7.4%	Volatility Percentile:	48.5%
Fair Value Price:	\$43	5 Year Growth Estimate:	4.0%	Momentum Percentile:	30.0%
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Growth Percentile:	27.7%
Dividend Yield:	3.5%	5 Year Price Target	\$52	Valuation Percentile:	64.8%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	49.2%

Overview & Current Events

Community Trust Bancorp is a regional bank with 84 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 \$751 million. Community Trust Bancorp operates with a \$4.3 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 39 consecutive years. In mid-October, Community Trust Bancorp reported (10/16/19) financial results for the third quarter of fiscal 2019. The bank grew its net interest income by 1.1% over the last year's quarter but its non-interest income decreased 2.2% and its non-interest expense rose 6.3%. The bank did not provide any explanation for the material increase in "other non-interest expenses." Overall, earnings-per-share fell from \$0.91 in last year's quarter to \$0.86. Nevertheless, they exceeded analysts' consensus by \$0.02. We have raised this year's earnings-per-share forecast by 1%, from \$3.52 to \$3.55.

The loan portfolio of Community Trust Bancorp increased by \$36.9 million or 1.2% over last year's period and non-performing loans rose \$10.4 million over the same period but they still stand at a comfortable level.

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	\$3.55	\$4.32
DPS	\$1.09	\$1.10	\$1.12	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.46	\$1.76
Shares¹	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. As the Fed has adopted a more dovish stance this year, it will provide a mild headwind to the growth efforts of the bank. As a result, we do not expect the company to accelerate its growth pattern in the upcoming years., forecasting 4% annual growth.

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	11.8	12.0
Avg. Yld.	4.5%	4.5%	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.9%	3.5%	3.4%

Community Trust Bancorp is currently trading at a price-to-earnings ratio of 11.8, which is lower than its 10-year average price-to-earnings ratio of 13.4. Due to the small market cap of the stock, we prefer to be somewhat conservative and assume a price-to-earnings ratio around 12.0 by 2024. In such a case, the stock would enjoy a modest 0.3% annualized gain thanks to the expansion of its valuation level over the next five years.

¹ In millions.

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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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%	41.1%	40.7%

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.

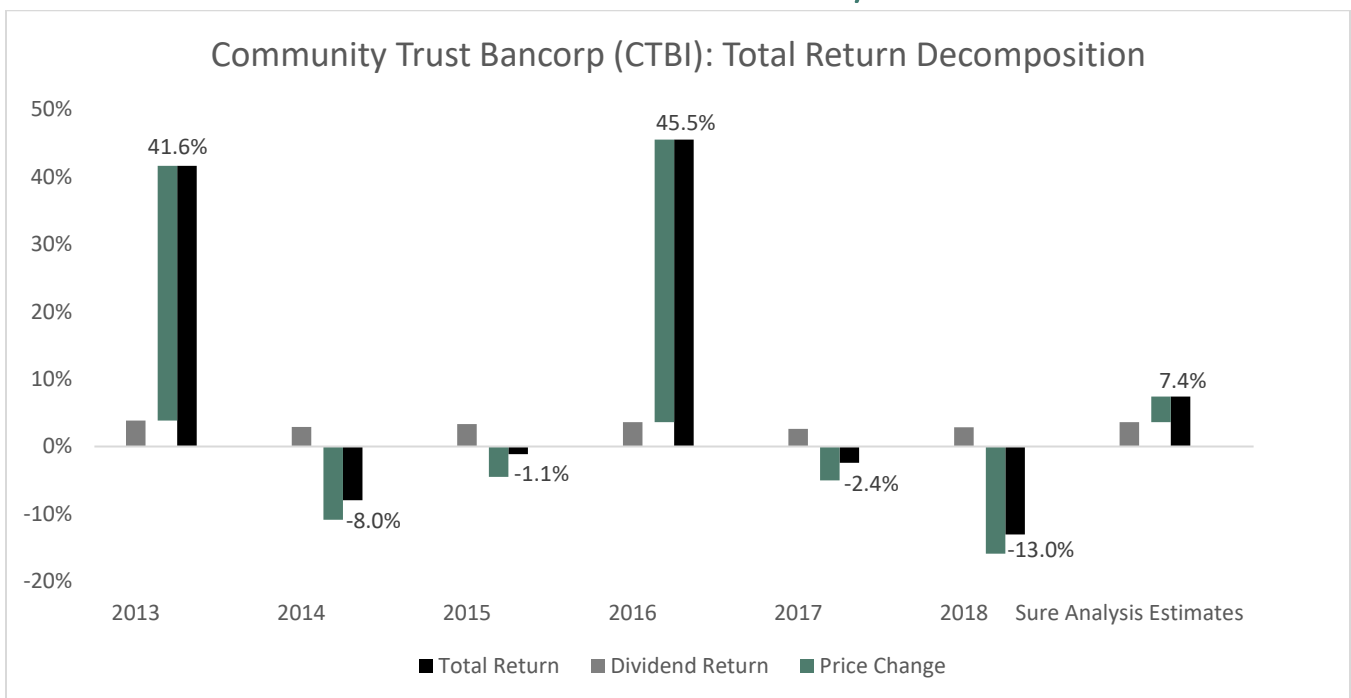
As a recession has not materialized for a whole decade, investors should be watchful. In the event a recession occurs, Community Trust Bancorp will certainly be affected, but its business performance will probably be superior to that of most other banks thanks to its conservative loan portfolio. To provide a perspective, the bank reported net loan charge-offs of only 0.18% in the most recent quarter.

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

Community Trust Bancorp is a well-managed bank, which could offer a 7.4% average annual return over the next five years. The bank accelerated its growth pattern in 2018 thanks to higher interest rates and its reduced tax rate but it will now decelerate due to the dovish stance of the Fed and the absence of the one-time benefit from tax reform. The stock is reasonably valued and has a low payout ratio so it has ample room to keep raising its dividend. It is thus eligible for income-oriented investors, particularly given its exceptional dividend growth record. Nevertheless, due to the risks that accompany small-cap stocks and the lackluster earnings growth rate of Community Trust Bancorp going forward, we maintain our hold rating for this stock.

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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