First Financial Corporation Indiana (THFF)

Updated October 26th, 2019 by Josh Arnold

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	4.9%	**Volatility Percentile:**	46.0%
Fair Value Price:	$44	**5 Year Growth Estimate:**	2.0%	**Momentum Percentile:**	27.0%
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Growth Percentile:**	10.4%
Dividend Yield:	2.4%	**5 Year Price Target**	$48	**Valuation Percentile:**	64.0%
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Total Return Percentile:**	28.9%

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 Q3 earnings on 10/25/19 and results were largely as expected. Average total loans were up 28.3% to $2.47 billion, primarily due to the recent acquisition of HopFed Bancorp. Total loans outstanding were up 37.4% to $2.67 billion as of the end of the quarter. Total deposits were $3.22 billion, up from $2.44 billion, also due to HopFed, for a loan-to-deposit ratio of 83%.

Net interest income was $34 million, up from $29 million in the year-ago period. Net interest margin declined significantly, losing 25bps to 4.04% as funding costs continue to rise. Noninterest income was up from $8.9 million to $9.7 million on increased service charges and the sale of mortgages.

Nonperforming loans were down but charge-offs were up, so credit quality is roughly where it was a year ago. Book value is up to $40.59 from $34.91 per share year-over-year. Earnings-per-share were up fractionally at 93 cents against 92 cents in the year-ago period. We're reiterating our estimate of $3.65 for this year after an in-line Q3 report.

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[1]	13.1	13.2	13.2	13.3	13.3	13.0	12.7	12.2	12.3	12.3	***13.1***	***13.0***

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 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.

[1] Share count 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.

First Financial Corporation Indiana (THFF)

Updated October 26th, 2019 by Josh Arnold

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***	***12.0***
Avg. Yld.	2.7%	3.2%	3.0%	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	***2.4%***	***3.1%***

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 traded with an average earnings multiple of 12.9, and we see fair value at 12. Thus, we see essentially no impact on total returns from the valuation in the coming years.

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 3.1% 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%***

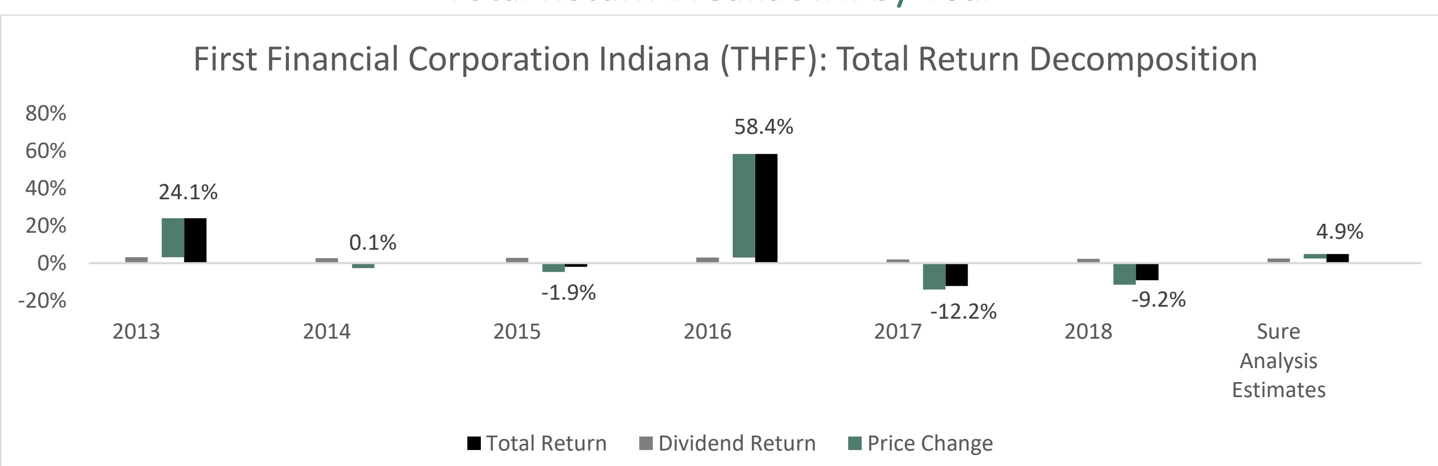
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed 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 Q3 results, we now anticipate that First Financial Corporation Indiana can offer annual returns of 4.9% through 2024, which is in line with our last update. Shares trade near 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



Click here to rate and review this research report. Your feedback is important to us.

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.

First Financial Corporation Indiana (THFF)

Updated October 26th, 2019 by Josh Arnold

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.