First Financial Corporation Indiana (THFF)

Updated February 9th, 2020 by Josh Arnold

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$592M
Fair Value Price:	$42	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	06/08/20[1]
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	06/15/20[2]
Dividend Yield:	2.4%	**5 Year Price Target**	$46	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	1.9%

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 under $600 million and produces nearly $200 million in annual revenue.

First Financial reported Q4 and full-year earnings on February 6th and results beat expectations on the top and bottom lines. The bank reported record net income for the second consecutive year, posting $48.9 million for 2019, up from $46.6 million in 2018. Earnings-per-share, however, were flat at $3.80 thanks to a higher share count. Indeed, average return on assets declined in 2019 from 1.57% to 1.42%.

For the fourth quarter, average total loans were up 37%, attributable almost entirely to the company's acquisition of HopFed that occurred in July of 2019. Total loans were up 36% as well, while deposits rose 34% year-over-year. The bank's loan-to-deposit ratio is 82% as of the end of the year, which is about average for a small bank.

Net interest income was up 30% year-over-year in Q4 as net interest margin was essentially flat at 4.37%. That is an extraordinary level of net interest margin as First Financial manages its funding and operating costs against loan yields. Noninterest income was up strongly as well, but represents a small portion of revenue, and the increase in Q4 was due to a gain on company-owned life insurance.

Noninterest expense rose in Q4, as expected, but the bank's efficiency ratio was 58.4% against 59.5% in the year-ago period. Nonperforming loans fell from 0.85% to 0.58% year-over-year as credit quality improved.

Higher revenue this year, but lower lending margins and higher costs could produce flat earnings at $3.80 per share.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.14	$2.83	$2.48	$2.37	$2.55	$2.35	$3.12	$2.38	$3.80	$3.80	***$3.80***	***$4.20***
DPS	$0.92	$0.94	$0.95	$0.96	$0.98	$0.98	$1.00	$1.00	$1.02	$1.03	***$1.04***	***$1.15***
Shares[3]	13.2	13.2	13.3	13.3	13.0	12.7	12.2	12.3	12.3	13.7	***14.0***	***16.0***

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. 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 2020 earnings-per-share of $3.80, shares of First Financial could earn $4.20 by 2025. 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.

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[1] Estimated date
[2] Estimated date
[3] Share count in millions

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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 sub-30% payout ratio going forward for First Financial. This translates to an annual per share dividend of $1.15 in 2025.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.6	11.2	12.4	13.5	12.9	14.6	12.2	18.4	14.2	11.1	***11.3***	***11.0***
Avg. Yld.	3.2%	3.0%	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	2.4%	***2.4%***	***2.5%***

Based off of estimates for 2020, shares have a forward price-to-earnings ratio of 11.3. 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 11 due to declining sector valuations. 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 31 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 staying essentially flat with the 2.4% level today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	43%	33%	38%	41%	38%	42%	32%	42%	27%	27%	***27%***	***27%***

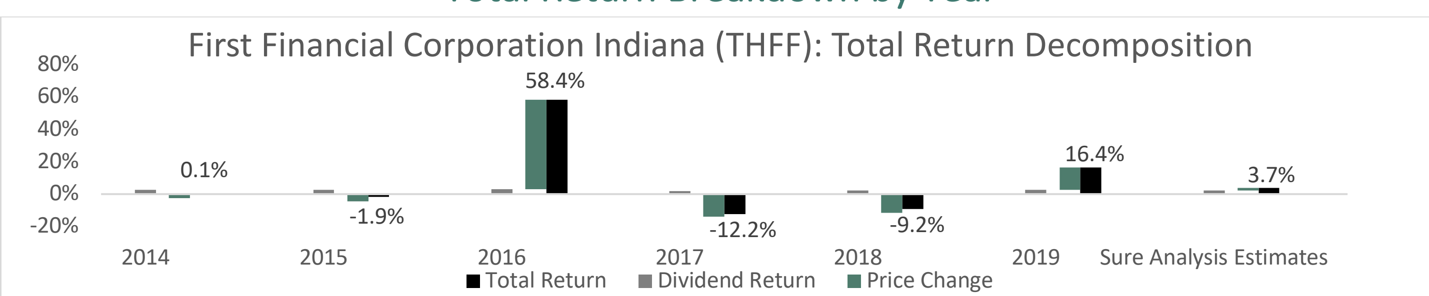
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed 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 2019 results, we now anticipate that First Financial Corporation Indiana can offer annual returns of 3.7% through 2025, which is down from 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 we downgrade it from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	126.4	132.5	148.5	147.7	148.6	143.7	151.9	143.8	154.8	170
SG&A Exp.	47.7	47.2	58.2	57.1	57.9	61.9	54.0	52.2	51.6	56
D&A Exp.	4.6	3.9	5.1	5.5	6.0	5.5	5.0	4.4	4	
Net Profit	28.0	37.2	32.8	31.5	33.8	30.2	38.4	29.1	46.6	49
Net Margin	22.2%	28.1%	22.1%	21.3%	22.7%	21.0%	25.3%	20.3%	30.1%	28.7%
Free Cash Flow	46.2	41.8	43.5	60.2	52.5	37.8	38.1	47.2	55	
Income Tax	12.0	14.4	13.8	13.8	14.2	10.4	19.9	20.6	11.1	12

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2451.1	2954.1	2895.4	3018.7	3002.5	2979.6	2988.5	3000.7	3008.7	4023
Cash & Equivalents	58.5	134.3	87.2	71.0	78.1	88.7	75.0	74.1	74.4	127
Acc. Receivable	11.2	12.9	12.0	11.6	11.6	11.7	12.3	12.9	14.0	19
Goodwill & Int.	11.3	42.0	41.5	44.4	43.4	42.7	36.5	36.0	35.6	89
Total Liabilities	2129.4	2607.1	2523.3	2632.5	2608.3	2569.3	2574.1	2587.1	2566.0	3466
Long-Term Debt	159.9	246.4	160.3	117.9	60.9	46.5	81.1	57.7	69.7	
Total Equity	321.7	347.0	372.1	386.2	394.2	410.3	414.4	413.6	442.7	558
D/E Ratio	0.50	0.71	0.43	0.31	0.15	0.11	0.20	0.14	0.16	0.14

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.1%	1.4%	1.1%	1.1%	1.1%	1.0%	1.3%	1.0%	1.6%	1.4%
Return on Equity	8.9%	11.1%	9.1%	8.3%	8.7%	7.5%	9.3%	7.0%	10.9%	9.8%
ROIC	4.9%	6.9%	5.8%	6.1%	7.0%	6.6%	8.1%	6.0%	9.5%	9.0%
Shares Out.	13.15	13.20	13.29	13.34	12.94	12.74	12.22	12.25	12.25	13.7
Revenue/Share	9.64	10.07	11.21	11.10	11.24	11.19	12.33	11.76	12.63	13.22
FCF/Share	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.