



Community Trust Bancorp (CTBI)

Updated August 12th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	9.4%	Market Cap:	\$610 M
Fair Value Price:	\$37	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	9/14/20
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	10/1/20
Dividend Yield:	4.5%	5 Year Price Target	\$45	Years Of Dividend Growth:	40
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	1.3%

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 \$610 million. Community Trust Bancorp operates with a \$5.0 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 40 consecutive years. In mid-July, Community Trust Bancorp reported (7/15/20) financial results for the second quarter of fiscal 2020. Its net interest income grew 6.8% over last year's quarter while its non-interest income rose 5.1%. Even better, the bank remarkably reduced its provision for credit losses by \$12.8 million, as the effect of the pandemic did not prove as severe as previously expected. As a result, earnings-per-share rose from \$1.03 in last year's quarter to \$1.11 and smashed analyst's consensus by \$0.73. We have thus raised our earnings-per-share forecast from \$2.40 to \$3.08.

All the banks have incurred a fierce sell-off due to the pandemic, which has caused a severe recession that will force many companies and individuals to default on their loans. On the bright side, Community Trust Bancorp is a conservatively managed bank, which should endure the ongoing downturn.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.96	\$2.30	\$2.63	\$2.62	\$2.49	\$2.66	\$2.70	\$2.91	\$3.35	\$3.64	\$3.08	\$3.75
DPS	\$1.10	\$1.12	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.46	\$1.53	\$1.77
Shares¹	16.8	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8	17.8	18.1

Community Trust Bancorp has grown its earnings-per-share at a 7.1% average annual rate during the last decade. However, in the last seven years, it has grown its earnings-per-share by only 4.8% per year on average. We expect the pandemic to subside and the economy to recover from next year but interest rates will remain depressed and hence they will provide a headwind to the growth efforts of the bank. Moreover, the non-recurring decreases in the tax rate of the bank, which fueled a great portion of the bottom-line growth in 2018 and 2019, will not be growth drivers anymore. As a result, we do not expect the company to accelerate its growth pattern in the upcoming years. As we have raised our earnings-per-share forecast for this year significantly, we have lowered our expected annual earnings-per-share growth off this year's earnings from 6% to 4%.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.5	10.8	11.3	13.2	14.3	12.8	13.5	16.3	14.1	11.6	11.0	12.0
Avg. Yld.	4.5%	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.9%	3.5%	4.5%	3.9%

Community Trust Bancorp is currently trading at a price-to-earnings ratio of 11.0, which is lower than its 10-year average price-to-earnings ratio of 13.0. Due to the small market cap of the stock, we prefer to be somewhat conservative and

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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assume a price-to-earnings ratio around 12.0 by 2025. In such a case, the stock would enjoy a 1.7% annualized gain thanks to the expansion of its valuation level over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	56.1%	48.7%	43.3%	43.9%	47.4%	45.9%	46.7%	44.7%	40.3%	40.1%	49.7%	47.3%

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.

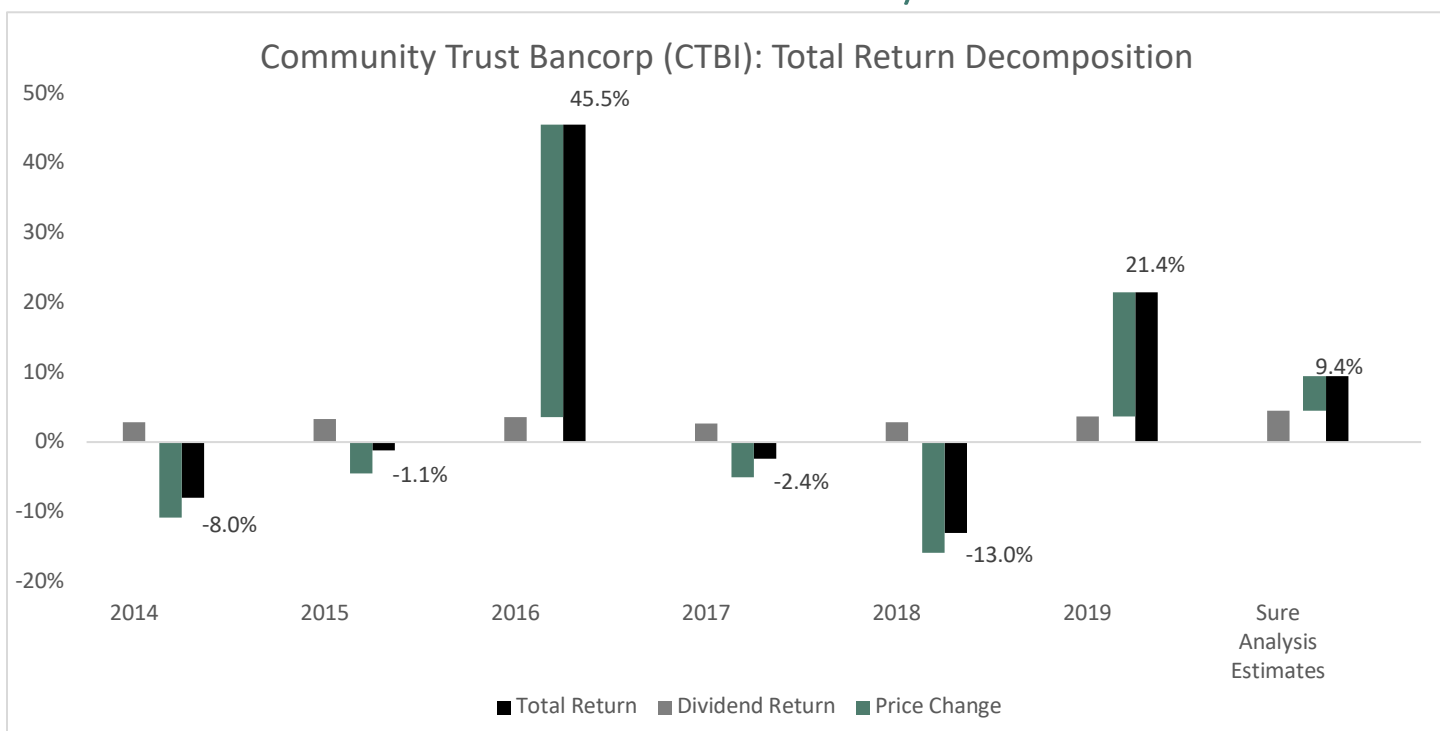
The current recession, which has been caused by the pandemic, is so severe that it will certainly affect Community Trust Bancorp, but its business performance will probably be superior to that of most other banks thanks to its conservative loan portfolio. To provide a perspective, the bank reported net loan charge-offs of only 0.32% 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 this security.

Final Thoughts & Recommendation

Community Trust Bancorp is a well-managed bank, which could offer a 9.4% average annual return over the next five years. The bank accelerated its growth pattern in 2018 and 2019 thanks to higher interest rates and its reduced tax rate but it will now decelerate due to the pandemic and the suppressed interest rates that will prevail for the foreseeable future. The stock is attractively valued and has a decent 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. The stock receives a buy rating for investors who can wait patiently for the pandemic to subside.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	160	175	178	184	177	179	181	186	194	195
SG&A Exp.	59	58	61	63	67	66	68	70	72	74
D&A Exp.	4	4	4	5	4	4	4	4	4	6
Net Profit	33	39	45	45	43	46	47	51	59	65
Net Margin	20.6%	22.2%	25.2%	24.6%	24.4%	25.9%	26.1%	27.7%	30.5%	33.1%
Free Cash Flow	59	61	54	89	55	53	58	60	63	81
Income Tax	15	17	20	20	19	19	19	17	11	7

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3356	3591	3636	3582	3724	3904	3932	4136	4202	4,366
Cash & Equivalents	133	248	206	108	109	191	145	185	144	265
Goodwill & Int. Ass.	70	69	69	70	69	69	69	69	69	69
Total Liabilities	3,017	3,224	3,235	3,169	3,276	3,428	3,432	3,606	3,637	3,751
Long-Term Debt	92	83	63	63	123	162	62	60	60	58
Shareholder's Equity	339	367	400	412	448	476	501	531	564	615
D/E Ratio	0.27	0.23	0.16	0.15	0.27	0.34	0.12	0.11	0.11	0.09

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.0%	1.1%	1.2%	1.3%	1.2%	1.2%	1.2%	1.3%	1.4%	1.5%
Return on Equity	10.0%	11.0%	11.7%	11.1%	10.1%	10.1%	9.7%	10.0%	10.8%	10.9%
ROIC	7.8%	8.8%	9.8%	9.6%	8.3%	7.7%	7.9%	8.9%	10.3%	10.0%
Shares Out.	16.8	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8
Revenue/Share	9.54	10.37	10.43	10.67	10.18	10.24	10.33	10.53	10.96	11.00
FCF/Share	3.51	3.62	3.14	5.14	3.19	3.02	3.30	3.40	3.54	4.56

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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