



Northeast Indiana Bancorp, Inc. (NIDB)

Updated December 2nd, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	6.2%	Market Cap:	\$47 M
Fair Value Price:	\$40	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/10/2020
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	11/27/2020
Dividend Yield:	2.8%	5 Year Price Target	\$47	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	D	Last Dividend Increase:	3.7%

Overview & Current Events

Northeast Indiana Bancorp, Inc. is a bank holding company for First Federal Savings Bank based in Indiana. The bank offers a variety of financial services, including savings, checking, retirement and health savings accounts along with certificates of deposits and direct deposits. Customers also have access to debt and credit cards, safe deposit boxes and online banking services. Northeast Indiana Bancorp's loan portfolio consists of mortgage, new construction, home equity, auto and recreational vehicle loans. The bank was founded in 1995 and operates nine full-service branches.

On 10/15/2020, Northeast Indiana Bancorp reported third quarter earnings results for the period ending 9/30/2020. Net income increased 21% to \$1.65 million from \$1.36 million. Earnings-per-share improved 20% to \$1.37, with result hitting a new record for Northeast Indiana Bancorp. The bank originated \$24.6 million of mortgage loans in the quarter.

Provisions for loan losses declined \$80K, or -40%, from the previous year. The bank's return on average assets improved 12 basis points to 1.65% while return on average equity was up 102 basis points to 14.33%. For the first nine months of the year, net income increased 16.5% to \$4.12 million while earnings-per-share grew 15.9% to \$3.43. We expect earnings-per-share of \$4.49, in-line with year-to-date results, which would represent 15% growth from 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.64	\$1.65	\$2.31	\$2.01	\$2.59	\$3.20	\$2.99	\$2.84	\$3.49	\$3.96	\$4.49	\$5.21
DPS	\$0.69	\$0.71	\$0.73	\$0.77	\$0.79	\$0.81	\$0.85	\$0.90	\$0.97	\$1.02	\$1.09	\$1.26
Shares¹	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

Northeast Indiana Bancorp has increased earnings-per-share at a rate of 9.1% over the last decade. Given its size and the expected increase in earnings-per-share this year, we feel that a target growth rate of 3% going forward is appropriate. This takes into consideration the company's history paired against the uncertainty and low rates of the current environment.

Northeast Indiana Bancorp raised its quarterly dividend 3.7% to \$0.28 for the 11/27/2020 payment. The bank has now raised its dividend for 26 consecutive years. Northeast Indiana Bancorp also announced a \$1.00 per share special dividend payable 12/23/2020 for shareholders of record at the close of business on 12/9/2020.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	24.4	7.4	7.1	10.4	10.0	9.4	11.0	12.4	10.6	10.3	8.7	9.0
Avg. Yld.	1.7%	5.8%	4.5%	3.7%	3.0%	2.7%	2.6%	2.6%	2.6%	2.5%	2.8%	2.7%

Shares of Northeast Indiana Bancorp have traded hands with an average price-to-earnings ratio of 11.3 since 2010. We have used a targeted price-to-earnings ratio of 9.0 due to the size of the bank and valuation of peer companies. Using the current share price and our expected earnings-per-share for the year, the stock is trading with a current price-to-

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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earnings ratio of 8.7. If this were to revert to our target price-to-earnings ratio by 2025, this would add 0.7% to annual returns over this period of time.

Northeast Indiana Bancorp currently yields 2.8%, more than a full percentage point higher than the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42%	43%	32%	38%	31%	25%	28%	32%	28%	34%	24%	24%

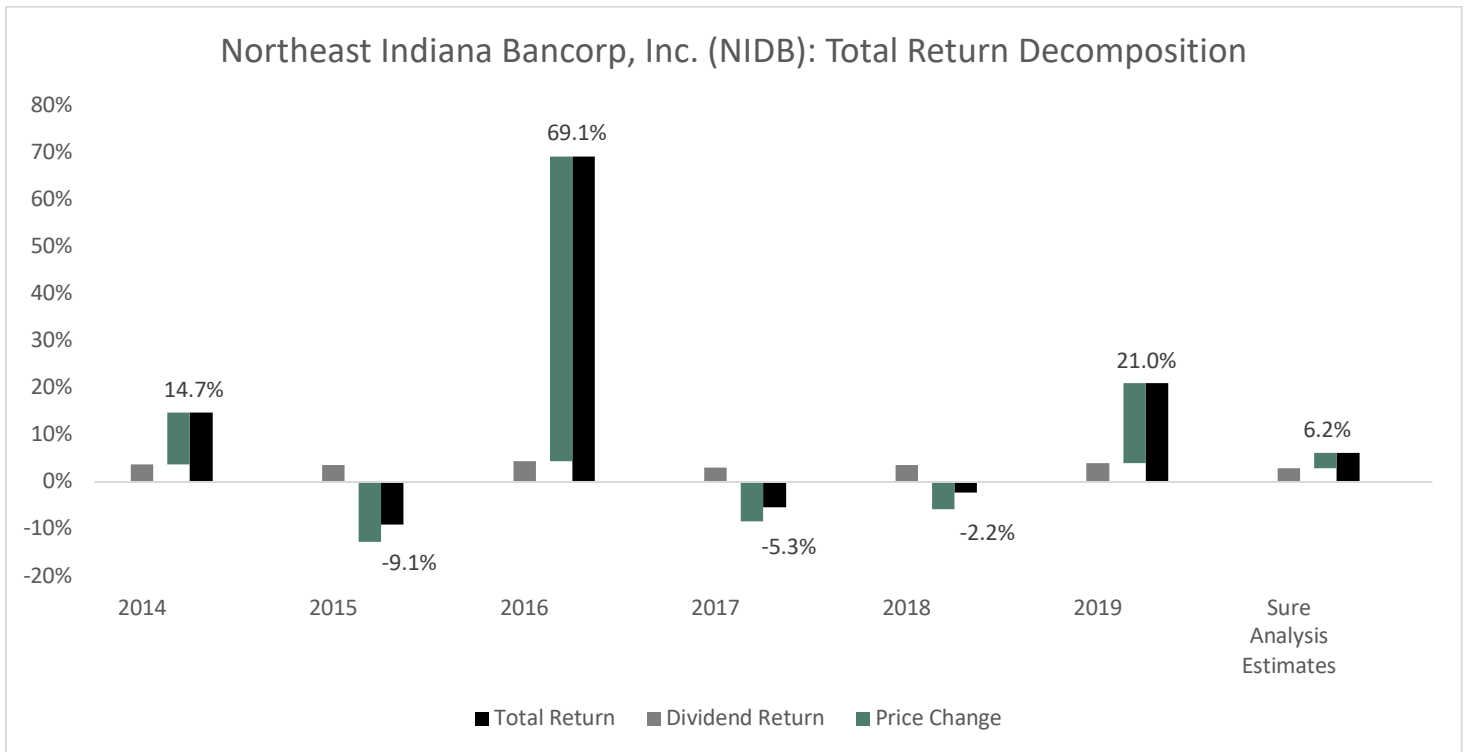
Northeast Indiana Bancorp performed well during the last recession. Earnings-per-share declined by -71% from 2006 to 2007 but rebounded by 58% to \$1.53 from 2007 through 2009. The bank's performance during the last recession gives us some confidence that it would endure the next recession as well. Northeast Indiana Bancorp's ability to pay and raise its dividend for more than a quarter century despite its size is a sign of a strong business model.

As a small regional bank, Northeast Indiana Bancorp doesn't have the numerous advantages of larger regional banks. One point in the bank's favor is that offers a wide variety of services that compares favorably to those offered by its larger peers. This will likely aid Northeast Indiana Bancorp's ability to prevent customers from switching to a different bank. In addition, some customers prefer the smaller bank operation.

Final Thoughts & Recommendation

Northeast Indiana Bancorp could offer a total annual return of 6.2% through 2025. This projection is based on a 3.0% earnings growth rate, 2.8% dividend yield and slight contribution from the valuation. The bank has produced record earnings so far this year and the dividend track record is impressive. Due to projected returns, Northeast Indiana Bancorp earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	11	12	11	13	13	13	13	14	15
SG&A Exp.	5	5	5	5	6	5	6	6	6
D&A Exp.	1	1	1	1	1	1	1	1	1
Net Profit	2	2	2	3	4	4	3	4	5
Net Margin	18.0%	17.5%	21.7%	25.0%	29.4%	28.1%	27.0%	30.0%	31.4%
Free Cash Flow	4	5	7	4	4	3	2	4	4
Income Tax	1	1	1	1	1	1	2	1	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	256	262	269	276	284	301	314	334	354
Cash & Equivalents	11	14	15	19	24	16	9	10	15
Acc. Receivable	1	1	1	1	1	1	1	1	1
Total Liabilities	232	235	241	246	252	267	279	297	313
Long-Term Debt	39	30	20	30	39	---	---	---	---
Total Equity	24	26	28	30	32	34	36	37	41
D/E Ratio	1.63	1.15	0.72	0.99	1.22	---	---	---	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.8%	0.8%	0.9%	1.1%	1.4%	1.2%	1.1%	1.3%	1.4%
Return on Equity	8.6%	8.1%	9.2%	10.8%	12.2%	10.9%	9.9%	11.4%	11.9%
ROIC	4.7%	3.4%	4.8%	5.8%	5.8%	6.8%	9.9%	11.4%	11.9%
Shares Out.	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Revenue/Share	9.08	9.43	9.27	10.37	10.86	10.66	10.51	11.62	12.46
FCF/Share	3.38	4.33	5.32	3.03	3.56	2.66	1.55	3.37	3.69

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

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