# PSB Holdings Inc. (PSBQ)

*Updated January 28th, 2021 by Josh Arnold*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $22 | **5 Year CAGR Estimate:** | 4.7% | **Market Cap:** | $100 M |
| **Fair Value Price:** | $24 | **5 Year Growth Estimate:** | 1.0% | **Ex-Dividend Date:** | 01/07/21 |
| **% Fair Value:** | 92% | **5 Year Valuation Multiple Estimate:** | 1.8% | **Dividend Payment Date:** | 01/29/21 |
| **Dividend Yield:** | 1.9% | **5 Year Price Target** | $25 | **Years Of Dividend Growth:** | 27 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **Last Dividend Increase:** | 5.0% |

## Overview & Current Events

PSB Holdings is the parent company of Peoples State Bank, or PSB, which opened its doors for the first time in 1962 in Wausau, Wisconsin. The company has paid dividends to shareholders continuously since 1965 and has increased its payment for 27 consecutive years. The bank has ten branches, and assets totaling $1.1 billion. The stock trades with a $100 million market cap, making it one of the smallest companies we cover.

PSB reported fourth quarter and full-year earnings on January 25th, 2021. The company reported revenue that was 16% higher year-over-year at $11.2 million for the quarter. Earnings came to $3.3 million, or $0.73 per share in Q4, up from $2.8 million and $0.63, respectively, in the same period last year. Earnings were also substantially higher sequentially, as Q3 was $2.6 million and $0.59, respectively.

Strength accrued from high mortgage refinance income as low rates have persisted, and so has refinance demand as consumers try to trade down to a lower rate. In addition, net interest margin improved due to Paycheck Protection Program fee income, and lower loan loss provisions. We note the Paycheck Protection Program tailwind should be short-lived and is not a long-term driver of revenue or earnings.

PSB also announced in late December that it had reached an agreement to acquire Sunset Bank & Savings in a cash transaction of $9.6 million. The transaction is expected to close in the second quarter of 2021 and should give PSB greater market share in southeastern Wisconsin.

We expect flat earnings this year as an initial estimate as the PPP tailwind abates and as interest rates remain quite low. PSB will have merger expenses from the Sunset acquisition as well, so we are cautious.

## Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.07 | $1.20 | $0.96 | $1.30 | $1.61 | $1.83 | $1.58 | $2.29 | $2.51 | $2.40 | ***$2.40*** | ***$2.52*** |
| **DPS** | $0.24 | $0.25 | $0.26 | $0.27 | $0.28 | $0.30 | $0.32 | $0.34 | $0.38 | $0.41 | ***$0.42*** | ***$0.54*** |
| **Shares**[1] | 5.0 | 5.0 | 5.0 | 5.0 | 4.8 | 4.6 | 4.6 | 4.5 | 4.5 | 4.4 | ***4.3*** | ***4.1*** |

PSB has an impressive track record of growth. It managed to remain profitable during the Great Recession, which is a testament to its lending standards. Since 2011, PSB has managed to grow earnings-per-share by more than 8% annually, on average. We don't see that sort of growth in the future, however, and instead estimate 1% annual expansion, primarily due to the extremely low interest rates persisting in the U.S.

This growth is slower than historical rates primarily because the bank's spreads had previously expanded widely, and because its loan-to-deposit ratio is stretched at or near the limit. Both of these levers allow banks to boost profitability of the existing asset base by improving margins, and producing leverage, respectively. PSB has done these things well in recent years but given that its net interest margin is still in excess of 3%, and that its loan-to-deposit ratio is closing in on 100%, we see limited catalysts for outsized growth. With commentary from the management team suggesting more

[1] Share count in millions

weakness ahead for rate spreads, we are more cautious. In addition, the merger with Sunset will take time and money to complete.

Share buybacks and organic growth should be good enough for a long-term tailwind for earnings-per-share. In addition, the bank's efficiency ratio is drifting lower, which will help operating margins as well. The acquisition will see higher expenses in 2021, as is customary. However, PSB almost certainly won't be able to produce anything like the growth it has for the past decade in the current environment.

## Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 7.2 | 7.1 | 10.1 | 8.5 | 8.7 | 8.6 | 13.8 | 10.7 | 9.7 | 8.8 | ***9.2*** | ***10.0*** |
| **Avg. Yld.** | 3.1% | 2.9% | 2.7% | 2.5% | 2.0% | 1.9% | 1.5% | 1.5% | 1.5% | 1.1% | ***1.9%*** | ***2.1%*** |

PSB's valuation has remained very low for much of the past decade despite its outstanding profitability and strong growth. The average P/E ratio for the past decade is just 9. However, we see fair value at 10 times earnings given the bank's strong track record of profitability and growth. We also believe this multiple accounts for slower growth moving forward. At 9.2 times earnings today, the stock is slightly undervalued in our view.

The yield stands at 1.9%, which is more in line with historical standards. We see the yield drifting higher over time, but it should remain around 2% for the foreseeable future.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

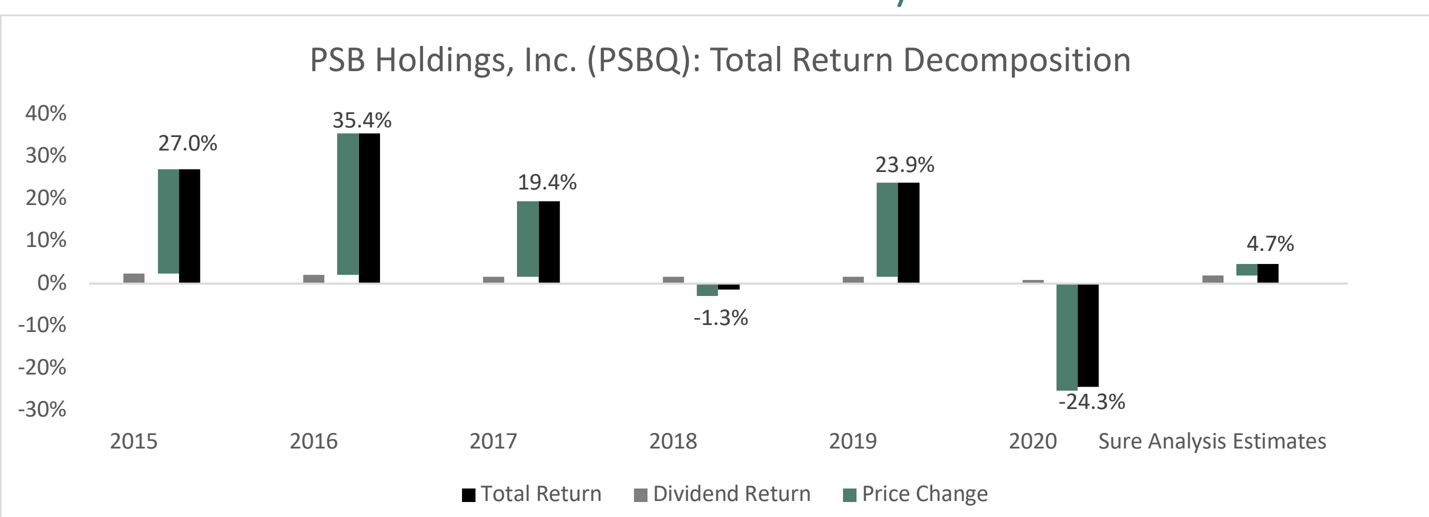
| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 22% | 21% | 27% | 21% | 17% | 16% | 20% | 16% | 15% | 10% | ***18%*** | ***21%*** |

Competitive advantages are tough to come by in banking, but PSB does have a strong brand in parts of Wisconsin. In addition, its lending standards are helping in this recession, as it did during the last downturn. The dividend is also very safe at just 18% of earnings, and there is plenty of room for future raises.

## Final Thoughts & Recommendation

With weakness in NIM coming up, as well as the merger, the total return outlook has deteriorated to our new projection of 4.7%. We are reiterating PSB at a hold rating but note lower growth projections reduce its attractiveness.

## Total Return Breakdown by Year

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*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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## Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 24 | 25 | 27 | 28 | 30 | 32 | 33 | 35 | 39 |
| SG&A Exp. | 11 | 12 | 12 | 13 | 14 | 15 | 15 | 16 | 17 |
| D&A Exp. | 2 | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 |
| Net Profit | 5 | 6 | 5 | 6 | 8 | 8 | 7 | 10 | 11 |
| Net Margin | 22.4% | 23.8% | 17.9% | 23.3% | 26.2% | 26.4% | 21.7% | 29.2% | 28.9% |
| Free Cash Flow | 9 | 7 | 13 | 8 | 8 | 9 | 10 | 11 | 12 |
| Income Tax | 2 | 3 | 2 | 3 | 4 | 4 | 5 | 3 | 4 |

## Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 623 | 712 | 712 | 734 | 784 | 828 | 848 | 916 | 975 |
| Cash & Equivalents | 19 | 26 | 17 | 22 | 24 | 29 | 22 | 22 | 29 |
| Accounts Receivable | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| Goodwill & Int. Ass. | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Total Liabilities | 573 | 658 | 655 | 673 | 719 | 758 | 774 | 835 | 882 |
| Long-Term Debt | 65 | 65 | 51 | 33 | 33 | 48 | 60 | 91 | 84 |
| Shareholder's Equity | 50 | 54 | 57 | 61 | 65 | 69 | 74 | 81 | 93 |
| D/E Ratio | 1.29 | 1.19 | 0.90 | 0.53 | 0.51 | 0.70 | 0.81 | 1.13 | 0.90 |

## Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 0.9% | 0.9% | 0.7% | 0.9% | 1.0% | 1.0% | 0.9% | 1.2% | 1.2% |
| Return on Equity | 10.9% | 11.5% | 8.5% | 10.9% | 12.2% | 12.6% | 10.1% | 13.3% | 13.0% |
| ROIC | 4.0% | 5.1% | 4.2% | 6.4% | 8.1% | 7.8% | 5.7% | 6.7% | 6.5% |
| Shares Out. | 5.0 | 5.0 | 5.0 | 5.0 | 4.8 | 4.6 | 4.6 | 4.5 | 4.5 |
| Revenue/Share | 4.78 | 5.07 | 5.34 | 5.57 | 6.16 | 6.91 | 7.27 | 7.86 | 8.67 |
| FCF/Share | 1.91 | 1.40 | 2.56 | 1.70 | 1.72 | 1.87 | 2.30 | 2.35 | 2.61 |

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