



First Financial Corporation Indiana (THFF)

Updated February 10th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	0.0%	Market Cap:	\$568 M
Fair Value Price:	\$36	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	07/07/21 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	07/15/21 ¹
Dividend Yield:	2.5%	5 Year Price Target	\$36	Years Of Dividend Growth:	32
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 \$568 million and produces about \$180 million in annual revenue.

First Financial reported fourth quarter and full year earnings on February 2nd, 2021 with results coming in ahead of expectations. Net interest income for the quarter was \$37.6 million, down from \$38.5 million in the same period a year ago, primarily attributable to lower lending rates. Net interest margin was robust at 4.11% but was down from 4.37% in the same period a year ago. Noninterest income was \$13 million, up from \$11 million year-over-year, part of which was due to the company selling its merchant card processing portfolio.

Noninterest expense was \$31 million, up slightly from \$30 million a year ago. The company's efficiency ratio was 60.6%, up from 58.4% year-over-year. The lower the efficiency ratio, the better.

Nonperforming loans were \$22 million, up from \$15 million, and increased as a percentage of loans from 0.58% to 0.84%. Provisions for loan losses were \$448k, down substantially from the \$1.5 million in the year-ago period, and net charge-offs performed similarly. However, the allowance for credit losses soared from \$20 million to \$47 million year-over-year, and we see this as a primary concern for 2021 earnings.

We see earnings-per-share at \$3.30 for this year as we think First Financial's credit portfolio deterioration, as well as falling NIM will weigh on results.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.83	\$2.48	\$2.37	\$2.55	\$2.35	\$3.12	\$2.38	\$3.80	\$3.80	\$3.93	\$3.30	\$3.30
DPS	\$0.94	\$0.95	\$0.96	\$0.98	\$0.98	\$1.00	\$1.00	\$1.02	\$1.03	\$1.05	\$1.06	\$1.17
Shares²	13.2	13.3	13.3	13.0	12.7	12.2	12.3	12.3	13.7	13.6	13.5	13.5

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. We see tailwinds and headwinds offsetting each other, mostly from higher loan balances, but worsening credit quality and lower rates. First Financial could also see a margin tailwind from lower expenses relative to revenue, but lending margins will face headwinds from perpetually low rates.

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. First Financial issued a special dividend of \$1.50 per share on 10/20/2017, though this is not a common occurrence and should not be expected to recur in the future. We are targeting a sub-40% payout ratio going forward for First Financial, translating to a \$1.17 dividend in 2026.

¹ Estimated date

² 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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.2	12.4	13.5	12.9	14.6	12.2	18.4	14.2	11.1	9.2	12.7	11.0
Avg. Yld.	3.0%	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	2.4%	2.9%	2.5%	3.2%

Based off of estimates for 2021, shares have a forward price-to-earnings ratio of 12.7. First Financial's stock has traded with an average multiple of ~14 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 ~13, and we peg fair value at 11 due to low sector valuations. Thus, we see a modest negative impact on total returns from the valuation in the coming years.

First Financial has increased its dividend for the past 32 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 over time as the valuation could come down.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	38%	41%	38%	42%	32%	42%	27%	27%	27%	32%	36%

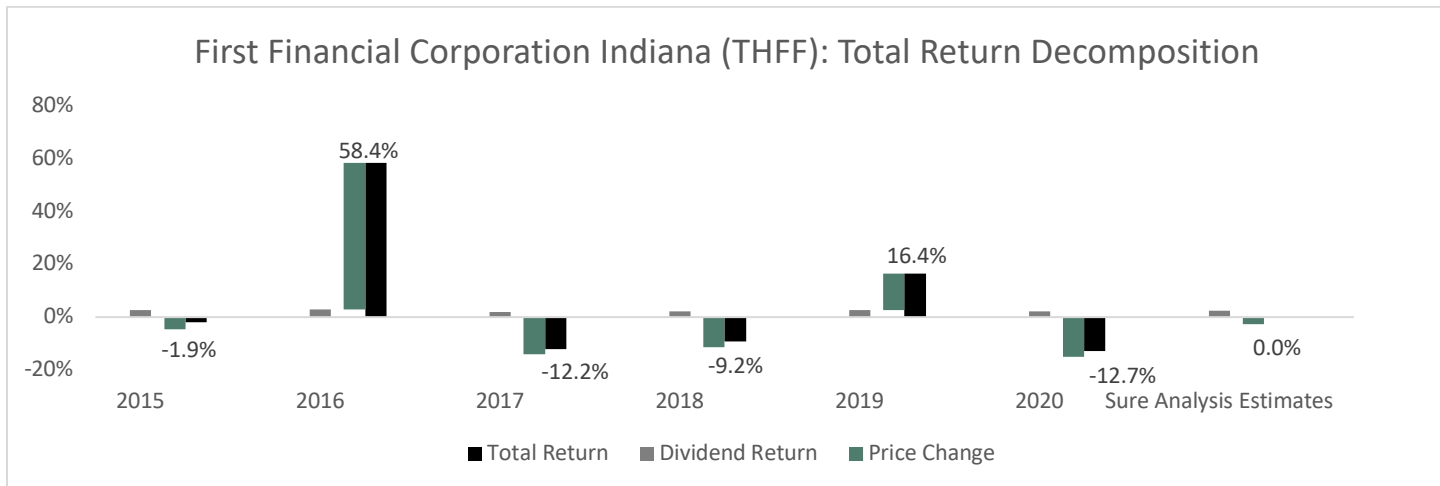
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed 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 2020 results, we now anticipate that First Financial Corporation Indiana could offer no annual returns through 2026, which is lower than our last update. Shares are more expensive, but earnings estimates are slightly higher. Shares earn a sell rating, with no projected growth and a valuation above our estimate of fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	132.5	148.5	147.7	148.6	143.7	151.9	143.8	154.8	170	189
SG&A Exp.	47.2	58.2	57.1	57.9	61.9	54.0	52.2	51.6	56	62
D&A Exp.	3.9	5.1	5.5	6.0	5.5	5.0	4.4	4	5	---
Net Profit	37.2	32.8	31.5	33.8	30.2	38.4	29.1	46.6	49	54
Net Margin	28.1%	22.1%	21.3%	22.7%	21.0%	25.3%	20.3%	30.1%	28.7%	28.5%
Free Cash Flow	41.8	43.5	60.2	52.5	37.8	38.1	47.2	55	49	---
Income Tax	14.4	13.8	13.8	14.2	10.4	19.9	20.6	11.1	12	12

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2954.1	2895.4	3018.7	3002.5	2979.6	2988.5	3000.7	3008.7	4023	4558
Cash & Equivalents	134.3	87.2	71.0	78.1	88.7	75.0	74.1	74.4	127	657
Acc. Receivable	12.9	12.0	11.6	11.6	11.7	12.3	12.9	14.0	19	17
Goodwill & Int.	42.0	41.5	44.4	43.4	42.7	36.5	36.0	35.6	89	88
Total Liabilities	2607.1	2523.3	2632.5	2608.3	2569.3	2574.1	2587.1	2566.0	3466	3961
Long-Term Debt	246.4	160.3	117.9	60.9	46.5	81.1	57.7	69.7	31	116
Total Equity	347.0	372.1	386.2	394.2	410.3	414.4	413.6	442.7	558	597
D/E Ratio	0.42	0.32	0.15	0.03	0.03	0.20	---	---	0.06	0.19

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.4%	1.1%	1.1%	1.1%	1.0%	1.3%	1.0%	1.6%	1.4%	1.3%
Return on Equity	11.1%	9.1%	8.3%	8.7%	7.5%	9.3%	7.0%	10.9%	9.8%	9.3%
ROIC	6.9%	5.8%	6.1%	7.0%	6.6%	8.1%	6.0%	9.5%	9.0%	8.3%
Shares Out.	13.20	13.29	13.34	12.94	12.74	12.22	12.25	12.25	13.7	13.6
Revenue/Share	10.07	11.21	11.10	11.24	11.19	12.33	11.76	12.63	13.22	13.77
FCF/Share	3.17	3.29	4.52	3.97	2.94	3.10	3.86	4.52	3.79	---

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

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