



# Community Trust Bancorp (CTBI)

Updated April 21<sup>st</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$45	<b>5 Year CAGR Estimate:</b>	7.3%	<b>Market Cap:</b>	\$801 M
<b>Fair Value Price:</b>	\$48	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	6/11/21 <sup>1</sup>
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.3%	<b>Dividend Payment Date:</b>	6/30/21
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$56	<b>Years Of Dividend Growth:</b>	40
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 \$801 million. Community Trust Bancorp operates with a \$5.4 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 late April, Community Trust Bancorp reported (4/21/21) financial results for the first quarter of fiscal 2021. Its net interest income grew 11% while its non-interest income grew 25% over the prior year's quarter. Moreover, the bank reduced its provision for credit losses by \$2.5 million sequentially, as the effect of the pandemic proved weaker than expected. Overall, the bank enjoyed a strong recovery from the pandemic and grew its earnings-per-share from \$0.37 in the prior year's quarter to an all-time high of \$1.33, exceeding analyst's consensus by an impressive \$0.33.

Most banks have faced material loan losses due to the pandemic, which has caused a severe recession that has forced many companies and individuals to default on their loans. On the bright side, Community Trust Bancorp is a conservatively managed bank, which is resilient to the ongoing downturn. Thanks to its impressive results, we have raised our earnings-per-share forecast for the full year from \$3.60 to \$4.00.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.30	\$2.63	\$2.62	\$2.49	\$2.66	\$2.70	\$2.91	\$3.35	\$3.64	\$3.35	<b>\$4.00</b>	<b>\$4.64</b>
<b>DPS</b>	\$1.12	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.46	\$1.53	<b>\$1.55</b>	<b>\$1.80</b>
<b>Shares<sup>2</sup></b>	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8	17.8	<b>17.8</b>	<b>18.1</b>

Community Trust Bancorp has grown its earnings-per-share at a 4.3% average annual rate over the last decade and at a 4.7% average annual rate over the last five years. We expect the pandemic to subside and the economy to recover in the second half of this year, but interest rates will probably remain depressed and hence they could 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. We expect Community Trust Bancorp to grow its earnings per share at a 3.0% average annual rate over the next five years.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	10.8	11.3	13.2	14.3	12.8	13.5	16.3	14.1	11.6	10.3	<b>11.3</b>	<b>12.0</b>
<b>Avg. Yld.</b>	4.5%	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.9%	3.5%	4.4%	<b>3.4%</b>	<b>3.2%</b>

Community Trust Bancorp is currently trading at a price-to-earnings ratio of 11.3, which is lower than its 10-year average price-to-earnings ratio of 12.8. Due to the small market cap of the stock, we prefer to be somewhat conservative and

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

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assume a price-to-earnings ratio around 12.0 by 2026. In such a case, the stock would enjoy a 1.3% annualized gain thanks to the expansion of its valuation level over the next five years.

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

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	48.7%	43.3%	43.9%	47.4%	45.9%	46.7%	44.7%	40.3%	40.1%	45.7%	<b>38.8%</b>	<b>38.8%</b>

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.

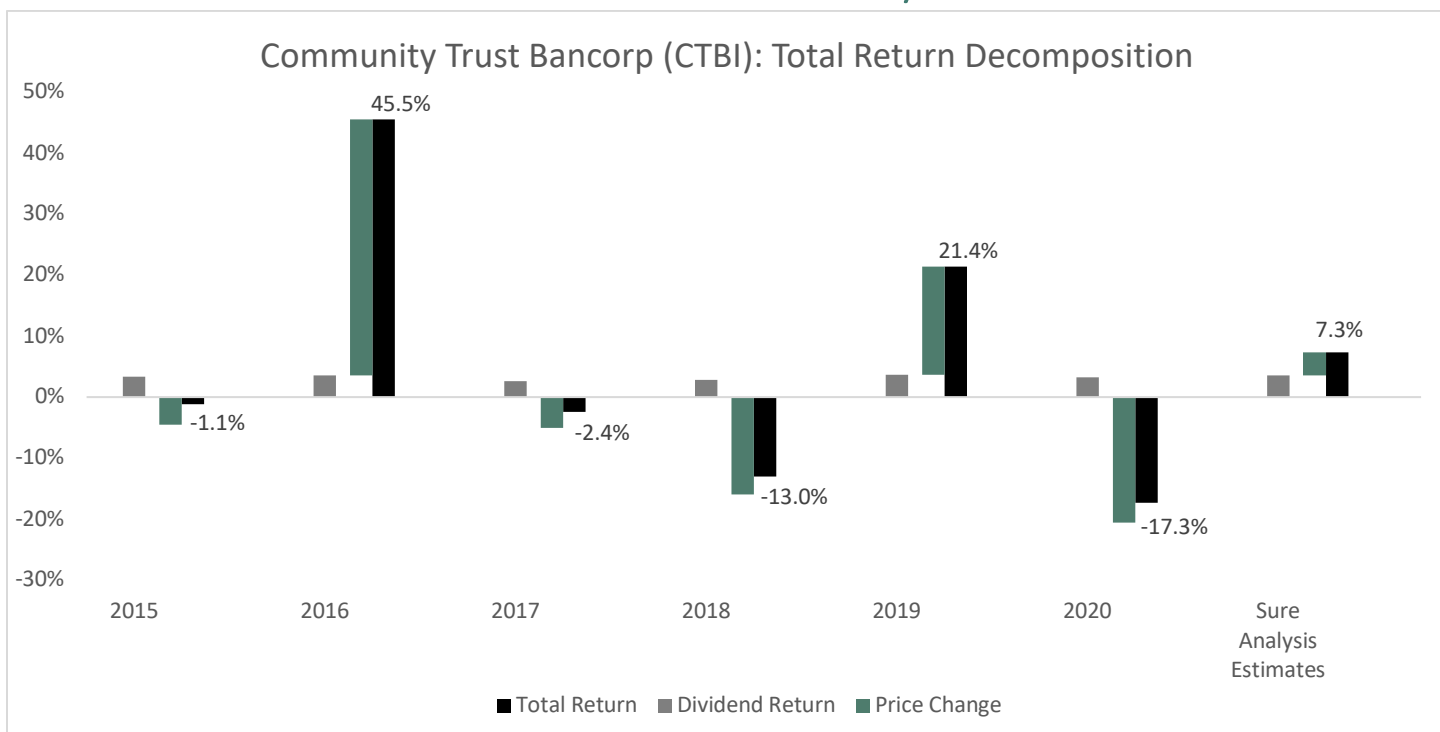
The current recession, which has been caused by the pandemic, caused an -8% decrease in the earnings-per-share of Community Trust Bancorp last year, but this business performance is superior to that of most other banks thanks to the conservative loan portfolio. To provide a perspective, the bank reported net loan charge-offs of only 0.02% 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. It accelerated its growth pattern in 2018 and 2019 thanks to higher interest rates and its reduced tax rate but it has now decelerated due to the pandemic and the resultant suppressed interest rates. Since our last research report, in February, the stock has rallied 22% and hence it has become less attractive. We now expect the stock to offer a 7.3% average annual return over the next five years and thus we lower our rating from “buy” to “hold”. The company also 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.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	175	178	184	177	179	181	186	194	195	206
SG&A Exp.	58	61	63	67	66	68	70	72	74	75
D&A Exp.	4	4	5	4	4	4	4	4	6	5
Net Profit	39	45	45	43	46	47	51	59	65	60
Net Margin	22.2%	25.2%	24.6%	24.4%	25.9%	26.1%	27.7%	30.5%	33.1%	28.9%
Free Cash Flow	61	54	89	55	53	58	60	63	81	61
Income Tax	17	20	20	19	19	19	17	11	7	11

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,591	3,636	3,582	3,724	3,904	3,932	4,136	4,202	4,366	5,139
Cash & Equivalents	248	206	108	109	191	145	185	144	265	54
Goodwill & Int. Ass.	69	69	70	69	69	69	69	69	69	65
Total Liabilities	3,224	3,235	3,169	3,276	3,428	3,432	3,606	3,637	3,751	4,484
Long-Term Debt	83	63	63	123	162	62	60	60	58	58
Shareholder's Equity	367	400	412	448	476	501	531	564	615	655
D/E Ratio	0.23	0.16	0.15	0.27	0.34	0.12	0.11	0.11	0.09	0.09

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.1%	1.2%	1.3%	1.2%	1.2%	1.2%	1.3%	1.4%	1.5%	1.3%
Return on Equity	11.0%	11.7%	11.1%	10.1%	10.1%	9.7%	10.0%	10.8%	10.9%	9.4%
ROIC	8.8%	9.8%	9.6%	8.3%	7.7%	7.9%	8.9%	9.8%	10.0%	9.0%
Shares Out.	16.9	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8	17.8
Revenue/Share	10.37	10.43	10.67	10.18	10.24	10.33	10.53	10.96	11.00	11.58
FCF/Share	3.62	3.14	5.14	3.19	3.02	3.30	3.40	3.54	4.56	3.43

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

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