



# Northeast Indiana Bancorp, Inc. (NIDB)

Updated November 3<sup>rd</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$46	<b>5 Year CAGR Estimate:</b>	8.5%	<b>Market Cap:</b>	\$55.7 M
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/11/2021
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.3%	<b>Dividend Payment Date:</b>	11/26/2021
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$63	<b>Years Of Dividend Growth:</b>	27
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	7.1%

## 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 11/2/2021, Northeast Indiana Bancorp reported third quarter earnings results for the period ending 9/30/2021. Revenue increased 12.7% to \$4.61 million. Net income of \$1.94 million, or \$1.62 per share, was a quarterly record and compared favorably to net income of \$1.65 million, or \$1.37 per share, in the prior year.

Net loans grew 5.4% to \$278.5 million year-over-year while total deposits increased 10% to \$326.8 million. The bank's return on average assets expanded by 23 basis points to 1.88% while return on average equity grew 148 basis points to 15.81%. The bank once again had no provisions for loan losses and just \$120K for the first nine months of the year. Book value at the end of the quarter was \$40.75. Given strong year-to-date results, we have raised our expected earnings-per-share for 2021 to \$6.00, from \$5.50 and \$4.79 previously.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.65	\$2.31	\$2.01	\$2.59	\$3.20	\$2.99	\$2.84	\$3.49	\$3.91	\$4.65	<b>\$6.00</b>	<b>\$6.96</b>
<b>DPS</b>	\$0.71	\$0.73	\$0.77	\$0.79	\$0.81	\$0.85	\$0.90	\$0.97	\$1.02	\$1.09	<b>\$1.20</b>	<b>\$1.39</b>
<b>Shares<sup>1</sup></b>	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	<b>1.2</b>	<b>1.2</b>

Northeast Indiana Bancorp has increased earnings-per-share at a rate of 12.2% 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 7.1% to \$0.30 for the 11/26/2021 payment. The bank has now raised its dividend for 27 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	7.4	7.1	10.4	10.0	9.4	11.0	12.4	10.6	10.3	8.6	<b>7.7</b>	<b>9.0</b>
<b>Avg. Yld.</b>	5.8%	4.5%	3.7%	3.0%	2.7%	2.6%	2.6%	2.6%	2.5%	2.7%	<b>2.6%</b>	<b>2.2%</b>

Shares of Northeast Indiana Bancorp have increased \$2, or 4.5%, since our 7/16/2021 update. The stock has traded hands with an average price-to-earnings ratio of 9.7 since 2011. We have used a targeted price-to-earnings ratio of 9.0

<sup>1</sup> In millions.

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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-earnings ratio of 7.7. If the stock were to revert to our target price-to-earnings ratio by 2026 then valuation would be a 3.3% tailwind to annual returns over this period of time.

Northeast Indiana Bancorp currently yields 2.6%, more than a full percentage point higher than the yield of the S&P 500.

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

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	43%	32%	38%	31%	25%	28%	32%	28%	34%	23%	<b>20%</b>	<b>20%</b>

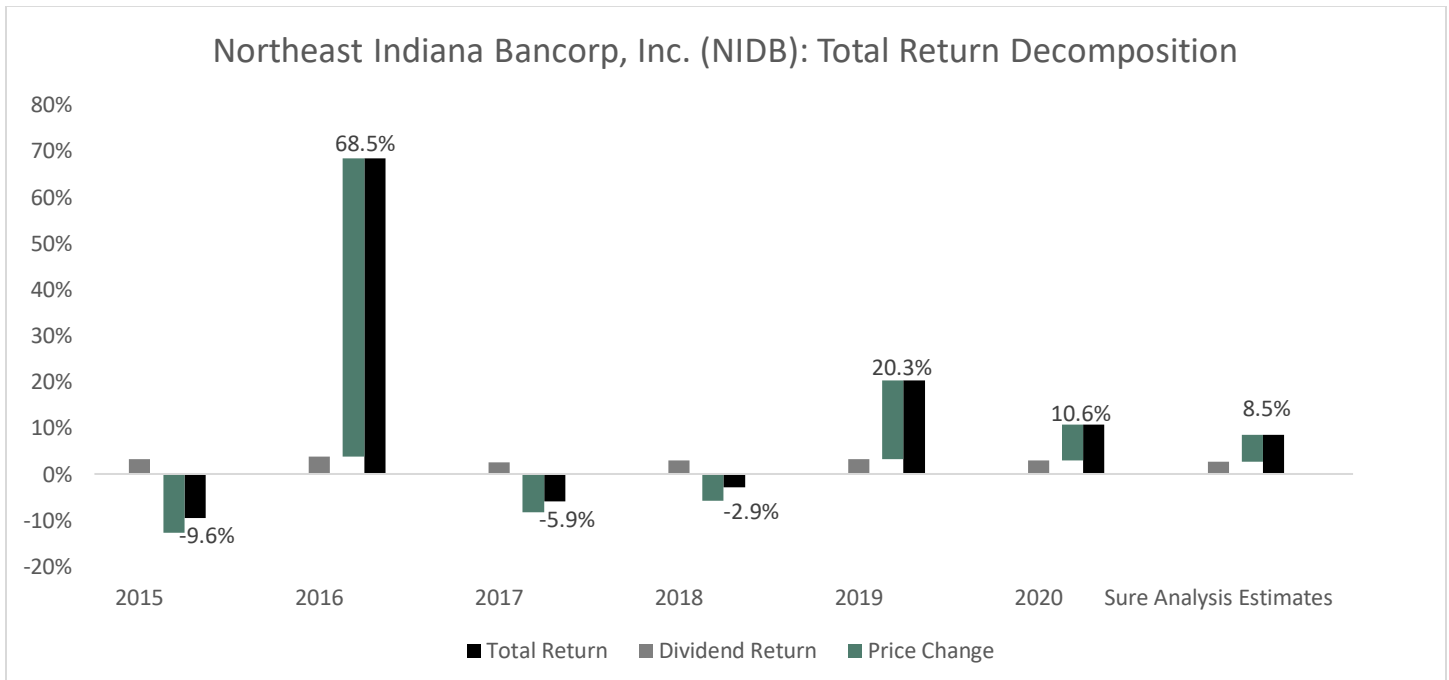
Northeast Indiana Bancorp performed well during the last recession. Earnings-per-share declined by -71% from 2006 to 2007 but rebounded by 58% to \$1.53 from 2007 through 2009. The bank's performance during the last recession gives us some confidence that it would endure the next recession as well. Northeast 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 8.5% through 2026, up from our prior projection of a 7.6% return. This estimate is based on a 3.0% earnings growth rate, 2.6% dividend yield and a low single-digit contribution from valuation expansion. Northeast Indiana Bancorp put together a record quarter with solid growth throughout its business. We have raised our 2026 price target \$6 to \$57 due to a higher assumption of earnings-per-share for 2021. However, we continue to rate Northeast Indiana Bancorp as a hold due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	12	11	13	13	13	13	14	15	17	12
SG&A Exp.	5	5	5	6	5	6	6	6	7	5
D&A Exp.	1	1	1	1	1	1	1	1	2	1
Net Profit	2	2	3	4	4	3	4	5	6	2
Net Margin	17.5%	21.7%	25.0%	29.4%	28.1%	27.0%	30.0%	31.4%	33.1%	17.5%
Free Cash Flow	5	7	4	4	3	2	4	4	6	5
Income Tax	1	1	1	1	1	2	1	1	1	1

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	262	269	276	284	301	314	334	354	391	262
Cash & Equivalents	14	15	19	24	16	9	10	15	18	14
Acc. Receivable	1	1	1	1	1	1	1	1	2	1
Total Liabilities	0	0	0	0	0	0	0	0	0	0
Long-Term Debt	235	241	246	252	267	279	297	313	346	235
Total Equity	30	20	30	39	-	-	-	46	38	30
D/E Ratio	26	28	30	32	34	36	37	41	46	26

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.8%	0.9%	1.1%	1.4%	1.2%	1.1%	1.3%	1.4%	1.5%	0.8%
Return on Equity	8.1%	9.2%	10.8%	12.2%	10.9%	9.9%	11.4%	11.9%	12.9%	8.1%
ROIC	3.4%	4.8%	5.8%	5.8%	6.8%	9.9%	11.4%	7.5%	6.6%	3.4%
Shares Out.	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Revenue/Share	9.43	9.27	10.37	10.86	10.66	10.51	11.62	12.46	14.04	9.43
FCF/Share	4.33	5.32	3.03	3.56	2.66	1.55	3.37	3.69	4.80	4.33

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

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