PSB Holdings Inc. (PSBQ)

Updated November 12th, 2021, by Josh Arnold

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	4.7%	**Market Cap:**	$118 M
Fair Value Price:	$30	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	01/07/22[1]
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date:**	01/30/22
Dividend Yield:	1.8%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	28
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	9.5%

Overview & Current Events

PSB Holdings is the parent company of Peoples State Bank, or PSB, which opened its doors in 1962 in Wausau, Wisconsin. The company has paid dividends to shareholders continuously since 1965 and has increased its payment for 28 consecutive years. The bank has ten branches, and assets totaling $1.3 billion. The stock trades with a $118 million market cap, making it one of the smallest companies we cover.

PSB reported third quarter earnings on October 27th, 2021, and results were better than expected on both revenue and earnings. The bank reported net income of $3.6 million, or 82 cents per share, compared with $2.6 million, or 59 cents per share, in the year-ago period.

The bank said loan demand was up across its footprint, led primarily by commercial real estate growth, as commercial bankers continue to originate loans for new and existing borrowers. PSB also said deposit growth, as well as SBA and Paycheck Protection Program paydowns continue to elevate its cash position, leaving it with plenty to increase its loans when conditions are right. Income was driven by earning asset growth and lower operating ratios, despite lower net interest margin as loan yields continue to decline. Net interest margin was 3.15%, down from 3.48% in the prior quarter. The bank said pressure on net interest margin is set to continue due to lower yielding investments, repricing of loans downward, and competition for new loans at low rates.

We see $3.00 in earnings-per-share for this year following strong third quarter results, and while rates continue to be a headwind, PSB has plenty of capital to lend, and credit quality remains quite good.

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	***$3.00***	***$3.00***
DPS	$0.24	$0.25	$0.26	$0.27	$0.28	$0.30	$0.32	$0.34	$0.38	$0.41	***$0.46***	***$0.59***
Shares[2]	5.0	5.0	5.0	5.0	4.8	4.6	4.6	4.5	4.5	4.4	***4.5***	***4.7***

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 0% annual expansion, primarily due to the extremely low interest rates persisting in the U.S, elevated loan loss reserves, and little asset growth in the past few quarters outside of acquisitions.

This lack of projected growth is primarily because the bank's spreads had previously expanded widely, and because its loan-to-deposit ratio is stretched at or near the limit, although that is coming down with deposit growth and loan paydowns, both of which reduce the loan-to-deposit ratio. Both 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 still elevated, we see

[1] Estimated date
[2] Share count in millions

limited catalysts for outsized growth. With commentary from the management team suggesting more weakness ahead for rate spreads, we remain cautious.

Share buybacks and organic growth should be good enough for a long-term tailwind for earnings-per-share, although acquisitions paid for with stock may derail this. In addition, the bank's efficiency ratio is drifting lower, which will help operating margins as well. 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	***8.7***	***10.0***
Avg. Yld.	3.1%	2.9%	2.7%	2.5%	2.0%	1.9%	1.5%	1.5%	1.5%	1.1%	***1.8%***	***2.0%***

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 8.7 times earnings today, the stock remains undervalued in our view.

The yield stands at 1.8%, which is more in line with historical standards. We see the yield drifting higher over time, potentially hitting 2% by 2026.

Safety, Quality, Competitive Advantage, & Recession Resiliency

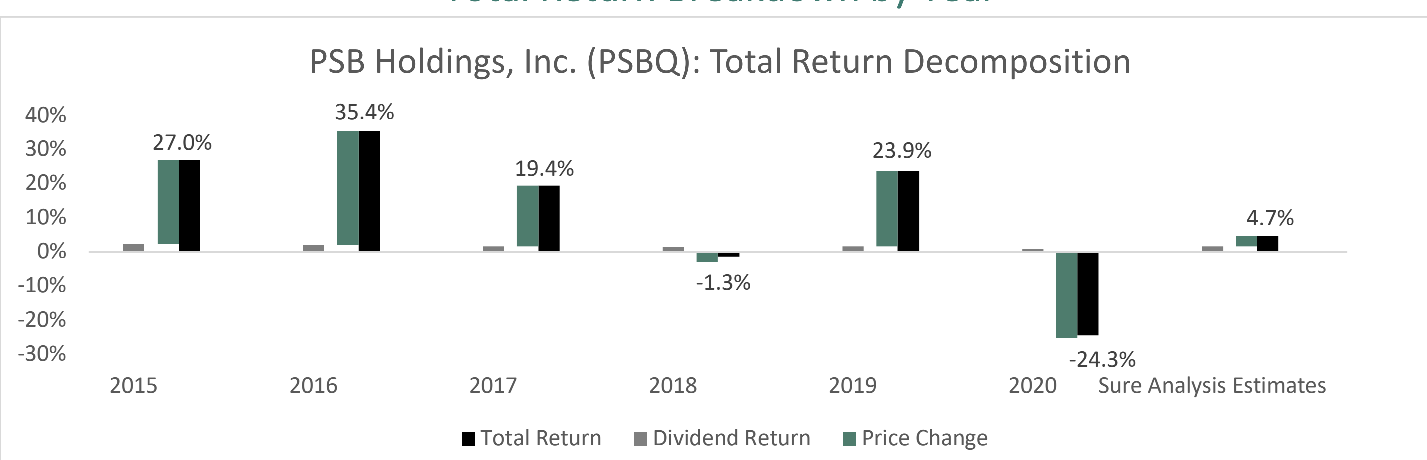
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	22%	21%	27%	21%	17%	16%	20%	16%	15%	10%	***15%***	***20%***

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 15% of earnings, and there is plenty of room for future raises.

Final Thoughts & Recommendation

We see PSB's total return outlook as having improved to 4.7%, which is based entirely upon higher earnings-per-share for this year. The bank's outlook for rate spreads was uninspiring, but the stock appears undervalued at present. However, we still see a very tough road for growth ahead from this year's base of earnings. With the improvement in the total return outlook, we're upgrading PSB from sell to hold.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

PSB Holdings Inc. (PSBQ)

Updated November 12th, 2021, by Josh Arnold

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	25	27	28	30	32	33	35	39	43
SG&A Exp.	12	12	13	14	15	15	16	17	17
D&A Exp.	3	3	2	2	2	2	2	2	3
Net Profit	6	5	6	8	8	7	10	11	11
Net Margin	23.8%	17.9%	23.3%	26.2%	26.4%	21.7%	29.2%	28.9%	24.7%
Free Cash Flow	7	13	8	8	9	10	11	12	16
Income Tax	3	2	3	4	4	5	3	4	3

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	712	712	734	784	828	848	916	975	1,132
Cash & Equivalents	26	17	22	24	29	22	22	29	8
Accounts Receivable	2	2	2	2	2	2	3	3	4
Goodwill & Int. Ass.	1	2	2	2	2	2	2	2	2
Total Liabilities	658	655	673	719	758	774	835	882	1,028
Long-Term Debt	65	51	33	33	48	60	91	84	72
Shareholder's Equity	54	57	61	65	69	74	81	93	104
D/E Ratio	1.19	0.90	0.53	0.51	0.70	0.81	1.13	0.90	0.69

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.9%	0.7%	0.9%	1.0%	1.0%	0.9%	1.2%	1.2%	1.0%
Return on Equity	11.5%	8.5%	10.9%	12.2%	12.6%	10.1%	13.3%	13.0%	10.8%
ROIC	5.1%	4.2%	6.4%	8.1%	7.8%	5.7%	6.7%	6.5%	6.1%
Shares Out.	5.0	5.0	5.0	4.8	4.6	4.6	4.5	4.5	4.4
Revenue/Share	5.07	5.34	5.57	6.16	6.91	7.27	7.86	8.69	9.72
FCF/Share	1.40	2.56	1.70	1.72	1.87	2.30	2.35	2.61	3.61

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