# First Financial Corporation Indiana (THFF)

*Updated February 5th, 2022, by Josh Arnold*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $45 | **5 Year CAGR Estimate:** | 3.8% | **Market Cap:** | $567 M |
| **Fair Value Price:** | $46 | **5 Year Growth Estimate:** | 1.0% | **Ex-Dividend Date:** | 06/07/22[1] |
| **% Fair Value:** | 97% | **5 Year Valuation Multiple Estimate:** | 0.5% | **Dividend Payment Date:** | 07/15/22 |
| **Dividend Yield:** | 2.4% | **5 Year Price Target** | $49 | **Years Of Dividend Growth:** | 32 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | B | **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 $567 million and produces about $193 million in annual revenue.

First Financial reported fourth quarter and full-year earnings on February 1st, 2022, and results were somewhat weak. Revenue declined -5.3% year-over-year to $48.7 million, while earnings-per-share came to 99 cents, which was roughly in line with year-ago results. Net interest income was $36.8 million in Q4, which was down from $37.6 million in the same period a year ago. Net interest margin was 3.08%, down sharply from 4.11% a year ago. Lower lending rates have hurt most banks, and First Financial was no exception in Q4.

The bank completed a branch optimization strategy during the fourth quarter, which it believes will save $2.3 million annually in operating expenses. First Financial does not expect to lose customers due to these optimization efforts, so it should be a net benefit to profitability.

Average loans in Q4 were $2.63 billion, down slightly from $2.68 billion a year ago. Like other banks, the Paycheck Protection Program is a headwind for loan growth at the moment. Average deposits were $4.31 billion, up sharply from $3.74 billion a year ago. Credit loss provisions were $5.7 million in Q4, up enormously from the $448k in the fourth quarter of 2020. However, the year-ago period was positively impacted by COVID-related provision releases.

We forecast $4.20 in earnings-per-share for this year, a modest increase over 2021 levels if achieved.

## Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.48 | $2.37 | $2.55 | $2.35 | $3.12 | $2.38 | $3.80 | $3.80 | $3.93 | $4.02 | ***$4.20*** | ***$4.41*** |
| **DPS** | $0.95 | $0.96 | $0.98 | $0.98 | $1.00 | $1.00 | $1.02 | $1.03 | $1.05 | $1.06 | ***$1.06*** | ***$1.17*** |
| **Shares[2]** | 13.3 | 13.3 | 13.0 | 12.7 | 12.2 | 12.3 | 12.3 | 13.7 | 13.6 | 12.6 | ***12.0*** | ***10.5*** |

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 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. We forecast earnings-per-share growth at 1% for the foreseeable future given these factors.

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

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[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.*

share on 10/20/2017, though this is not a common occurrence and should not be expected to reoccur in the future. We are targeting a sub-30% payout ratio going forward for First Financial, translating to a $1.17 dividend in 2027.

## Valuation Analysis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 12.4 | 13.5 | 12.9 | 14.6 | 12.2 | 18.4 | 14.2 | 11.1 | 9.2 | 10.6 | ***10.7*** | ***11.0*** |
| Avg. Yld. | 3.1% | 3.0% | 3.0% | 2.9% | 2.6% | 2.3% | 2.2% | 2.4% | 2.9% | 2.5% | ***2.4%*** | ***2.4%*** |

Based off estimates for 2022, shares have a forward price-to-earnings ratio of 10.7. 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 and the company's own uninspiring growth outlook. Thus, we see a modest positive impact on total returns from the valuation.

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.

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

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 38% | 41% | 38% | 42% | 32% | 42% | 27% | 27% | 27% | 26% | ***25%*** | ***27%*** |

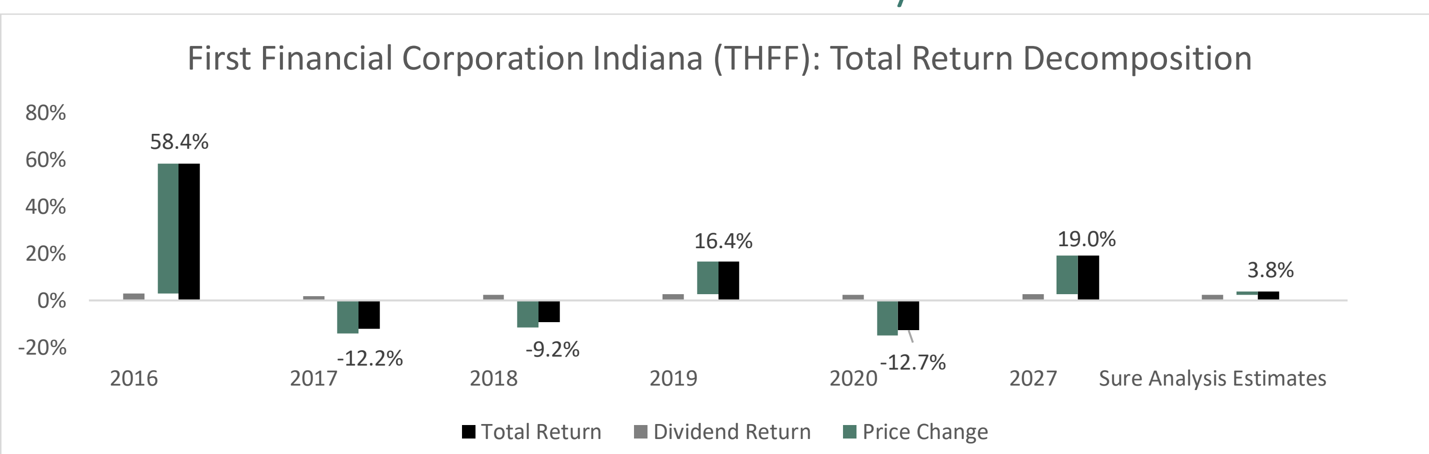
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed 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 2021 results, we now anticipate that First Financial Corporation Indiana could offer 3.8% returns through 2027, down from our last update. Shares are more expensive given the share price has risen. We see the total return outlook as weak for the bank following 2021 results. The security earns a hold rating.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 148.5 | 147.7 | 148.6 | 143.7 | 151.9 | 143.8 | 154.8 | 170 | 189 | 185 |
| **SG&A Exp.** | 58.2 | 57.1 | 57.9 | 61.9 | 54.0 | 52.2 | 51.6 | 56 | 62 | 66 |
| **D&A Exp.** | 5.1 | 5.5 | 6.0 | 5.5 | 5.0 | 4.4 | 4 | 5 | 6 | --- |
| **Net Profit** | 32.8 | 31.5 | 33.8 | 30.2 | 38.4 | 29.1 | 46.6 | 49 | 54 | 53 |
| **Net Margin** | 22.1% | 21.3% | 22.7% | 21.0% | 25.3% | 20.3% | 30.1% | 28.7% | 28.5% | 28.6% |
| **Free Cash Flow** | 43.5 | 60.2 | 52.5 | 37.8 | 38.1 | 47.2 | 55 | 49 | 74 | --- |
| **Income Tax** | 13.8 | 13.8 | 14.2 | 10.4 | 19.9 | 20.6 | 11.1 | 12 | 12 | 13 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 2895.4 | 3018.7 | 3002.5 | 2979.6 | 2988.5 | 3000.7 | 3008.7 | 4023 | 4558 | 5171 |
| **Cash & Equivalents** | 87.2 | 71.0 | 78.1 | 88.7 | 75.0 | 74.1 | 74.4 | 127 | 657 | 683 |
| **Acc. Receivable** | 12.0 | 11.6 | 11.6 | 11.7 | 12.3 | 12.9 | 14.0 | 19 | 17 | 17 |
| **Goodwill & Int.** | 41.5 | 44.4 | 43.4 | 42.7 | 36.5 | 36.0 | 35.6 | 89 | 88 | 94 |
| **Total Liabilities** | 2523.3 | 2632.5 | 2608.3 | 2569.3 | 2574.1 | 2587.1 | 2566.0 | 3466 | 3961 | 4588 |
| **Long-Term Debt** | 160.3 | 117.9 | 60.9 | 46.5 | 81.1 | 57.7 | 69.7 | 31 | 6 | 109 |
| **Total Equity** | 372.1 | 386.2 | 394.2 | 410.3 | 414.4 | 413.6 | 442.7 | 558 | 597 | 583 |
| **LTD/E Ratio** | 0.32 | 0.15 | 0.03 | 0.03 | 0.20 | --- | --- | 0.06 | 0.01 | 0.19 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 1.1% | 1.1% | 1.1% | 1.0% | 1.3% | 1.0% | 1.6% | 1.4% | 1.3% | 1.1% |
| **Return on Equity** | 9.1% | 8.3% | 8.7% | 7.5% | 9.3% | 7.0% | 10.9% | 9.8% | 9.3% | 9.0% |
| **ROIC** | 5.8% | 6.1% | 7.0% | 6.6% | 8.1% | 6.0% | 9.5% | 9.0% | 8.3% | 8.2% |
| **Shares Out.** | 13.29 | 13.34 | 12.94 | 12.74 | 12.22 | 12.25 | 12.25 | 13.7 | 13.6 | 12.6 |
| **Revenue/Share** | 11.21 | 11.10 | 11.24 | 11.19 | 12.33 | 11.76 | 12.63 | 13.22 | 13.77 | 14.06 |
| **FCF/Share** | 3.29 | 4.52 | 3.97 | 2.94 | 3.10 | 3.86 | 4.52 | 3.79 | 5.36 | --- |

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