



First Financial Corporation Indiana (THFF)

Updated May 15th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	5.8%	Market Cap:	\$544 M
Fair Value Price:	\$54	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	06/07/22 ¹
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Dividend Payment Date:	07/15/22
Dividend Yield:	2.5%	5 Year Price Target	\$51	Years Of Dividend Growth:	33
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 \$544 million and produces about \$198 million in annual revenue.

First Financial reported first quarter earnings on April 26th, 2022. Net income was \$12.9 million in Q1, flat to the same period a year ago. On a diluted, per-share basis, net income was \$1.67, up sharply from \$0.95 in last year's Q1. Pre-tax, pre-provision net income was \$19.7 million, up from \$16.6 million.

The bank noted credit quality remains strong, and that it now has four consecutive quarters of growth in net interest income and lower credit related costs.

Average total loans were \$2.78 billion, up from \$2.64 billion a year ago. Total loans grew \$158 million, or 6%, ending the quarter at \$2.8 billion. Average total deposits were \$4.43 billion, up from \$3.82 billion a year-ago.

Book value per share ended the quarter at \$42.25, down year-over-year from \$44.20. We've boosted our estimate of earnings-per-share for this year to \$4.90 following strong Q1 earnings, but note that earnings this year may mark a long-term top.

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	\$4.90	\$4.66
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
Shares²	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 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.

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	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	8.8	11.0
Avg. Yld.	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	2.4%	2.9%	2.5%	2.5%	2.3%

Based off estimates for 2022, shares have a forward price-to-earnings ratio of 8.8. 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 strong 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%	22%	25%

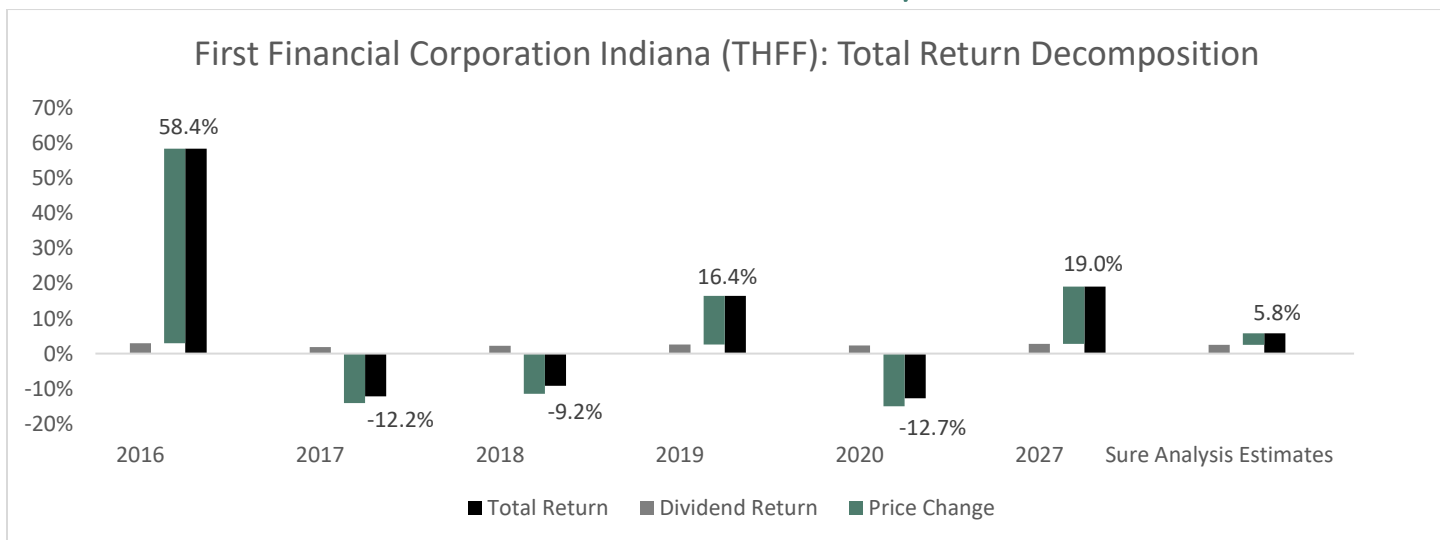
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed 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 Q1 results, we now anticipate that First Financial Corporation Indiana could offer 5.8% returns through 2027, up from our last update. Shares are less expensive given earnings have risen. We see the total return outlook as modest for the bank. 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	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	51
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	0.03

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%	8.8%
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	3.88

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

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