First Financial Corporation Indiana (THFF)

Updated July 31st, 2022, by Josh Arnold

Key Metrics

Current Price:	$47	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$562 M
Fair Value Price:	$62	**5 Year Growth Estimate:**	-4.0%	**Ex-Dividend Date:**	09/16/22[1]
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.6%	**Dividend Payment Date:**	10/01/22
Dividend Yield:	2.3%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**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 $562 million and produces about $210 million in annual revenue.

First Financial reported second quarter earnings on July 26th, 2022, and results were slightly weak. Average total loans were $2.83 billion, up from $2.62 billion for the same period a year ago. Total loans outstanding at the end of the quarter rose from $2.57 billion to $2.83 billion, and increase of more than 12%.

Deposits averaged $4.42 billion, up from $3.98 billion year-over-year. Total deposits were $4.38 billion at quarter end, up from $3.99 billion.

Book value per share was $38.36 at the end of Q2, down from $45.08 year-over-year, which the company said was due to the repurchase of 1.057 million shares of common stock.

Net interest income was $40.5 million, up from $35.6 million a year ago, up almost 14%. Net interest margin was 3.46%, up sharply from 3.23%. On a linked quarter basis, NIM was up 30bps as well. Noninterest income was $10.3 million, down from $10.9 million a year ago.

Nonperforming loans were $13.5 million, down from $20 million last year. This was 0.47% of total loans, down from 0.78%, respectively. Credit loss provisions were $750k, down from $2.2 million year-over-year.

Net income was $15.6 million, down from $16.6 million a year ago. On a per-share basis, earnings were $1.27 to $1.24, due to repurchases reducing the float.

We now see $5.60 in earnings-per-share for this year, which will likely prove a long-term top in earnings.

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	***$5.60***	***$4.57***
DPS	$0.95	$0.96	$0.98	$0.98	$1.00	$1.00	$1.02	$1.03	$1.05	$1.06	***$1.08***	***$1.19***
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 somewhat offsetting each other, mostly from higher loan balances and higher rates, but the potential for higher credit losses. First Financial could also see a margin tailwind from lower expenses relative to revenue. We forecast earnings-per-share growth at -4% for the foreseeable future given these factors.

---

[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.

First Financial Corporation Indiana (THFF)

Updated July 31st, 2022, by Josh Arnold

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 $1.19 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	***8.4***	***11.0***
Avg. Yld.	3.1%	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	2.4%	2.9%	2.5%	***2.3%***	***2.4%***

Based off estimates for 2022, shares have a forward price-to-earnings ratio of 8.4. 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 34 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%	***19%***	***26%***

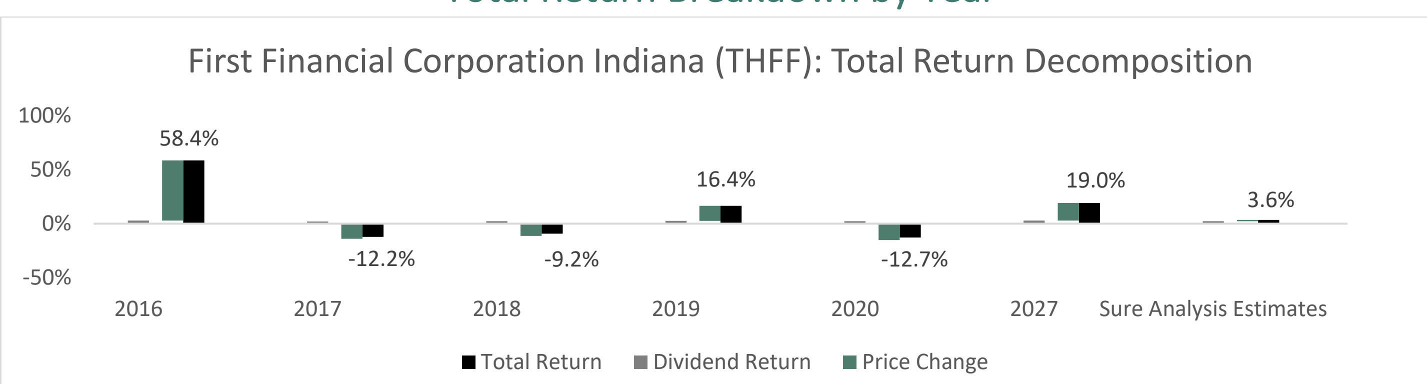
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed 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 Q2 results, we now anticipate that First Financial Corporation Indiana could offer 3.6% 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, particularly given we think this year will see a peak in earnings. The security earns a hold rating.

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.

First Financial Corporation Indiana (THFF)

Updated July 31st, 2022, by Josh Arnold

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.