



Community Trust Bancorp (CTBI)

Updated October 20th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	9.6%	Market Cap:	\$777 M
Fair Value Price:	\$53	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	12/13/22 ¹
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.2%	Dividend Payment Date:	12/31/22
Dividend Yield:	4.1%	5 Year Price Target	\$58	Years Of Dividend Growth:	42
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Community Trust Bancorp is a regional bank with 84 branch locations in 35 counties in Kentucky, Tennessee and West Virginia. It is the second-largest bank holding company in Kentucky and has a market cap of \$777 million. Community Trust Bancorp operates with a \$5.5 billion balance sheet. Due to its small market cap, it does not belong to the S&P 500 index and hence it is not considered a Dividend Aristocrat even though it has raised its dividend for 42 consecutive years. In mid-October, Community Trust Bancorp reported (10/19/22) financial results for the third quarter of fiscal 2022. Its net interest income grew 3.6% thanks to loan growth and higher interest rates while its non-interest income edged up 2% over the prior year's quarter thanks to higher fees. On the other hand, the bank slightly increased its provision for loan losses. Overall, just like in the previous two quarters, the bank faced a tough comparison over its blowout results last year and thus its earnings-per-share dipped -9%, from \$1.19 to \$1.08, and missed the analyst's consensus by \$0.08. Nevertheless, thanks to its solid earnings and bright outlook amid rising interest rates, which are likely to enhance net interest margin, the bank raised its dividend by 10%. It thus extended its dividend growth streak to 42 consecutive years. Most banks faced material loan losses due to the pandemic in 2020, but Community Trust Bancorp is a conservatively managed bank, which is resilient to the pandemic. On the other hand, most of the growth in 2021 resulted from the reversion of provisions for loan losses and hence investors should expect lower earnings in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.63	\$2.62	\$2.49	\$2.66	\$2.70	\$2.91	\$3.35	\$3.64	\$3.35	\$4.94	\$4.40	\$4.86
DPS	\$1.14	\$1.15	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.46	\$1.53	\$1.57	\$1.76	\$2.12
Shares²	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8	17.8	17.8	17.9	18.2

Excluding the record year 2021, in which Community Trust Bancorp posted blowout earnings thanks to the reversal of loan loss provisions recorded in 2020, the bank has grown its earnings-per-share at a 4.3% average annual rate over the last decade and at a 4.7% average annual rate over the last five years. The economy has recovered from the pandemic and the Fed has begun to raise interest rates aggressively this year. This will provide a tailwind to Community Trust Bancorp. However, the non-recurring decreases in the tax rate of the bank, which fueled a great portion of the bottom-line growth in 2018 and 2019, will not be growth drivers anymore. As a result, we do not expect the company to accelerate its growth pattern in the upcoming years. We expect Community Trust Bancorp to grow its earnings-per-share at a 2.0% average annual rate over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.3	13.2	14.3	12.8	13.5	16.3	14.1	11.6	10.3	8.6	9.8	12.0
Avg. Yld.	3.8%	3.4%	3.3%	3.6%	3.5%	2.9%	2.9%	3.5%	4.4%	3.7%	4.1%	3.6%

¹ Estimated date.

² In millions.

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Community Trust Bancorp is currently trading at a price-to-earnings ratio of 9.8, which is lower than its 10-year average price-to-earnings ratio of 12.6. Due to the small market cap of the stock, we prefer to be somewhat conservative and assume a price-to-earnings ratio around 12.0 by 2027. In such a case, the stock would enjoy a 4.2% annualized gain thanks to the expansion of its valuation level over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	43.3%	43.9%	47.4%	45.9%	46.7%	44.7%	40.3%	40.1%	45.7%	31.8%	40.0%	43.7%

Community Trust Bancorp proved that it was well managed in the Great Recession. In the worst financial crisis of the last 80 years, when most banks cut their dividends, this bank remained profitable and continued raising its dividend.

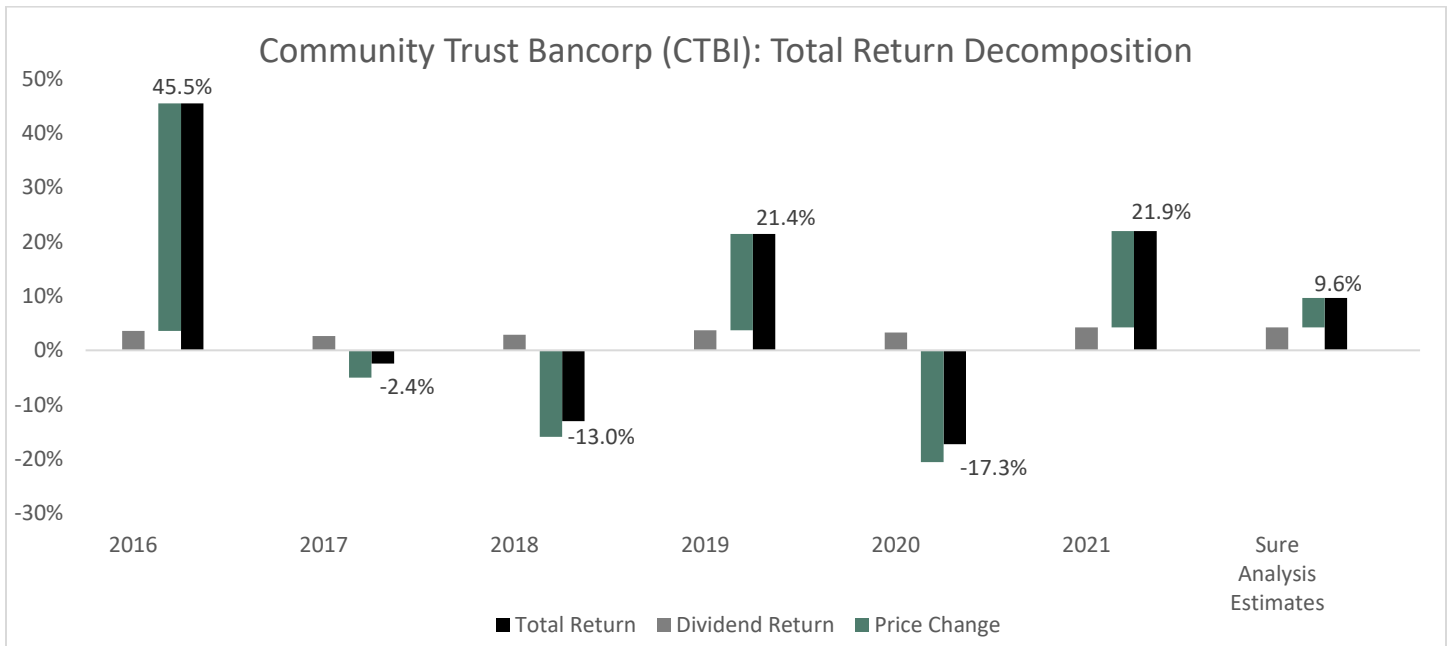
The recession from the pandemic in 2020 caused an -8% decrease in the earnings-per-share of Community Trust Bancorp, but this business performance is superior to that of most other banks thanks to the conservative loan portfolio. To provide a perspective, the bank has reported average net loan charge-offs of only 0.03% in the last four quarters.

On the other hand, whenever the market incurs a meaningful correction, Community Trust Bancorp tends to underperform its sector due to its low market cap and its resultant low trading liquidity. Only investors who can remain focused on the fundamentals and ignore pressure on the stock price should consider this security.

Final Thoughts & Recommendation

Community Trust Bancorp is a well-managed bank. It accelerated its growth pattern in 2018 and 2019 thanks to higher interest rates and its reduced tax rate. It also posted record earnings in 2021 thanks to the reversion of provisions for loan losses, as the economy recovered from the pandemic, though it has decelerated this year due to the absence of last year's growth driver. It has also outperformed the S&P 500 by a wide margin this year (-3% vs. -23%). We expect the stock to offer a 9.6% average annual return over the next five years thanks to 2.0% earnings-per-share growth, its 4.1% dividend and a 4.2% annualized valuation tailwind. We rate the stock as a buy. The company also has a healthy payout ratio, so it has ample room to keep raising its dividend and thus it is eligible for income-oriented investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	178	184	177	179	181	186	194	195	206	224
SG&A Exp.	61	63	67	66	68	70	72	74	78	86
D&A Exp.	4	5	4	4	4	4	4	6	5	5
Net Profit	45	45	43	46	47	51	59	65	60	88
Net Margin	25.2%	24.6%	24.4%	25.9%	26.1%	27.7%	30.5%	33.1%	28.9%	39.3%
Free Cash Flow	54	89	55	53	58	60	63	81	61	113
Income Tax	20	20	19	19	19	17	11	7	11	23

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,636	3,582	3,724	3,904	3,932	4,136	4,202	4,366	5,139	5,418
Cash & Equivalents	206	108	109	191	145	185	144	265	338	312
Goodwill & Int. Ass.	69	70	69	69	69	69	69	69	70	72
Total Liabilities	3,235	3,169	3,276	3,428	3,432	3,606	3,637	3,751	4,484	4,720
Long-Term Debt	63	63	123	162	62	60	60	58	58	58
Shareholder's Equity	400	412	448	476	501	531	564	615	655	698
LTD/E Ratio	0.16	0.15	0.27	0.34	0.12	0.11	0.11	0.09	0.09	0.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.2%	1.3%	1.2%	1.2%	1.2%	1.3%	1.4%	1.5%	1.3%	1.7%
Return on Equity	11.7%	11.1%	10.1%	10.1%	9.7%	10.0%	10.8%	10.9%	9.4%	13.0%
ROIC	9.8%	9.6%	8.3%	7.7%	7.9%	8.9%	9.8%	10.0%	9.0%	12.0%
Shares Out.	17.1	17.2	17.4	17.5	17.6	17.7	17.7	17.8	17.8	17.8
Revenue/Share	10.43	10.67	10.18	10.24	10.33	10.53	10.96	11.00	11.58	12.56
FCF/Share	3.14	5.14	3.19	3.02	3.30	3.40	3.54	4.56	3.43	6.37

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

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