



Southside Bancshares (SBSI)

Updated October 25th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	10.7%	Market Cap:	\$1.1 B
Fair Value Price:	\$41	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/23/2022 ¹
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	12/09/2022 ²
Dividend Yield:	4.1%	5 Year Price Target:	\$47	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Southside Bancshares is a bank holding company for the Southside Bank based in Texas. The bank offers a range of financial services such as savings, money market and checking accounts for individual, commercial, municipal entities and nonprofit organizations. Southside Bancshares' loan portfolio consists of residential, home equity, home improvement, auto, construction and commercial loans. The bank also provides wealth management solutions. Southside Bancshares has assets of more than \$7 billion and operates 57 branches throughout the state of Texas. The bank has a market capitalization of \$1.1 billion and generates \$273 million of annual revenue.

On February 3rd, 2022, Southside Bancshares announced that it was raising its quarterly dividend 3.0% to \$0.34, extending the company's dividend growth streak to 28 consecutive years.

On October 25th, 2022, Southside Bancshares announced third quarter results for the period ending September 30th, 2022. Revenue grew 10.5% to \$69.6 million, but missed estimates by \$1.32 million. GAAP earnings-per-share of \$0.84 compared to \$0.89 in the prior year and was \$0.06 less than expected.

Excluding the Paycheck Protection Program, loans increased 13.5% to \$483.1 million due to strength in commercial and construction loans. Total assets of \$7.45 billion compared to \$7.14 billion in the prior year. Nonperforming loans represented just 0.16% of total assets, matching the results for the three prior quarters. Allowance for loan losses decreased to \$36.5 million and represented just 0.90% of total loans, down from 1.14% of total loans in the prior year. Net interest income grew 15.1% to \$55.5 million while net interest margin of 3.15% compared to 2.96% in Q3 2021 and 3.07% in Q2 2022. Returns on average tangible common equity, average shareholders' equity, and average assets was 19.4%, 14.3% and 1.43%, respectively. All were up on a sequential basis. Southside Bancshares is expected to earn \$3.41 in 2022, up from \$3.20, \$2.95, and \$2.88 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.61	\$2.05	\$0.97	\$1.62	\$1.82	\$1.81	\$2.11	\$2.20	\$2.57	\$3.40	\$3.41	\$3.95
DPS	\$0.63	\$0.68	\$0.85	\$0.93	\$0.99	\$1.11	\$1.20	\$1.26	\$1.30	\$1.31	\$1.36	\$1.58
Shares³	21	20	27	29	30	35	34	34	32	33	32	32

Southside Bancshares has seen earnings-per-share grow at 8.7% annually over the last decade. Growth over the last five years has been more pronounced as earnings-per-share has compounded at a rate of 9.7% per annum. We are forecasting 3% growth as we feel that this is a conservative balance between the company's growth prospects and the high starting base for earnings-per-share. Expected interest rate hikes this year should be a tailwind to results.

Bancshares distributes a special dividend nearly every year, including in 2020. Most recently, the bank distributed a \$0.06 special dividend in early December of last year. While the dividend has increased at a rate of nearly 10% over the

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

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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last decade, we believe that future dividend growth will coincide with earnings growth going forward in order to maintain the current payout ratio.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.6	9.9	27.1	15.7	15.7	19.0	16.2	15.5	12.1	12.3	9.7	12.0
Avg. Yld.	3.7%	3.4%	3.2%	3.7%	3.5%	3.2%	3.5%	3.7%	4.2%	3.1%	4.1%	3.3%

Shares of Southside Bancshares have declined \$6, or 15.4%, since our July 25th, 2022 report. The stock has traded with an average price-to-earnings ratio of 15.0 over the last decade. Removing 2014, when EPS suffered a significant decrease, the average P/E ratio since 2010 drops to 13.7. We believe that 12 times earnings is a reasonable target valuation due to the lower earnings growth rate. We forecast that multiple expansion could add 4.4% to annual returns through 2027.

The stock offers a dividend yield of more than 4%, more than twice that of the average yield of the S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	39%	33%	88%	57%	54%	61%	57%	57%	51%	39%	40%	40%

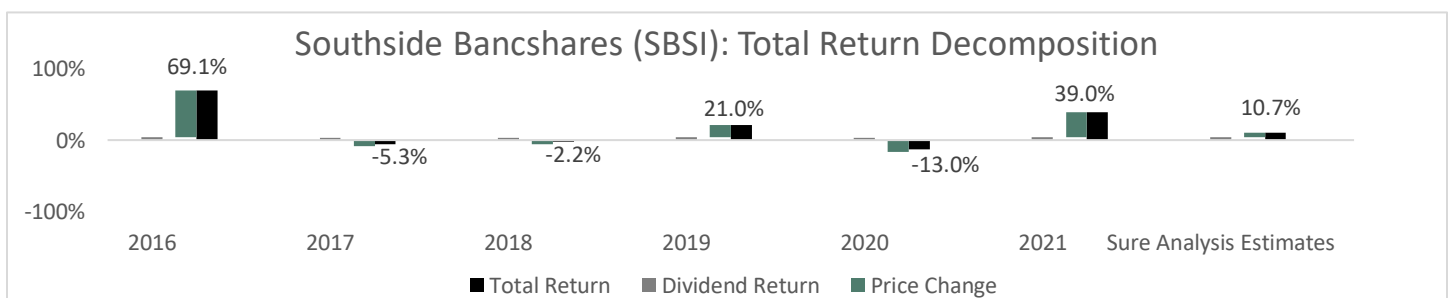
Southside Bancshares not only survived the last recession, but thrived. The bank's net income almost tripled and diluted earnings-per-share grew a total of 164% from 2007 through 2009 even as total assets were only up 38%. This is testament to Southside Bancshares' business model that it was able to perform at such a high level when much of the financial sector was highly challenged during the Great Recession.

Texas has a highly diversified banking industry, which limits Southside Bancshares' unique competitive advantages. One advantage that the bank has is that Texas is undergoing a population boom, particularly in the areas of Austin and Houston, where Southside Bancshares has branches. This could lead to a deeper pool of potential customers for the bank. An additional advantage that Southside Bancshares enjoys is high costs of switching banks, especially from those that are well run. This has allowed Southside Bancshares to grow over the last decade.

Final Thoughts & Recommendation

Southside Bancshares is now expected to offer a total annual return of 10.7% through 2027, up from our prior estimate of 5.9%. This projection is based on a 3.0% earnings growth rate, a starting dividend yield of 4.1%, and a low single-digit contribution from multiple expansion. The company continues to post solid loan growth outside of its PPP business and net interest income continues to surge due to interest rate hikes. Southside Bancshares' dividend track record is solid and the current yield remains generous. We have raised our five-year price target \$2 to \$47 due to earnings estimates and now rate shares of Southside Bancshares as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	128	136	130	170	176	178	212	211	236	238
SG&A Exp.	54	60	71	74	71	70	81	84	87	92
D&A Exp.	4	4	3	9	9	10	14	12		
Net Profit	35	41	21	44	49	54	74	75	82	113
Net Margin	27.1%	30.4%	16.0%	26.0%	28.1%	30.6%	35.0%	35.3%	34.8%	47.7%
Free Cash Flow	66	54	51	69	80	82	109	65		
Income Tax	8	5	(2)	7	10	16	10	13	11	17

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,237	3,446	4,807	5,162	5,564	6,498	6,123	6,749	7,008	7,260
Cash & Equivalents	151	54	85	81	162	191	126	131	108	202
Acc. Receivable	19	22	22	23	25	28	27	28		
Goodwill & Int.	22	22	100	98	96	224	219	214	211	208
Total Liabilities	2,980	3,186	4,382	4,718						6,347
Long-Term Debt	581	633	958	1,208	1,468	1,176	878	1,132	1,113	526
Total Equity	258	260	425	444	518	754	731	805	875	912
LTD/E Ratio	2.25	2.44	2.25	2.72	2.83	1.56	1.20	1.41	1.27	0.58

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.1%	1.2%	0.5%	0.9%	0.9%	0.9%	1.2%	1.2%	1.2%	1.6%
Return on Equity	13.4%	15.9%	6.1%	10.1%	10.3%	8.5%	10.0%	9.7%	9.8%	12.7%
ROIC	3.9%	4.8%	1.8%	2.9%	2.7%	2.8%	4.2%	4.2%	4.2%	6.6%
Shares Out.	21	20	27	29	30	35	34	34	32	33
Revenue/Share	5.93	6.38	6.00	6.19	6.45	5.91	6.03	6.23	7.09	7.27
FCF/Share	3.08	2.53	2.35	2.53	2.94	2.73	3.10	1.91		1.6%

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

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