



# Cambridge Bancorp (CATC)

Updated November 19<sup>th</sup>, 2022, by Patrick Neuwirth

## Key Metrics

<b>Current Price:</b>	\$92	<b>5 Year CAGR Estimate:</b>	14.1%	<b>Market Cap:</b>	\$715 M
<b>Fair Value Price:</b>	\$96	<b>5 Year Growth Estimate:</b>	11.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	02/09/23
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Dividend Payment Date<sup>1</sup>:</b>	02/23/23
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$162	<b>Years Of Dividend Growth:</b>	23
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Cambridge Bancorp (CATC), the parent company of Cambridge Trust Company, is based in Cambridge, Massachusetts. The company is a regional bank that provides commercial and consumer banking, and trust and investment management services to individuals and businesses. Cambridge Trust Company has approximately \$5.1 billion in assets on September 30, 2022, and a total of 22 Massachusetts and New Hampshire offices. Cambridge Trust Company is one of New England's leaders in private banking and wealth management with \$3.8 billion in client assets under management and administration on September 30, 2022. The company was founded in 1890 and has 380 employees. On October 18<sup>th</sup>, 2022, Cambridge Bancorp released its third quarter 2022 results for the period ending September 30<sup>th</sup>, 2022. For the quarter the company reported net income of \$14.6 million which represents a 7.0% increase compared to net income of \$13.7 million for the quarter ended June 30, 2022. Reported earnings per diluted share for the same periods were \$2.07 and \$1.94, an increase of 6.7% compared to the previous quarter. Net interest and dividend income, before the provision for credit losses, increased by \$2.1 million, or 6.1%, to \$36.3 million for the quarter from \$34.2 million for the previous quarter. This was primarily due to an increase in average earning assets and higher yields on earning assets. The adjusted Net Interest Margin (NIM) increased by 12 basis points to 2.93% in the third quarter of 2022 from 2.81% on June 30, 2022. For the quarter, total noninterest income decreased by \$706,000, or 6.3%, to \$10.4 million for the, as compared to \$11.1 million for the previous quarter. This change was primarily the result of lower Bank owned life insurance ("BOLI") income, partially offset by higher loan related derivative income and higher wealth management revenue. Noninterest income was 22.4% of total revenue for this quarter. Asset quality ratios remained strong with non-performing loans to total loans at 0.18% and non-performing assets to total assets at 0.12%. On October 1<sup>st</sup>, 2022 Cambridge Bancorp completed its merger with Northmark Bank ("Northmark") which added three banking offices in Massachusetts. The company paid total consideration of \$62.8 million, which consisted of 788,137 shares of Cambridge Bancorp common stock issued to Northmark shareholders. The transaction included the assumption of \$316.5 million in total loans and the acquisition of \$373.0 million in deposits, excluding fair value adjustments.

Management expects moderate growth in the next months. NIM should also increase consistent with the forward yield curve and the company expects the fourth quarter NIM to be just over 3%. A decline in non-interest income, decreasing deposit balance growth are potential headwinds. Management will provide the 2023 guidance in the first quarter as they have done in the past few years.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.45	\$3.62	\$3.78	\$3.93	\$4.15	\$3.61	\$5.77	\$5.37	\$5.03	\$7.69	<b>\$8.00</b>	<b>\$13.48</b>
<b>DPS</b>	\$1.50	\$1.59	\$1.68	\$1.80	\$1.84	\$1.86	\$1.96	\$2.04	\$2.12	\$2.38	<b>\$2.56</b>	<b>\$3.27</b>
<b>Shares<sup>2</sup></b>	4	4	4	4	4	4	4	5	7	7	<b>7</b>	<b>7</b>

<sup>1</sup> Estimated date

<sup>2</sup> In millions.

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The company has grown earnings by 9.3% per year over the past nine years and 17.3% over the past five years. We expect earnings to increase by 11% per year for the next five years. The company has been able to increase its dividend for 23 consecutive years. Over the last five years, the average annual dividend growth rate is 6.6%. In January 2022, the company increased its quarterly dividend by 4.9% from \$0.61 to \$0.64 per share.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Avg. P/E</b>	10.6	11.6	11.8	11.9	11.9	18.9	14.8	14.8	12.0	11.0	<b>11.5</b>	<b>12.0</b>
<b>Avg. Yld.</b>	1.9%	3.6%	3.8%	3.9%	3.7%	2.7%	2.3%	2.6%	3.5%	2.8%	<b>2.8%</b>	<b>2.0%</b>

During the past decade shares of Cambridge Bancorp have traded with an average price-to-earnings ratio of about 13 and today, it stands at 11.5. We are using 12 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 2.8% which is below the average yield over the past decade of 3.3% and in line with the five-year average of 2.8%.

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

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Payout</b>	43%	44%	44%	46%	44%	52%	34%	38%	42%	31%	<b>32%</b>	<b>27%</b>

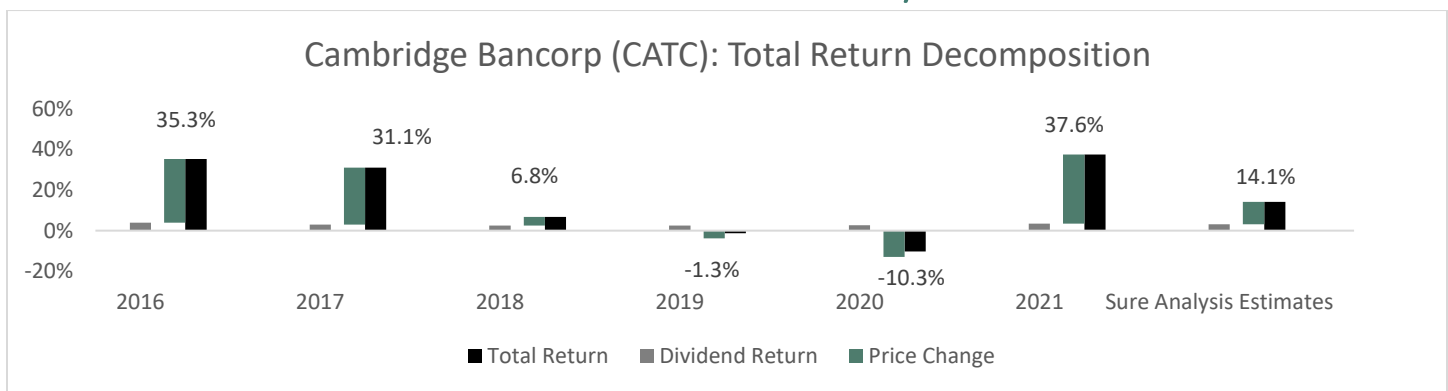
During the past five years, the company's dividend payout ratio has averaged around 40%. Cambridge Bancorp's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Cambridge Bancorp has demonstrated a strong financial performance (operating net income and EPS growth) combined with a sound asset quality track record and has a business model focused on private banking. The bank's Wealth Management capability is well suited to service the highly affluent Boston and southern New Hampshire markets. The company is the 18<sup>th</sup> largest independent investment advisers in Massachusetts<sup>3</sup>. Cambridge Bancorp's strategic focus is expanding the Wealth Management assets under management and leveraging the private banking model in highly attractive markets. The recent merger with Northmark contributes to the strategic expansion into attractive, affluent North Andover, Andover and Winchester markets.

## Final Thoughts & Recommendation

Cambridge Bancorp is an old and well-established regional bank active in Massachusetts and New Hampshire with a solid earnings track record and a dividend yield 2.8%. We estimate total return potential of 14.1% per year for the next five years based on a 11% earnings-per-share growth, and a valuation tailwind. The shares earn a buy rating.

## Total Return Breakdown by Year



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<sup>3</sup> Boston Business Journal 2022

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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	66	69	73	78	82	88	97	115	160	172
SG&A Exp.	33	32	33	37	39	41	44	50	62	69
D&A Exp.	1	2	2	2	2	2		1	(8)	(2)
Net Profit	13	14	15	16	17	15	24	25	32	54
Net Margin	20.2%	20.6%	20.5%	20.2%	20.5%	16.9%	24.7%	21.9%	20.0%	31.4%
Free Cash Flow	4	18	16	15	15	29	23	27	35	63
Income Tax	6	7	7	8	9	13	7	9	11	19

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,418	1,534	1,574	1,706	1,849	1,950	2,101	2,856	3,949	4,892
Cash & Equivalents	60	88	17	25	54	104	18	61	76	180
Goodwill & Int.		1	1	1		1	1	70	59	59
Total Liabilities	1,313	1,424	1,457	1,581	1,714	1,802	1,934	2,569	3,548	4,454
Long-Term Debt	20	-	69	4	4	4	93	136	33	17
Total Equity	105	109	116	125	135	148	167	287	402	438
LTD/E Ratio	0.19	-	0.59	0.03	0.03	0.02	0.56	0.47	0.08	0.04

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.1%	1.0%	1.0%	1.0%	1.0%	0.8%	1.2%	1.0%	0.9%	1.2%
Return on Equity	14.8%	13.2%	13.3%	13.0%	13.0%	10.5%	15.2%	11.1%	9.3%	12.9%
ROIC	10.4%	12.1%	10.1%	10.0%	12.6%	10.2%	11.6%	7.4%	7.5%	12.2%
Shares Out.	4	4	4	4	4	4	4	5	7	7
Revenue/Share	17.11	17.57	18.38	19.41	20.44	21.60	23.56	24.69	25.18	24.65
FCF/Share	1.15	4.58	4.01	3.78	3.64	7.12	5.58	5.77	5.45	9.08

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

## Disclaimer

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