PSB Holdings Inc. (PSBQ)

Updated November 1st, 2022, by Josh Arnold

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$100 M
Fair Value Price:	$30	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	01/07/23[1]
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.4%	**Dividend Payment Date:**	01/30/23
Dividend Yield:	2.3%	**5 Year Price Target**	$32	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

PSB Holdings is the parent company of Peoples State Bank, or PSB, which opened its doors in 1962 in Wausau, Wisconsin. The company has paid dividends to shareholders continuously since 1965 and has increased its payment for 29 consecutive years. The bank has ten branches, and assets totaling $1.3 billion. The stock trades with a $100 million market cap, making it one of the smallest companies we cover.

PSB reported third quarter earnings on October 24th, 2022, and results were quite strong despite a revenue decline. Earnings-per-share came to 80 cents, which is the best result for PSB thus far in 2022. Revenue was down just over 9% year-over-year to $10.7 million.

Loans receivable were up $11 million from the second quarter of 2022, or 1.2%, to $937 million. Nonperforming assets were down from 1.16% to 0.85%. Total assets were $1.32 billion, up fractionally from the June quarter.

Net interest income was up to $10.1 million from $9.6 million in the year-ago period. Noninterest income was down to $1.7 million from $1.9 million in the prior quarter. The decline was due to the fain on sales of mortgage loans due to slower refinance activity in the current rate environment.

Noninterest expense was down $264k from the prior quarter, primarily related to lower salary and benefits costs.

We now see $3.00 in earnings-per-share for this year after Q3 results, up slightly from Q2.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.20	$0.96	$1.30	$1.61	$1.83	$1.58	$2.29	$2.51	$2.40	$2.88	***$3.00***	***$3.15***
DPS	$0.25	$0.26	$0.27	$0.28	$0.30	$0.32	$0.34	$0.38	$0.41	$0.44	***$0.50***	***$0.64***
Shares[2]	5.0	5.0	5.0	4.8	4.6	4.6	4.5	4.5	4.4	4.4	***4.4***	***4.2***

PSB has an impressive track record of growth; it managed to remain profitable during the Great Recession, which is a testament to its lending standards. Since 2011, PSB has managed to grow earnings-per-share by more than 8% annually, on average. We don't see that sort of growth in the future, however, and instead estimate 1% annual expansion, primarily because asset growth has been very slow, and higher interest rates haven't necessarily translated to growth from an earnings-per-share perspective. Even with nearly flat estimates for this year, $3.00 would be outstanding historically.

This lack of strong projected growth is primarily because the bank's spreads had previously expanded widely, and because its loan-to-deposit ratio is stretched at or near the limit, although that is coming down with deposit growth and loan paydowns, both of which reduce the loan-to-deposit ratio. Both levers allow banks to boost profitability of the existing asset base by improving margins, and producing leverage, respectively. PSB has done these things well in recent years but given that its net interest margin is still near 3%, and that its loan-to-deposit ratio is still elevated, we see limited catalysts for outsized growth.

[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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PSB almost certainly won't be able to produce anything like the growth it has for the past decade in the current environment, particularly with already-elevated earnings.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	7.1	10.1	8.5	8.7	8.6	13.8	10.7	9.7	8.8	8.7	***7.3***	***10.0***
Avg. Yld.	2.9%	2.7%	2.5%	2.0%	1.9%	1.5%	1.5%	1.5%	1.1%	1.8%	***2.3%***	***2.0%***

PSB's valuation has remained very low for much of the past decade despite its outstanding profitability and strong growth. The average P/E ratio for the past decade is just 9. However, we see fair value at 10 times earnings given the bank's strong track record of profitability and growth. We also believe this multiple accounts for slower growth moving forward. At 7.3 times earnings today, the stock is heavily undervalued in our view.

The yield stands at 2.3%, which is more in line with historical standards. We see the yield having the potential to decline slightly in the years to come if the valuation improves.

Safety, Quality, Competitive Advantage, & Recession Resiliency

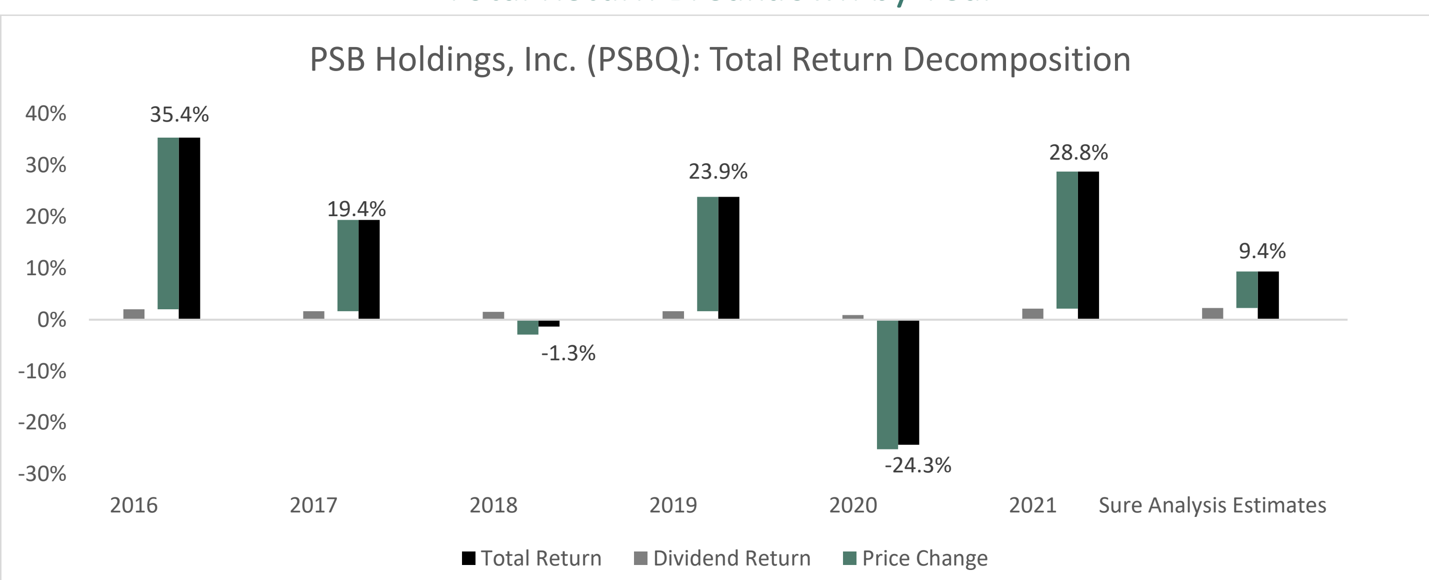
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	21%	27%	21%	17%	16%	20%	16%	15%	10%	15%	***17%***	***20%***

Competitive advantages are tough to come by in banking, but PSB does have a strong brand in parts of Wisconsin. In addition, its lending standards are helping, as it did during the last downturn. The dividend is also very safe at just 17% of earnings, and there is plenty of room for future raises, as well as plenty of margin of safety if a prolonged recession were to strike.

Final Thoughts & Recommendation

We see PSB's total return outlook as having improved to 9.4%, which is based on the 2.3% yield, 1% growth, and a 6.4% tailwind from the valuation. The bank's outlook for rate spreads is uninspiring. However, we still see a tough road for growth ahead from this year's base of earnings. With total returns of 9.4% projected, we are reiterating the stock at 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	25	27	28	30	32	33	35	39	43	48
SG&A Exp.	12	12	13	14	15	15	16	17	17	21
D&A Exp.	3	3	2	2	2	2	2	2	3	1
Net Profit	6	5	6	8	8	7	10	11	11	13
Net Margin	23.8%	17.9%	23.3%	26.2%	26.4%	21.7%	29.2%	28.9%	24.7%	27.1%
Free Cash Flow	7	13	8	8	9	10	11	12	16	12
Income Tax	3	2	3	4	4	5	3	4	3	4

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	712	712	734	784	828	848	916	975	1,132	1,299
Cash & Equivalents	26	17	22	24	29	22	22	29	8	24
Accounts Receivable	2	2	2	2	2	2	3	3	4	3
Goodwill & Int. Ass.	1	2	2	2	2	2	2	2	2	5
Total Liabilities	658	655	673	719	758	774	835	882	1,028	1,187
Long-Term Debt	65	51	33	33	48	60	91	84	72	62
Shareholder's Equity	54	57	61	65	69	74	81	93	104	111
LTD/E Ratio	1.19	0.90	0.53	0.51	0.70	0.81	1.13	0.90	0.69	0.56

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	0.7%	0.9%	1.0%	1.0%	0.9%	1.2%	1.2%	1.0%	1.1%
Return on Equity	11.5%	8.5%	10.9%	12.2%	12.6%	10.1%	13.3%	13.0%	10.8%	11.9%
ROIC	5.1%	4.2%	6.4%	8.1%	7.8%	5.7%	6.7%	6.5%	6.1%	7.3%
Shares Out.	5.0	5.0	5.0	4.8	4.6	4.6	4.5	4.5	4.4	4.5
Revenue/Share	5.07	5.34	5.57	6.16	6.91	7.27	7.86	8.69	9.72	10.82
FCF/Share	1.40	2.56	1.70	1.72	1.87	2.30	2.35	2.61	3.61	2.76

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