



Republic Bancorp (RBCAA)

Published November 25th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	9.5%	Market Cap:	\$855 M
Fair Value Price:	\$52	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/15/22
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	1/20/23
Dividend Yield:	3.2%	5 Year Price Target	\$60	Years Of Dividend Growth:	21
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Republic Bancorp is a financial holding company that is headquartered in Louisville, Kentucky, and provides both traditional and non-traditional banking products to its customers. It has 42 full-service banking centers in five states, with most of the centers in Kentucky, and has a market cap of \$855 million. The bank offers savings, checking and money market accounts while it also originates residential mortgage loans, home equity loans, commercial real estate loans, credit lines and offers personal and business banking services. Republic Bancorp is characterized by conservative management and thus it has raised its dividend for 21 consecutive years.

In late October, Republic Bancorp reported (10/21/22) financial results for the third quarter of fiscal 2022. The bank experienced reduced demand for home mortgage financing due to the aggressive interest rate hikes implemented by the Fed. However, it grew its loans significantly, 9% so far this year, and also expanded its net interest margin from 2.87% in last year's quarter to 3.62% thanks to higher interest rates. As a result, its earnings-per-share remained flat at \$0.99 and exceeded the analysts' estimates by an impressive \$0.26. The company has exceeded the analysts' estimates for six consecutive quarters. This is a testament to its strong business momentum, which results primarily from rising interest rates, high loan growth and the focus of management on keeping operating costs limited.

Most banks faced material loan losses due to the pandemic in 2020, but Republic Bancorp proved resilient to this crisis thanks to its disciplined business model. The bank grew its earnings-per-share by 3% in 2020 and 6% in 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.69	\$1.22	\$1.38	\$1.70	\$2.22	\$2.50	\$3.74	\$3.89	\$3.99	\$4.24	\$4.50	\$5.22
DPS	\$0.65	\$0.69	\$0.74	\$0.78	\$0.83	\$0.87	\$0.97	\$1.06	\$1.14	\$1.23	\$1.36	\$1.64
Shares¹	21.0	20.9	20.9	20.9	21.0	21.0	21.1	21.1	21.1	20.8	20.0	19.5

Republic Bancorp has exhibited a decent performance record over the last decade. If it meets our expectations this year, it will have grown its earnings-per-share at a 4.7% average annual rate over the last four years. The bank is trying to grow by expanding its reach via digital channels and acquiring smaller peers, while it is also doing its best to reduce its operating costs. In addition, the Fed is raising interest rates aggressively in an effort to restore inflation to its long-term target. This creates a tailwind for Republic Bancorp, as it enhances its net interest margin, i.e., the difference between the interest rate it charges on its loans minus the interest rate it pays on its deposits. However, due to this tailwind, the earnings of this year form a somewhat high comparison base. As a result, we expect Republic Bancorp to grow its earnings-per-share by only 3.0% per year on average over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	3.8	19.6	17.1	14.6	13.2	14.7	11.6	11.6	8.6	11.2	9.6	11.5
Avg. Yld.	3.0%	2.9%	3.1%	3.1%	2.8%	2.4%	2.2%	2.4%	3.3%	2.6%	3.2%	2.7%

¹ In millions.

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Republic Bancorp is currently trading at a price-to-earnings ratio of 9.6, which is lower than its 5-year average price-to-earnings ratio of 11.5. The cheap valuation has resulted primarily from the impact of high inflation on valuation, as inflation reduces the present value of future cash flows. We expect inflation to subside in the upcoming years and thus we expect the stock to revert to its average valuation level over the next five years. In such a case, the stock will enjoy a 3.8% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	11%	57%	54%	46%	37%	35%	26%	27%	29%	29%	30%	31%

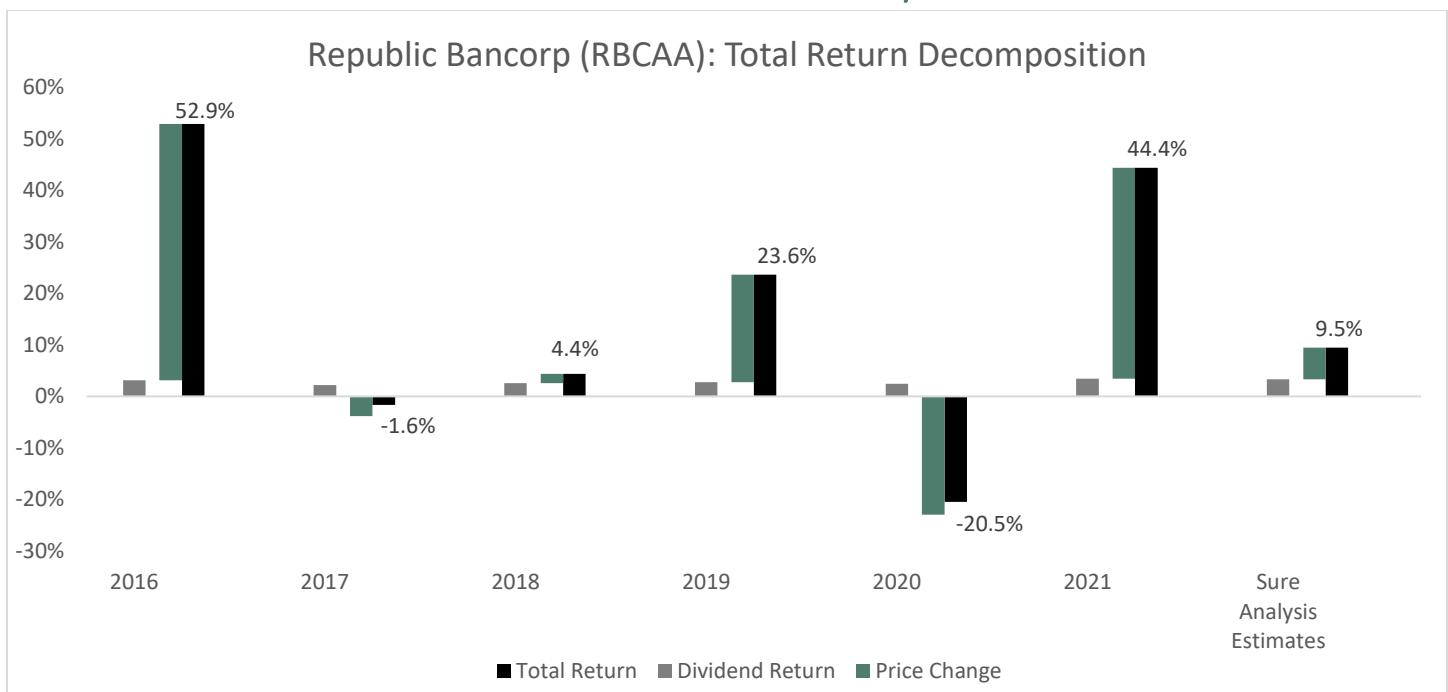
Republic Bancorp is characterized by disciplined management, which is focused on maintaining pristine credit quality metrics. Non-performing loans are only 0.17% of total loans while net loan charge-offs are only 0.01% of total loans. Thanks to its prudent strategy, the company has proved resilient to recessions. In the Great Recession, the worst financial crisis of the last 90 years, when most banks incurred severe losses and cut their dividends, Republic Bancorp continued growing its earnings and its dividend. The bank has proved resilient throughout the pandemic as well.

The conservative strategy of the bank results in slower growth during boom times but much more reliable performance during downturns. This helps explain the superior dividend growth record of Republic Bancorp, which has raised its dividend for 21 consecutive years. Given its solid payout ratio of 30% and its defensive business model, the bank can keep raising its dividend for many more years. We expect the announcement of the next dividend raise in late January.

Final Thoughts & Recommendation

Republic Bancorp is a high-quality bank, which has proved resilient to recessions and enjoys strong business momentum right now, mostly thanks to rising interest rates. We expect the stock to offer a 9.5% average annual return over the next five years thanks to 3.0% earnings-per-share growth, its 3.2% dividend and a 3.8% annualized valuation tailwind. We rate the stock as a hold. Nevertheless, investors should be aware of the low trading volume of this small-cap stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	266	155	152	168	209	253	285	298	315	302
SG&A Exp.	77	71	68	73	87	103	113	130	140	145
D&A Exp.	9	8	8	8	9	10	11	11	13	12
Net Profit	119	25	29	35	46	46	78	92	83	87
Net Margin	44.9%	16.4%	19.0%	20.9%	21.9%	18.0%	27.3%	30.7%	26.4%	28.7%
Free Cash Flow	82	17	19	45	41	65	109	92	72	94
Income Tax	65	15	16	18	23	33	16	21	19	24

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,394	3,372	3,747	4,230	4,816	5,085	5,240	5,620	6,168	6,094
Cash & Equivalents	138	171	73	210	289	299	351	385	486	757
Goodwill & Int. Ass.	10	10	10	10	16	16	16	16	16	16
Total Liabilities	2,858	2,829	3,188	3,654	4,212	4,453	4,550	4,856	5,345	5,259
Long-Term Debt	584	646	749	741	844	779	851	791	276	25
Shareholder's Equity	537	543	559	577	604	632	690	764	823	834
LTD/E Ratio	1.09	1.19	1.34	1.28	1.40	1.23	1.23	1.04	0.34	0.03

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.5%	0.8%	0.8%	0.9%	1.0%	0.9%	1.5%	1.7%	1.4%	1.4%
Return on Equity	24.1%	4.7%	5.2%	6.2%	7.8%	7.4%	11.8%	12.6%	10.5%	10.5%
ROIC	9.4%	2.2%	2.3%	2.7%	3.3%	3.2%	5.3%	5.9%	6.3%	8.9%
Shares Out.	21.0	20.9	20.9	20.9	21.0	21.0	21.1	21.1	21.1	20.8
Revenue/Share	12.65	7.42	7.27	8.03	9.99	12.04	13.53	14.12	14.95	14.57
FCF/Share	3.92	0.82	0.91	2.14	1.94	3.11	5.19	4.37	3.41	4.51

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

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