



Auburn National Bancorporation, Inc. (AUBN)

Updated February 5th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	7.4%	Market Cap:	\$83M
Fair Value Price:	\$25	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	03/08/23
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date¹:	03/22/23
Dividend Yield:	4.5%	5 Year Price Target	\$28	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Auburn National Bancorporation, Inc. is a bank holding company with total assets of approximately \$1.0 billion as of December 31, 2022. Through its principal subsidiary, AuburnBank, the company provides a full range of banking services to commercial and retail customers. AuburnBank is community oriented and focuses primarily on offering commercial and consumer loan and deposit services to individuals, and small and middle market businesses in East Alabama, including Lee County and surrounding areas. The Bank has 8 offices and 13 ATM locations throughout the communities it serves. The company was founded in 1907 and has 152 employees.

On January 30th, 2023, Auburn National Bancorporation, Inc. released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter, the company reported net earnings of \$4.5 million compared to \$1.9 million for the fourth quarter of 2021. Reported earnings per diluted share for the same periods were \$1.27 and \$0.53, an increase of 140%. For the full year 2022, the company reported record net earnings of \$10.3 million, or \$2.95 per share, compared to \$8.0 million, or \$2.27 per share, for 2021.

The company's fourth quarter results reflect strong growth in total revenue driven by increased net interest income("NII"), expanding margin and a couple of notable non-routine items. The 23% increase in net interest income on a tax-equivalent basis, compared to the fourth quarter of 2021, was primarily due to improvement in net interest margin. The net interest margin (tax-equivalent) was 3.27% in the fourth quarter of 2022 compared to 2.45% in the prior year. Auburn National reported improved loan growth during the fourth quarter of 2022 as loans increased \$34.4 million or 8% year-over-year. Related to this loan growth the company recorded a provision for loan losses during the fourth quarter of 2022 of \$1.0 million, compared to \$0.3 million for loan losses during the previous quarter. Nonperforming assets were \$2.7 million or 0.27% of total assets compared to \$0.8 million or 0.07% of total assets last year. At the end of the quarter, the bank's regulatory capital ratios were well above the minimum amounts required to be "well capitalized" under current regulatory standards. The equity to total assets ratio was 6.65%, compared to 9.39% on December 31st, 2021.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.95	\$2.04	\$2.16	\$2.24	\$2.15	\$2.42	\$2.72	\$2.09	\$2.27	\$2.95	\$2.30	\$2.54
DPS	\$0.84	\$0.86	\$0.88	\$0.90	\$0.92	\$0.96	\$1.00	\$1.02	\$1.04	\$1.06	\$1.06	\$1.22
Shares²	4	4	4	4	4	4	4	4	4	4	4	3

The company has grown earnings by 4.7% per year over the past nine years and decreased -1.0% over the past five years. We expect earnings to increase by 2% per year for the next five years. The company has been able to increase its dividend for an impressive 21 consecutive years. The annual dividend grew from \$0.80 in 2012 to the most recent full-year payment of \$1.06. This means an average annual dividend growth rate of 2.0%. In February 2022, the company increased its quarterly dividend by 1.9% from \$0.26 to \$0.265 per share. The company repurchased 17,183 shares for \$0.5 million in 2022.

¹ Estimated date

² 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	12.9	11.9	11.9	12.6	16.1	17.0	14.3	22.0	16.1	11.0	10.3	11.0
Avg. Yld.	1.9%	3.5%	3.4%	3.2%	2.7%	2.3%	2.6%	2.2%	2.9%	4.1%	4.5%	4.4%

During the past decade shares of Auburn National have traded with an average price-to-earnings ratio of about 14.6 and today, it stands at 10.3. We are using 11 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.5% which is well above the average yield over the past decade of 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	43%	42%	41%	40%	43%	40%	37%	49%	46%	36%	46%	48%

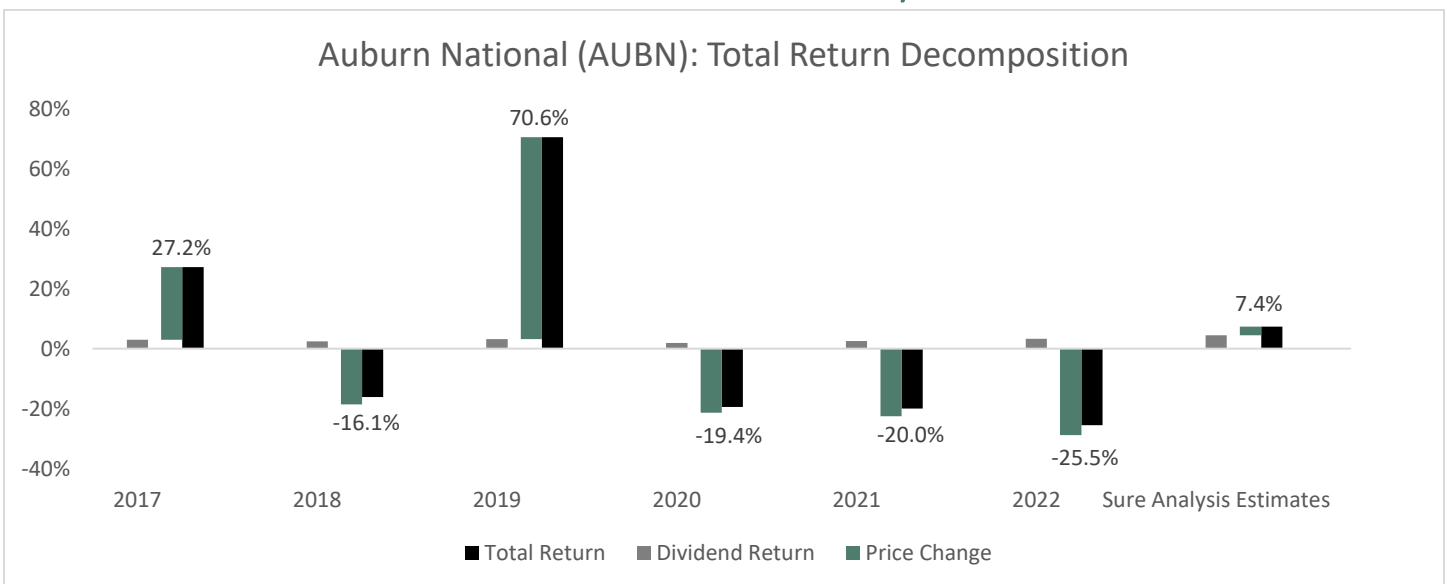
During the past five years, the company's dividend payout ratio has averaged around 48%. Auburn National's dividend is at the moment comfortably covered by earnings. It's important to note that Auburn National Bancorporation's earnings per share has basically not grown from where it was five years ago, which could mean that the payout ratio will increase further. One should keep an eye on the payout ratio when the dividend growth rate keeps outpacing the earnings per share growth rate.

Auburn National Bancorporation's business model is primarily built upon lending money to local businesses and residents within the local communities the bank serves. The funding of those loans is done by gathering local deposits through their community offices. Net interest income representing almost 90% of the total revenues.

Final Thoughts & Recommendation

Auburn National Bancorporation is a small and conservative community bank operating in East Alabama. Investors could be attracted to the stock based on its dividend growth track-record and above average dividend yield of 4.5. The dividend growth rate is currently outpacing the earning growth rate which is something to monitor. The share price is down 29% over the last year. We estimate total return potential of 7.4% per year for the next five years based on a 2% earnings-per-share growth, the dividend yield, and a valuation tailwind. The shares earn 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	31	27	25	27	26	28	29	32	30	28
SG&A Exp.	9	9	9	10	10	10	11	12	12	12
D&A Exp.	1	1	1	1	1	1	1	1	2	1
Net Profit	7	7	7	8	8	8	9	10	7	8
Net Margin	21.6%	26.2%	29.3%	28.8%	31.2%	28.1%	30.6%	30.9%	25.1%	28.4%
Free Cash Flow	14	13	10	9	9	8	12	9	1	(8)
Income Tax	1	2	3	3	3	4	2	2	2	1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	760	751	789	817	832	853	818	828	957	1,105
Cash & Equivalents	19	27	15	57	79	64	38	66	84	79
Goodwill & Int.	2	2	2	2						
Total Liabilities	690	687	713	737	750	766	729	730	849	1,001
Long-Term Debt	32	12	12	7	3	3	-	-	-	-
Total Equity	70	64	76	80	82	87	89	98	108	104
LTD/E Ratio	0.46	0.19	0.16	0.09	0.04	0.04	-	-	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	0.9%	1.0%	1.0%	1.0%	0.9%	1.1%	1.2%	0.8%	0.8%
Return on Equity	10.0%	10.6%	10.6%	10.1%	10.1%	9.3%	10.0%	10.4%	7.2%	7.6%
ROIC	5.7%	8.0%	9.0%	9.0%	9.4%	8.9%	9.9%	10.4%	7.2%	7.6%
Shares Out.	4	4	4	4	4	4	4	4	4	4
Revenue/Share	8.61	7.47	6.97	7.48	7.17	7.68	7.93	8.81	8.33	7.98
FCF/Share	3.71	3.64	2.69	2.56	2.55	2.14	3.27	2.52	0.39	(2.22)

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

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