Cambridge Bancorp (CATC)

Updated January 28th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$80	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$557 M
Fair Value Price:	$80	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	02/09/23
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date[1]:**	02/23/23
Dividend Yield:	3.4%	**5 Year Price Target**	$107	**Years Of Dividend Growth:**	24
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Hold

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 $5.6 billion in assets on December 31, 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 $4.1 billion in client assets under management and administration on December 31, 2022. The company was founded in 1890 and has 380 employees.

On January 24th, 2023, Cambridge Bancorp released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter the company reported net income of $11.3 million which represents a 22.6% decrease compared to net income of $14.6 million for the quarter ended September 30, 2022. Reported earnings per diluted share for the same periods were $1.44 and $2.07, a decrease of 30.4% compared to the previous quarter. Net interest and dividend income, before the provision for credit losses, increased by $4.6 million, or 12.7%, to $40.9 million for the quarter from $36.3 million for the previous quarter. This was primarily due to an increase in average earning assets and higher yields on earning assets, partially offset by higher cost of funds. The adjusted Net Interest Margin (NIM) increased by 13 basis points to 3.08% in the fourth quarter of 2022.

The company reported net income of $52.9 million for the year ended December 31, 2022, a decrease of $1.1 million, or 2.1%, as compared to net income of $54.0 million for the year ended December 31, 2021. Diluted earnings per share were $7.30 for the year ended December 31, 2022, representing a decrease of $0.39, or 5.1%, as compared to diluted earnings per share of $7.69 for the year ended December 31, 2021. For the year ended December 31, 2022, net interest and dividend income before the provision for credit losses increased by $15.2 million, or 11.9%, to $143.2 million, as compared to $128.0 million for the year 2021. The Company's net interest margin on a fully taxable equivalent basis decreased by 20 basis points to 2.92% for the year ended December 31, 2022, as compared to 3.12% for last year.

Management expects limited growth in 2023 for its loans (0% to 5%) and core deposits (2% to 5%). NIM should stabilize in harmony with the forward yield curve and the company expects full year 2023 NIM to be in the range 2.85% to 3.00%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.62	$3.78	$3.93	$4.15	$3.61	$5.77	$5.37	$5.03	$7.69	$7.30	***$8.00***	***$10.71***
DPS	$1.59	$1.68	$1.80	$1.84	$1.86	$1.96	$2.04	$2.12	$2.38	$2.56	***$2.68***	***$3.59***
Shares[2]	4	4	4	4	4	4	5	7	7	7	***7***	***7***

The company has grown earnings by 8.1% per year over the past nine years and 6.8% over the past five years. We expect earnings to increase by 6% per year for the next five years. The company has been able to increase its dividend for 24 consecutive years. Over the last five years, the average annual dividend growth rate is 6.5%. In January 2023, the company increased its quarterly dividend by 4.7% from $0.64 to $0.67 per share.

[1] Estimated date

[2] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.6	11.8	11.9	11.9	18.9	14.8	14.8	12.0	11.0	11.5	***9.9***	***10.0***
Avg. Yld.	1.9%	3.8%	3.9%	3.7%	2.7%	2.3%	2.6%	3.5%	2.8%	2.8%	***3.4%***	***3.4%***

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 9.9. We are using 10 times earnings as a fair value baseline, implying the potential for a small valuation tailwind. The company's dividend yield is currently 3.4% which is just above the average yield over the past decade of 3.2% and the five-year average of 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	44%	46%	44%	52%	34%	38%	42%	31%	32%	32%	***34%***	***34%***

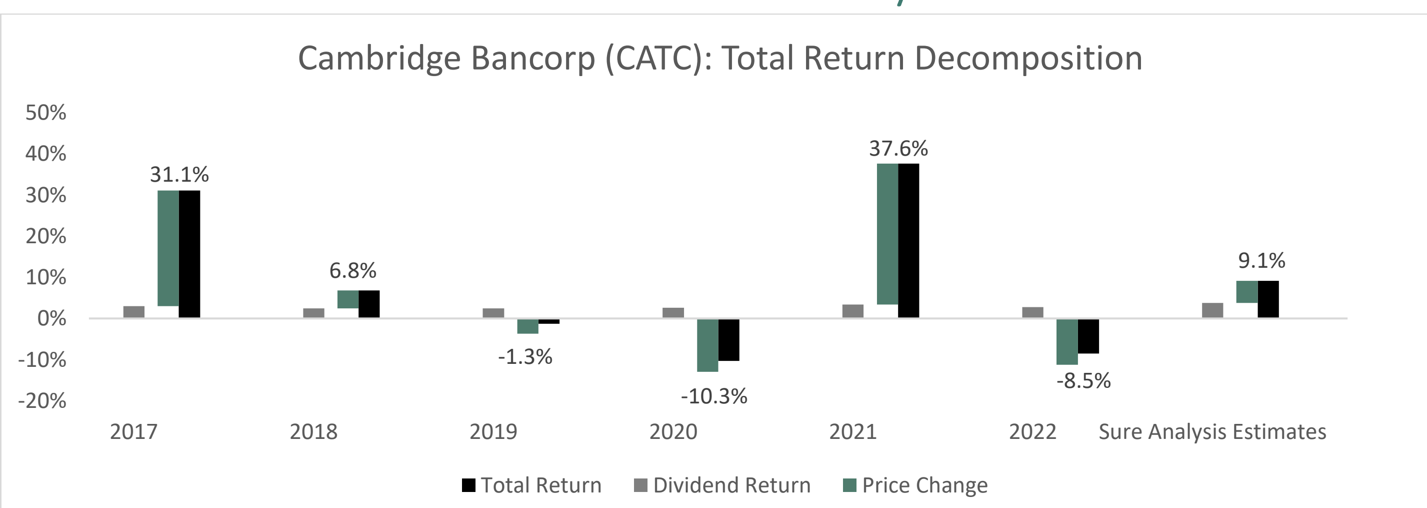
During the past five years, the company's dividend payout ratio has averaged around 40%. Cambridge Bancorp 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 18th largest independent investment advisers in Massachusetts[3]. 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 3.4%. We estimate total return potential of 9.1% per year for the next five years based on a 6% 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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[3] 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.