Norwood Financial Corp. (NWFL)

Updated January 30th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	12.6%	**Market Cap:**	$281 M
Fair Value Price:	$38	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	04/13/23
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date[1]:**	05/02/23
Dividend Yield:	3.4%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Buy

Overview & Current Events

Norwood Financial Corp. (NWFL) is a bank holding company that operates through its subsidiary, Wayne Bank. The company is an independent community bank with over 14 offices in Northeastern Pennsylvania and approximately 16 offices in Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York. It offers a range of personal and business credit services, trust and investment products, and real estate settlement services to the consumers, businesses, non-profit organizations and municipalities in each of the communities that the company serves. It operates a Wealth Management/Trust Department, which provides estate planning, investment management and financial planning to customers. As of December 31, 2022, Norwood Financial had total assets of $2.05 billion, loans outstanding of $1.47 billion, total deposits were $1.73 billion and total capital of $167.1 million. The company was founded in 1870 and has 260 employees.

On January 27th, 2023, Norwood Financial Corp. released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter, the company reported net income of $7.1 million which represents a 7.6% increase compared to $6.6 million earned in the same period of 2021. Reported earnings per diluted share for the same periods were $0.88 and $0.81, an increase of 8.6%. The increase in net income was due primarily to a $736,000 increase in net interest income. The full year 2022 results reflect an increasing net interest spreads due to rising interest rates, a higher level of interest earning assets, and reduced loan loss provisions related to improved credit quality metrics. For the year ended December 31, 2022, net income totaled $29,233,000, an increase of $4,318,000 from net income of $24,915,000 earned in year 2021. The increase includes a $3,084,000 increase in net interest income and a $3,300,000 reduction in the provision for loan losses. For the year ended December 31, 2022, earnings per share on a fully diluted basis were $3.58, compared to $3.04 for the year 2021.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.55	$1.40	$1.07	$1.15	$1.31	$2.17	$2.25	$2.09	$3.04	$3.58	***$3.75***	***$5.51***
DPS	$0.76	$0.80	$0.83	$0.83	$0.86	$0.88	$0.96	$1.00	$1.04	$1.12	***$1.16***	***$1.48***
Shares[2]	5	6	6	6	6	6	6	8	8	8	***8***	***8***

The company has grown earnings by 9.5% per year over the past nine years and 11.6% over the past five years. We expect earnings to increase by 8% per year for the next five years. The company has been able to increase its dividend for an impressive 31 consecutive years. Over the last five years, the average annual dividend growth rate is 5.7%. In December 2022, the company increased its quarterly dividend by 3.6% from $0.28 to $0.29 per share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	12.1	13.7	18.1	16.6	21.0	15.6	14.5	13.1	8.5	8.9	***9.1***	***10.0***
Avg. Yld.	1.9%	4.2%	4.3%	4.4%	3.2%	2.7%	3.0%	3.7%	4.1%	3.7%	***3.4%***	***2.7%***

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[1] Estimated date

[2] In millions.

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During the past decade shares of Norwood Financial Corp. have traded with an average price-to-earnings ratio of about 14.2 and today, it stands at 9.1. We are using 10 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.4% which is below the average yield over the past decade of 3.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	49%	57%	78%	72%	66%	41%	43%	48%	34%	***31%***	***27%***

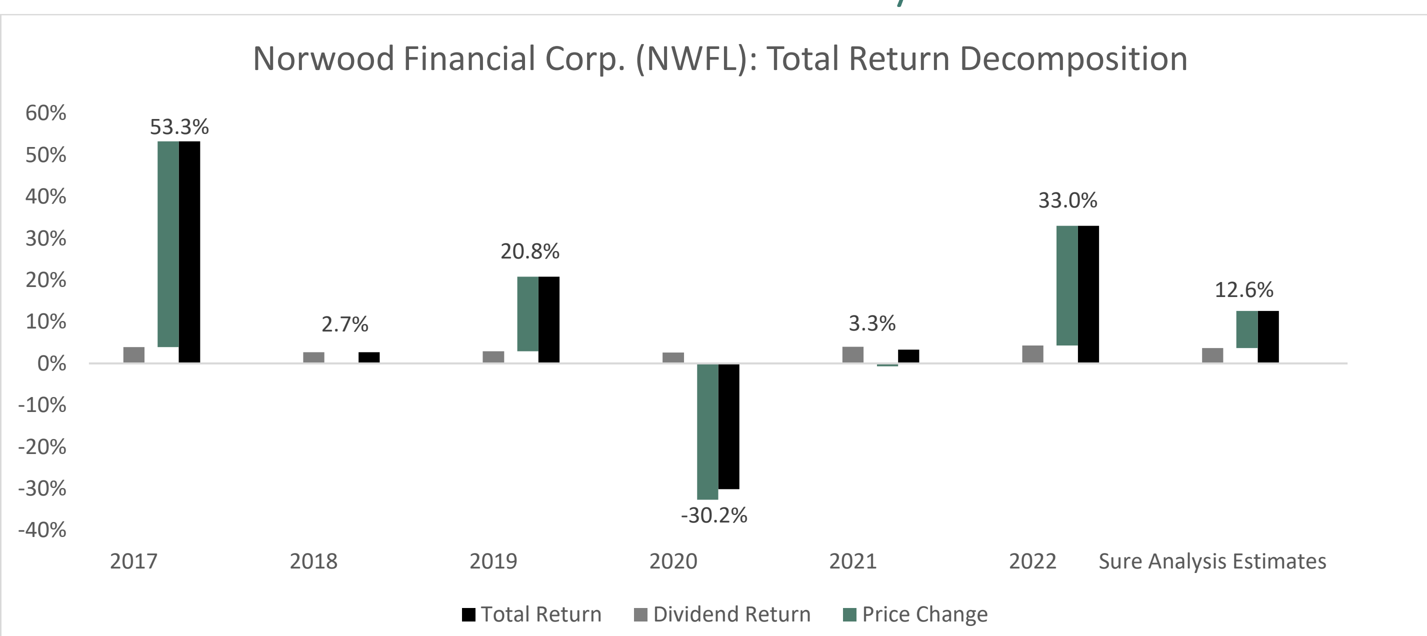
During the past five years, the company's dividend payout ratio has averaged around 40%. Norwood Financial 's dividend is at the moment comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout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

Norwood Financial has demonstrated a strong financial performance for the last seven years (operating net income and EPS growth) combined with a sound asset quality track record and has a business model focused on community banking. As a result, the company has an impressive track record of 31 consecutive years of dividend increases. Wayne Bank'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. In some counties, the company has a strong position and large market share with respect to deposits. The bank had the third largest share of FDIC-insured deposits in Wayne County with approximately 22.3% and the second largest share in Pike County with 18.1%. In addition, the bank operates a Wealth Management/Trust Department which provides estate planning, investment management, and financial planning to customers for which it is generally compensated based on a percentage of assets under management. This provides some diversification for the bank's revenue streams.

Final Thoughts & Recommendation

Norwood Financial is an old and well-established community bank active in several northeastern counties in the U.S. with a solid earnings track record and a 3.4% dividend yield. We estimate total return potential of 12.6% per year for the next five years based on an 8% earnings-per-share growth, the starting yield, and a valuation tailwind. The shares earn a buy 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	30	30	30	29	34	42	44	45	58	74
SG&A Exp.	10	10	11	11	14	16	17	18	21	25
D&A Exp.	1	1	1	1	1	1	1	1	1	2
Net Profit	8	8	8	6	7	8	14	14	15	25
Net Margin	28.0%	28.0%	25.8%	20.2%	19.9%	19.6%	31.1%	31.3%	25.9%	33.8%
Free Cash Flow	11	12	10	10	11	14	16	17	13	28
Income Tax	3	3	3	2	2	7	3	3	3	6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	672	711	712	751	1,111	1,133	1,185	1,231	1,852	2,069
Cash & Equivalents	12	8	12	10	17	17	18	15	112	207
Goodwill & Int.	10	10	10	10	12	12	12	12	30	30
Total Liabilities	580	619	613	650	1,000	1,017	1,062	1,093	1,657	1,863
Long-Term Debt	22	37	22	61	32	54	68	88	42	30
Total Equity	92	92	99	101	111	116	122	137	195	205
LTD/E Ratio	0.24	0.40	0.22	0.60	0.29	0.47	0.56	0.64	0.22	0.15

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.3%	1.2%	1.1%	0.8%	0.7%	0.7%	1.2%	1.2%	1.0%	1.3%
Return on Equity	9.3%	9.2%	8.0%	5.9%	6.3%	7.2%	11.5%	10.9%	9.1%	12.5%
ROIC	7.3%	6.9%	6.1%	4.2%	4.4%	5.2%	7.6%	6.8%	6.5%	10.5%
Shares Out.	5	5	6	6	6	6	6	6	8	8
Revenue/Share	5.53	5.56	5.41	5.28	5.79	6.67	6.98	7.17	8.06	8.98
FCF/Share	2.02	2.26	1.88	1.84	1.86	2.30	2.61	2.66	1.80	3.41

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