



Cass Information Systems, Inc (CASS)

Updated April 26th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	20.7%	Market Cap:	\$428M
Fair Value Price:	\$71	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	06/02/2023
% Fair Value:	51%	5 Year Valuation Multiple Estimate:	14.3%	Dividend Payment Date:	06/15/2023
Dividend Yield:	3.2%	5 Year Price Target:	\$86	Years Of Dividend Growth:	22
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Cass Information Systems, Inc. offers payment and data processing services to US-based manufacturing, distribution, and retail businesses. In addition, Cass offers invoice rating, payment processing, auditing, accounting, and transportation information services. The company operates in two segments: Information Services and Banking Services, generating most of its revenue from the Information Services segment. The Information Services sector offers transportation, energy, telecommunications, and environmental invoice processing and payment services to major enterprises. The Financial Services sector provides banking services to privately held businesses and restaurant franchises and supports the Information Services segment's banking requirements.

Cass Information Systems, Inc. has a high-quality investment portfolio which has continued to increase in recent quarters due to a rise in deposits at the Cass Commercial Bank. In addition to the deposits at the Cass Commercial Bank, the company earns net interest income from the float generated by its payment business. The low interest-rate environment after COVID-19 was a drag on the company's profitability as the net interest margin deteriorated during a low interest-rate environment. However, the management remains optimistic going forward in the future and believes that the company is well-positioned to benefit from the current rate increases by the Fed, as 73.6% of the company's funding is non-interest bearing. As interest-earnings assets reprice to current market interest rates, Cass is expected to experience a gradual rise in its net interest margin as asset yields should increase at a higher rate than funding costs.

On April 17th, 2023, Cass Information Systems, Inc. announced its Q1 2023 results, posting total revenues of \$49.3 million, up 17.2% year-over-year. The company's diluted EPS in Q1 2023 was reported at \$0.51, down by 15% from \$0.60 in Q1 2022. During the first quarter of 2023, total revenues rose by \$7.2 million, or 17.2%. All three of the main revenue sources, higher net interest income due to the growing net interest margin, higher financial fees as a result of rising short-term interest rates, and higher payment processing fees as a result of gaining more clients.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.53	\$1.56	\$1.52	\$1.63	\$1.68	\$2.03	\$2.07	\$1.73	\$2.00	\$2.53	\$3.07	\$3.74
DPS	\$0.74	\$0.81	\$0.85	\$0.89	\$0.93	\$1.02	\$1.05	\$1.08	\$1.09	\$1.13	\$1.16	\$1.48
Shares	15.1	15.2	15.0	14.8	14.7	14.6	14.5	14.4	13.7	12.1	11.8	10.5

Cass Information Systems, Inc. has continued to do well over the past two years benefiting from high inflation and then rising interest rates. The company benefits from rising inflation as the company's main business of processing payments sees higher transaction dollar volumes during periods of high inflation due to a rise in utilities and labor costs for businesses. Similarly, the recent rise in short and long-term interest rates has had a beneficial effect on net interest income and margin, increasing from a low of 2.30% to a current level of 3.15%. The management mentioned that an estimated 2% increase in interest rates increases the company's net interest income by 24%. We believe that the rate hiking cycle is not over, and inflation is turning out to be stickier than initially expected by central banks. Hence, we note that the company will continue to benefit from the persisting macro-environment in the coming few years and are forecasting a modest 4.0% growth in EPS through to 2028, which we believe is conservative and is significantly below the company's

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five-year average EPS growth rate of 8.5%. In addition, we believe the company will be able to grow its dividends at a healthy pace in the future and have assumed a dividend growth rate of 5.0% for the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	24.2	23.6	25.6	25.0	29.3	26.3	24.6	23.8	21.6	15.3	11.8	23.0
Avg. Yld.	2.0%	2.2%	2.2%	2.2%	1.9%	1.9%	2.1%	2.6%	2.5%	2.9%	3.2%	1.7%

Cass Information Systems, Inc. is trading at a forward P/E of 11.8, substantially lower than the five-year average of 22.3. The stock seems to be trading at a discount, given the expectation of a Fed pivot and the possibility of the lowering of interest rates in the future. However, we believe that the interest rates will start to normalize in 2024-2025. Eventually, we expect the P/E to and have assumed a P/E of 23.0 for 2028, slightly below the ten-year average P/E of 23.9. According to the valuation, we have a 5-year price target of \$86 on the stock, suggesting a 139% upside potential from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

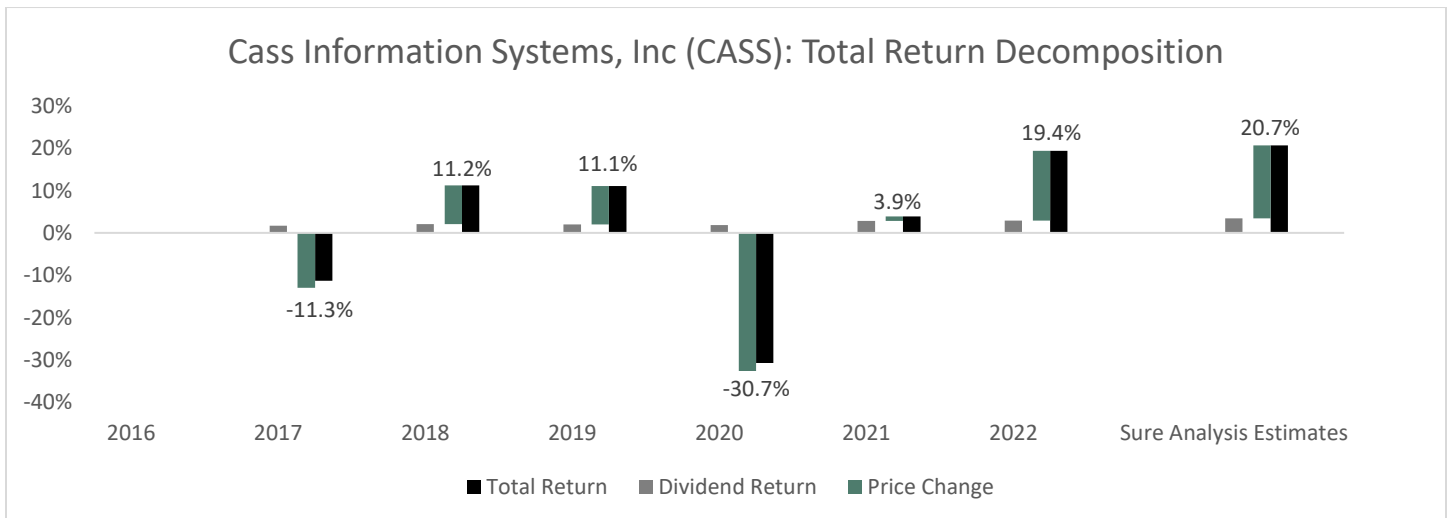
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	52%	56%	55%	55%	50%	51%	62%	55%	45%	38%	40%

Cass Information Systems, Inc. has a healthy payout ratio and has increased the dividends at a CAGR of 4.0% from 2017-2022. The Company has continuously paid regularly scheduled cash dividends since 1934 and has been increasing its annual dividend for the past 22 years. Cass Information Systems, Inc. also maintains a treasury stock buyback program and has steadily repurchased its shares from the market.

Final Thoughts & Recommendation

Cass Information Systems, Inc. is benefiting from macro-tailwinds of late and has also been successful in driving growth in its organic loan portfolio in recent quarters, particularly its specialty franchise, faith-based, and investment-grade lease niches. Cass generates over \$1 billion of average non-interest-bearing float and has operated as a strong and profitable commercial bank since 1906. Our buy rating is premised upon the 20.7% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 4.0%, the 3.2% dividend yield, and a possible valuation re-rating in the future.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	112	114	117	121	131	143	152	140	147	176
SG&A Exp.	71	72	76	78	84	93	99	94	100	109
D&A Exp.	7	8	9	9	11	11	5	5	5	5
Net Profit	23	24	23	24	25	30	30	25	29	35
Net Margin	20.9%	21.0%	19.7%	20.2%	19.1%	21.1%	20.0%	18.0%	19.5%	19.9%
Free Cash Flow	24	29	28	31	35	44	39	46	30	46
Income Tax	7	8	8	8	10	6	7	5	5	8

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,326	1,501	1,456	1,505	1,657	1,695	1,764	2,203	2,555	2,573
Cash & Equivalents	172	212	185	149	169	194	190	31	12	21
Goodwill & Int.	15	14	14	14	15	14	19	18	17	21
Total Liabilities	1,136	1,300	1,248	1,297	1,432	1,465	1,520	1,942	2,309	2,367
Accounts Payable	544	655	577	642	716	694	684	835	1,050	1,068
Long-Term Debt	-	-	-	-	-	-	18	-	-	-
Total Equity	190	200	207	208	225	230	244	261	246	206
LTD/E Ratio	-	-	-	-	-	-	0.07	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.8%	1.7%	1.6%	1.6%	1.6%	1.8%	1.8%	1.3%	1.2%	1.4%
Return on Equity	12.9%	12.3%	11.3%	11.7%	11.6%	13.3%	12.8%	10.0%	11.3%	15.4%
ROIC	12.9%	12.3%	11.3%	11.7%	11.6%	13.3%	12.4%	9.6%	11.3%	15.4%
Shares Out.	15.1	15.2	15.0	14.8	14.7	14.6	14.5	14.4	13.7	13.8
Revenue/Share	7.31	7.44	7.70	8.09	8.77	9.61	10.34	9.61	10.23	12.7
FCF/Share	1.56	1.86	1.82	2.04	2.33	2.95	2.68	3.14	2.11	3.31

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

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