PSB Holdings Inc. (PSBQ)

Updated April 25th, 2023, by Josh Arnold

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$91 M
Fair Value Price:	$27	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	07/07/23[1]
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.8%	**Dividend Payment Date:**	07/30/23
Dividend Yield:	2.4%	**5 Year Price Target**	$28	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

PSB Holdings is the parent company of Peoples State Bank, or PSB, which opened its doors in 1962 in Wausau, Wisconsin. The company has paid dividends to shareholders continuously since 1965 and has increased its payment for 29 consecutive years. The bank has ten branches, and assets totaling $1.3 billion. The stock trades with a $91 million market cap, making it one of the smallest companies we cover.

PSB reported first quarter earnings on April 24th, 2023, and results were largely in line with expectations. Earnings-per-share came to 67 cents, while revenue was up 2.5% to $11.85 million.

Provisions for loan losses rose to $100k, which was up from no provision in the year-ago period. However, PSB's loan quality remains outstanding. Non-performing assets fell to 0.45% from 1.03% a year ago.

Tangible book value rose 4.7% to $22.43 per share, up from $21.37 in last year's Q1.

The company noted operating results included lower net income due to rising deposit and FHLB advance costs, higher mortgage loan servicing income offset by higher salary and benefit costs, annualized low growth of 4.7%, and increased borrowings to fund seasonal business customer and municipal deposit outflows.

We now see $2.80 in earnings-per-share for this year after Q1 results, which is lower by 35 cents from our prior estimate. We believe PSB may see lower earnings on lower margins and weak loan growth.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.96	$1.30	$1.61	$1.83	$1.58	$2.29	$2.51	$2.40	$2.88	$3.07	***$2.80***	***$2.94***
DPS	$0.26	$0.27	$0.28	$0.30	$0.32	$0.34	$0.38	$0.41	$0.44	$0.48	***$0.50***	***$0.61***
Shares[2]	5.0	5.0	4.8	4.6	4.6	4.5	4.5	4.4	4.4	4.3	***4.2***	***4.2***

PSB has an impressive track record of growth; it managed to remain profitable during the Great Recession, which is a testament to its lending standards. Since 2011, PSB has managed to grow earnings-per-share by more than 8% annually, on average. We don't see that sort of growth in the future, however, and instead estimate 1% annual expansion, primarily because asset growth has been very slow, and higher interest rates haven't necessarily translated to growth from an earnings-per-share perspective. Should the bank see $2.80 in earnings-per-share for this year, it would be an all-time record.

This lack of strong projected growth is primarily because the bank's spreads had previously expanded widely, and because its loan-to-deposit ratio is stretched at or near the limit, although that is coming down with deposit growth and loan paydowns, both of which reduce the loan-to-deposit ratio. Both levers allow banks to boost profitability of the existing asset base by improving margins, and producing leverage, respectively. PSB has done these things well in recent years but given that its net interest margin is still near 3%, and that its loan-to-deposit ratio is still elevated, we see limited catalysts for outsized growth.

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[1] Estimated date

[2] Share count in millions

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PSB almost certainly won't be able to produce anything like the growth it has for the past decade in the current environment, particularly with already-elevated earnings.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.1	8.5	8.7	8.6	13.8	10.7	9.7	8.8	8.7	7.1	***7.5***	***9.5***
Avg. Yld.	2.7%	2.5%	2.0%	1.9%	1.5%	1.5%	1.5%	1.1%	1.8%	2.2%	***2.4%***	***2.2%***

PSB's valuation has remained very low for much of the past decade despite its outstanding profitability and strong growth. The average P/E ratio for the past decade is just 9. However, we see fair value at 9.5 times earnings given the bank's strong track record of profitability and growth. We also believe this multiple accounts for slower growth moving forward. At 7.5 times earnings today, the stock is heavily undervalued in our view.

The yield stands at 2.4%, which is more in line with historical standards. We see the yield having the potential to decline slightly in the years to come if the valuation improves.

Safety, Quality, Competitive Advantage, & Recession Resiliency

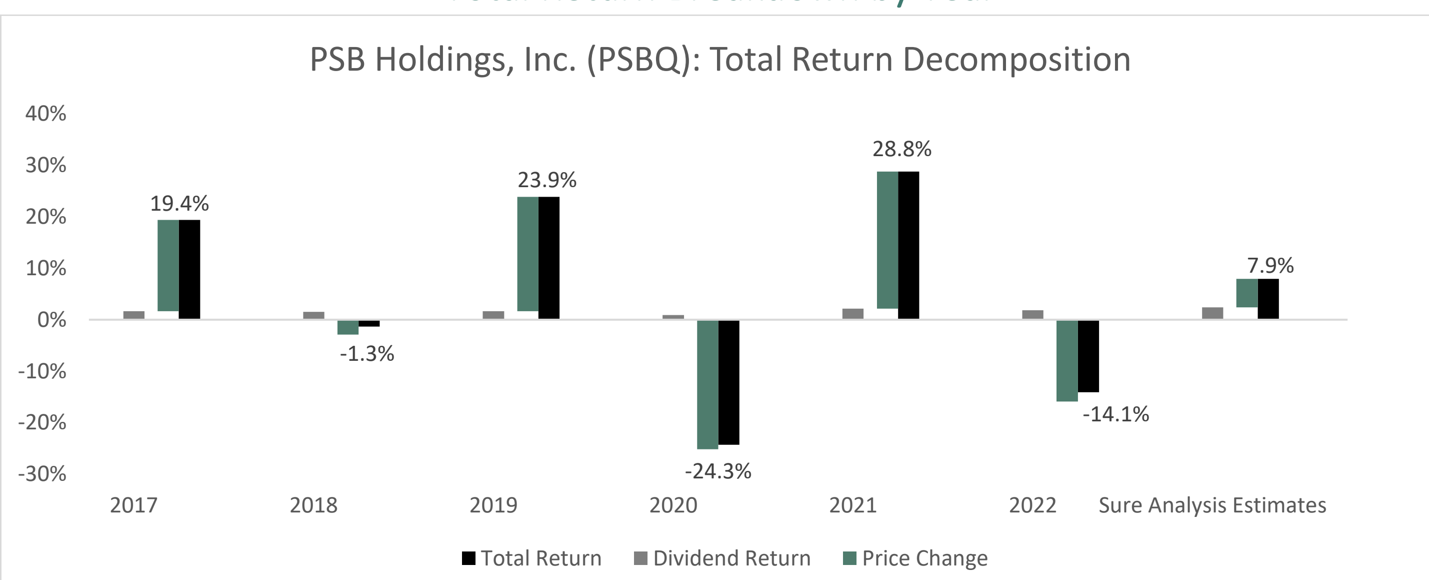
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	21%	17%	16%	20%	16%	15%	10%	15%	16%	***18%***	***21%***

Competitive advantages are tough to come by in banking, but PSB does have a strong brand in parts of Wisconsin. In addition, its lending standards are helping, as they did during the last downturn. The dividend is also very safe at just 18% of earnings, and there is plenty of room for future raises, as well as plenty of margin of safety if a prolonged recession were to strike.

Final Thoughts & Recommendation

We see PSB's total return outlook as having declined to 7.9%, which is based on the 2.4% yield, 1% growth, and a 4.8% tailwind from the valuation. The bank's outlook for rate spreads is uninspiring. However, we still see a tough road for growth ahead from this year's base of earnings. With total returns of 7.9% projected, we are downgrading the stock from buy to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	27	28	30	32	33	35	39	43	48	47
SG&A Exp.	12	13	14	15	15	16	17	17	21	19
D&A Exp.	3	2	2	2	2	2	2	3	1	3
Net Profit	5	6	8	8	7	10	11	11	13	14
Net Margin	17.9%	23.3%	26.2%	26.4%	21.7%	29.2%	28.9%	24.7%	27.1%	29.8%
Free Cash Flow	13	8	8	9	10	11	12	16	12	17
Income Tax	2	3	4	4	5	3	4	3	4	4

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	712	734	784	828	848	916	975	1,132	1,299	1,338
Cash & Equivalents	17	22	24	29	22	22	29	8	24	29
Accounts Receivable	2	2	2	2	2	3	3	4	3	4
Goodwill & Int. Ass.	2	2	2	2	2	2	2	2	5	5
Total Liabilities	655	673	719	758	774	835	882	1,028	1,187	1,236
Long-Term Debt	51	33	33	48	60	91	84	72	62	61
Shareholder's Equity	57	61	65	69	74	81	93	104	111	95
LTD/E Ratio	0.90	0.53	0.51	0.70	0.81	1.13	0.90	0.69	0.56	0.60

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.7%	0.9%	1.0%	1.0%	0.9%	1.2%	1.2%	1.0%	1.1%	1.0%
Return on Equity	8.5%	10.9%	12.2%	12.6%	10.1%	13.3%	13.0%	10.8%	11.9%	13.2%
ROIC	4.2%	6.4%	8.1%	7.8%	5.7%	6.7%	6.5%	6.1%	7.3%	8.1%
Shares Out.	5.0	5.0	4.8	4.6	4.6	4.5	4.5	4.4	4.5	4.4
Revenue/Share	5.34	5.57	6.16	6.91	7.27	7.86	8.69	9.72	10.82	4.42
FCF/Share	2.56	1.70	1.72	1.87	2.30	2.35	2.61	3.61	2.76	10.74

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