First Farmers Financial Corporation (FFMR)

Updated May 14th, 2023 by Josh Arnold

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$449 M
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	06/30/23[1]
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	07/15/23[1]
Dividend Yield:	2.9%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	32
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

First Farmers Financial is a holding company for First Farmers Bank & Trust, which provides banking products and services to individuals, families, and commercial customers. It offers core checking and savings accounts, health savings accounts, business accounts, construction loans, auto loans, collateral loans, mortgages, and other services. The bank has 29 offices in Indiana and 6 offices in Illinois, so it is a very small community bank. First Farmers was founded in 1885, generates about $100 million in annual revenue, and trades with a market capitalization of $449 million. First Farmers also has a dividend streak of 32 years, meaning it qualifies to be a Dividend Champion. We note that First Farmers reports results only one time per year.

First Farmers posted updated financials for fiscal 2022 in early May of 2023. The bank posted record earnings of $5.88 per share, well ahead of the prior record set in 2021 of $5.11. The bank noted nearly $94 million in interest income, as well as $11 million in related fee income, for revenue of just over $105 million for the year. This was up sharply from $87 million in 2021, and last year's results set a new record for revenue. Despite higher interest expense on deposits and borrowings, First Farmers posted record net interest income of $91.8 million for 2022.

The bank ended 2022 with total deposits of $2.4 billion, up from $2.1 billion in 2021. Total loans ended the year at $2.05 billion, implying fairly significant leverage on a loan-to-deposit basis.

Overall, First Farmers posted very strong results for 2022, and we believe the bank is on a strong footing for 2023, both from a deposit basis, and its ability to lend profitably with minimal credit losses. We estimate $6 in earnings-per-share for 2023, but note there is significant economic uncertainty on the horizon that could move earnings meaningfully.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.22	$2.27	$2.35	$2.38	$3.03	$3.87	$4.13	$4.29	$5.11	$5.88	***$6.00***	***$7.66***
DPS	$0.40	$0.53	$0.59	$0.65	$0.69	$1.02	$1.22	$1.29	$1.39	$1.73	***$1.84***	***$2.58***
Shares	7.1	7.1	7.1	7.2	7.2	7.2	7.1	7.1	7.1	7.0	***7.0***	***7.0***

First Farmers has grown its earnings-per-share at a rate of more than 10% annually since 2012, which is very impressive to say the least. However, we do not expect that sort of performance to continue given the bank's current balance sheet and profitability metrics. Note that First Farmers executed a 2-for-1 stock split in 2018, which the above numbers reflect.

We estimate 5% annual earnings-per-share growth for the next five years, as we see First Farmers continuing to maintain its elevated loan-to-deposit ratio, but with little room for growth there. At ~88%, First Farmers' loan-to-deposit ratio moved up since the end of 2020, increasing balance sheet leverage, and potentially reducing the runway for future lending growth. We think growth off of the very high base of earnings at present is going to be tough.

In addition to that, First Farmers has made a significant amount of loans while interest rates have been at or near historical lows.

---

[1] Estimated date

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.

First Farmers Financial Corporation (FFMR)

Updated May 14th, 2023 by Josh Arnold

First Farmers does buy back stock, but it's quite minimal, so we don't see that as a significant factor in terms of powering earnings-per-share growth.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	14.3	14.9	17.5	15.5	10.9	11.3	10.2	8.8	10.4	***10.7***	***10.0***
Avg. Yld.	---	1.6%	1.7%	1.6%	1.5%	2.4%	2.6%	3.0%	3.1%	2.8%	***2.9%***	***3.4%***

First Farmers has traded with an elevated P/E ratio in past years, generally trading around the mid-teens or higher. However, we see First Farmers as facing a number of growth challenges, as detailed above, and given that sector valuations are still quite low, we assess fair value at 10 times earnings. The stock trades for 10.7 times earnings today, so it is modestly ahead of our estimate of fair value, implying a small headwind to total annual returns from the valuation.

We note that the valuation and consistent dividend raises have sent the current dividend yield to an impressive 2.9%. We expect the dividend to grow more quickly than earnings and the share price, and therefore see some upside to the yield in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

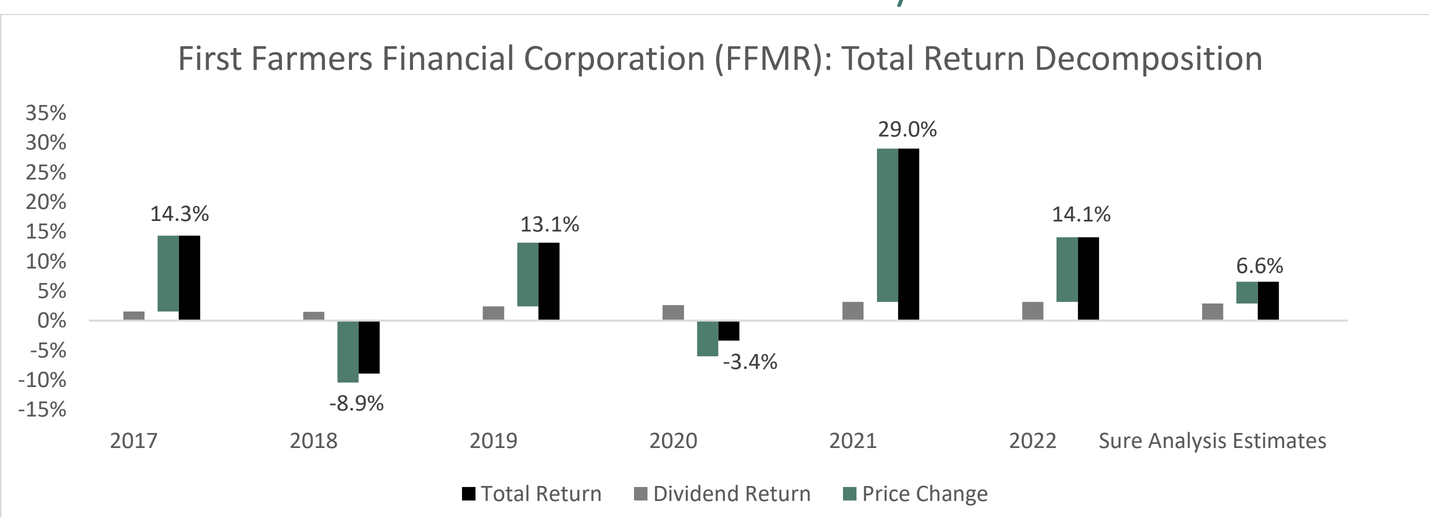
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	23%	25%	27%	23%	26%	30%	30%	27%	29%	***31%***	***34%***

First Farmers, like any other community bank, struggles for competitive advantages given that banking is a highly commoditized business with similar offerings from most players. That said, its performance during periods of low interest rates has been impressive, having grown its earnings consistently through periods of extremely low rates. The bank's payout ratio is also quite manageable at just one-third of earnings, so we see the dividend as safe. First Farmers has been able to hold up very nicely during recessions, and we believe that will remain the case going forward.

Final Thoughts & Recommendation

We see First Farmers as a slightly overvalued income stock among community banks. We forecast 6.6% total annual shareholder returns in the next five years, and with a 2.9% yield, 5% earnings growth, and a 1.3% headwind, the security earns a hold rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

First Farmers Financial Corporation (FFMR)

Updated May 14th, 2023 by Josh Arnold

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	56	63	68	74	81	85	103	96	107
SG&A Exp.	---	20	24	26	28	29	31	35	34	33
D&A Exp.	---	3	4	4	3	3	4	4	5	3
Net Profit	---	16	17	17	22	28	30	36	30	41
Net Margin	---	28.8%	26.5%	25.1%	29.4%	34.3%	34.7%	34.9%	31.9%	38.3%
Free Cash Flow	---	18	16	22	27	36	30	65	25	51
Income Tax	---	6	6	6	5	5	5	7	6	10

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	1,340	1,480	1,616	1,677	1,749	1,916	2,439	2,214	2,749
Cash & Equivalents	---	80	53	111	88	52	60	221	191	101
Accounts Receivable	---	16	20	20	24	24	26	31	29	61
Goodwill & Int. Ass.	---	12	13	12	11	10	10	9	9	9
Total Liabilities	---	1,228	1,356	1,480	1,523	1,577	1,718	2,196	1,992	2,515
Accounts Payable	---	12	11	19	15	12	21	21	30	33
Long-Term Debt	---	114	120	140	173	158	173	81	209	143
Shareholder's Equity	---	112	125	136	154	172	198	243	222	233
D/E Ratio	---	1.02	0.96	1.03	1.13	0.92	0.87	0.33	0.94	0.61

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	1.2%	1.1%	1.3%	1.6%	1.6%	1.6%	1.5%	1.6%
Return on Equity	---	---	14.2%	13.1%	15.0%	17.0%	16.0%	15.5%	14.5%	17.4%
ROIC	---	---	7.1%	6.5%	7.2%	8.4%	8.4%	9.6%	7.6%	11.8%
Shares Out.	7.1	7.1	7.2	7.2	7.2	7.1	7.1	7.1	7.1	7.0
Revenue/Share	---	7.89	8.86	9.47	10.30	11.29	11.90	14.65	13.47	15.36
FCF/Share	---	2.48	2.28	3.10	3.75	5.02	4.22	9.28	3.54	7.21

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