First Mid Bancshares, Inc. (FMBH)

Updated May 3rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	16.3%	**Market Cap:**	$535 M
Fair Value Price:	$37	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	05/16/2023
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.5%	**Dividend Payment Date:**	06/01/2023
Dividend Yield:	3.7%	**5 Year Price Target**	$48	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

First Mid Bancshares, Inc. is a 1982-founded financial holding company that offers a comprehensive range of banking and financial services through its American subsidiaries. Customers of the business include commercial, retail, and agricultural clients. The company provides deposit products, loans, wealth management, brokerage, Ag services, and insurance through a sizable network of locations across Texas, Illinois, and Missouri, as well as a loan production office in the greater Indianapolis area. First Mid is a company that prioritizes the community and has built a strong reputation in the communities it serves, and its total asset size is $6.7 billion.

On April 26th, 2023, the company announced results for the first quarter of 2023. FMBH reported Q1 Non-GAAP EPS of $0.96, and revenues of $65.3 million for the quarter, up 5.8% year-over-year. The company also reported net income of $19.2 million, up 15.7% compared to the previous year.

The bank continued its strategic initiatives while overcoming the escalating difficulties in the banking sector. Financial highlights of the quarter included a record quarter for the insurance business, sustained strength in asset quality, and an efficiency project that will save costs by about $2.2 million annually.

In addition, the company announced the merger with Blackhawk Bancorp, Inc. after years of collaborating on different client prospects and strategic matters. The cultural compatibility of the two businesses will facilitate a seamless integration and enable FMBH to uphold the long-standing commitments to communities and excellent customer relationships that Blackhawk has established over the years.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.73	$1.85	$1.81	$2.05	$2.13	$2.52	$2.87	$2.70	$2.87	$3.60	***$3.40***	***$4.34***
DPS	$0.46	$0.55	$0.59	$0.62	$0.66	$0.70	$0.76	$0.81	$0.85	$0.90	***$0.92***	***$1.12***
Shares	5.9	7.0	8.5	12.5	12.7	16.7	16.7	16.7	18.1	20.2	***21.5***	***44.4***

First Mid Bancshares is a cost-efficient and resilient bank. In the last quarter, the bank's nonperforming loans fell by $1.6 million, bringing the ratio of nonperforming loans to total loans down to 0.40%. The allowance for credit losses (ACL) climbed by $0.3 million to $59.1 million as of December 31, 2022, with an ending ACL to total loans ratio of 1.22%. The ACL remained flat during the first quarter, while the proportion of non-performing loans to total loans had decreased to 0.32%, and the provision for credit losses to non-performing loans stood at 384%. At the end of the quarter, the nonperforming asset ratio was 0.29% of total assets. Both nonperforming loans and nonperforming assets fell during that time. In the first quarter, the company only recorded a little amount of net charge-offs. Thus, considering FMBH's high asset quality, we don't expect the banking crisis to impact its performance materially. However, the bank is small and vulnerable to the banking sector's shockwaves.

We maintain our EPS forecast of $3.40 in 2023, in line with analysts' estimates, and we have assigned an annual EPS growth rate of 5.0% for the next five years, reaching $4.34 by 2028. First Mid Bancshares's DPS had a nine-year and five-year CAGR of 7.7% and 16.8%, respectively. Moreover, the bank has consistently increased dividend distributions to shareholders in the past 12 years, and we expect it to continue this track.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	13.1	11.3	11.8	12.9	16.6	15.0	11.9	10.2	14.3	8.9	***7.3***	***11.0***
Avg. Yld.	0.7%	0.7%	0.7%	0.6%	0.5%	0.4%	0.4%	0.4%	0.3%	0.5%	***3.7%***	***2.3%***

First Mid Bancshares is trading at a forward P/E of 7.3, lower than its nine-year and five-year average P/E of around 12.0. The suppressed multiple is justifiable considering the financial crisis SVB has spread, and if there is no contagion effect and FMBH remains intact, then we believe a P/E of 11.0 better reflects the bank's risk/reward profile, suggesting a target price of $48, and a 92% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

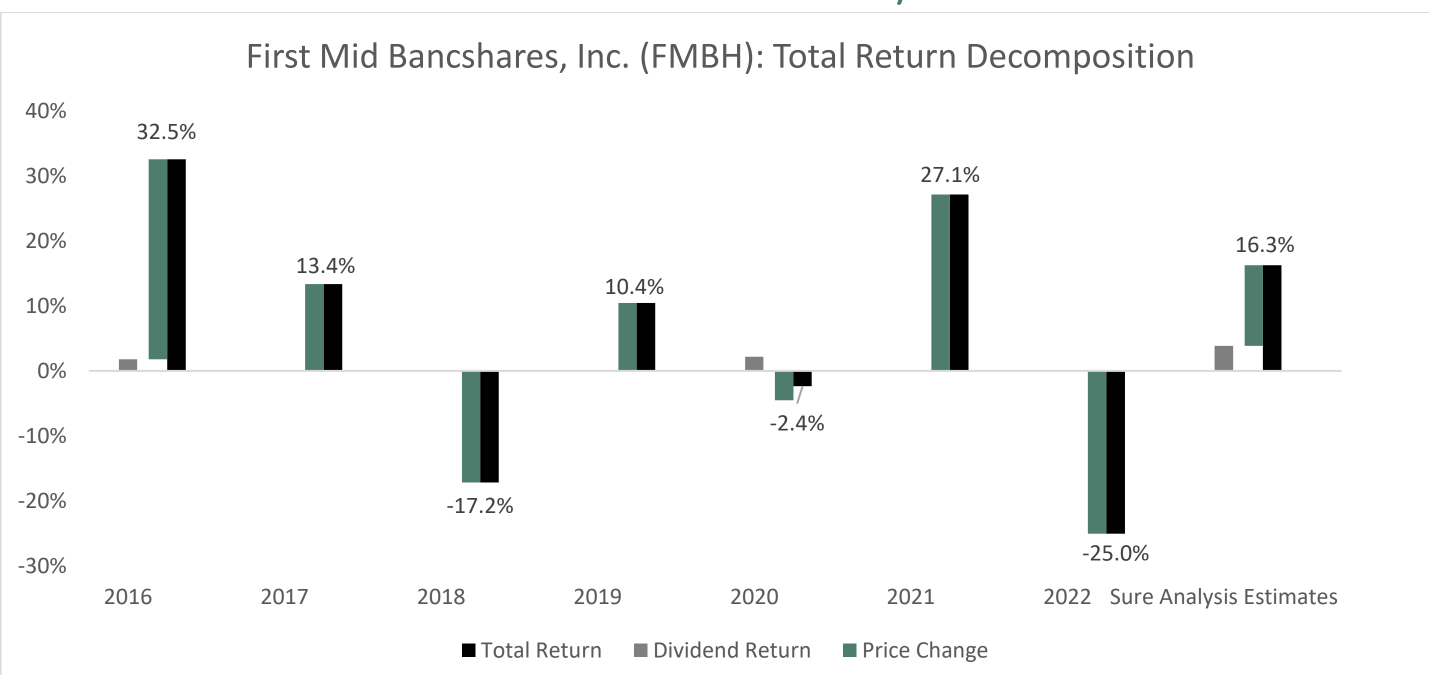
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	30%	33%	30%	31%	28%	26%	30%	30%	25%	***27%***	***28%***

The bank continued to maintain solid capital levels that were comfortably above the "well capitalized" criteria. Specifically, First Mid Bancshares achieved a "total capital to risk-weighted assets" of 15.20% for 2022, therefore the bank remains strong and well positioned if an economic downturn occurs. Lastly, the competition from community banks and brokerage houses has intensified for the company, but by offering wealth management options, the bank effectively kept the customer's cash inside the business but off the balance sheet.

Final Thoughts & Recommendation

Despite the rising concerns of a contagion effect in the banking sector, the recent plunge in the stock has adequately reflected the relevant risks, offering a wider margin of safety for investors and, therefore, less downside risk from current share price levels. Thus, the buy rating is premised upon the 16.3% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 5.0%, the 3.7% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	69	70	76	96	121	144	178	185	234	255
SG&A Exp.	26	27	28	35	42	50	65	69	95	103
D&A Exp.	5	4	4	8	8	8	11	12	14	15
Net Profit	15	15	17	22	27	37	48	45	51	73
Net Margin	21.3%	22.1%	21.6%	22.7%	22.0%	25.4%	26.9%	24.5%	22.0%	28.6%
Free Cash Flow	23	17	20	27	45	39	59	61	66	61
Income Tax	9	9	9	12	15	12	15	14	15	18

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,605	1,607	2,114	2,885	2,842	3,840	3,839	4,726	5,987	6,744
Cash & Equivalents	65	51	140	152	90	148	89	419	170	146
Acc. Receivable	7	7	8	11	11	17	16	19	20	28
Goodwill & Int.	28	28	50	71	71	139	133	128	141	170
Total Liabilities	1,456	1,442	1,909	2,604	2,534	3,364	3,313	4,158	5,353	6,111
Accounts Payable	0	0	0	1	1	2	2	2	1	3
Long-Term Debt	41	41	41	82	94	156	138	207	200	579
Total Equity	97	138	178	281	308	476	527	568	634	633
LTD/E Ratio	0.27	0.25	0.20	0.29	0.31	0.33	0.26	0.36	0.32	0.91

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.0%	0.9%	0.9%	0.9%	1.1%	1.2%	1.1%	1.0%	1.1%
Return on Equity	14.6%	13.2%	10.5%	9.5%	9.1%	9.3%	9.6%	8.3%	8.6%	11.5%
ROIC	6.1%	7.8%	7.3%	7.2%	7.0%	7.1%	7.4%	6.3%	6.4%	7.1%
Shares Out.	5.9	7.0	8.5	12.5	12.7	16.7	16.7	16.7	18.1	20.2
Revenue/Share	11.65	8.34	8.35	9.01	9.65	9.94	10.66	11.01	13.07	12.58
FCF/Share	3.91	1.98	2.21	2.51	3.58	2.69	3.51	3.64	3.67	3.00

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