C&F Financial Corporation (CFFI)

Updated July 2nd, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	13.5%	**Market Cap:**	$183 M
Fair Value Price:	$62	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	09/14/23
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date[1]:**	09/29/23
Dividend Yield:	3.3%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

C&F Financial Corporation operates as a bank holding company for Citizens and Farmers Bank that provides banking services to individuals and corporates. C&F Bank operates in a decentralized manner in three business segments: community banking and wealth management through C&F Bank, mortgage banking through C&F Mortgage Corporation and consumer finance through C&F Finance Company. C&F Bank operates 31 banking offices and four commercial loan offices located throughout eastern and central Virginia. As of December 31, 2022, C&F Financial Corp. had total assets of $2.33 billion, total loans of $1.61 billion, and total deposits of $2.00 billion. The company was founded in 1927, has 600 employees, and is headquartered in West Point, Virginia.

On April 26th, 2023, C&F Financial Corporation released its first quarter fiscal 2023 results for the period ending March 31st, 2023. For the quarter the company reported consolidated net income of $6.5 million, which represents an increase of $762,000, or 13.3 percent, as compared to the first quarter of 2022. Net income was $1.86 per diluted share for the first quarter of 2023 and $1.59 per diluted share for the same quarter last year. The company's three business segments were all profitable, but they were affected differently by the changing economy. The mortgage banking segment and consumer finance segment experienced a decrease in earnings due to rising interest rates, which impacted loan originations and borrowing costs. However, the community banking segment saw a significant increase in earnings of 83%. This increase was primarily driven by higher net interest income resulting from increased margins and more outstanding loans. The consolidated annualized net interest margin was 4.52% for the first quarter of 2023, compared to 3.93% and 4.65% for the first quarter of 2022 and the fourth quarter of 2022, respectively. The community banking segment's average loans increased $148.8 million, or 14.5%, for the first quarter of 2023 compared to the same period in 2022, primarily from growth in the commercial real estate and residential mortgage segments of the loan portfolio.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.19	$3.59	$3.68	$3.89	$1.88	$5.15	$5.47	$6.06	$7.95	$8.29	***$8.80***	***$12.93***
DPS	$1.16	$1.19	$1.22	$1.29	$1.33	$1.41	$1.49	$1.52	$1.58	$1.64	***$1.76***	***$2.36***
Shares[2]	3	3	3	3	4	4	3	4	4	3	***3***	***3***

The company has grown earnings by 8% per year over the past nine years and 11% over the past five years. The drop in earnings for C&F Financial Corporation in 2017 can be attributed to the effect of the Tax Cuts and Jobs Act, which permanently lowered the federal corporate income tax rate to 21% from the previous maximum rate of 35%. In the case of C&F Financial Corporation, this resulted in a $6.6 million reduction in the value of its net deferred tax asset and a corresponding incremental income tax expense of $6.6 million. This significantly impacted the corporation's earnings for that year and especially the fourth quarter of 2017. We expect earnings to increase by 8% per year for the next five years. The company has been able to increase its yearly dividend payout for 13 consecutive years. Over the last five years, the average annual dividend growth rate is 4.5%. In February 2023, the company increased its quarterly dividend by 4.8% from $0.42 to $0.44 per share.

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[1] Estimated date
[2] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.1	9.9	9.9	10.8	26.9	11.0	9.4	6.0	6.1	6.2	***6.1***	***7.0***
Avg. Yld.	1.9%	3.3%	3.3%	3.1%	2.6%	2.5%	2.9%	4.2%	3.3%	3.2%	***3.3%***	***2.6%***

During the past decade shares of C&F Financial Corporation have traded with an average price-to-earnings ratio of about 10.6 times earnings and today, it stands at 6.1. We are using 7.0 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.3% which is above the average yield over the past decade of 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Payout	28%	33%	33%	33%	71%	27%	27%	25%	20%	20%	**20%**	**18%**

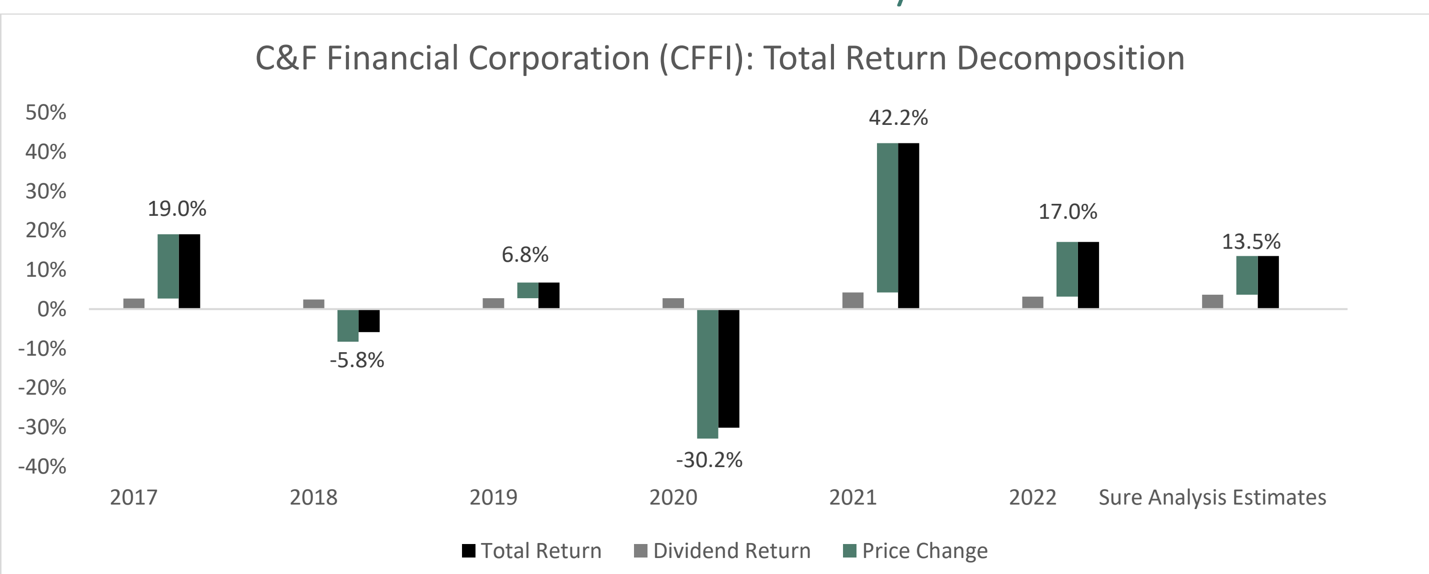
During the past five years, the company's dividend payout ratio has averaged around 24%. C&F Financial Corporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe. Management is targeting a 20% to 30% dividend payout ratio.

C&F Financial Corporation is a typical regional bank with a well-diversified revenue and income business model. The company operates in three distinct segments: mortgage banking, consumer finance, and community banking. By having a presence in these different segments, C&F Financial Corporation is able to mitigate risks associated with changes in the economy. For example, when interest rates rise and impact loan originations and borrowing costs in the mortgage banking and consumer finance segments, the community banking segment can help offset the negative effects by generating higher earnings. The company views the latest quarterly results as evidence of the value and uniqueness of its diversified business model.

Final Thoughts & Recommendation

C&F Financial Corporation is a well-established regional bank with a solid earnings track record and a dividend yield of 3.3%. We estimate total return potential of 13.5% per year for the next five years based on an 8% earnings-per-share growth, the dividend yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	93	97	99	107	107	106	110	135	131	120
SG&A Exp.	37	44	47	53	47	46	52	62	63	52
D&A Exp.	2	3	3	3	3	4	4	4	5	4
Net Profit	14	12	13	13	7	18	19	22	29	29
Net Margin	15.5%	12.7%	12.6%	12.6%	6.1%	16.9%	17.1%	16.4%	21.8%	24.2%
Free Cash Flow	60	32	14	24	22	44	(17)	(91)	153	87
Income Tax	7	5	5	4	11	5	5	7	9	8

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,312	1,338	1,405	1,452	1,509	1,521	1,657	2,086	2,265	2,332
Cash & Equivalents	56	168	153	103	119	115	165	87	268	27
Acc. Receivable	6	6	7	7	8	7	7	8	7	9
Goodwill & Int.	18	17	16	17	16	16	15	27	27	27
Total Liabilities	1,199	1,215	1,274	1,313	1,367	1,369	1,492	1,892	2,053	2,136
Accounts Payable	1	1	1	1	1	1	1	1	1	1
Long-Term Debt	170	167	177	165	168	160	161	76	90	92
Total Equity	113	124	131	139	142	152	165	194	210	196
LTD/E Ratio	1.50	1.35	1.35	1.18	1.18	1.05	0.98	0.39	0.43	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.3%	0.9%	0.9%	0.9%	0.4%	1.2%	1.2%	1.2%	1.3%	1.3%
Return on Equity	13.4%	10.4%	9.8%	10.0%	4.7%	12.3%	11.9%	12.3%	14.2%	14.4%
ROIC	5.3%	4.3%	4.2%	4.4%	2.1%	5.8%	5.9%	7.4%	10.0%	9.9%
Shares Out.	3	3	3	3	4	4	3	4	4	3
Revenue/Share	27.08	28.34	29.12	30.82	30.75	30.40	31.94	36.97	36.46	34.19
FCF/Share	17.40	9.42	3.98	7.02	6.19	12.62	(5.02)	(24.83)	42.34	24.78

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