First Financial Bankshares, Inc. (FFIN)

Updated August 21st, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$29.3	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$4.2 B
Fair Value Price:	$28.8	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	09/13/2023
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Dividend Payment Date:**	10/02/2023
Dividend Yield:	2.5%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1890 and headquartered in Abilene, Texas, First Financial Bankshares Inc is a financial and bank holding company with a strong focus on community banking. Concentrated solely in Texas, the company's competitive position thrives in this single geographic area. Through its subsidiaries, the company offers a comprehensive range of commercial banking services, including checking, savings, and time deposits, as well as modern conveniences like Internet and mobile banking.

On July 20th, 2023, the company announced results for the second quarter of 2023. FMBH reported Q2 Non-GAAP EPS of $0.36, in-line with the market's estimates, and revenues of $125.81 million for the quarter, down 7.6% year-over-year. The company also reported net income of $50.9 million, down 15.9% compared to the previous year.

The bank reported another good quarter with steady expansion in the deposit base, robust organic loan growth, and over 4,000 net new account additions. Even while the interest expense costs are still rising, the bank reduced the impact on the net interest margin by investing the cash flows from the bond portfolio into higher-yielding loan portfolio, compared to the second quarter of 2022, when net interest income was $98.78 million, the second quarter of 2023 had a net interest income of $95.87 million.

Given that Bankshares has a sizable portfolio of Available-for-Sale (AFS) securities, unrealized losses represent the company's main source of risk. Since the market value of fixed-rate AFS securities decreased as interest rates increased over the past 18 months, this portfolio has accumulated significant unrealized losses. At the end of June 2023, these unrealized losses amounted to $490.28 million, or 36% of the total equity balance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.62	$0.70	$0.77	$0.79	$0.91	$1.11	$1.22	$1.42	$1.60	$1.64	***$1.44***	***$2.02***
DPS	$0.26	$0.28	$0.31	$0.35	$0.38	$0.41	$0.47	$0.51	$0.58	$0.66	***$0.72***	***$1.16***
Shares	127.7	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2	***145.0***	***154.6***

Loan growth at First Financial has proven to be more resilient, reaching 3.0% during the second quarter of 2023 from 2.0%. In the second half of the year, the rising interest rates will eventually have an impact. High interest rates could reduce consumer demand for credit, particularly for residential real estate loans, which account for about 25% of the total loan portfolio. Loan growth will be supported by the robust economies of First Financial Bankshares' markets. Customers are served by businesses all around Texas, and the state's coincident economic activity index is a reliable indicator of product demand.

As a result, our EPS forecast stands at $1.44 in 2023, the midpoint of analysts' estimates, and we have assigned an annual EPS growth rate of 7.0% for the next five years, lower that the bank's long-term growth rates, reaching $2.02 by 2028. First Financial Bankshares' DPS had a nine-year and five-year CAGR of 10.9% and 31.8%, respectively. Moreover, the bank has consistently increased dividend distributions to shareholders in the past 13 years, and we expect it to continue this track.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	22.4	21.5	19.9	21.8	23.6	24.4	26.1	21.4	29.8	25.3	***20.3***	***20.0***
Avg. Yld.	1.0%	0.9%	0.9%	1.0%	0.9%	1.0%	1.1%	1.4%	1.5%	1.7%	***2.5%***	***2.9%***

First Financial Bankshares is trading at a forward P/E of 20.3, lower than its long-term average P/E of around 24.0. Considering the recession and the banking sector's fears, the lower multiple is justifiable. Even though FFIN remains intact, considering the AFS risk, we believe that a P/E multiple 20.0 fairly reflects the bank's risk/reward profile, suggesting a target price of $40 by 2028, and an 37% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

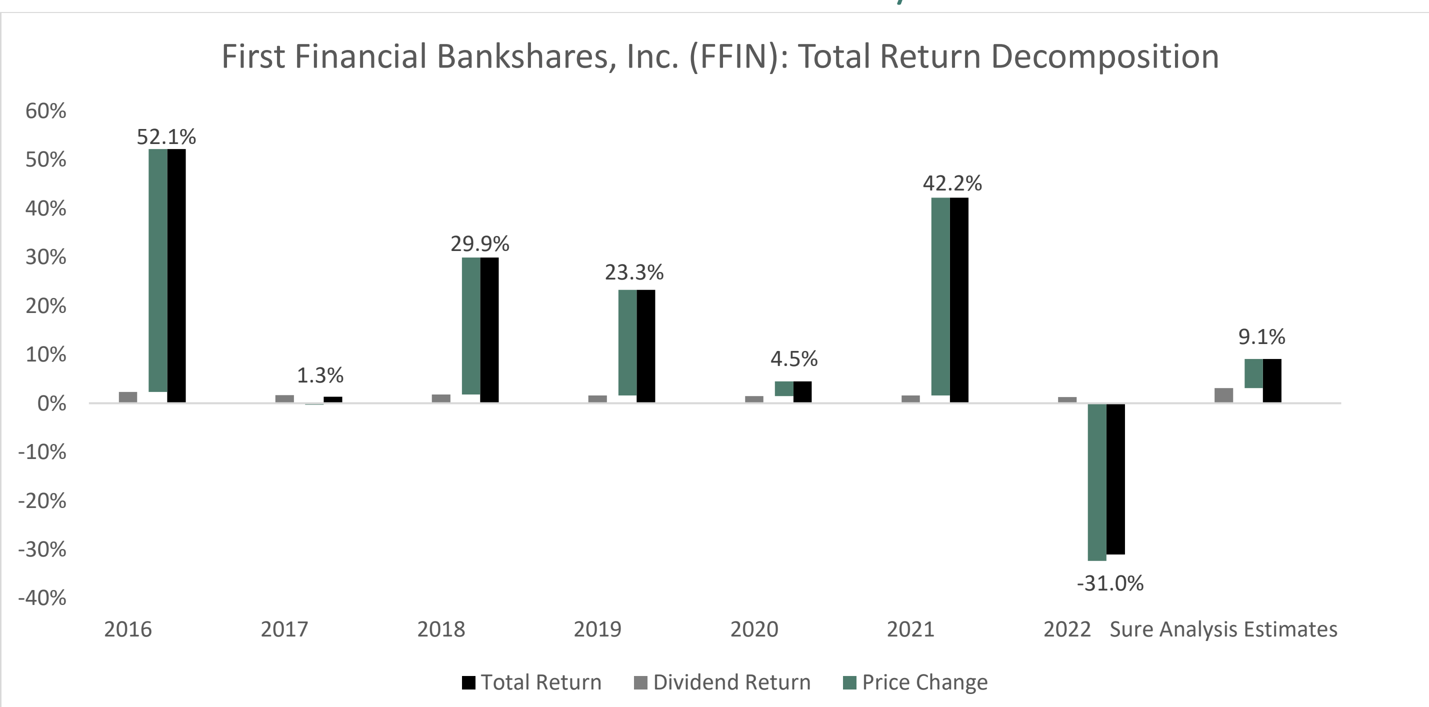
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42%	40%	40%	44%	42%	37%	39%	36%	36%	40%	***50%***	***57%***

First Financial Bankshares boasts a competitive advantage stemming from its unwavering commitment to customer-centric services and localized approach. Throughout economic downturns, the bank has demonstrated resilient recession performance due to its conservative lending practices and diversified portfolio. This strategic approach has minimized risk and upheld stability. Finally, First Financial's prudent financial management is evidenced by its manageable debt levels, further contributing to its position as a robust and trustworthy financial institution.

Final Thoughts & Recommendation

Despite the rising concerns in the banking sector, the recent correction in the stock has adequately reflected the relevant risks, offering an attractive entry point for investors. However, the hold rating is premised upon the 9.1% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 7.0%, the 2.5% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	228	253	284	304	319	364	387	478	500	520
SG&A Exp.	73	81	88	99	103	114	122	141	151	143
D&A Exp.	9	9	11	12	13	13	12	13	13	13
Net Profit	79	90	100	105	120	151	165	202	228	234
Net Margin	34.6%	35.4%	35.4%	34.5%	37.7%	41.3%	42.6%	42.3%	45.6%	45.1%
Free Cash Flow	99	114	92	140	176	169	194	194	334	308
Income Tax	26	29	31	31	27	28	33	40	44	46

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,222	5,848	6,665	6,810	7,255	7,732	8,262	10,905	13,102	12,974
Cash & Equivalents	240	262	273	255	374	250	279	729	529	331
Goodwill & Int.	97	97	144	144	141	175	174	318	317	316
Total Liabilities	4,635	5,167	5,860	5,972	6,332	6,679	7,035	9,226	11,343	11,708
Long-Term Debt	464	1	299	75	-	55	-	-	21	21
Total Equity	588	682	805	838	923	1,053	1,227	1,678	1,759	1,266
LTD/E Ratio	0.79	0.00	0.37	0.09	-	0.05	-	-	0.01	0.02

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	1.6%	1.6%	1.6%	1.7%	2.0%	2.1%	2.1%	1.9%	1.8%
Return on Equity	13.8%	14.1%	13.5%	12.8%	13.7%	15.2%	14.5%	13.9%	13.2%	15.5%
ROIC	8.4%	10.3%	11.2%	10.4%	13.1%	14.8%	14.1%	13.9%	13.2%	15.3%
Shares Out.	127.7	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2
Revenue/Share	1.78	1.97	2.18	2.30	2.41	2.68	2.84	3.35	3.49	3.63
FCF/Share	0.77	0.89	0.70	1.06	1.33	1.24	1.42	1.36	2.33	2.15

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