First Financial Corporation Indiana (THFF)

Updated July 30th, 2023, by Josh Arnold

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$461 M
Fair Value Price:	$50	**5 Year Growth Estimate:**	-1.0%	**Ex-Dividend Date:**	10/05/23[1]
% Fair Value:	77%	**5 Year Valuation Multiple Estimate:**	5.4%	**Dividend Payment Date:**	10/13/23
Dividend Yield:	2.8%	**5 Year Price Target**	$47	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

First Financial Corporation Indiana is the holding company for First Financial Bank N.A. The company has locations in Indiana and Illinois and can trace its roots back to 1834. First Financial offers clients savings accounts, certificates of deposit and life insurance products, as well as home, automobile, agricultural and commercial loans. The company has a market capitalization of $461 million and produces about $215 million in annual revenue.

First Financial posted second quarter earnings on July 25th, 2023, and results were somewhat mixed. Earnings-per-share beat expectations by 11 cents, coming in at $1.33. Revenue was up 3.7% year-over-year to $52.5 million, which missed estimates by $1.4 million.

Average loans outstanding were $3.1 billion, up from $2.83 billion in the year-ago period, a gain of almost 10%. Average total deposits were $4.12 billion, down meaningfully year-over-year from $4.42 billion a year ago. Book value ended the quarter at $41.47 per share, up from $38.36 a year ago.

Net interest income was $42.2 million, up 4.3% year-over-year. Net interest margin rose from 3.46% to 3.81%.

Nonperforming loans were $13.3 million, up sharply from $9.4 million in last year's Q2. The ratio of nonperforming loans to total loans and leases was 0.43%, up from 0.32% a year ago. Credit loss provisions were $1.8 million, more than double the $0.75 million in last year's Q2. Allowances for credit losses amounted to $40 million, down from $42 million a year ago, or down from 1.44% to 1.28% of total loans.

Noninterest income was $10.5 million, up fractionally year-over-year, while noninterest expense was $31.3 million, up from $30.7 million. The bank's efficiency ratio was 58%, better than the 59% from last year's Q2.

We now see $4.95 in earnings-per-share for this year following first half results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.37	$2.55	$2.35	$3.12	$2.38	$3.80	$3.80	$3.93	$4.02	$5.82	***$4.95***	***$4.71***
DPS	$0.96	$0.98	$0.98	$1.00	$1.00	$1.02	$1.03	$1.05	$1.06	$1.07	***$1.08***	***$1.14***
Shares[2]	13.3	13.0	12.7	12.2	12.3	12.3	13.7	13.6	12.6	12.1	***11.9***	***11.0***

First Financial saw its earnings decrease just 8.5% from 2008 to 2009 – an excellent performance compared to many financial companies. In recent years, First Financial has seen earnings-per-share fluctuate rather wildly. For example, earnings-per-share declined in 2012, 2013, 2015 and 2017. The company has an earnings-per-share growth rate of just ~2% per year over the past decade. We see tailwinds and headwinds somewhat offsetting each other, mostly from higher loan balances and higher rates, but the potential for higher credit losses. First Financial could also see a margin tailwind from lower expenses relative to revenue. We forecast earnings-per-share growth of -1% for the foreseeable future given these factors.

[1] Estimated date
[2] Share count in millions

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 Financial Corporation Indiana (THFF)

Updated July 30th, 2023, by Josh Arnold

First Financial pays a semi-annual dividend to shareholders in the months of January and July. The company has raised its dividend an average of 1.5% per year over the past ten years. First Financial issued a special dividend of $1.50 per share on 10/20/2017, though this is not a common occurrence and should not be expected to reoccur in the future. We are targeting a sub-30% payout ratio going forward for First Financial, translating to a $1.14 dividend in 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.5	12.9	14.6	12.2	18.4	14.2	11.1	9.2	10.6	7.9	***7.7***	***10.0***
Avg. Yld.	3.0%	3.0%	2.9%	2.6%	2.3%	2.2%	2.4%	2.9%	2.5%	2.3%	***2.8%***	***2.4%***

Based off estimates for 2023, shares have a forward price-to-earnings ratio of 7.7. First Financial's stock has traded with an average multiple of ~14 over the past ten years. However, there have been three years (2008, 2009 and 2017) where the multiple was artificially elevated due to earnings declines. Excluding these outlier years, First Financial has traded with an average earnings multiple of ~13, and we peg fair value at 10 due to low sector valuations and the company's own uninspiring growth outlook. Still, we see a strong positive impact on total returns from the valuation.

First Financial has increased its dividend for the past 34 years. While earnings-per-share figures declined in 2009, the company's dividend grew. Investors shouldn't expect the company to have high dividend growth, however. First Financial has not shown a willingness to be more aggressive with its dividend increases, likely due to irregular earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41%	38%	42%	32%	42%	27%	27%	27%	26%	18%	***22%***	***24%***

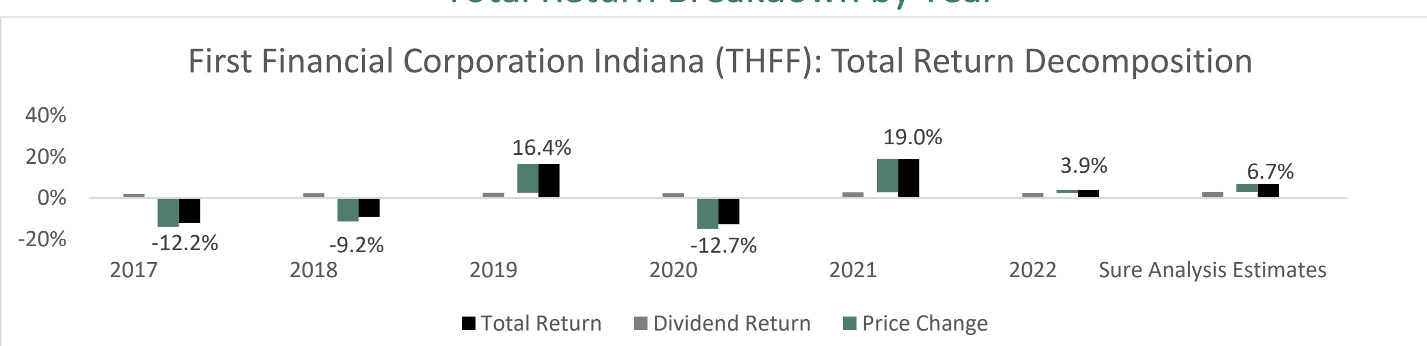
While earnings did decline in 2009, First Financial managed to weather the last recession well. Earnings recovered above 2008's earnings-per-share total in 2010. Since then, the company has experienced varied earnings growth. Investors looking for consistent earnings growth will likely be disappointed by First Financial.

If First Financial has a competitive advantage, it is the bank's presence in its small home markets. In addition, its net interest margin is very high compared to other banks. However, First Financial doesn't have any sort of competitive moat from its business model as it competes in the same ways every other small bank does.

Final Thoughts & Recommendation

After Q2 results, we now anticipate that First Financial Corporation Indiana could offer 6.7% returns through 2028, up from our last update. Shares are still quite cheaply valued on 2023 estimates. Total returns would be based on -1% earnings growth, the 2.8% yield, and a 5.4% tailwind from the valuation. Based upon this, we are downgrading the stock from buy to hold.

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 Financial Corporation Indiana (THFF)

Updated July 30th, 2023, by Josh Arnold

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	147.7	148.6	143.7	151.9	143.8	154.8	170	189	185	212
SG&A Exp.	57.1	57.9	61.9	54.0	52.2	51.6	56	62	66	68
D&A Exp.	5.5	6.0	5.5	5.0	4.4	4	5	6	6	---
Net Profit	31.5	33.8	30.2	38.4	29.1	46.6	49	54	53	71
Net Margin	21.3%	22.7%	21.0%	25.3%	20.3%	30.1%	28.7%	28.5%	28.6%	33.5%
Free Cash Flow	60.2	52.5	37.8	38.1	47.2	55	49	74	51	---
Income Tax	13.8	14.2	10.4	19.9	20.6	11.1	12	12	13	17

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3018.7	3002.5	2979.6	2988.5	3000.7	3008.7	4023	4558	5171	4989
Cash & Equivalents	71.0	78.1	88.7	75.0	74.1	74.4	127	657	683	220
Acc. Receivable	11.6	11.6	11.7	12.3	12.9	14.0	19	17	17	21
Goodwill & Int.	44.4	43.4	42.7	36.5	36.0	35.6	89	88	94	94
Total Liabilities	2632.5	2608.3	2569.3	2574.1	2587.1	2566.0	3466	3961	4588	4514
Long-Term Debt	117.9	60.9	46.5	81.1	57.7	69.7	31	6	109	80
Total Equity	386.2	394.2	410.3	414.4	413.6	442.7	558	597	583	475
LTD/E Ratio	0.15	0.03	0.03	0.20	---	---	0.06	0.01	0.03	0.17

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.1%	1.1%	1.0%	1.3%	1.0%	1.6%	1.4%	1.3%	1.1%	1.4%
Return on Equity	8.3%	8.7%	7.5%	9.3%	7.0%	10.9%	9.8%	9.3%	9.0%	13.4%
ROIC	6.1%	7.0%	6.6%	8.1%	6.0%	9.5%	9.0%	8.3%	8.8%	12.3%
Shares Out.	13.34	12.94	12.74	12.22	12.25	12.25	13.7	13.6	12.6	12.2
Revenue/Share	11.10	11.24	11.19	12.33	11.76	12.63	13.22	13.77	14.06	17.34
FCF/Share	4.52	3.97	2.94	3.10	3.86	4.52	3.79	5.36	3.88	---

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