Bar Harbor Bankshares (BHB)

Updated October 21st, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$24	**5 Year CAGR Estimate:**	12.5%	**Market Cap:**	$363 M
Fair Value Price:	$29	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	11/15/23
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.7%	**Dividend Payment Date[1]:**	12/15/23
Dividend Yield:	4.6%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	20
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Buy

Overview & Current Events

Bar Harbor Bankshares (BHB) is a bank holding company. The company's operating subsidiary, Bar Harbor Bank & Trust, is a community bank, which offers a range of deposit, loan, and related banking products, as well as brokerage services provided through a third-party brokerage arrangement. In addition, the company offers trust and investment management services through this subsidiary, as well as wealth management services through its subsidiary Bar Harbor Wealth Management. Operating over 50 locations across Maine, New Hampshire, and Vermont, Bar Harbor Bank & Trust is headquartered in Bar Harbor, Maine since 1887 and has more than $4.0 billion in assets. Bar Harbor is a $363 million company.

Bar Harbor's strategy is focused on improving the customer relationship, non-interest income expansion, and reduction in non-interest expenses. The company is running a program to be well-positioned for future success. One of the initiatives is focusing on diversifying income and improving the balance sheet. Furthermore, the company will invest in process improvements, products, training, technology, and infrastructure in the coming years.

On October 17th, 2023, Bar Harbor released its third quarter 2023 results for the period ending September 30th, 2023. For the quarter the company reported revenue of $38 million, compared with revenue of $37.7 million in the previous quarter and $38.7 million in same quarter last year. This result was driven by higher net interest income, increased fee-based income and controlled expenses. Total assets remained stable at $4.0 billion at the end of the third quarter 2023, which is still a company record. For the reported quarter, net income came in on $11.1 million or $0.73 per diluted share compared to $11.4 million or $0.73 per diluted share in the same quarter of 2022. Bar Harbor's return on assets came in at 1.11% versus 1.20% last year, while the net interest margin equaled 3.18% compared to 3.22% previously. The non-performing asset ratio was 0.17% versus 0.20% in 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.48	$1.63	$1.67	$1.63	$1.70	$2.12	$1.45	$2.18	$2.61	$2.88	***$2.90***	***$3.70***
DPS	$0.56	$0.60	$0.67	$0.73	$0.75	$0.79	$0.86	$0.88	$0.94	$1.04	***$1.12***	***$1.50***
Shares[2]	9	9	9	10	15	16	16	15	15	15	***15***	***15***

Bar Harbor has grown earnings by 7.7% per year over the past decade and 6.5% over the past five years. In 2019, one-time costs associated with the company's branch acquisition and balance sheet optimization initiatives impacted annual earnings by -$0.46 per share. We expect earnings to increase by 5% per year for the next five years.

The company has been able to increase its yearly dividend payout for 20 consecutive years. Over the last five years, the average annual dividend growth rate is 7.2%. In April 2023, the quarterly dividend increased by 7.7% from $0.26 to $0.28 per share. The company's management confirmed its commitment to shareholders to maintain the dividend despite market uncertainty.

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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	2023	2028
Avg. P/E	11.0	11.1	13.5	22.0	17.2	13.2	17.2	9.6	10.8	10.8	***8.3***	***10.0***
Avg. Yld.	1.9%	3.3%	3.0%	2.0%	2.6%	2.8%	3.5%	4.2%	3.3%	3.3%	***4.6%***	***4.0%***

During the past decade shares of Bar Harbor have traded with an average price-to-earnings ratio of about 13.6 times earnings and today, it stands at 8.3. We are using 10 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.6% which is above the average yield over the past decade of 3.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	38%	37%	40%	45%	44%	37%	59%	40%	36%	36%	***39%***	***40%***

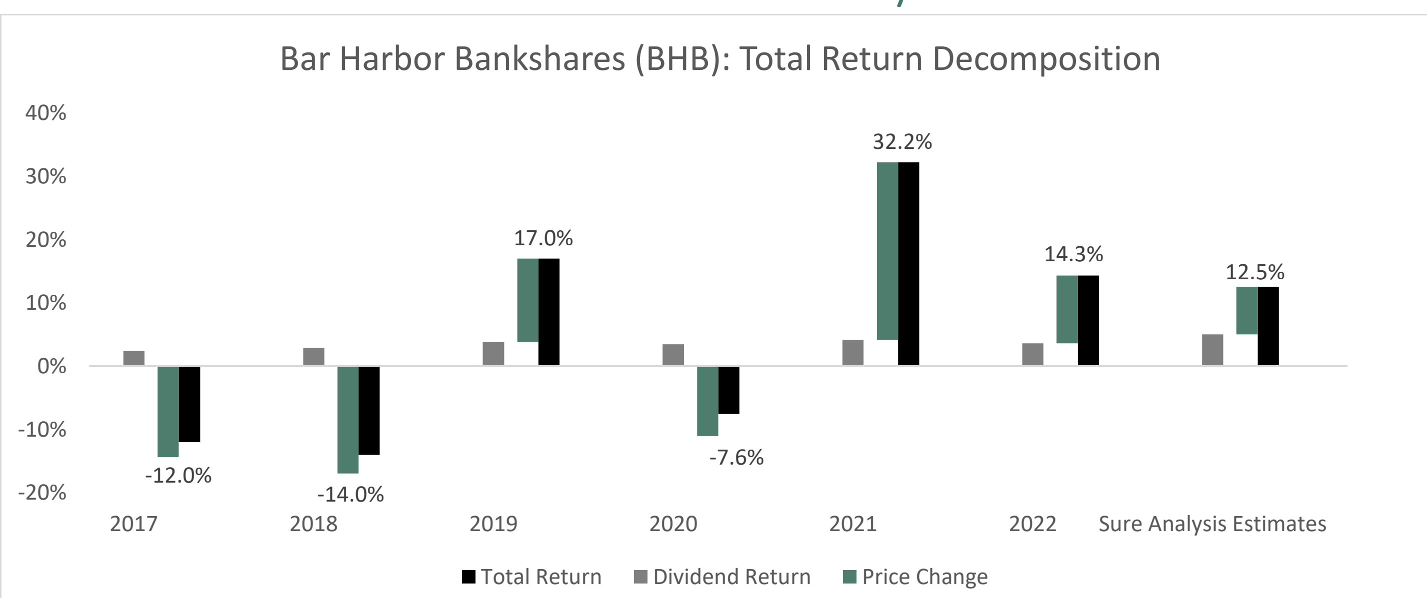
During the past five years, the company's dividend payout ratio has averaged around 42%. Bar Harbor's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same levels which is safe.

Bar Harbor Bank & Trust is the only community bank headquartered in Northern New England with branches in Maine, New Hampshire, and Vermont. The bank has a good track record in both earnings and dividend growth combined with a good dividend yield which makes the shares attractive for dividend investors. The company is well-positioned and has been able to create a strong loan pipeline and grow its loan portfolio while maintaining credit quality. Next to NIM, fee income is fundamental to the company's profitability through its trust and treasury management services. Looking forward, loan growth combined with strong risk management and further diversification of non-interest income sources is essential for Bar Harbor to continue its growth track record.

Final Thoughts & Recommendation

Bar Harbor Bankshares is a community bank stock with an above average dividend yield and a sound dividend payout ratio. We estimate total return potential of 12.5% per year for the next five years based on a 5% earnings-per-share growth, a 4.6% 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	46	51	54	58	118	119	119	142	138	149
SG&A Exp.	16	18	19	21	45	46	50	53	52	50
D&A Exp.	2	2	2	2	4	5	5	6	6	5
Net Profit	13	15	15	15	26	33	23	33	39	44
Net Margin	28.5%	28.6%	28.2%	25.9%	22.0%	27.7%	19.0%	23.4%	28.5%	29.5%
Free Cash Flow	19	14	18	12	37	33	21	14	59	55
Income Tax	5	6	6	6	17	8	4	8	9	11

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,374	1,459	1,580	1,755	3,565	3,608	3,669	3,724	3,709	3,910
Cash & Equivalents	9	10	10	8	91	99	57	226	250	92
Goodwill & Int.	5	5	5	5	108	108	127	127	126	125
Total Liabilities	1,253	1,313	1,426	1,599	3,211	3,238	3,273	3,317	3,285	3,516
Long-Term Debt	389	427	454	537	830	724	531	336	179	394
Total Equity	121	146	154	157	355	371	396	407	424	393
LTD/E Ratio	3.21	2.92	2.94	3.42	2.34	1.95	1.34	0.83	0.42	1.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.0%	1.0%	1.0%	0.9%	1.0%	0.9%	0.6%	0.9%	1.1%	1.1%
Return on Equity	10.6%	10.9%	10.1%	9.6%	10.2%	9.1%	5.9%	8.3%	9.5%	10.7%
ROIC	2.7%	2.7%	2.6%	2.3%	2.8%	2.9%	2.2%	4.0%	5.8%	6.3%
Shares Out.	9	9	9	10	15	16	16	15	15	15
Revenue/Share	5.20	5.72	5.92	6.31	7.73	7.63	7.63	9.31	9.16	9.86
FCF/Share	2.16	1.51	2.03	1.37	2.43	2.12	1.34	0.91	3.91	3.65

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