Cambridge Bancorp (CATC)

Updated October 20th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$402 M
Fair Value Price:	$59	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	11/02/23
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date[1]:**	11/16/23
Dividend Yield:	4.7%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	24
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

Cambridge Bancorp (CATC), the parent company of Cambridge Trust Company, is based in Cambridge, Massachusetts. The company is a regional bank that provides commercial and consumer banking, and trust and investment management services to individuals and businesses. Cambridge Trust Company has approximately $5.5 billion in assets on June 30th, 2023, and a total of 22 offices in Massachusetts and New Hampshire. Cambridge Trust Company is one of New England's leaders in private banking and wealth management with $4.27 billion in client assets under management and administration on September 30th, 2023. The company was founded in 1890 and has 380 employees.

On October 17th, 2023, Cambridge Bancorp released its third quarter 2023 results for the period ending September 30th, 2023. For the quarter, the company reported net income of $6.5 million which represents a decrease of $0.6 million, or 8% compared to net income of $7.1 million for the previous quarter. Reported earnings per diluted share for the same periods were $0.83 and $0.91, a decrease of 9.6% compared to the previous quarter.

Net interest and dividend income, before the provision for credit losses, decreased by $1.1 million, or 3.7%, to $28.6 million for the reporting quarter from $29.8 million for the previous quarter. This was primarily due to higher cost of funds, partially offset by an increase in higher yields on earning assets. The adjusted net interest margin decreased by 8 basis points from 2.26% to 2.18% in the reporting quarter. Total deposits, inclusive of wholesale deposits, increased by $123.3 million, or 2.8%, to $4.57 billion on September 30, 2023, as compared to $4.44 billion on June 30, 2023, primarily due to higher wholesale deposit balances combined with higher certificates of deposit and higher money market balances. Total non-interest income increased by $520,000, or 5.2%, to $10.5 million for the quarter, and accounted for almost 27% of total revenue. This change was primarily the result of higher wealth management revenue and higher loan related derivative income. Asset quality remained strong with ratios of non-performing loans to total loans and non-performing assets to total assets at 0.19% and 0.14%, respectively. On September 19th, 2023, the company and Eastern Bankshares, Inc. (EBC) announced their plans to merge in an all-stock transaction expected to close in Q1 2024.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.62	$3.78	$3.93	$4.15	$3.61	$5.77	$5.37	$5.03	$7.69	$7.30	***$4.90***	***$5.68***
DPS	$1.59	$1.68	$1.80	$1.84	$1.86	$1.96	$2.04	$2.12	$2.38	$2.56	***$2.68***	***$3.59***
Shares[2]	4	4	4	4	4	4	5	7	7	7	***7***	***7***

The company has grown earnings by 8.1% per year over the past decade and -3.2% over the past five years. We expect earnings to increase by 3% per year for the next five years. The company has been able to increase its dividend for 24 consecutive years. Over the last five years, the average annual dividend growth rate is 6.5%. In January 2023, the company increased its quarterly dividend by 4.7% from $0.64 to $0.67 per share.

[1] Estimated date

[2] 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.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.6	11.8	11.9	11.9	18.9	14.8	14.8	12.0	11.0	11.4	***11.7***	***12.0***
Avg. Yld.	1.9%	3.8%	3.9%	3.7%	2.7%	2.3%	2.6%	3.5%	2.8%	2.8%	***4.7%***	***5.3%***

During the past decade shares of Cambridge Bancorp have traded with an average price-to-earnings ratio of about 13 and today, it stands at 11.7. We are using 12 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.7% which is above the average yield over the past decade of 3.2% and the five-year average of 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	44%	46%	44%	52%	34%	38%	42%	31%	32%	32%	***55%***	***63%***

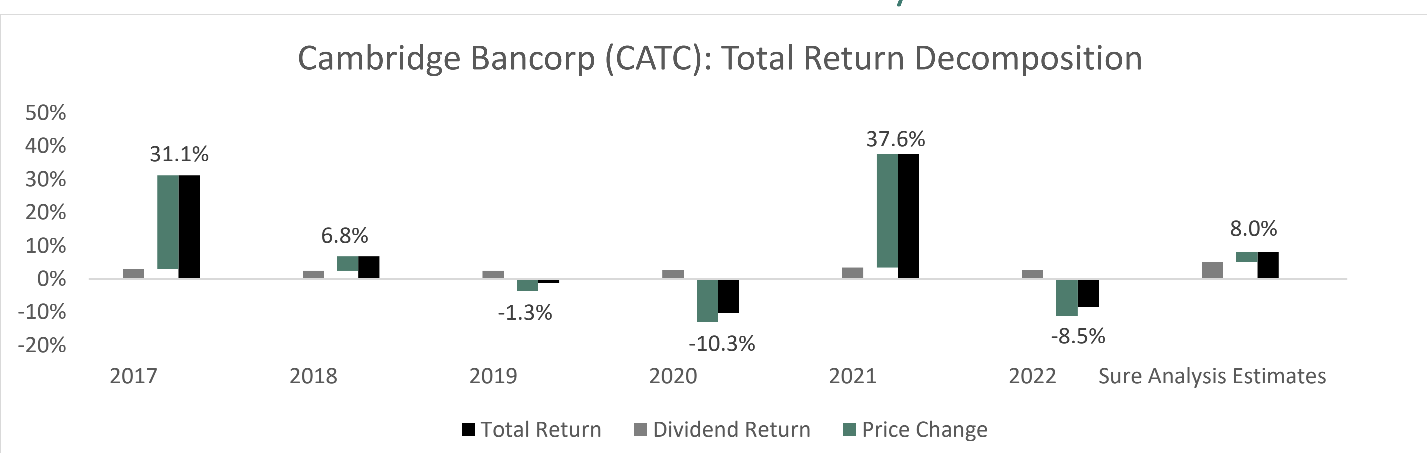
During the past five years, the company's dividend payout ratio has averaged around 40%. Cambridge Bancorp 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the 60% levels.

Cambridge Bancorp has demonstrated a strong financial performance (operating net income and EPS growth) combined with a sound asset quality track record and has a business model focused on private banking. The bank's Wealth Management capability is well suited to service the highly affluent Boston and southern New Hampshire markets. The company is the 18th largest independent investment advisers in Massachusetts[3]. Cambridge Bancorp's strategic focus is expanding the Wealth Management assets under management and leveraging the private banking model in highly attractive markets. The recent merger with Northmark contributes to the strategic expansion into attractive, affluent North Andover, Andover and Winchester markets.

Final Thoughts & Recommendation

Cambridge Bancorp is an old and well-established regional bank active in Massachusetts and New Hampshire with a solid earnings track record and a dividend yield 5.0%. As a result of the ongoing banking crisis, the company's share price may continue to see some short-term pressure and lower quarterly results. We estimate total return potential of 8.0% per year for the next five years based on a 3% earnings-per-share growth, the dividend yield, and a valuation tailwind. The shares earn a hold rating.

Total Return Breakdown by Year



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[3] Boston Business Journal 2022

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	69	73	78	82	88	97	115	160	172	186
SG&A Exp.	32	33	37	39	41	44	50	62	69	74
D&A Exp.	2	2	2	2	2		1	(8)	(2)	-
Net Profit	14	15	16	17	15	24	25	32	54	53
Net Margin	20.6%	20.5%	20.2%	20.5%	16.9%	24.7%	21.9%	20.0%	31.4%	28.5%
Free Cash Flow	18	16	15	15	29	23	27	35	63	50
Income Tax	7	7	8	9	13	7	9	11	19	19

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,534	1,574	1,706	1,849	1,950	2,101	2,856	3,949	4,892	5,560
Cash & Equivalents	88	17	25	54	104	18	61	76	180	31
Goodwill & Int.	1	1	1		1	1	70	59	59	81
Total Liabilities	1,424	1,457	1,581	1,714	1,802	1,934	2,569	3,548	4,454	5,042
Long-Term Debt	-	69	4	4	4	93	136	33	17	105
Total Equity	109	116	125	135	148	167	287	402	438	518
LTD/E Ratio	-	0.59	0.03	0.03	0.02	0.56	0.47	0.08	0.04	0.20

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.0%	1.0%	1.0%	1.0%	0.8%	1.2%	1.0%	0.9%	1.2%	1.0%
Return on Equity	13.2%	13.3%	13.0%	13.0%	10.5%	15.2%	11.1%	9.3%	12.9%	11.1%
ROIC	12.1%	10.1%	10.0%	12.6%	10.2%	11.6%	7.4%	7.5%	12.2%	9.8%
Shares Out.	4	4	4	4	4	4	5	7	7	7
Revenue/Share	17.57	18.38	19.41	20.44	21.60	23.56	24.69	25.18	24.65	25.81
FCF/Share	4.58	4.01	3.78	3.64	7.12	5.58	5.77	5.45	9.08	6.96

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