City Holding Company (CHCO)

Updated October 23rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$1.32 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/12/2024[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date:**	01/31/2024
Dividend Yield:	3.2%	**5 Year Price Target**	$123	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

City Holding Company (CHCO) serves as the holding entity for City National Bank of West Virginia, offering a comprehensive range of financial services throughout the United States. These services encompass banking, trust, and investment management, with a diverse suite of products, including checking, savings, money market accounts, certificates of deposit, and individual retirement accounts. The company's portfolio encompasses commercial and industrial loans, commercial real estate loans, residential real estate loans, home equity loans, and consumer loans. Additionally, they provide mortgage banking services and a variety of deposit and wealth management solutions for individual and commercial clients, along with modern banking technologies such as ATMs, interactive teller machines, mobile banking, and credit and debit card services.

On July 25th, 2023, the company announced results for the second quarter of 2023. City Holding reported Q2 Non-GAAP EPS of $2.16, beating estimates by $0.27. The company reported revenues of $76 million for the quarter, up 27.9% year-over-year. City Holding Company demonstrated a net interest income increase of approximately $2.0 million, or 3.8% QoQ, driven by the acquisition of Citizens Commerce Bancshares, Inc. Furthermore, the recent Federal Funds rate increases boosted net interest income through higher loan yields, deposit yields, and deposit balances. However, a rise in the cost of interest-bearing liabilities significantly negatively impacted net interest income. Despite the increase in net interest income, the reported net interest margin declined slightly, from 4.05% to 4.00%.

The loan-to-deposit and loan-to-asset ratios indicate efficient capital deployment at 78.2% and 63.8%, respectively. The company's focus on core retail customers is evident in the deposit mix, with checking and savings accounts funding a significant portion of assets. Accessing borrowing facilities with the Federal Reserve Bank, Federal Home Loan Bank, and unpledged investment securities provides ample liquidity. City Holding Company remains strongly capitalized with tangible equity of $473 million and robust regulatory capital ratios, ensuring financial resilience and regulatory compliance. Prospects appear promising, given their solid financial foundation. Finally, the management maintains EPS target at $7.44, reflecting year-over-year revenue and margin growth for 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.04	$3.38	$3.53	$3.45	$3.48	$4.49	$5.42	$5.55	$5.66	$6.80	***$7.65***	***$12.32***
DPS	$1.48	$1.60	$1.68	$1.72	$1.78	$1.38	$2.20	$2.29	$2.34	$2.50	***$2.86***	***$3.65***
Shares	15.7	15.5	15.2	14.9	15.4	15.4	16.3	16.0	15.4	14.9	***14.8***	***14.4***

City Holding's performance reflects its focus on stability and growth, underpinned by its core values. While non-performing asset ratios remained consistent at 0.17%, showing their risk management efficiency, an increase in past due loans and a $0.4 million provision for credit losses indicate their proactive approach to addressing challenges. The growth of loans, notably in commercial and industrial sectors, demonstrates their value in supporting local businesses and economic development. However, the dip in commercial real estate loans suggests cautious lending practices. An increase in average depository balances mitigates the decline in period-end deposit balances, thanks to acquisitions

[1] Estimated ex-dividend date

from Citizens. Nevertheless, a decline in savings and non-interest-bearing demand deposits, counterbalanced by growth in interest-bearing demand and time balances, shows a shift in customer deposit preferences.

In line with the company's guidance and favorable CHCO microenvironment, we expect the company to post an EPS of $7.65 in 2023. We estimate an EPS growth of 10.0% over the next five years, leading to our estimated EPS of $12.32 by 2028. Moreover, the company has a solid record of paying dividends despite operating in a macroeconomically sensitive sector, as City Holding has paid an increasing dividend for the past five years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 5.0%, leading to a dividend of $3.65 in 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	13.8	13.0	13.3	14.7	19.3	16.4	14.2	11.8	13.7	12.7	***11.6***	***10.0***
Avg. Yld.	3.5%	3.6%	3.6%	3.4%	2.7%	2.7%	2.9%	3.5%	3.0%	2.9%	***3.2%***	***3.0%***

The regional bank trades at a forward P/E of 11.6, slightly lower than the long-term average P/E of 14.3 and the five-year average P/E of 13.8. Even though the higher interest rates and an uptick in the loan portfolio will benefit the company in the near term, we assign a P/E of 10.0 to the stock, which is a fair reflection of its value, leading to our target price of $123 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

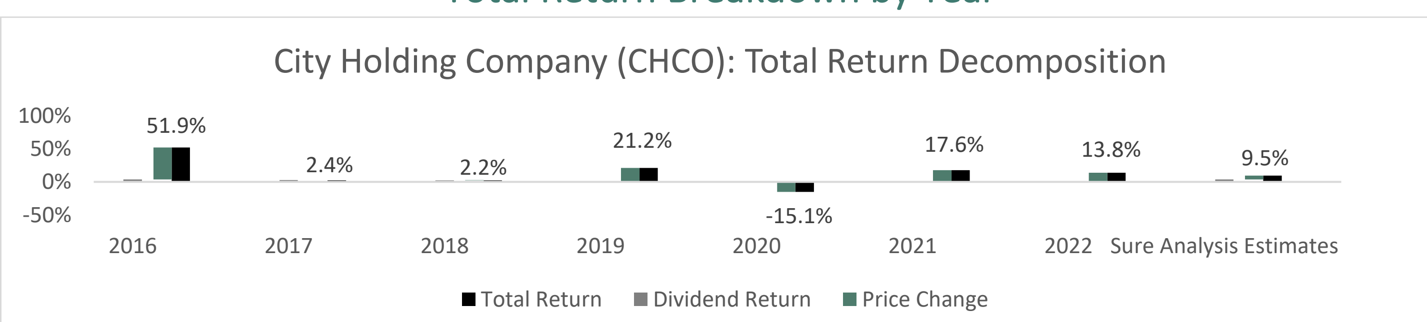
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49%	47%	48%	50%	51%	44%	41%	41%	41%	37%	***37%***	***30%***

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 45%, and we expect the company to maintain and increase its payout in the future. The demand for loans has recovered in recent quarters, and we expect the company to be in a much better position in the future than it is today. In addition, the margins continue to improve in a rising rate environment, and the net interest margin ought to be high, driven by the Fed's 'higher for longer' stance. Nevertheless, a case of a hard landing or recession could adversely affect its performance. Additionally, the share repurchase program, with 269,000 shares bought at an average price of $88.93, demonstrates a strategic approach to capital management.

Final Thoughts & Recommendation

While City Holding runs an interest rate-sensitive regional banking business, increased loans, and net interest margins will be a positive catalyst for EPS growth. Indeed, City Holding's dividend growth prospects could remain strong throughout the mid-term. Hence, we have a hold rating for CHCO premised upon the 9.5% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 3.2% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	180	173	167	173	186	194	224	231	219	246
SG&A Exp.	56	57	52	55	55	59	66	66	67	72
D&A Exp.	(6)	1	1	7	7	6	6	11	15	16
Net Profit	48	53	54	52	54	70	89	90	88	102
Net Margin	26.8%	30.7%	32.3%	30.1%	29.2%	36.0%	39.8%	38.7%	40.3%	41.5%
Free Cash Flow	68	51	45	60	70	67	100	84	99	114
Income Tax	25	24	28	25	36	18	24	22	23	25

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,368	3,462	3,714	3,984	4,132	4,899	5,019	5,759	6,004	5,878
Cash & Equivalents	86	148	70	88	83	123	140	529	635	200
Acc. Receivable	7	7	7	8	9	12	12	16	16	18
Goodwill & Int.	75	74	80	79	79	123	120	119	117	116
Total Liabilities	2,981	3,071	3,295	3,542	3,630	4,298	4,361	5,058	5,323	5,300
Long-Term Debt	16	16	29	81	70	44	4	-	-	-
Total Equity	388	391	419	442	503	601	658	701	681	578
LTD/E Ratio	0.04	0.04	0.07	0.18	0.14	0.07	0.01	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.5%	1.6%	1.5%	1.4%	1.3%	1.6%	1.8%	1.7%	1.5%	1.7%
Return on Equity	13.4%	13.6%	13.4%	12.1%	11.5%	12.7%	14.2%	13.2%	12.7%	16.2%
ROIC	12.8%	13.1%	12.6%	10.7%	9.9%	11.5%	13.7%	13.1%	12.7%	16.2%
Shares Out.	15.7	15.5	15.2	14.9	15.4	15.4	16.3	16.0	15.4	14.9
Revenue/Share	11.47	11.14	11.02	11.62	12.04	12.58	13.73	14.47	14.20	16.55
FCF/Share	4.36	3.29	2.96	4.01	4.51	4.36	6.14	5.27	6.42	7.64

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