City Holding Company (CHCO)

Updated November 22nd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$1.44 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/12/2024[1]
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	01/31/2024
Dividend Yield:	2.9%	**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 October 24th, 2023, the company announced results for the third quarter of 2023. City Holding reported Q3 non-GAAP EPS of $1.98, beating estimates by $0.16. The company reported revenues of $73 million for the quarter, up 8.9% year-over-year. In the third quarter of 2023, the company witnessed a slight increase in its net interest income, rising from $55.5 million in Q2 to $55.6 million. This growth, although marginal, is attributable to recent increases in the Federal Funds rate, which bolstered loan yields and investment security yields, contributing an additional $2.6 million and $0.8 million, respectively. Furthermore, a $60.6 million surge in loan balances also contributed to this increase. However, these gains were partly negated by rising costs of interest-bearing liabilities and a $133.1 million drop in deposit balances in depository institutions, collectively reducing net interest income by $4 million. The net interest margin improved slightly, from 4.00% in Q2 2023 to 4.03% in Q3.

Credit quality showed mixed results, with the ratio of nonperforming assets to total loans marginally improved, declining from 0.17% ($6.5 million) at the end of Q2 to 0.15% ($6.0 million) at the end of Q3. However, there was a notable increase in total past-due loans, from 0.19% ($7.4 million) of total loans in Q2 to 0.25% ($10.1 million) in Q3. The provision for credit losses was $0.2 million in Q3, down from $0.7 million in the same period of 2022 and $0.4 million in Q2 2023. This decrease was primarily due to the downgrade of a commercial loan and loan growth, partially offset by net recoveries in the quarter.

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. With consistent non-performing asset ratios and a robust risk management strategy, the company's proactive approach to maintaining credit quality is evident. 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

[1] Estimated ex-dividend date

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.

balances, thanks to acquisitions 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	***12.7***	***10.0***
Avg. Yld.	3.5%	3.6%	3.6%	3.4%	2.7%	2.7%	2.9%	3.5%	3.0%	2.9%	***2.9%***	***3.0%***

The regional bank trades at a forward P/E of 12.7, 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

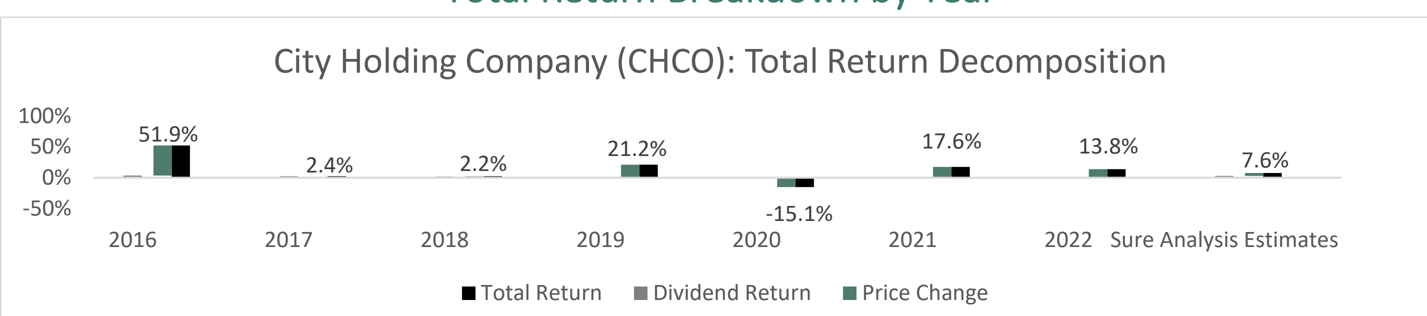
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49%	47%	48%	50%	51%	44%	41%	41%	41%	37%	***37%***	***43%***

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. Under the terms of the current program, the Company may repurchase an additional 220,000 shares.

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 medium-term. However, we maintain our hold rating for CHCO premised upon the 7.6% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 2.9% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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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.