First Financial Bankshares, Inc. (FFIN)

Updated November 22nd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$3.8 B
Fair Value Price:	$28	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/14/2023
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	01/02/2024
Dividend Yield:	2.7%	**5 Year Price Target**	$39	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Founded in 1890 and headquartered in Abilene, Texas, First Financial Bankshares Inc (FFIN) is a financial and bank holding company with a strong focus on community banking. Concentrated solely in Texas, the company's competitive position thrives in this single geographic area. Through its subsidiaries, the company offers a comprehensive range of commercial banking services, including checking, savings, and time deposits, as well as modern conveniences like Internet and mobile banking.

On October 19th, 2023, the company announced results for the third quarter of 2023. FFIN reported Q3 non-GAAP EPS of $0.35, missing the market's estimates by $0.01, and revenues of $122.22 million for the quarter, down 8.9% year-over-year. The company also reported net income of $49.6 million, down 16.5% compared to the previous year.

During the quarter, First Financial Bankshares, Inc. leveraged its robust financial position to secure advantageous loan and deposit agreements. This strategy, highlighted by the company's leader, F. Scott Dueser, has paid off, as evidenced by stable deposits and a noticeable uptick in new accounts. The firm remains committed to prudent financial management, balancing its books, cutting unnecessary expenditures, and improving overall efficiency. An interesting development is the upcoming maturation of certain bonds and loans, which the company expects will boost its liquidity, facilitating more loan distributions and potentially increasing its interest income.

In the third quarter, First Financial Bankshares, Inc. embarked on a strategic move by selling available-for-sale securities (AFS) worth $113.13 million. These securities had an average book yield of 3.53%. This decision, however, resulted in a loss of $972,000 from these sales, a stark contrast to the third quarter of 2022, when the company realized a gain of $334,000 from similar transactions. The proceeds from these sales are being channeled into fostering organic loan growth, and the loans being issued are expected to yield about 8%, significantly higher than the yield from the sold securities. This shift in investment strategy is not only a demonstration of the company's adaptive financial management but also signals confidence in the profitability of its loan portfolio.

Regarding financial safeguards, the company set aside $2.28 million for potential credit losses, a decrease from the previous year's $3.22 million earmarked in the same quarter. Its cushion for credit losses now stands at $89.71 million, about 1.28% of its total loan portfolio, marking an increase from last year's $74.11 million or 1.18%. Interestingly, the contingency reserve for unfulfilled commitments has been scaled back to $7.90 million from the earlier $10.88 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.62	$0.70	$0.77	$0.79	$0.91	$1.11	$1.22	$1.42	$1.60	$1.64	***$1.40***	***$1.96***
DPS	$0.26	$0.28	$0.31	$0.35	$0.38	$0.41	$0.47	$0.51	$0.58	$0.66	***$0.72***	***$1.16***
Shares	127.7	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2	***145.0***	***154.6***

High-interest rates could reduce consumer demand for credit, particularly for residential real estate loans, which account for about 25% of the total loan portfolio. Loan growth will be supported by the robust economies of First Financial Bankshares' markets. Customers are served by businesses all around Texas, and the state's coincident economic activity index is a reliable indicator of product demand.

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As a result, we matched analysts' EPS estimates EPS of $1.40 in 2023, and we have assigned an annual EPS growth rate of 7.0% for the next five years, lower than the bank's long-term growth rates, reaching $1.96 by 2028. First Financial Bankshares' DPS had a nine-year and five-year CAGR of 10.9% and 31.8%, respectively. Moreover, the bank has consistently increased dividend distributions to shareholders for the past 13 years, and we expect it to continue this track.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	22.4	21.5	19.9	21.8	23.6	24.4	26.1	21.4	29.8	25.3	***19.2***	***20.0***
Avg. Yld.	1.0%	0.9%	0.9%	1.0%	0.9%	1.0%	1.1%	1.4%	1.5%	1.7%	***2.7%***	***3.0%***

First Financial Bankshares is trading at a forward P/E of 19.2, lower than its long-term average P/E of around 24.0. Considering the banking sector's fears, the lower multiple is justifiable. Even though FFIN remains intact, considering the AFS risk, we believe that a P/E multiple of 20.0 fairly reflects the bank's risk/reward profile, suggesting a target price of $39 by 2028 and a 44% upside from current levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

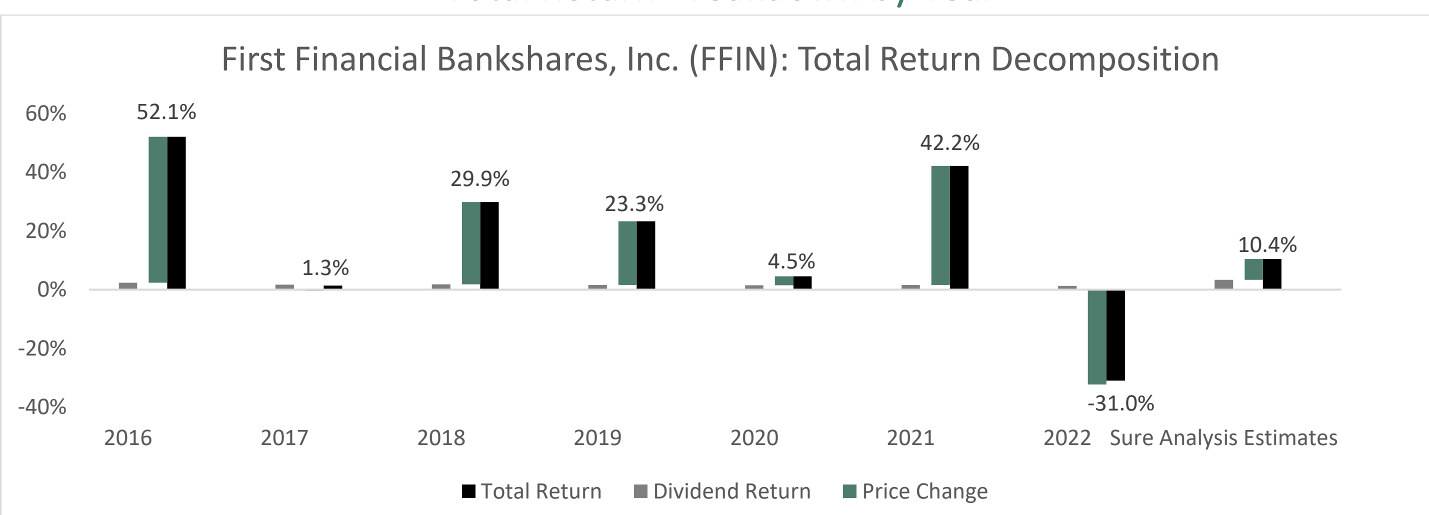
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42%	40%	40%	44%	42%	37%	39%	36%	36%	40%	***51%***	***39%***

First Financial Bankshares boasts a competitive advantage stemming from its unwavering commitment to customer-centric services and localized approach. Throughout economic downturns, the bank has demonstrated resilient recession performance due to its conservative lending practices and diversified portfolio. This strategic approach has minimized risk and upheld stability. Finally, First Financial's prudent financial management is evidenced by its manageable debt levels, further contributing to its position as a robust and trustworthy financial institution.

Final Thoughts & Recommendation

Despite the rising concerns in the banking sector, the recent correction in the stock has adequately reflected the relevant risks, offering an attractive entry point for investors. Therefore, we have revised our rating to buy, premised upon the 10.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 2.7% 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	228	253	284	304	319	364	387	478	500	520
SG&A Exp.	73	81	88	99	103	114	122	141	151	143
D&A Exp.	9	9	11	12	13	13	12	13	13	13
Net Profit	79	90	100	105	120	151	165	202	228	234
Net Margin	34.6%	35.4%	35.4%	34.5%	37.7%	41.3%	42.6%	42.3%	45.6%	45.1%
Free Cash Flow	99	114	92	140	176	169	194	194	334	308
Income Tax	26	29	31	31	27	28	33	40	44	46

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,222	5,848	6,665	6,810	7,255	7,732	8,262	10,905	13,102	12,974
Cash & Equivalents	240	262	273	255	374	250	279	729	529	331
Goodwill & Int.	97	97	144	144	141	175	174	318	317	316
Total Liabilities	4,635	5,167	5,860	5,972	6,332	6,679	7,035	9,226	11,343	11,708
Long-Term Debt	464	1	299	75	-	55	-	-	21	21
Total Equity	588	682	805	838	923	1,053	1,227	1,678	1,759	1,266
LTD/E Ratio	0.79	0.00	0.37	0.09	-	0.05	-	-	0.01	0.02

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	1.6%	1.6%	1.6%	1.7%	2.0%	2.1%	2.1%	1.9%	1.8%
Return on Equity	13.8%	14.1%	13.5%	12.8%	13.7%	15.2%	14.5%	13.9%	13.2%	15.5%
ROIC	8.4%	10.3%	11.2%	10.4%	13.1%	14.8%	14.1%	13.9%	13.2%	15.3%
Shares Out.	127.7	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2
Revenue/Share	1.78	1.97	2.18	2.30	2.41	2.68	2.84	3.35	3.49	3.63
FCF/Share	0.77	0.89	0.70	1.06	1.33	1.24	1.42	1.36	2.33	2.15

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