Independent Bank Corp. (INDB)

Updated November 23rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$2.4 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/26/2023[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	01/08/2024[2]
Dividend Yield:	3.9%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Independent Bank Corp. operates as the holding company for Rockland Trust Company, serving individuals and small-to-medium-sized businesses in Massachusetts. It offers various banking services like interest checking, money market, savings accounts, and commercial lending for real estate, construction, and consumer needs. Additionally, it provides investment management, trust services, online banking, estate settlement, and financial planning.

On October 24th, 2023, the company announced results for the third quarter of 2023. Independent Bank Corporation reported Q3 non-GAAP EPS of $1.38, beating market estimates by $0.05. The Q3 performance demonstrates promising growth in total assets by $200.2 million, mainly from increased loans and deposits. The rise in cash and equivalents to $127.5 million and decreased available-for-sale (AFS) securities to $684.6 million hint at a liquidity shift. A notable aspect of INDB's performance was the growth in total loans, which reached $14.2 billion by September 30, 2023, marking a 0.6% increase (or 2.4% annualized) from the prior quarter. This growth was predominantly driven by a 3.5% rise (14.0% annualized) in consumer real estate loans, primarily fueled by adjustable-rate residential mortgages. In contrast, total commercial loans saw a minor decrease of 0.3% (or 1.3% annualized), reflecting a mix of construction to permanent commercial real estate transfers, strong closing activities, and a decrease in line of credit utilization.

Deposit balances decreased by 1.2% to $15.1 billion as of September 30, 2023, primarily due to seasonal declines in municipal deposits. However, there was a noticeable trend towards higher-rate products, evidenced by the steady growth in time deposits and an increase in the total cost of deposits by 22 basis points to 1.07%. Despite these changes, the volume of new account openings remained robust. Core deposits accounted for 80.5% of total deposits at the end of the quarter, a slight decrease from 82.6% at the end of June 2023. This shift indicates a dynamic deposit base and ongoing customer engagement. Finally, non-performing loans increased to $4.7 million, which rose from the prior quarters. The ratio of non-performing loans to total portfolio loans increased to 0.13%, while the ratio of non-performing assets to total assets rose marginally to 0.10%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.18	$2.49	$2.50	$2.90	$3.19	$4.40	$5.03	$3.64	$3.47	$5.69	***$5.40***	***$7.57***
DPS	$0.88	$0.96	$1.04	$1.16	$1.28	$1.52	$1.76	$1.84	$1.92	$2.08	***$2.20***	***$2.81***
Shares	23.1	24.0	26.0	26.5	27.4	27.7	32.9	33.3	34.9	46.4	***50.3***	***75.6***

Independent Bank experienced a marginal quarterly decline in net interest income by 1.2%, attributed to a reduced net interest margin despite increased interest-earning assets. However, on a nine-month basis, net interest income rose by 6.7% from 2022, supported by a stronger margin and increased interest-earning assets. Therefore, In line with the company's 2023 outlook and improving lending growth for Independent Bank, we expect the company to post EPS of $5.40 in 2023, with an EPS annual growth forecast of 7.0% over the next five years, leading to our estimated EPS of $7.57 by 2028. Lastly, the company has a solid record of paying dividends despite operating in a macro-sensitive sector,

[1] Estimated ex-dividend date

[2] Estimated dividend payment date

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as Independent Bank has paid increasing dividends for the past 13 years. Thus, we expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 5.0%, leading to a dividend of $2.81 in 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	15.9	15.3	18.1	18.0	21.2	17.7	15.6	18.1	22.9	14.5	***10.4***	***11.0***
Avg. Yld.	2.5%	2.5%	2.3%	2.2%	1.9%	2.0%	2.2%	2.8%	2.4%	2.5%	***3.9%***	***3.4%***

The regional bank currently trades at a forward P/E of 10.4, considerably lower than the long-term average P/E of 17.7. Even though the core deposit growth and an uptick in loan demand will benefit the company in the near term, we assign a P/E of 11.0 to the stock, which is a fair reflection of its value. Accordingly, with an EPS of $7.57 and P/E of 11.0, our target price for the stock stands at $83 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

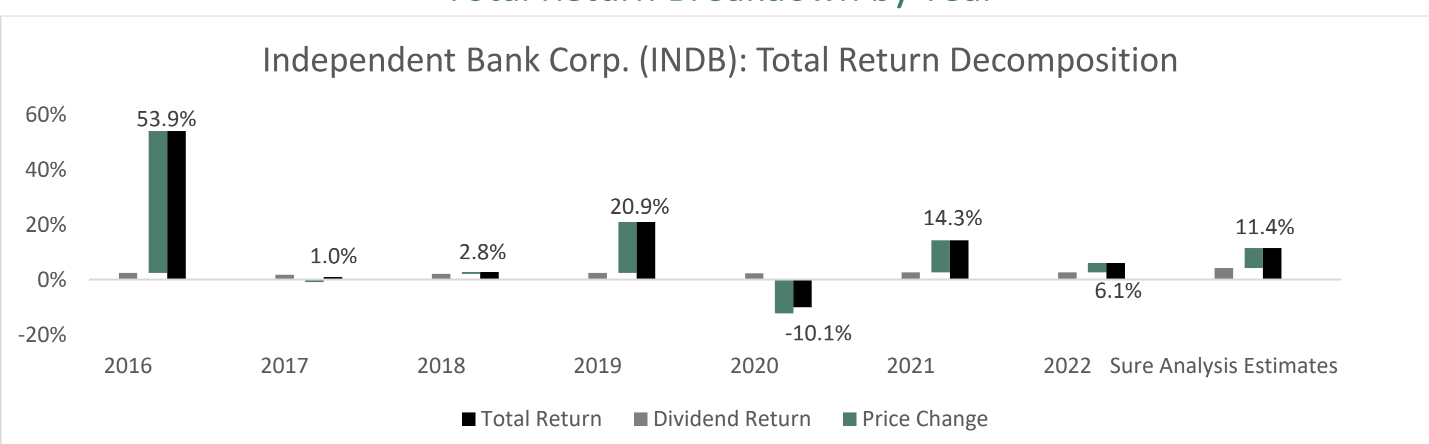
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	40%	39%	42%	40%	40%	35%	35%	51%	55%	37%	***41%***	***37%***

Independent Bank has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 41.3%, and we expect the company to maintain and increase its payout in the future. The demand for the company's loan products has improved in recent quarters, and we expect the company to be in a much better position in the future compared to where it is today. In addition, the net interest income continues to improve in a rising rate environment, and the asset quality metrics ought to be steady. The company's 2023 share repurchase plan authorizes around 5% (1.1 million) of outstanding shares, contingent upon capital levels, allocation strategies, and share price trends. In Q3, 88,401 shares were repurchased at an average price of $19.15, and 288,401 shares were repurchased in the initial nine months of 2023 at an average price of $17.21. This cautious approach suggests a strategic stance, likely tied to prevailing market conditions and financial outlook, aiming to optimize shareholder value while balancing capital deployment.

Final Thoughts & Recommendation

While Independent Bank runs a regional banking business, increased interest income and loan yield will be a positive catalyst for EPS growth. Indeed, Independent Bank's dividend growth prospects could remain strong throughout the mid-term. Hence, we are placing a buy rating on the stock premised upon 11.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 3.9% 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	247	266	287	307	338	387	503	473	502	720
SG&A Exp.	103	106	118	122	130	137	163	155	177	212
D&A Exp.	8	12	12	14	16	16	19	27	33	39
Net Profit	50	60	65	77	87	122	165	121	121	264
Net Margin	20.4%	22.5%	22.6%	24.9%	25.8%	31.5%	32.9%	25.6%	24.1%	36.6%
Free Cash Flow	132	83	79	83	106	131	200	52	165	399
Income Tax	16	24	27	35	47	34	53	32	36	84

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,099	6,365	7,209	7,709	8,082	8,852	11,395	13,204	20,423	19,294
Cash & Equivalents	216	178	276	289	213	250	151	1,297	2,241	353
Goodwill & Int.	183	180	213	231	241	271	535	529	1,018	1,010
Total Liabilities	5,508	5,724	6,438	6,845	7,138	7,778	9,687	11,502	17,405	16,407
Long-Term Debt	244	209	210	159	161	259	303	181	152	113
Total Equity	592	641	771	865	944	1,073	1,708	1,703	3,018	2,887
LTD/E Ratio	0.41	0.33	0.27	0.18	0.17	0.24	0.18	0.11	0.05	0.04

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	1.0%	1.0%	1.0%	1.1%	1.4%	1.6%	1.0%	0.7%	1.3%
Return on Equity	9.0%	9.7%	9.2%	9.4%	9.6%	12.1%	11.9%	7.1%	5.1%	8.9%
ROIC	5.8%	7.1%	7.1%	7.6%	8.2%	10.0%	9.9%	6.2%	4.8%	8.6%
Shares Out.	23.1	24.0	26.0	26.5	27.4	27.7	32.9	33.3	34.9	46.4
Revenue/Share	10.69	11.08	11.06	11.61	12.36	13.98	15.30	14.21	14.40	15.53
FCF/Share	5.72	3.44	3.05	3.12	3.87	4.73	6.09	1.56	4.73	8.60

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