Auburn National Bancorporation, Inc. (AUBN)

Updated January 31st, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$70 M
Fair Value Price:	$22	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	03/08/24
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date[1]:**	03/22/24
Dividend Yield:	5.4%	**5 Year Price Target**	$24	**Years Of Dividend Growth:**	22
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

Auburn National Bancorporation, Inc. is a bank holding company with total assets of approximately $1.0 billion as of September 30th, 2023. Through its principal subsidiary, AuburnBank, the company provides a full range of banking services to commercial and retail customers. AuburnBank is community oriented and focuses primarily on offering commercial and consumer loan and deposit services to individuals, and small and middle market businesses in East Alabama, including Lee County and surrounding areas. The Bank has 8 offices and 13 ATM locations throughout the communities it serves. The company was founded in 1907 and has 150 employees.

On January 29th, 2024, Auburn National released its fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, the company reported a net loss of $4.0 million compared to net earnings of $4.4 million for the same quarter last year. Reported earnings per diluted share for the same periods were -$1.14 and $1.27. The quarterly loss reflects the sale of $117.6 million of available-for-sale securities for an after-tax loss of $4.7 million or $1.36 per share.

While the balance sheet repositioning strategy led to a fourth-quarter loss in 2023, it directly enhanced the company's tangible common equity ratio and total equity to total asset ratio, thanks to a reduced balance sheet size. Furthermore, it is anticipated that it will bolster the company's interest rate risk profile and future earnings. The management estimates the earn-back period for the balance sheet repositioning to be approximately 2.3 years. Net interest income was $6.2 million for the fourth quarter of 2023, a decrease of 19% compared to $7.6 million for the year-ago quarter. This decrease was primarily due to a decline in net interest margin, which was 2.65% in the fourth quarter of 2023 compared to 3.27% in the year-ago quarter. This decrease was primarily due to higher market interest rates, which increased our cost of funds, generally, and changes in our deposit mix to higher-cost interest bearing deposits, which was partially offset by a more favorable asset mix and higher yields on interest earning assets. The bank reported deposit outflow resulting in total deposits of $896.2 million, compared to $964.6 million in the previous quarter.

For the full year 2023, net earnings were $1.4 million, or $0.40 per share, compared to $10.3 million, or $2.95 per share, for the same period in 2022. As a reference, excluding the loss related to the balance sheet repositioning strategy, net earnings for the full year 2023 would have been $6.1 million, or $1.75 per share, compared to $6.7 million, or $1.92 per share for the full year 2022.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.04	$2.16	$2.24	$2.15	$2.42	$2.72	$2.09	$2.27	$2.95	$0.40	***$2.00***	***$2.21***
DPS	$0.86	$0.88	$0.90	$0.92	$0.96	$1.00	$1.02	$1.04	$1.06	$1.06	***$1.08***	***$1.24***
Shares[2]	4	4	4	4	4	4	4	4	4	4	***4***	***3***

The company's earnings have declined by 16.6% per year since 2014 and by 6.0% over the past five years. We expect earnings to increase by 2% per year for the next five years and recover from the decline in 2023. The company has been

[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.

able to increase its dividend for an impressive 22 consecutive years. The annual dividend grew from $0.80 in 2012 to the most recent full-year payment of $1.08. This means an average annual dividend growth rate of 2.4%. In February 2023, the company increased its quarterly dividend by 1.9% from $0.265 to $0.27 per share. The company repurchased 10,108 shares for $0.2 million in 2023.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.9	11.9	12.6	16.1	17.0	14.3	22.0	16.1	11.0	10.5	***10.0***	***11.0***
Avg. Yld.	1.9%	3.4%	3.2%	2.7%	2.3%	2.6%	2.2%	2.9%	4.1%	5.0%	***5.4%***	***5.1%***

During the past decade shares of Auburn National have traded with an average price-to-earnings ratio of about 14.6 and today, it stands at 10.0. We are using 11 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 5.4% which is well above the average yield over the past decade of 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	43%	42%	41%	40%	43%	40%	37%	49%	46%	36%	***54%***	***56%***

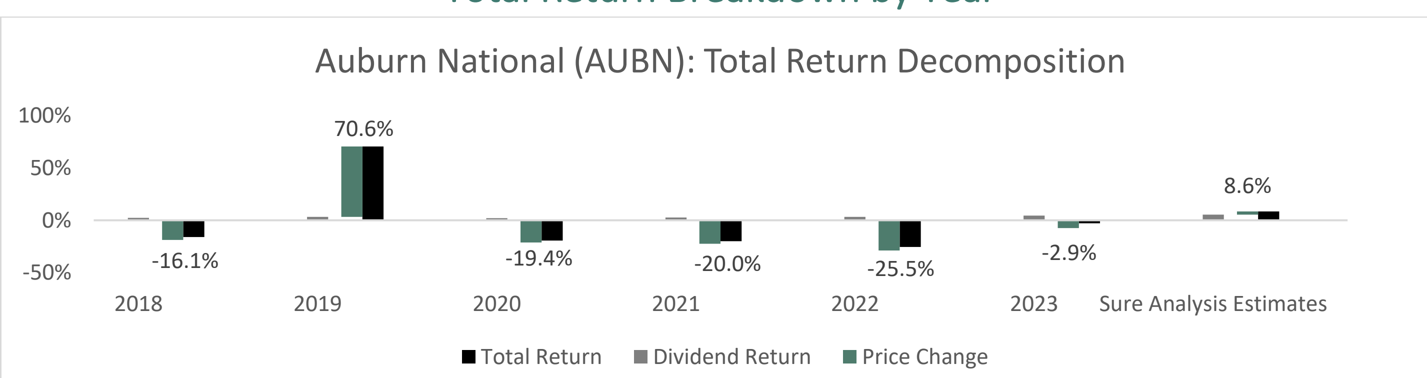
During the past five years, the company's dividend payout ratio has averaged around 48%. Auburn National's dividend is comfortably covered by earnings at the moment. It is important to note that Auburn National earnings per share has basically not grown from where it was five years ago, which could mean that the payout ratio will increase further. One should keep an eye on the payout ratio when the dividend growth rate keeps outpacing the earnings per share growth rate.

Auburn National Bancorporation's business model is primarily built upon lending money to local businesses and residents within the local communities the bank serves. The funding of those loans is done by gathering local deposits through their community offices. Net interest income representing almost 90% of the total revenues.

Final Thoughts & Recommendation

Auburn National Bancorporation is a small and conservative community bank operating in East Alabama. Investors could be attracted to the stock based on its dividend growth track-record and the above average dividend yield of 5.4%. There are two elements to monitor: firstly, the dividend growth rate, which is currently outpacing the earnings growth rate, and secondly, whether the bank will return to its historical earnings level based on the balance sheet repositioning strategy. The share price is down 15% over the last year. We estimate total return potential of 8.6% per year for the next five years based on an 2% earnings-per-share growth, the dividend yield, and a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	27	25	27	26	28	29	32	30	28	30
SG&A Exp.	9	9	10	10	10	11	12	12	12	11
D&A Exp.	1	1	1	1	1	1	1	2	1	1.5
Net Profit	7	7	8	8	8	9	10	7	8	10
Net Margin	26.2%	29.3%	28.8%	31.2%	28.1%	30.6%	30.9%	25.1%	28.4%	33.3%
Free Cash Flow	13	10	9	9	8	12	9	1	(8)	4
Income Tax	2	3	3	3	4	2	2	2	1	2.5

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	751	789	817	832	853	818	828	957	1,105	1,042
Cash & Equivalents	27	15	57	79	64	38	66	84	79	18
Goodwill & Int.	2	2	2							
Total Liabilities	687	713	737	750	766	729	730	849	1,001	956
Long-Term Debt	12	12	7	3	3	-	-	-	-	-
Total Equity	64	76	80	82	87	89	98	108	104	68
LTD/E Ratio	0.19	0.16	0.09	0.04	0.04	-	-	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.0%	1.0%	1.0%	0.9%	1.1%	1.2%	0.8%	0.8%	1.0%
Return on Equity	10.6%	10.6%	10.1%	10.1%	9.3%	10.0%	10.4%	7.2%	7.6%	12.1%
ROIC	8.0%	9.0%	9.0%	9.4%	8.9%	9.9%	10.4%	7.2%	7.6%	12.1%
Shares Out.	4	4	4	4	4	4	4	4	4	3.5
Revenue/Share	7.47	6.97	7.48	7.17	7.68	7.93	8.81	8.33	7.98	8.67
FCF/Share	3.64	2.69	2.56	2.55	2.14	3.27	2.52	0.39	(2.22)	1.12

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