C&F Financial Corporation (CFFI)

Updated January 30th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$200 M
Fair Value Price:	$53	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	03/14/24
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date[1]:**	04/01/24
Dividend Yield:	3.0%	**5 Year Price Target**	$70	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

C&F Financial Corporation operates as a bank holding company for Citizens and Farmers Bank that provides banking services to individuals and corporates. C&F Bank operates in a decentralized manner in three business segments: community banking and wealth management through C&F Bank, mortgage banking through C&F Mortgage Corporation and consumer finance through C&F Finance Company. C&F Bank operates 31 banking offices and four commercial loan offices located throughout eastern and central Virginia. As of December 31st, 2023, C&F Financial Corp. had total assets of $2.43 billion, total loans of $1.70 billion, and total deposits of $2.06 billion. The company was founded in 1927, has 600 employees, and is headquartered in West Point, Virginia.

On January 24th, 2024, C&F Financial Corporation announced its fourth quarter and full-year financial results for the period ending December 31st, 2023. The fourth quarter showed a consolidated net income of $5.1 million, a 12% decline compared to the $5.8 million reported in the third quarter. Earnings per share for the fourth quarter were $1.50, down almost 50% compared to the $2.97 year-ago. For the full year, the company reported a decrease in net income to $23.7 million for 2023, down from $29.4 million in the previous year. This decline was partly due to the absence of certain one-time benefits realized in 2022, such as real estate disposal activity. Even after adjusting for these factors, the net income showed a reduction from an adjusted $27.0 million in 2022 to $23.7 million in 2023. The trend of decline was also observed in earnings per share, which fell from $8.29 in 2022 to $6.92 in 2023.

Despite the overall decline in net income, the community banking segment showed positive results, achieving $22.9 million in net income for the year, highlighting its robustness and the company's success in expanding earning assets and deposits in a challenging banking industry year. The mortgage banking segment recorded a $103,000 net loss for the fourth quarter, but managed net income of $465,000 for the year, reflecting the industry-wide struggles with decreased mortgage originations due to rising rates and home prices. The consumer finance segment saw a decrease to $618,000 in net income for the fourth quarter and $2.9 million annually, affected by rising delinquent loans and challenges in repossessing automobiles. C&F Financial Corp maintained a strong liquidity position, with liquid assets and borrowing availability totaling $429.7 million more than uninsured deposits as of the end of 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.59	$3.68	$3.89	$1.88	$5.15	$5.47	$6.06	$7.95	$8.29	$6.92	***$7.50***	***$10.04***
DPS	$1.19	$1.22	$1.29	$1.33	$1.41	$1.49	$1.52	$1.58	$1.64	$1.76	***$1.76***	***$2.36***
Shares[2]	3	3	3	4	4	3	4	4	3	3	***3***	***3***

The company has grown earnings by 8% per year since 2014 and 6.5% over the past five years. The drop in earnings for C&F Financial Corporation in 2017 can be attributed to the effect of the Tax Cuts and Jobs Act, which permanently lowered the federal corporate income tax rate to 21% from the previous maximum rate of 35%. In the case of C&F Financial Corporation, this resulted in a $6.6 million reduction in the value of its net deferred tax asset and a corresponding incremental income tax expense of $6.6 million. This significantly impacted the corporation's earnings for

[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.

that year and especially the fourth quarter of 2017. We expect earnings to increase by 6% per year for the next five years. The company has been able to increase its yearly dividend payout for 13 consecutive years.

Over the last five years, the average annual dividend growth rate is 4.5%. In February 2023, the company increased its quarterly dividend by 4.8% from $0.42 to $0.44 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.9	9.9	10.8	26.9	11.0	9.4	6.0	6.1	6.2	7.5	***7.9***	***7.0***
Avg. Yld.	1.9%	3.3%	3.1%	2.6%	2.5%	2.9%	4.2%	3.3%	3.2%	3.0%	***3.0%***	***3.4%***

During the past decade shares of C&F Financial Corporation have traded with an average price-to-earnings ratio of about 10.4 times earnings and today, it stands at 7.9. We are using 7.0 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 3.0% which is comparable to the average yield over the past decade of 3.0%. During the reporting quarter, C&F Financial Corporation repurchased 20,500 shares, or $1.1 million.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	33%	33%	71%	27%	27%	25%	20%	20%	25%	***23%***	***23%***

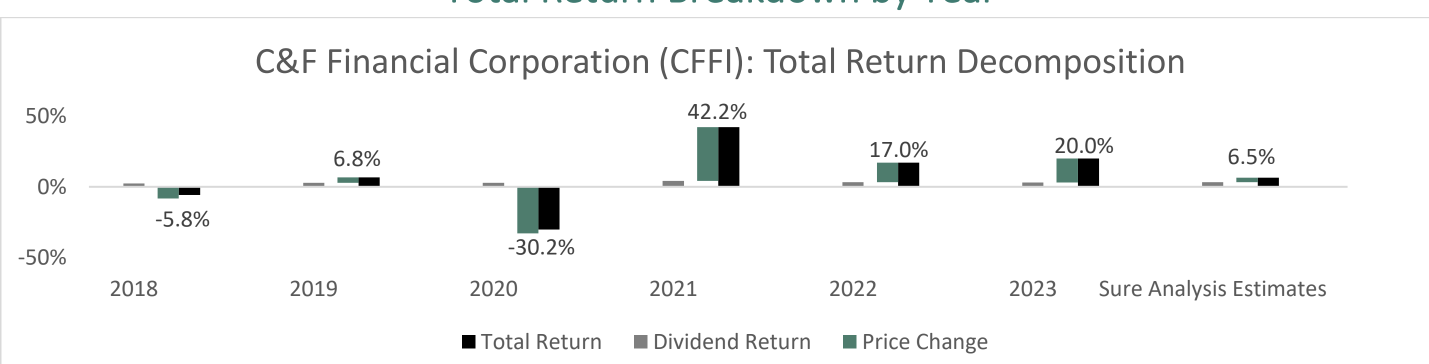
During the past five years, the company's dividend payout ratio has averaged around 24%. C&F Financial Corporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe. Management is targeting a 20% to 30% dividend payout ratio.

C&F Financial Corporation is a typical regional bank with a well-diversified revenue and income business model. The company operates in three distinct segments: mortgage banking, consumer finance, and community banking. By having a presence in these different segments, C&F Financial Corporation can mitigate risks associated with changes in the economy. For example, when interest rates rise and impact loan originations and borrowing costs in the mortgage banking and consumer finance segments, the community banking segment can help offset the negative effects by generating higher earnings. The company views the latest quarterly results as evidence of the value and uniqueness of its diversified business model.

Final Thoughts & Recommendation

C&F Financial Corporation is a well-established regional bank with a positive earnings track record and a dividend yield of 3.0%. We estimate total return potential of 6.5% per year for the next five years based on a 6% earnings-per-share growth, the dividend yield, and a valuation headwind. 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	93	97	99	107	107	106	110	135	131	120
SG&A Exp.	37	44	47	53	47	46	52	62	63	52
D&A Exp.	2	3	3	3	3	4	4	4	5	4
Net Profit	14	12	13	13	7	18	19	22	29	29
Net Margin	15.5%	12.7%	12.6%	12.6%	6.1%	16.9%	17.1%	16.4%	21.8%	24.2%
Free Cash Flow	60	32	14	24	22	44	(17)	(91)	153	87
Income Tax	7	5	5	4	11	5	5	7	9	8

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,312	1,338	1,405	1,452	1,509	1,521	1,657	2,086	2,265	2,332
Cash & Equivalents	56	168	153	103	119	115	165	87	268	27
Acc. Receivable	6	6	7	7	8	7	7	8	7	9
Goodwill & Int.	18	17	16	17	16	16	15	27	27	27
Total Liabilities	1,199	1,215	1,274	1,313	1,367	1,369	1,492	1,892	2,053	2,136
Accounts Payable	1	1	1	1	1	1	1	1	1	1
Long-Term Debt	170	167	177	165	168	160	161	76	90	92
Total Equity	113	124	131	139	142	152	165	194	210	196
LTD/E Ratio	1.50	1.35	1.35	1.18	1.18	1.05	0.98	0.39	0.43	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.3%	0.9%	0.9%	0.9%	0.4%	1.2%	1.2%	1.2%	1.3%	1.3%
Return on Equity	13.4%	10.4%	9.8%	10.0%	4.7%	12.3%	11.9%	12.3%	14.2%	14.4%
ROIC	5.3%	4.3%	4.2%	4.4%	2.1%	5.8%	5.9%	7.4%	10.0%	9.9%
Shares Out.	3	3	3	3	4	4	3	4	4	3
Revenue/Share	27.08	28.34	29.12	30.82	30.75	30.40	31.94	36.97	36.46	34.19
FCF/Share	17.40	9.42	3.98	7.02	6.19	12.62	(5.02)	(24.83)	42.34	24.78

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