



Community Trust Bancorp (CTBI)

Updated February 22nd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	10.9%	Market Cap:	\$738 M
Fair Value Price:	\$48	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/13/24 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date:	3/31/24
Dividend Yield:	4.5%	5 Year Price Target	\$58	Years Of Dividend Growth:	43
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Community Trust Bancorp is a regional bank with 84 branch locations in 35 counties in Kentucky, Tennessee and West Virginia. It is the second-largest bank holding company in Kentucky and has a market cap of \$738 million. Community Trust Bancorp operates with a \$5.8 billion balance sheet. Due to its small market cap, it does not belong to the S&P 500 index and hence it is not considered a Dividend Aristocrat even though it has raised its dividend for 43 consecutive years. In mid-January, Community Trust Bancorp reported (1/17/24) financial results for the fourth quarter of fiscal 2023. Its net interest income dipped -4% over the prior year's quarter, as net interest margin shrank from 3.51% to 3.19% due to higher deposit costs. Non-interest income remained flat and non-interest expense increased 5%. As a result, earnings-per-share dipped -17%, from \$1.26 to \$1.04, and missed the analyst's consensus by \$0.04.

Notably, the stock has dramatically underperformed the S&P 500 in the last 12 months (-7% vs. +25%) due to the sell-off of regional banks after the collapse of Silicon Valley Bank and Credit Suisse and the impact of 23-year high interest rates on the value of the bond portfolio and the cost of the deposits of the bank. However, we reiterate that Community Trust Bancorp is a conservatively managed bank, which has proved resilient to all kinds of downturns. The bank has grown its deposits 7% in the last 12 months. We view the underperformance of the stock as a great investing opportunity.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.49	\$2.66	\$2.70	\$2.91	\$3.35	\$3.64	\$3.35	\$4.94	\$4.58	\$4.36	\$4.00	\$4.87
DPS	\$1.18	\$1.22	\$1.26	\$1.30	\$1.35	\$1.46	\$1.53	\$1.57	\$1.68	\$1.80	\$1.84	\$2.22
Shares²	17.4	17.5	17.6	17.7	17.7	17.8	17.8	17.8	17.9	17.9	18.0	18.2

Community Trust Bancorp has grown its earnings-per-share at a 6.4% average annual rate over the last decade and at a 5.4% average annual rate over the last five years. The economy has recovered from the pandemic and the Fed has raised interest rates to 23-year highs. Higher interest rates initially enhanced the net interest margin of the bank but they are now exerting pressure via higher deposit costs. Moreover, the non-recurring decreases in the tax rate of the bank, which fueled a great portion of the bottom-line growth in 2018 and 2019, will not be growth drivers anymore. As a result, we expect slower growth in the upcoming years. We expect Community Trust Bancorp to grow its earnings-per-share at a 4.0% average annual rate over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.3	12.8	13.5	16.3	14.1	11.6	10.3	8.6	9.4	8.9	10.3	12.0
Avg. Yld.	3.3%	3.6%	3.5%	2.9%	2.9%	3.5%	4.4%	3.7%	3.9%	4.7%	4.5%	3.8%

¹ Estimated date.

² In millions.

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Due to the ongoing turmoil in the financial sector, Community Trust Bancorp is trading at a price-to-earnings ratio of 10.3, which is lower than its 10-year average price-to-earnings ratio of 12.0. We expect the stock to revert to its average valuation level until 2029. In such a case, the stock will enjoy a 3.2% annualized gain over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	47.4%	45.9%	46.7%	44.7%	40.3%	40.1%	45.7%	31.8%	36.7%	41.3%	46.0%	45.6%

Community Trust Bancorp proved that it was well managed in the Great Recession. In the worst financial crisis of the last 80 years, when most banks cut their dividends, this bank remained profitable and continued raising its dividend.

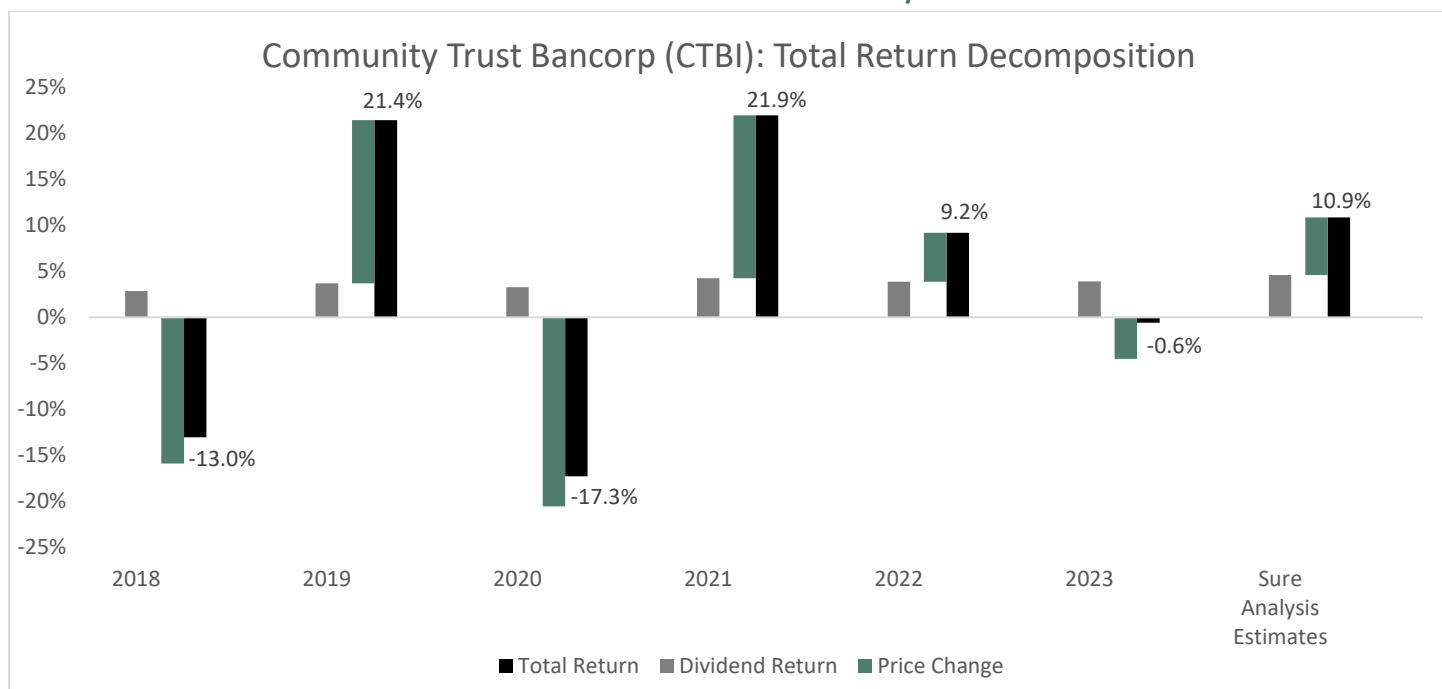
The recession from the pandemic in 2020 caused an -8% decrease in the earnings-per-share of Community Trust Bancorp, but this business performance is superior to that of most other banks thanks to the conservative loan portfolio. To provide a perspective, the bank has reported average net loan charge-offs of only 0.07% in the last four quarters.

On the other hand, whenever the market incurs a meaningful correction, Community Trust Bancorp tends to underperform its sector due to its low market cap and its resultant low trading liquidity. Only investors who can remain focused on the fundamentals and ignore pressure on the stock price should consider this security.

Final Thoughts & Recommendation

Community Trust Bancorp is an exceptionally well-managed bank. It accelerated its growth pattern in 2018 and 2019 thanks to higher interest rates and its reduced tax rate. It also posted record earnings in 2021 thanks to the reversion of provisions for loan losses, as the economy recovered from the pandemic, though it has decelerated due to the absence of that growth driver. The stock has rallied 14% since our last research report, in October, but it remains attractive. We expect it to offer a 10.9% average annual return over the next five years thanks to 4.0% earnings-per-share growth, its 4.5% dividend and a 3.2% annualized valuation tailwind. The stock maintains its buy rating. It also has a healthy payout ratio, so it has ample room to keep raising its dividend and thus it is eligible for income-oriented investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	177	179	181	186	194	195	206	224	227	173
SG&A Exp.	67	66	68	70	72	74	78	86	74	26
D&A Exp.	4	4	4	4	4	6	5	5	5	---
Net Profit	43	46	47	51	59	65	60	88	82	78
Net Margin	24.4%	25.9%	26.1%	27.7%	30.5%	33.1%	28.9%	39.3%	36.1%	45.1%
Free Cash Flow	55	53	58	60	63	81	61	113	93	---
Income Tax	19	19	19	17	11	7	11	23	19	---

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,724	3,904	3,932	4,136	4,202	4,366	5,139	5,418	5,380	---
Cash & Equivalents	109	191	145	185	144	265	338	312	51	---
Goodwill & Int. Ass.	69	69	69	69	69	69	70	72	65	---
Total Liabilities	3,276	3,428	3,432	3,606	3,637	3,751	4,484	4,720	4,752	---
Long-Term Debt	123	162	62	60	60	58	58	58	0	---
Shareholder's Equity	448	476	501	531	564	615	655	698	628	---
LTD/E Ratio	0.27	0.34	0.12	0.11	0.11	0.09	0.09	0.08	0	---

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.2%	1.2%	1.3%	1.4%	1.5%	1.3%	1.7%	1.5%	---
Return on Equity	10.1%	10.1%	9.7%	10.0%	10.8%	10.9%	9.4%	13.0%	12.3%	---
ROIC	8.3%	7.7%	7.9%	8.9%	9.8%	10.0%	9.0%	12.0%	11.8%	---
Shares Out.	17.4	17.5	17.6	17.7	17.7	17.8	17.8	17.8	17.9	17.9
Revenue/Share	10.18	10.24	10.33	10.53	10.96	11.00	11.58	12.56	12.71	9.67
FCF/Share	3.19	3.02	3.30	3.40	3.54	4.56	3.43	6.37	5.24	---

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

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